

## ASSESSMENT OF BUSINESS CLIMATE FOR SME 2014-2015

CÔTE D'IVOIRE - RWANDA

PILOT STUDY

*Systemic and Functional Assessment of the SME Business Climate*



**ASSESSMENT OF BUSINESS CLIMATE FOR SME**

**2014-2015**

**CÔTE D'IVOIRE and RWANDA**

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# PREFACE



**Dr. Gaston Gohou**  
**President of CESS Institute**

One of the specificities of the business environment in Sub-Saharan Africa is the bipolarization of the enterprise sector. This sector is dominated on the one hand by very small enterprises (VSE) operating in the informal sector which, in general, are more focused on the social sector than on the actual economy. At the other end of the spectrum are large private, as well as State-owned enterprises. Between these two extremes are small-and-medium-sized enterprises (SME), still inadequately promoted in spite of growing political interest in recent years. In 2012, according to the African Development Bank (ADB), African SMEs in the formal sector still represented about 58% of total employment and 33% of the Continent's GDP. Paradoxically, the SME remain the African private sector's weak link.

According to the CESS Institute, one of the reasons for this paradox is the fact that the main existing tools for assessing the private sector business climate in Africa do not adequately take into account the micro-economic conditions in which SME are established and develop in Africa. These tools concern both the macro and mesa levels and are neutral in terms of enterprise size.

When the specificity of SME is taken into consideration, responses are usually partial. A country may significantly improve its ranking in one of these tools without having any real impact on SME conditions. There is, therefore, a missing link in the panoply of tools for assessing and decision-making concerning, the private sector business climate in Africa.

At the theoretical level, the CESS Institute shares the idea that the SME, nascent enterprises, are specific because of their size. This influences their organizational structure and their capacity for action in a complex environment. In real market economies where markets are incomplete and are dominated by imperfect market structures, the weaknesses of both markets and enterprises are inherent. SME are, therefore, disadvantaged from the outset. In order to foster the pre-start-up, start-up and development of SMEs, public support must be non-neutral, that is, it must go beyond laissez-faire and the traditional macro-and mesa levels of intervention and implement pro-active micro-economic policies. These policies must create a protected environment and establish a learning by doing space both for these enterprises and the State.

From an operational perspective, the Institute proposes an SME business climate assessment framework called 'SME BUSINESS CLIMATE' (SBC). The SBC, while incorporating all the traditional tools that complement it, focuses, using a systemic and functional approach, on the quality of the specific environment of SME (micro-assessment level). The SBC comprises the following elements:  
(i) a series of quality assessment indicators,  
(ii) questionnaires, (iii) technical guidelines

for assessment and rating, (iv) a format for the country performance assessment report on the quality of the SME business climate, (v) a performance-based country ranking system and (vi) an SME business climate quality index. Thus, for the CESS Institute, the non-existence of such a framework is one of the explanations for the lack of attention paid to these enterprises and their weak role.

With the support of the Chamber of Commerce and Industry of Côte d'Ivoire (CCICI) and the Private Sector Federation-Rwanda, the Institute carried out in 2014-2015 using the SBC methodology, a pilot assessment of the SME business climate in Côte d'Ivoire and in Rwanda. This assessment was based on SMEs surveys and secondary data. The Institute is pleased to present the initial results of this assessment. This is the first application of this methodology. The study has certain limitations which will be addressed in future reports.

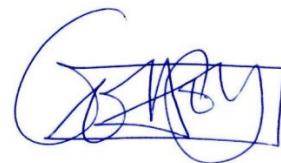
The two countries were selected for several reasons. First, Côte d'Ivoire aims to graduate to emerging country status by 2020 while Rwanda hopes to become a middle-income country by 2020. Next, SME development is a priority for both countries. It is, therefore, important to identify what SME support policies have been implemented in these two countries to support the targeted changes in economic status. While preliminary, these results are, on the whole, coherent offering different points of view on the issue.

We wish to thank the above-mentioned institutions, namely ADB, the National Institute of Statistics and Applied Economics (ENSEA) in Côte d'Ivoire and the Ivorian press for having provided us with an opportunity to discuss the preliminary results of this study.

Through the SBC, a macro, mesa and micro synthesis tool, the CESS is trying to open the debate on this complex issue against a backdrop of growing interest in SME, eco-

nomic inclusion, job creation and the emergence of national champions. It proposes a complementary, systemic and well-structured approach. Since this is a pioneering approach and preliminary report, the Institute believes they can be fine-tuned. It, therefore, welcomes your comments and suggestions. The CESS Institute team remains at your disposal to answer any questions.

Thank you.

A handwritten signature in blue ink, appearing to read "Gaston GOHOU".

**Dr. Gaston GOHOU**

Président, CESS Institute



# SUMMARY

This report presents the results of an SME business climate assessment in two pilot countries; Côte d'Ivoire and Rwanda. These countries respectively aspire to graduate to emerging country (EC) and Middle-Income Country (MIC) status by 2020. The study conducted using the SBC methodology is based on a survey carried out in 2014 and 2015 of SME in both countries. Secondary data on these two countries has also been used. The objective was to assess the following four dimensions of the SME business climate in these countries:

- i) The overall SME business environment (Module A) ;
- ii) The existence and quality of the SME public support system (Module B) ;
- iii) The effectiveness of the implementation of the SME support policy and results (Module C) ; and
- iv) SME perception of the business climate (Module D).

It was also necessary to find cross-cutting answers to two key questions:

- i) Are the business climates in Côte d'Ivoire and Rwanda conducive to SME development?
- ii) Which of the two countries has the best SME business climate?

**Do conducive business climates exist in Côte d'Ivoire and Rwanda?** In light of the overall scores of Côte d'Ivoire (1.06) and Rwanda (1.51), it may be concluded that the situation in Rwanda is relatively better. Indeed, the general business environment, effective implementation of policies and SME perceptions of their business climate

are higher than in Côte d'Ivoire. The latter's performance is slightly better concerning the SME support system. In absolute terms, much remains to be done to improve the business climate in these two countries.

## Côte d'Ivoire.



First, the general SME business environment appears to be difficult. Indeed, the market economy model and the associated role of the State (neo-liberal State + Non-developer State) do not appear compatible with the voluntarism required to promote SME even though such voluntarism is often displayed. The Public Administration's effectiveness in this post-conflict country must be improved. Furthermore, the progress made in terms of business regulation reforms is effective but not sufficient. Markets structures are mainly monopolistic and oligopolistic. The promotion of competition therefore remains very limited. The country risk level remains high despite efforts made by the Authorities. The Ivoirian economy is not very competitive because it is driven more by factors of production and natural resources than by efficiency and innovation. The country, to its credit, has displayed political interest in the promotion of SME as well as a resilient, dynamic and urbanized economy providing significant business opportunities for SME.

Second, an SME public support system does exist but is not satisfactory. Indeed, in 2013, the country adopted an SME promotion strategy (Phoenix Programme) an Orientation Law on SME promotion policy in 2014. The main findings of this module are as follows: (i) insufficient knowledge of the real situation of SME due to a lack of comprehensive, strategic and reliable data on these enterprises; (ii) the non-existence of a real SME policy document and a 2016-2020 strategy that no longer adequately meets content and structuring standards, which complicates its operationalization; (iii) a bureaucratic implementation system theoretically built around a National SME Promotion Agency; (iv) SME support operations meeting essential needs but lacking some key sub-functions; and (v) fairly difficult access to the system confirmed by the SME themselves.

Third, the Phoenix programme implementation performances have been very poor. The SME promotion agency has not yet been established. SME conditions in the field remain difficult.

Fourth, in 2014, SMEs had a negative perception of their business climate.

The overall score for Côte d'Ivoire is 1.10 (unsatisfactory) on a scale of 0 to 3. These results confirm that the reforms derived from traditional tools are necessary but not sufficient in the case of SME.

### Rwanda.



First, the situation of the SME general business environment is mixed. Indeed, the market economy model and the associated

role of the State (neo-liberal State) do not appear compatible with the voluntarism required to promote SME. This voluntarism is even hardly displayed. The Public Administration's effectiveness is above the African average. Outstanding progress has been made in the areas of business regulation and the promotion of competition. There is political interest in SME promotion and an economy providing business opportunities that are constrained by the small size of a poorly diversified economy. The country's risk level remains high. There are macroeconomic stabilization-related risks. Despite competitiveness gains, the economy of Rwanda is driven more by factors of production and natural resources than by efficiency and innovation.

Second, a public support policy does exist but the quality of the system is unsatisfactory. In 2010, the country adopted an SME Promotion Policy incorporating an implementation plan. The main findings of this model are as follows: (i) insufficient knowledge of the real situation of SME due to a lack of comprehensive, strategic and reliable data on these enterprises; (ii) a policy and implementation plan that only moderately meets structuring standards; (iii) a bureaucratic implementation system theoretically built around an SME Promotion Unit at the Rwanda Development Board (RDB) which has many other responsibilities (iv) SME support operations that do not cover the full range of essential needs and lack some key sub-functions; and (v) imperfect access to the SME promotion system.

Third, the policy's implementation performances are moderately satisfactory because of strong Public Administration capacities but this appears to have little impact on SME conditions.

Fourth, SME perception of the business climate compared to the 2014 situation is, on the whole, positive.

The overall score for Rwanda, is 1.51 (moderately satisfactory) on a scale of 0 to 3. These results confirm that the reforms derived from traditional tools are necessary but not sufficient in the case of SME.

In such a situation, for one country to become an emerging country and for the other to become a Middle-Income Country by 2020 will require a sharp change of course in terms of SME promotion actions.



### **What must these countries do to improve the situation?**

To reverse these trends, **it must first be realized that the continuing difficult conditions for SME means that the private sector business climate reforms derived in general from current traditional assessment tools are necessary but not sufficient in the case of SME.** This is because these tools are neutral in relation to enterprise size and are situated at the macro and mesa assessment levels which is too high to adequately take into account the micro-economic conditions in which SME are established and develop in Africa. It is, therefore, necessary to enrich the existing framework by a theory, a synthesis tool that will integrate macro, mesa and micro evaluation levels. This is what the SBC is attempting to do.

**This also means at the political level opting for a market economy model and an associated role of the State close to that of a 'developmental State' if the State has the necessary capacities.** Proactive policies would appear necessary in order to boost the effective development of SME in the process to build an efficient national production system. In the current difficult inter-

national situation which is, however, full of opportunities, greater efficiency must be achieved in implementing horizontal economic policies and more effective use of vertical economic policy instruments authorized under existing international trade rules. It will also be necessary to take full advantage of the special treatment accorded to Least Developed Countries (LDC).

**It also appears necessary to adopt a systemic approach consisting of building an ecosystem with:** (i) an enabling general business environment for SME (ii) a proactive public system for SME promotion that will, to some extent, offset the weaknesses of markets and the SME themselves. This system should comprise an SME promotion policy in the form of a law that meets structuring and content standards based on sound knowledge of SMEs and with the participation of SME and other stakeholders.

This policy should, as a minimum, promote basic programmes aimed at: (i) creating a legislative and regulatory environment that will protect SMEs in particular by taking their views into account in legislative and regulatory processes and minimizing the impact of laws and regulations on them; (ii) facilitating SME access to public procurement and the use of this instrument as a tool to reduce inequalities; (iii) facilitating SME access to markets of large enterprises by promoting the social responsibility of these enterprises; (iv) facilitating access to technological innovations by promoting public mechanisms for the transfer of technology and stimulation of innovations by SME; (v) facilitating access by SME to business start-up and development services; and (vi) facilitating access to finance which should cover all the financial needs of the life cycle of the enterprises. These programmes are extremely important in the SME learning and know-how acquisition processes. The existence of non-financial programmes would help to mitigate the risks of financial institutions and

facilitate SME access to finance.

**Finally, special attention should also be given to the establishment of an appropriate institutional framework:** an autonomous National SME Promotion Agency, deconcentrated in the regions, accountable and structured as a real hierarchical organization with a strategic summit, line management and a logistics unit. It would operate through an animation sub-system built around a real medium-term results-based strategic plan and a control/regulation sub-system ensuring the dynamic stability of the institution.



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