

ASSESSMENT OF BUSINESS ENVIRONMENT FOR SME
2014-2015

CÔTE D'IVOIRE - RWANDA

PILOT STUDY

Systemic and Functional Assessment of the SME Business Climate



ASSESSMENT OF BUSINESS ENVIRONMENT FOR SME

2014-2015

CÔTE D'IVOIRE and RWANDA

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PREFACE



Dr. Gaston Gohou

President of CESS Institute

One of the uniqueness of the business community in Africa is the polarization of the corporate sector. This sector is dominated, on one side, by very small enterprises (VSE), operating in the informal economy. These enterprises usually concern the social sector more than the actual economy. At the other side, there are large private enterprises and those using public capital. Between these two poles are small and medium enterprises (SMEs), still insufficiently promoted despite the increased political interest in these companies in recent years. In 2012, according to the African Development Bank (ADB), African SMEs in the formal sector accounted for about 58% of total employment and 33% of the continent's GDP. SMEs remain paradoxically the weakest link in the private sector of the continent.

According to CESS Institute, this paradox is related, among others, to the fact that the main current tools for business climate assessment in Africa are useful for understanding the general business environment but fail to adequately grasp the microeconomic conditions in which SMEs are created and evolve in Africa. These tools are at meso and macro levels and are neutral with re-

spect to the size of firms. When the specificity of SMEs is considered, the responses are usually partial. Thus, a country can significantly improve its position in one of these tools, without this having an impact on the conditions of SMEs. So there is a missing link in the evaluation and decision-making tools related to the business climate in Africa.

At the theoretical level, CESS Institute shares the view that SMEs are unique due to their size. This affects their organizational structure and their stock building in a complex environment. In market economies where markets are incomplete and predominated by imperfect structures, markets failures are infused. SMEs are therefore disadvantaged.

To promote the ante creation, creation and development of SMEs, public support should be non-neutral, i.e., to go beyond the "laissez-faire" and implement voluntarist micro-economic. These policies must create a safe environment, develop a learning space by doing for those SMEs as well as for the state.

At operational level, the institute proposes an assessment of the SME business climate a.k.a. "SMEs business climate" (PCA). PCA, while integrating traditional tools, focuses on a systemic and functional approach, on the quality of the specific environment of SMEs (micro level evaluation). PCA has the following dimensions: (i) a set of quality indicators; (ii) a questionnaire; (iii) technical guidelines for the assessment and scoring; (iv) a format of country performance assessment report for the quality of the SME business climate; (v) a country classification system performance; and (vi) a quality index of the SME business climate. Thus, according CESS Institute, the absence of such a framework is one of the factors explaining the insufficient

attention paid to these companies and their weak role.

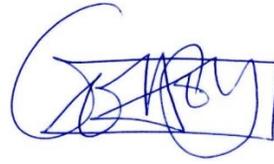
With the support of the chamber of commerce and industry of Côte d'Ivoire (CCICI) and the Private Sector Federation of Rwanda, CESS institute conducted a pilot assessment of SMEs business climate in Côte d'Ivoire and Rwanda based on surveys and secondary data. The institute is pleased to present the first results of this assessment.

There are several reasons behind the choice of the two pilot countries. First, Côte d'Ivoire aspires to be an emergence economy by 2020 while Rwanda envisioned to be a middle-income country by 2020. Therefore the development of SMEs is a priority for both countries. It is crucial to know what policies to support SMEs implemented in both countries to enhance the changes in the economy. These results are consistent with the common knowledge of the topic.

We would like to thank the institutions mentioned above, the African Development Bank (ADB), the National School of Statistics and Applied Economics (ENSEA) of Côte d'Ivoire and the Syracuse University in New York, USA, for giving us the opportunity to discuss the results of this study.

Through PCA, CESS Institute tries to start a discussion on this complex issue of the role of SMEs in development, economic inclusion, job creation and the emergence of national champions. It offers a complementary approach, systemic and structured. Your comments and suggestions will be most welcome. The CESS Institute team is looking forward for any questions or suggestions about the PCA tools you may have.

Enjoy your reading.



Dr. Gaston GOHOU

Président, CESS Institute



SUMMARY

This report presents the results of an assessment of the business climate for SMEs in two pilot countries; Côte D'Ivoire and Rwanda. These countries respectively want to achieve the status of emerging countries and middle-income countries (MICs) by 2020. The study, conducted with the PCA methodology, is based on a survey conducted in 2014 and 2015 on SMEs in both countries. Secondary data on these two countries have also been used. The objective was to evaluate four dimensions of the SME business climate in these countries, namely:

- The overall business environment of SMEs;
- The existence and quality of SME public support policies;
- The effective implementation of these policies and the results achieved;
- The perception of SME about the business climate.

The assesment focused on two main issues:

- Are the business climates of Côte d'Ivoire and Rwanda conducive to the development of SMEs?
- What can be done to improve the situation?

Are the SME business climate in Côte d'Ivoire and Rwanda suitable? Given the overall scores of the Côte d'Ivoire (1.06) and Rwanda (1.51), one can conclude that the situation in Rwanda is relatively better. Indeed, the general business environment, the effectiveness of the implementation public of policies, and the perception of SME business climate is better there than the one

in Côte d'Ivoire. The performance of the latter is slightly better on the support mechanism for SMEs. In absolute terms, there is still room for improvement for the SME business climate in both countries.

Côte d'Ivoire.



Firstly, the overall environment for SME business need to be improved. Indeed, the market economy model and the role of the state (State neoliberal + state non developer) is incompatible with voluntarism needed for the promotion of SMEs. This voluntarism is often highlighted.

The effectiveness of the public administration in this post-conflict country must increase. Moreover, progress in business regulation reforms are effective but insufficient. The promotion of competition remains very limited. The level of country risk is still high despite the efforts of the governments authorities.

The Ivorian economy remains less competitive since it is more driven by production factors and natural resources than efficiency and innovation. It has to be noted that the country shows a political interest for the promotion of SMEs. The country is a resilient economic, dynamic, urbanized with significant business opportunities for SMEs.

Secondly, there is a public support system for SMEs but its quality is unsatisfactory. Indeed, the country adopted in 2013 a strategy to promote SMEs (Phoenix program) and an orientation law of the SME promotion policy in 2014. This law was not followed by an implementation plan. According to the assessment, the following are the key results: (i) insufficient knowledge of the actual situation of SMEs thanks to lack of comprehensive statistic, strategic and reliable information on these companies; (ii) the non-existence of a genuine SME policy document, in addition, the strategy 2016-2020 not responding sufficiently to the standards of structuring, which makes difficult its operationalization; (iii) a bureaucratic implementation organization built around the national agency for promoting SMEs; (iv) programs to support SMEs that cover only their basic needs but lacking some key functions; and (v) difficult access to these public tools by the SMEs.

Thirdly, it has to be noted the poor performance of the implementation of the Phoenix program. The National Agency for Promotion of SMEs has not yet been created. The situation for SMEs are still difficult on the ground. *Fourthly*, SMEs in 2014 have negative perceptions of their business environment.

The overall score for Côte d'Ivoire is 1.06 (unsatisfactory) on a scale from 0 to 3. These results confirm that the reforms designed by traditional tools are necessary but not sufficient regarding the SMEs.

Rwanda.



Firstly, the situation of the general business climate for SMEs is mixed. Indeed, the market economy model and the associated role of the state (neoliberal state) seem incompatible with voluntarism necessary for the promotion of SMEs. The public administration is more efficient than other African countries on average. The regulatory progress in business and promoting competition are remarkable.

There is a political interest in promoting SMEs. Rwanda is an economy with evolving business opportunities but limited by its small size of an undiversified production. The level of country risk is still high. There are still macroeconomic risks. Despite the gains in competitiveness, the Rwandan economy remains more driven by production factor than efficiency and innovation.

Secondly, there is a public policy to support SMEs, but the quality of this support is unsatisfactory. Indeed, the country adopted in 2010 a policy to promote SME with an implementation plan. The key results of our assessment are the following: (i) insufficient knowledge of the current situation of SMEs since of a lack of comprehensive statistics on financial, strategic and reliable information on these companies; (ii) a policy and implementation plan addressing moderately standards in structuring; (iii) a bureaucratic implementation unit built around a SME Promotion Unit within the RDB; (iv) support programs for SMEs that do not cover the whole basic needs and lacking in certain key functions; and (v) a low access to SME promotion support.

Thirdly, the performance in the implementation of the policy are moderately satisfactory in conjunction with good capacities of the public administration. However, this seems to have had little impact on the conditions of SMEs. Fourth, the perception of the business climate of SMEs, referring to the situation in 2014 is generally positive.

The overall score for the Rwanda was 1.51 (moderately satisfactory) on a scale from 0 to 3. These results also confirm that the traditional reforms tools are necessary but not sufficient for SMEs.

In this situation, to become an emerging country in 2020, Rwanda will require a real change in promoting SMEs.



What should these countries do to improve the situation?

To reverse the trend, these countries must first realize the difficult conditions for SMEs means that the environmental reforms of private sector usually derived from traditional evaluation tools are necessary but not sufficient for SMEs. This is because these reforms are neutral with respect to the size of companies. They are at meso and macro levels, too high to properly grasp the micro-economic conditions in which SMEs are created and evolve in Africa. Therefore, it is essential to enhance the current support framework of SMEs with a synthesis tool, which integrates macro assessment levels, meso and micro. This is what PCA attempts to accomplish.

This means to choose a market economy model and an associated role of the state near that of a "developmental State". Proactive policies seem necessary to promote the growth of SMEs in the actual process of building a national performance production system. In the current international context with its constraints and opportunities, it will be more efficient to implement horizontal economic policies and a better use of vertical economic policy tools. Coun-

tries need also to take better advantage of the special treatment for least developed countries (LDCs) in trade matters.

Finally, it is necessary to focus on a systemic approach to building an ecosystem incorporating (i) a general conducive business environment and (ii) a public policy to promote SMEs that is proactive, significantly mitigating market failures. This should consist of a policy to promote SMEs declined into law, meeting the standards for structuring, based on a good knowledge of SMEs that benefited from the participation of SMEs and other stakeholders.

This policy should promote at least basic programs, i.e.; (i) the creation of a legislative and regulatory environment protecting SMEs; (ii) facilitating the access of SMEs to public procurement and the use of this instrument as inequality reduction tool; (iii) facilitating SMEs' access to markets of large private companies by promoting social responsibility of those companies; (iv) facilitating SMEs' access to technological innovations by promoting public mechanisms for technology transfer to SMEs and stimulating innovation by SMEs; and (v) facilitating SMEs' access to innovations services and business development.

These programs are very important in the learning process and acquiring the expertise of SMEs. The existence of these non-financial programs help reduce risk and facilitate SME access to finance, another important part of the ecosystem. This program should cover all the financial needs of the life cycle of these companies. Particular attention should be given to the establishment of an appropriate institutional framework, effective implementation of results-oriented.



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