



**Background Note**  
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## **Small and medium enterprises (SMEs) as drivers of productive capacity and job creation in Africa**

**Regional Preparatory meeting for Africa**

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## **Executive summary**

SMEs contribute significantly to the provision of productive employment opportunities, the generation of income and ultimately, the reduction of poverty. It is through the promotion of SMEs that African countries can make progress towards reaching the Millennium Development Goal of halving poverty levels by 2015.

Section I of this report shows that initial requirements for a successful SME sector development are, in general, an overall “enabling environment” and support services that cover a range of policies and strategies for promoting the establishment and growth of SMEs in Africa, including: access to finance, regulatory and legal frameworks, improved infrastructure and human resource development, reducing barriers for SME development, and successful integration of SMEs into local and external value chains and networks.

Section II analyzes the importance of SMEs as drivers of productivity, job creation and growth in the economy. It discusses the major challenges they face in accessing external sources of information, knowledge and technologies in order to build capacities and reach markets. It also identifies the principal requirements for enhancing the productivity and job creation potential of SMEs, as well as for linking them to a more inclusive growth path in African countries. SMEs are also instrumental to the transition from agriculture-led to industrial economies as they provide simple opportunities for value-added processing activities which can generate sustainable livelihoods. In this context, the predominant role of youth and women is of particular importance.

Section III provides country experiences and best practices (from Tunisia, Mali and Nigeria) pertaining to successful SME development, showing that employment creation cannot be developed without a vibrant SME subsector.

The final section provides some specific recommendations which could be considered by African policy makers to put Small and Medium Enterprises on a more inclusive, sustainable development path in their countries.

## **Introduction**

The UN Department of Economic and Social Affairs (DESA), in collaboration with the United Nations Economic Commission for Africa (UNECA) and International Labor Organization (ILO), will organize a regional meeting on the topic “Small and medium enterprises (SMEs) as drivers of productive capacity and job creation”. This note emphasizes that successful SME development is the key engine for growth in Africa, by promoting productive capacity, employment and decent work to eradicate poverty in the context of inclusive, sustainable and equitable economic growth at all levels for achieving the MDGs.

Most economic literature tends to conclude that SMEs contribute to employment growth at a higher rate than larger firms do, and that in the longer term, they also provide a significant share of overall employment; give economies greater flexibility in service provision and the manufacturing of consumer goods; increase competitiveness in the market place; encourage entrepreneurial skills and innovation; play an important part in the provision of services in communities; and promote local production and skills. They also predominantly produce and sell in the local market, helping boost local consumer spending and social stability, which in turn promote political stability.

Firm productivity is low in African countries, prompting governments to try a number of active policies to improve it. This background note captures the key constraints African SMEs are facing, analyzes SMEs’ development policies and strategies that are highly conducive to an accelerated and sustainable economic and social growth that leads to employment generation and poverty alleviation.

## **Section I. Strengthening the enabling environment for successful SME development**

African SMEs face many obstacles. Among them are insufficient capital, lack of focus, inadequate market research, over-concentration on one or two markets for finished products, lack of a succession plan, inexperience, lack of proper book keeping, irregular power supply, infrastructural inadequacies (water, roads etc), lack of proper records or of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber staff, and cut-throat competition (Basil 2005). Moreover, because of the weak operating environment for business ventures in most developing countries, potential entrepreneurs resort to economic activity outside the legal system (informal sector). This both limits potential benefits for the micro entrepreneur (e.g. access to finance and support services) and hinders the growth of the formal sector by draining resources and reducing the tax base.

Large firms, in contrast, have adequate resources to address their own constraints and do not require much outside support. SMEs, on the other hand, are often at a great disadvantage, vis-a-vis the larger firms, in terms of their ability to address market failures, government failures, and their own isolation.

Poor regulatory environments in Africa are characterized by the absence of laws and regulations for SME development. The complexity of such regulations substantially increases the transaction costs for SMEs, placing them at a disadvantage vis-à-vis larger national companies and foreign enterprises. Additionally, the lack of transparency in implementing SME support programmes often results in benefits for other actors rather than the targeted SMEs. However, a substantial number of African countries have seen major improvements in their regulatory systems over the last few years. They have learnt from successful experiences in Africa and elsewhere that involve the main interest groups in the identification, design and implementation of SME policies.

The constraints that African SMEs face in enhancing their productivity relate essentially to their limited access to the technologies, skills, information and knowledge that can trigger and sustain growth and capability upgrading.

- ***Identifying policies for promoting an environment conducive to the establishment and growth of SMEs in Africa***

The volatility of growth in Africa comes from a regional pattern favoring commodity exports over manufacturing. In order to increase GDP growth rates, African decision makers place high reliance on primary commodity exports rather than manufacturing for domestic and external markets. The enabling conditions for high growth, especially in low-income countries, have been based on growth in exports of primary commodities, high growth in industry, higher growth in investment, but also a higher share in manufacturing. The higher share in manufacturing has been seen to lower volatility in GDP growth, and improve labor market outcomes in terms of unemployment levels, enhanced employment in industry, a lower level of the working poor, and a higher level of productivity.

Generating more employment often entails diversifying production from commodities to manufacturing. Investment has to be increased in manufacturing and agriculture in order to raise productivity and incomes. The high proportion of the working poor needs to be addressed through a combination of increased private sector investment for more productive employment, and increased public sector investment for job growth and access to basic social services. Raising investment in manufacturing and agriculture and promoting sustainable enterprises is a necessary condition to raise productivity, competitiveness, employment and incomes. This requires increasing both private and public investment to raise aggregate demand and put in place a possible employment floor. The enhanced private sector investment has to be based on higher domestic savings, and the enhanced public sector investment has to be based on raising the revenue base through an accommodating macro-policy framework and the creation of new fiscal spaces in order to provide basic services.

A number of labor and social policy measures are necessary to improve wage outcomes, labor market performance and overall macroeconomic results. The only sustainable way to raise wages is through economic growth that brings about increases in labor productivity which is also a pre-requisite for growth. A sound and well-articulated system of wage and income policies can make a positive contribution towards a more balanced and sustainable economic and social model. In particular, a coherent system of collective bargaining, minimum wages, transparent and streamlined wage structures in the public sector, and income transfers targeting low-income households, can provide additional income support to low wage earners, thereby preventing them from falling into poverty. Taken together, these measures can promote more inclusive labor markets, stabilize consumption demand and generate more sustainable economic growth.

Governments need to foster the promotion of strengthened policy and regulatory environment for: employment-intensive infrastructure investment (roads, irrigation, etc.); improved access to finance for farmers and rural MSMEs; promotion of agro-processing; public-private partnerships to deliver skills training; good labor market information on skill gaps; systems to recognize informally acquired skills; and strong universal education equipping young women and men with core competencies for working life.

A range of labor market institutions are in place in most African countries, mainly dealing with employment protection legislation and the minimum wage. However, they apply only to a minority of workers in the formal economy and often are very poorly enforced. Thus, it appears that labor market regulation is not very well structured for SMEs development in most African countries. At the same time, unnecessary administrative hurdles and costs are widespread, posing the challenge to reduce such costs and to encourage the formalization of informal enterprises, whilst preserving the original purpose of labor laws and institutions. Minimum wage legislation, in particular, is a proven means to ensure that all workers receive at least a salary allowing a decent life for their families.

Government policies can facilitate the entry of MSMEs into the formal economy by reducing unnecessary regulatory burdens and offering quality public services. They can also develop programmes for the improvement of working conditions, with specific national targets for reducing non-compliance with laws concerning hours of work and minimum pay, the reduction of occupational accidents, diseases and days lost to illness and accidents per worker, and a progressive increase in the number of labour inspectors in relation to workers.

Without enhancing the role of industry, a sustainable path of economic development will not be achieved. It is industry – more than any other productive sector – that drives the economic growth process, provides a breeding ground for entrepreneurship, fosters technological dynamism and associated productivity growth, creates skilled jobs, and, through inter-sectoral linkages, establishes the foundation for both agriculture and services to expand. Furthermore, prices of manufactured exports are both less volatile and less susceptible to long-term deterioration than those of primary goods. This provides the potential for sustainable export growth and integration into the global economy.

A key to economic growth is prudent economic management that avoids volatility and uncertainty. Policies that lead to high inflation, excessive taxation, distorted factor prices, or lack of foreign exchange discourage business formation and investment.

An efficient financial system is an important component of economic development, in mobilizing savings and channeling them into investments. Entrepreneurs need access to financing, information, and various types of support services to create and operate businesses; enterprise managers need similar access to operate their businesses in the most efficient and competitive manner. The existence of institutions, such as universities, consulting firms, accreditation and standardization bodies, and vocational training institutes can play major roles in private sector competitiveness.

Competition promotes efficiency, and policies that promote intense, but fair, competition will result in a strong private sector. Competition policy, privatization, and public sector procurement policies all help make markets more competitive.

- ***Increasing SMEs' access to finance***

In order to make use of their potential, SMEs need increased access to bank credit. African SMEs historically lack access to finance and this is likely to be exacerbated by the effects of the financial and economic crisis on the continent. Access to finance remains a major problem in the majority of African countries. Many development banks seem to have performed poorly and, in West and Central Africa, most have nearly collapsed. While loans from commercial banks are at least possible in principle, the evidence shows that the terms of such access are often punitive for SMEs. SMEs are constrained by high interest rates and by lack of access to credit (see Table 1 in Annex). Overall, an efficient structure of financial institutions providing short-and long-term capital to SMEs is significantly needed throughout the region.

There is a strong economic case for scaling up support for African SMEs. In this context, alternative means of financing have been developed, especially in those countries where formal lending is weak. Thus, microcredit schemes have been promoted by NGOs in many African countries. While data indicating SME performance through this alternative means of financing is not available, access to these schemes is relatively high in Kenya and Uganda.

Development assistance for SMEs in Africa remains highly fragmented, with several donors and development finance institutions (DFIs) running a number of SME programmes in an uncoordinated way. A regionalization of support and a pooling of resources would avoid duplications and inefficiencies, in line with the Paris Declaration and the Accra Agenda for Action. In particular, the provision of guarantees complemented by development of bank's capacity to engage in SME lending seems to be one of the most effective policy instruments for easing access to credit for SMEs. The Africa Commission in 2009 called for the establishment of an African Guarantee Fund (AGF) for SMEs. The AfDB, the Danish Government (Danida) and the Spanish Government (AECID) are currently implementing this initiative. The AGF will be a permanent regional conduit for channeling guarantees and technical assistance to financial institutions in Africa with the objective of generating enhanced growth in the SME sector, thereby creating increased employment opportunities in the economy, particularly for youth. The AGF will operate as a non-bank financial institution with a board of directors responsible for the overall management and a chief executive officer heading the operations.

- ***Successful integration of SMEs into local and external value chains and networks***

International lessons on SME development show that external factors such as inter-firm co-operation and institutional support can play a key role in helping SMEs build-up internal capabilities to compete in regional and global markets.

SMEs foster economic cohesion by linking up with, and supporting larger enterprises, by serving niche markets — and in general, by contributing to the buildup of systemic productive capacities.

SMEs foster social cohesion by reducing income and asset gaps and disparities, thus spreading the gains of economic growth to broader population segments and backward regions.

Obtaining access to export markets is crucial for increasing SME growth and productivity, especially in light of increased globalization and market liberalization. SMEs in developing countries, however, face many constraints to competing effectively in these markets since they often lack the necessary knowledge and financing, may not meet foreign regulatory requirements, or may produce products in quantities and of a quality that are not adequate for foreign buyers. One effective way of addressing these problems is through the development of export consortia. Export consortia are voluntary groupings of enterprises,

usually in the same or similar business or subsector, with the objective of improving the export readiness and increasing the export volumes of the participants. By combining their knowledge, financial resources and contacts within an export consortium, SMEs can significantly improve their export potential and reduce the costs and risks involved in penetrating foreign markets.

By joining together to promote exports, groups of SMEs are able to effectively compete against other firms in markets that they would otherwise be unable to access.

UNIDO is implementing a program aimed at promoting efficient systems of relations within clusters (that is among enterprises and between enterprises and institutions) thus enabling small enterprises to overcome their isolation and achieve collective efficiency and competitive advantage.

At the same time, foreign direct investment (FDI) can contribute to productive capacity development when combined with policies promoting productive investment, technology transfer, enterprise development and the consolidation of productive chains.

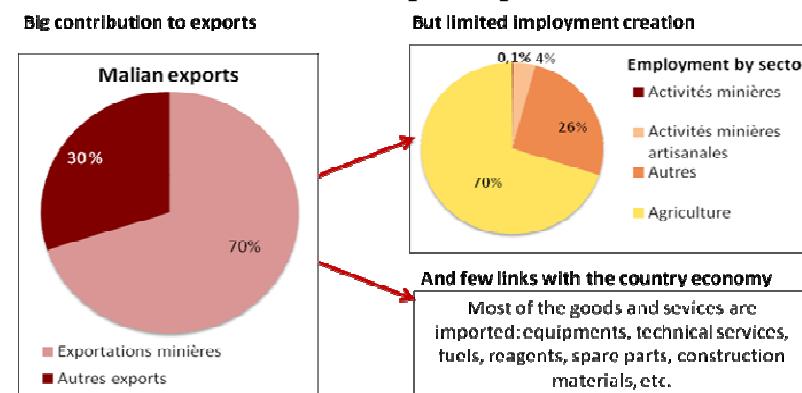
### For Discussion

- What policies should governments put in place to promote entrepreneurship and an environment conducive to the establishment and growth of SMEs? What roles can social partners, the private sector and civil society best play to contribute to SME creation?
- What can be done to increase access to financing, including sources such as risk capital, for innovative and potentially high-growth SMEs in the region?
- How can SMEs be integrated more successfully into local and external (regional and global) value chains and networks?

### Section II. Promoting productive, job-rich SME development in a context of inclusive, sustainable and equitable growth

Labor productivity (defined as output per worker) is often recognized as one of the key drivers of increases in wages and living standards. In Africa, increases in productivity (mainly due to the export of extraction products) have not been translated into incomes sufficient to reduce poverty, indicating that the income gains from this growth have been narrow. This is not surprising, given the dominant pattern of growth that continues to rely heavily on resource extraction with limited employment creation (See “Empowering Africa’s peoples with decent Work”, ILO, October 2011 and Table 2 in Annex). This trend can be illustrated by the Malian case, shown below:

**Mines generate most of the resources of African exports but create few jobs – a big part of those resources are used for import expenses.**



Source: Mali/Investment Promotion Agency

As a result of the weak operating environment for business ventures in most developing countries, potential entrepreneurs resort to economic activity in the informal sector for generating income. This both

limits potential benefits for the micro entrepreneur (e.g. access to finance and support services) and hinders the growth of the formal sector by draining resources and reducing the tax base, competitive capacities and the economic and social resilience of people in African countries.

Informal economy workers tend to have little or no access to formal mechanisms, such as insurance, pensions and social assistance, for coping with risks. The main elements of an integrated approach to upgrading the informal economy are: enterprise upgrading; skills development; the extension of social protection; improved observance of labor laws including on safe work, and organizing workers and employers.

For both workers and employers, cooperatives provide an important means of strengthening productive activities and the provision of essential services.

The challenge for Africa therefore, is firstly, to create the conditions for triggering economic diversification, and secondly, to fuel the transformation process by facilitating the accumulation of competences during the industrialization process. The challenge is also to design policies and institutions which provide incentives to start profitable activities, to invest in new technological and commercial knowledge, and to shift into higher productivity and learning intensive sectors which can create opportunities to accumulate capabilities.

The central role of productive employment and decent work must be one of the core policies of SME development in Africa. Most African countries have mainstreamed decent work into national development frameworks: medium-term development plans, poverty-reducing development strategies and the United Nations Development Assistance Frameworks (UNDAFs). Strengthening capacity building to enhance implementation and effective delivery of decent work for all is one of the key strategies to increase productivity.

Sustainable economic development that is both inclusive and job-rich needs to be accompanied, indeed driven, by a continued productive transformation. Achieving a well-integrated domestic economy, with strong inter-sectoral as well as inter-regional and rural urban linkages, is indispensable for enabling productive transformation and putting African SMEs on a path of sustainable job-rich growth. This will require an active developmental role of the state: it requires policies and interventions that actively foster the development of efficient markets, but also steps in with compensating measures where markets do not function well. It requires adequate provision of public goods and forceful policies to ensure development with equity. It requires a common vision of the future, developed through social dialogue, and a state equipped with the capacity, the mandate and the tools to implement well-designed strategies, including industrial strategies.

The manufacturing sector can create the much-needed “upstream and downstream linkages” (secure access to inputs and to markets for output) to agriculture, thus facilitating the development of agriculture as well as enhancing the impact of this development on growth and employment in the economy as a whole. Parallel to an intensification of agriculture, an increase in productive non-farm employment, in the form of wage employment or successful non-farm entrepreneurship, must be a core component in development strategies. To achieve this end, successful economic diversification is needed.

Besides capital and labor, improving information for better policies is an important input to the production process. Adequate information to support labor market policies and programs is essential, but in many countries is unavailable, unreliable or outdated. The overall objective of strengthening national capacity to produce and analyze reliable labor statistics and labor market information is to contribute to the goal of employment creation and poverty reduction monitoring in Africa. Easy access to reliable information is, therefore, essential for small enterprises to become competitive and grow.

- *Strategies for creating more decent jobs through SME development*

The primary labor market challenge in Africa is not unemployment, but rather productive employment and decent work for the many working poor, particularly in rural areas (see Table 3 in Annex). This is the main obstacle in efforts to achieve the Millennium Development Goals and set Africa on a more sustainable development route.

Sound policies are needed to encourage the transition from the informal to the formal economy, to support micro and small and medium sized enterprises, and to protect the incomes of the most vulnerable groups.

In order to be competitive and create more decent and productive jobs, African SMEs need to foster technological innovation, which includes both technological advances and various non-technological innovations such as strategies, processes, structures and management techniques.

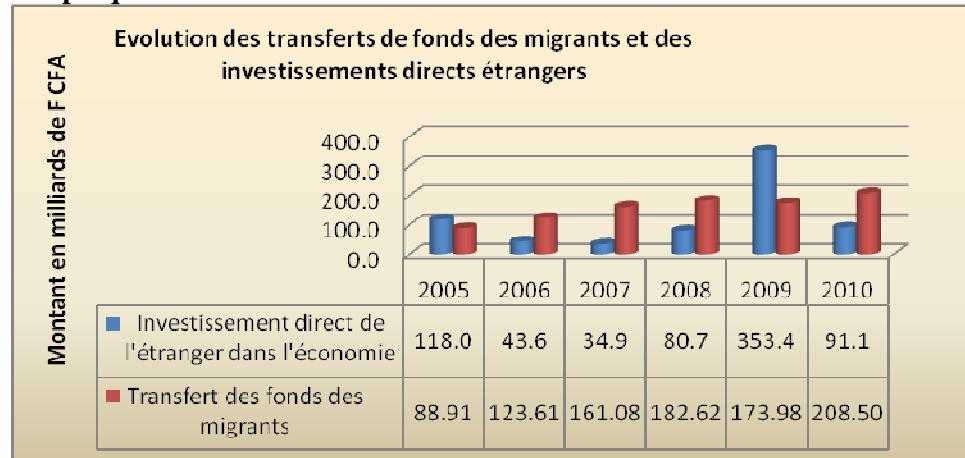
The employment generated by public investment in infrastructure can be increased by a factor of three to five by using local resource based methods compared to conventional technologies. Innovative programs such as employment guarantees schemes can provide poor workers with a minimum employment floor while accounting for improved local infrastructure.

On a broader level, investing in skills and expertise provides support for the development of a competent workforce, which can only improve the investment climate. National growth promotion strategies must, if they are to have maximum impact, prioritize skills development in sectors that are the most promising in employment terms.

Job creation strategies include also the promotion of employment through planning, employment targeting and employment mainstreaming, learning from successful experiences in African and other countries and building strategic partnerships to support growth strategies.

In Mali, remittances are an important source of financial flows, far exceeding those from Foreign Direct Investment (FDI), as seen below.

**Graphique 1: Trends of remittances and FDI**



Source: (Balance of payments) Central Bank of West Africa

This observation allows us to assume that the Malian Government could encourage migrants, emphasizing of the potential economies of scale, to form a business consortium in order to invest in the areas of services and sustainable industrial activities which generate more growth and productive jobs.

- **Promoting entrepreneurship for SME development among women, young people and marginalized groups**

Africa has the youngest population in the world and her young women and men represent the continent's best hope for getting on to a sustainable development path.

However, the continent is suffering from shortages of skilled workers that are holding back growth and development. In some cases, foreign investors have felt obliged to bring in foreign workers to implement projects.

This pattern shows the need to increase, through national policies and strategies, the supply of qualified African workers and include investment in training and development assistance projects to facilitate their (re)integration into the labor market, as well as establish mechanisms for their implementation at national, regional, local and sectoral and enterprise levels. Policy makers need therefore to align the education curricula to labor market demands and realities, to emphasize the importance of vocational education and training and skills development in generating employment, increasing productivity and competitiveness, and improving wages and incomes.

Vulnerable employment and informal economy employment has been increasing in the African region. Rural youth are particularly vulnerable in this regard, since they are often employed under informal, low-productivity and casual contracts and have limited rights and voices, both within households and in their communities. Ensuring that young women and men get the right start in their working lives must be a top priority for the region's Decent Work Country Programmes (DWCPs).

The informal apprenticeship system holds a great potential alongside strengthened institutional capabilities to provide training for advanced technologies, and improved quality and effectiveness of training in order to promote productive transformation in the crafts sector and informal economy.

Promoting the transition to the formal economy is central to successful MSME development. This requires integrated interventions that attack the multiple drivers of informality, including: job-rich growth, improvements in regulations, strengthening the organization and representation of informal economy workers, promoting entrepreneurship, skills, finance, extension of social protection, and local development strategies.

In rural areas, the way towards more productive and satisfying employment for youth lies in implementing strategies that enhance agricultural productivity and enforce policies that attract youth into farming, while improving non-farm rural employment opportunities. Such policies will contribute to a better management of rural out-migration of young people, if complemented with other measures that seek to maximize the developmental benefits, while trying to minimize costs. Investing in gender-sensitive education and vocational training tailored to the needs of rural areas has proven very effective, especially when accompanied by an enabling environment favoring increased youth access to productive assets and markets, and the means to overcome obstacles to the implementation of new technologies and approaches.

There is broad consensus on the benefits of increasing the level of education by enhancing the relevance of the education system to labor market needs and reducing the share of the population without schooling. Transforming the educational structure of the labor force in a balanced manner is important in order to enlarge the space for sustained diversification into low and medium technology manufacturing. A key element in this process is to provide women with equal access to basic education and develop their talents in order to fully use the potentials of the labor force for rapid catch-up.

UNIDO is implementing the Rural and Women Entrepreneurship Development Program that improves business environments by providing specialized human resource development on entrepreneurship that enables rural and women entrepreneurs to take advantage of economic opportunities based on market mechanisms and entrepreneurial initiatives.

ILO is working with constituents to promote a social protection floor of essential social services and income security for all women and men. Furthering the implementation of ratified international labor standards through their integration into national policies is equally instrumental in realizing the other three strategic objectives (employment promotion, social protection and social dialogue). Formulating and implementing these policies through broad based social dialogue greatly increases their rate of success. Improving the quality of governance and public services contributes to the creation of an enabling environment for the achievement of the development goals.

- ***Human resource capacity building and protection for sustainable and competitive SMEs in Africa***

It is widely acknowledged that the development of countries' industrial capabilities requires investment in human capital. With the growing pace of technological change, the spread of information technologies and intensifying competitive pressures, the need for specific skills has become even more demanding. While general industrial development in the past required simply improving the basic educational system and encouraging in-firm training, the emerging competitive environment calls for greater emphasis on high-level, specialized training to meet industry needs.

Although it is difficult to measure technological effort, its intensity and effectiveness are a key determinant of industrial competitiveness. In the context of developing countries, R&D becomes necessary to absorb technologies and adapt them to local conditions. A strong R&D base permits better and faster technology diffusion, facilitates greater and more efficient use of local resources, provides the industrial sector with greater flexibility and diversification, and makes local economies more attractive to TNCs.

Developing tripartite systems (state, employers, unions) as a key governance mechanism for inclusive poverty-reducing growth enables labor markets to function efficiently and equitably. The involvement of employers' and workers' organizations in the development, implementation, monitoring and evaluation of DWCPs and national development frameworks is vital for their success and ensures that they promote decent work.

African countries need to adopt national social security strategies that articulate measures on occupational safety and health (OSH) and employment services, including increasing protection of workers through capacity strengthening, compliance with labor standards, establishment of the labor management and information systems, provision of social protection to vulnerable groups and skills development for youth.

- ***Role of SMEs in the transition to greener and more sustainable economies***

Agriculture provides the main source of employment and income for approximately two thirds of the labor force in Africa. (An even larger share of the working poor is found in this sector.) Increasing productivity and returns to labor in agriculture is the key to increasing productive employment and decent work and progress towards MDG target 1b, especially in the short and medium term.

Most of the rural poor, and in particular women and youth, are mainly engaged in the low-productivity and informal employment segment of the rural economy, both in subsistence farming and agricultural wage labor and in non-farm self-employment. The large majority of workers remain trapped in vulnerable forms of employment that cannot lift them above the poverty line.

Reducing the yield gap between domestic and median global agricultural production and investing in rural infrastructure and services might require a green revolution in African LDCs (along the lines of the one in Asia in the 1960s), with enhanced irrigation, fertilizer and infrastructure. Some African LDCs have demonstrated the efficacy of this package. Population pressures in rural areas would also benefit from the development of rural, non-farm enterprises and employment. The role of the developmental state in

expanding much needed public infrastructure to meet the needs of the private sector is crucial for a productive transformation of African LDCs.

A green economy is one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities. It aims to achieve economic growth and tackle youth unemployment at the same time as providing a natural resource base which sustains economic and social development. The development of agro-based SMEs would contribute to poverty alleviation, while at the same time enhancing productivity. The promotion of green youth entrepreneurship programmes in African countries focusing on promising green sectors, not only would strengthen youth's ability to cope with climate change and environmental degradation, but would also turn environmental challenges into business opportunities. These programs would build capacity for business development services and skills development, whilst linking youth to financial institutions for support. This is expected to create business opportunities in green sectors such as solar and recycling businesses, ecotourism, organic agriculture and agro processing. Furthermore, investing in a variety of agricultural techniques that maintain land productivity, returns and sustainability can be achieved through measures such as the use of sustainably produced and biological nutrient inputs replacing chemical ones, soil and water conservation, and improving post harvesting and processing technology. The application of these types of measures has demonstrated positive impacts on yields and incomes.

### **Section III. Country experiences and best practices pertaining to successful SME development**

Since 2001, UNIDO in cooperation with the Tunisian Ministry of Industry has been promoting export consortia. The Tunisian Engineering Consortium, grouping 12 firms with no export experience, has been able to win important international bids in Algeria and West African countries. The consortium has also signed cooperation agreements with Iranian and South African partners. These two consortia are now becoming more confident to access more challenging markets in northern countries. Efforts to promote export consortia are now undertaken by a variety of national institutions such as the export promotion agency, chambers of commerce, technical centers and other private sector associations as well as export promotion specialists. Specific incentives for promotional activities undertaken by consortia are granted by the FAMEX (Market Access Facilitation Fund). Legal requirements for accessing the "National Competitive Fund" have been simplified in the case of export consortia.

Though Nigeria lacks adequate census data on relevant economic indices, it is estimated that SMEs in Nigeria currently account for over 75% of employment in the country (SMEDAN 2006). This relatively high percentage is, however, a paradox as 60% of Nigerians still lives below the poverty level (UNDP, 2005). When the 60 percent living below the poverty line are taken into account, the share of those gainfully employed in the SME sector is more likely to be in the region of 10%, as recorded by US Industry Small Business Administration (SBA). As employment creation cannot be developed without a vibrant SME subsector, the Government could focus on reversing the situation. Extensive efforts in terms of strategic programmes, policy and practice will be required to significantly expand decent job creation. These should emphasize and strengthen the linkages among growth, employment and the eradication of poverty.

Kenya is a good example of a variable regulatory and policy system that has been improved over the last few years. ECA reports that, with the help of DFID, Kenya introduced a single business permit, which has drastically reduced the financial and transaction costs of operating a business. Since its implementation, the number of companies being registered and allowed to do business in Kenya has increased substantially.

The Malian Investment Promotion Agency (MIPA) is implementing a Program of Private Investment in Mali which aims to:

- attract local and foreign investors (this will increase employment, income and competitiveness);
- welcome, inform and support private investors;
- simplify procedures and different steps ("one-stop window");

- favor the development of SMEs and their links with larger firms;
- contribute to the development of industrial sites;
- suggest solutions to reduce investment barriers and monitor the implementation process.

In 2010, MIPA provided COMAFRI (an agribusiness specialized in processing mangoes into juice and paste) with technical assistance in developing feasibility and market research studies. The Promoter of this agribusiness is a Diaspora Malian national. The agency helps him in obtaining the agreement for the Investment code of Mali. The initial capital of the business is 2 billion CFA francs. The business is now well positioned in the local and regional markets.

The agency (MIPA) provided the same technical assistance to another agribusiness in the same sector (CIDAM). It is a Foreign Direct Investment with a capital of 10 billion CFA francs. The business started operating in 2012.

## **Section IV. Conclusion and Recommendations for action**

### **Conclusion**

The export-oriented strategy, which much of Africa was pursuing, was largely reliant on agricultural products, minerals, and oil – all of which are vulnerable to volatility in world commodity markets (affecting government revenue flows). Moreover, these sectors are characterized by low employment elasticity. To consolidate the post-crisis economic recovery, the policy challenge for Africa is the adoption of a framework that promotes coherence between the objectives of growth and the generation of employment and decent work.

Africa needs a strategy for sustainable enterprise development and decent work. The strategy should include the creation of an enabling environment, measures to improve the investment climate, macroeconomic stability, respect for workers' rights, and good governance. Particular attention should be given to policies that promote SMEs, women's participation and entrepreneurship.

### **Policy recommendations**

If African countries are to rely on the dynamism, resourcefulness and risk-taking of Small and Medium Enterprises to trigger and sustain processes of economic growth, they will need an overall “enabling environment” that allows private firms to operate efficiently, and specific institutions and policies that promote effective SME development. Moreover, taking into account the importance of the inflows of remittances in several African countries, far exceeding those from Foreign Direct Investment (FDI), governments could encourage the channeling of such flows to take advantage of economies of scale, by developing business consortiums in order to invest in services and sustainable industrial activities, which generate more growth and productive jobs.

The following are some of the more important policy options for consideration:

- 1) Promote export and sectoral diversification. Moving from commodities to manufacturing is needed to improve employment and decent work outcomes.
- 2) Adopt a macroeconomic framework that explicitly takes into account job creation and poverty reduction. Fiscal space can be seen as a four cornered “fiscal diamond” that harmonizes four elements: domestic resources, ODA, deficit financing, and expenditure efficiency. Monetary policy has to go beyond inflation targeting, recognizing the borrowing cost constraints on growth and move towards financial inclusion. Exchange rate and capital account management regimes must aim for competitive and stable exchange rates that cope with capital flows and accommodate structural transformation.

- 3) Ensure that the global economy better accommodates LDCs trade needs. This can be achieved by reducing trade barriers and price volatility in commodity markets, among others. Social protection and minimum wage policies are needed to cushion trade shocks and volatility and protect the more vulnerable.
- 4) Enhance investment in infrastructure and ensure that these investments are designed and implemented with the specific objective of boosting employment.
- 5) Increase the level and quality of education, including by enhancing the relevance of the education system to labor market needs.
- 6) Promote diversification into new technologies and higher value-added manufacturing for increased productivity. This can be achieved by designing learning strategies that combine incentives and compulsion with support measures, and targeting learning intensive sectors in addition to sectors with comparative advantages. Multilateral trade rules provide sufficient policy space to provide temporary trade protection in order to nurture infant industries, create learning opportunities and build domestic capabilities and new comparative advantages.
- 7) Take advantage of South-South cooperation to transfer appropriate technologies, import cheaper capital goods and export low-technology goods.
- 8) Attract domestic and foreign investment in non-traditional tradable and support learning networks between domestic and foreign firms, such as value chains, joint ventures, clusters, industrial parks or business incubators.
- 9) Establish an efficient financial system which is an important component of economic development, in mobilizing savings and channeling them into investments.
- 10) Take advantage of the ILO technical assistance to help reduce the implementation gap on international labor standards in LDC countries and mainstream international labor standards into Decent Work Country Programs and UNDAFs, with a view to achieving a progressively increasing coverage of each of the strategic objectives.

### **For Discussion**

- What strategies for creating more and better jobs through SME development have proven successful in the region?
- What can be done to promote entrepreneurship and reduce barriers for SME development among women, young people and marginalized groups in the region?
- What are some of the most recent innovations in education and training and social protection that have promoted entrepreneurship and reduced barriers for SME development in the region?
- Given that SMEs can be a major source of innovation and productivity growth, what role are they currently playing and/or should they play in the transition to greener, more sustainable economies?

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## ANNEX

**Table1: Availability and access to loans in 13 African countries**

	Commercial and Development Banks						NGO Finance		
	Availability			Accessibility			Availability		
	High	Medium	Low	High	Medium	Low	High	Medium	Low
Cameroon			✓			✓		✓	
Côte d'Ivoire			✓			✓		✓	
Ethiopia			✓			✓		✓	
Gabon			✓			✓		✓	
Kenya	✓					✓	✓		
Mauritius	✓				✓			n.i.	
Morocco	✓				✓				✓
Namibia	n.i.					✓		n.i.	
Nigeria	✓					✓			✓
Senegal			✓			✓			✓
South Africa	✓				✓			n.i.	
Tunisia	✓				✓				✓
Uganda			✓			✓	✓		

Source : Economic Commission for Africa

**Tableau 2: Employment in major economic sectors (%)**

	2000			2008			Change 200-2008		
	Agriculture	Industry	Services	Agriculture	Industry	Services	Agriculture	Industry	Services
LDCs	69.3	8.1	22.6	64.2	9.7	26.1	-5.1	1.6	3.4
Asian LDCs	<b>65.6</b>	<b>10.9</b>	<b>23.4</b>	<b>58.8</b>	<b>12.5</b>	<b>28.6</b>	<b>-6.8</b>	<b>1.6</b>	<b>5.2</b>
African LDCs	<b>72.6</b>	<b>5.8</b>	<b>21.7</b>	<b>68.4</b>	<b>7.7</b>	<b>23.9</b>	<b>-4.1</b>	<b>1.9</b>	<b>2.2</b>

Source : ILO, Trends Econometric Models, October 2010

**Tableau 3: Unemployment rate by sex and for youth and adult**

Both sexes	2000	2004	2005	2006	2007	2008	2009	2010p	2011p
LDCs	6.1	6.2	6.2	5.7	5.7	5.7	5.8	5.8	5.7
Asian LDCs	<b>3.8</b>	<b>4.4</b>	<b>4.4</b>	<b>4.3</b>	<b>4.3</b>	<b>4.2</b>	<b>4.3</b>	<b>4.1</b>	<b>4.1</b>
African LDCs	<b>7.8</b>	<b>7.5</b>	<b>7.4</b>	<b>6.7</b>	<b>6.7</b>	<b>6.7</b>	<b>6.8</b>	<b>6.9</b>	<b>6.9</b>
Male	2000	2004	2005	2006	2007	2008	2009	2010p	2011p
LDCs	5.6	5.7	5.5	5.3	5.3	5.3	5.4	5.4	5.3
Asian LDCs	<b>3.8</b>	<b>4.2</b>	<b>3.8</b>	<b>4.2</b>	<b>4.2</b>	<b>4.0</b>	<b>4.2</b>	<b>4.0</b>	<b>3.9</b>
African LDCs	<b>7.0</b>	<b>6.8</b>	<b>6.8</b>	<b>6.2</b>	<b>6.2</b>	<b>6.2</b>	<b>6.3</b>	<b>6.3</b>	<b>6.3</b>
Female	2000	2004	2005	2006	2007	2008	2009	2010p	2011p
LDCs	6.8	6.9	7.1	6.2	6.2	6.2	6.3	6.3	6.3
Asian LDCs	<b>3.7</b>	<b>4.8</b>	<b>5.4</b>	<b>4.6</b>	<b>4.5</b>	<b>4.5</b>	<b>4.5</b>	<b>4.3</b>	<b>4.2</b>
African LDCs	<b>8.8</b>	<b>8.2</b>	<b>8.2</b>	<b>7.3</b>	<b>7.3</b>	<b>7.3</b>	<b>7.4</b>	<b>7.5</b>	<b>7.5</b>
Youth	2000	2004	2005	2006	2007	2008	2009	2010p	2011p
LDCs	11.0	10.3	10.5	10.1	10.1	10.1	10.3	10.3	10.3
Asian LDCs	<b>9.1</b>	<b>8.1</b>	<b>9.1</b>	<b>9.9</b>	<b>10.0</b>	<b>9.8</b>	<b>10.1</b>	<b>9.8</b>	<b>9.6</b>
African LDCs	<b>12.3</b>	<b>11.6</b>	<b>11.3</b>	<b>10.1</b>	<b>10.1</b>	<b>10.2</b>	<b>10.3</b>	<b>10.5</b>	<b>10.5</b>
Adults	2000	2004	2005	2006	2007	2008	2009	2010p	2011p
LDCs	3.9	4.5	4.4	3.9	3.9	3.9	4.0	4.0	4.0
Asian LDCs	<b>1.5</b>	<b>3.0</b>	<b>2.7</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>2.4</b>	<b>2.3</b>	<b>2.3</b>
African LDCs	<b>5.8</b>	<b>5.6</b>	<b>5.7</b>	<b>5.1</b>	<b>5.2</b>	<b>5.2</b>	<b>5.3</b>	<b>5.3</b>	<b>5.3</b>

Source: ILO, Trends Econometric Models, October 2010