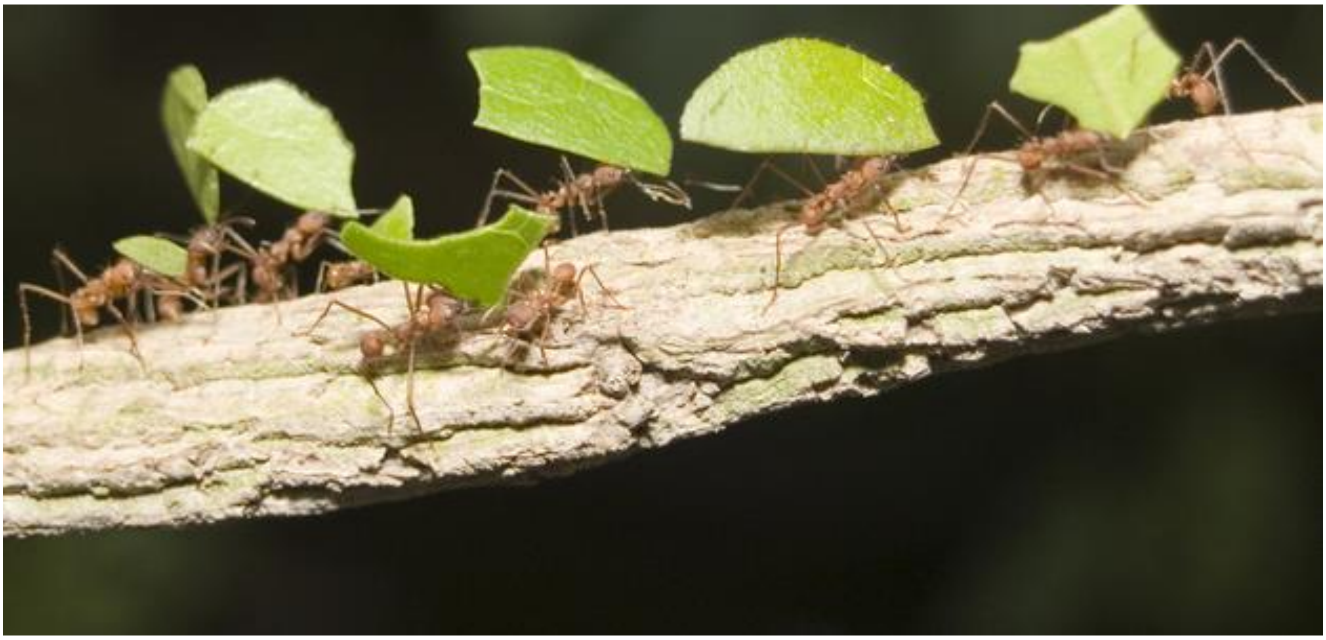
SMALL BUT POWERFUL

Conclusions from The Broker's debate on boosting employment in African small and medium enterprises

Synthesis report



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Summary

- Quality education is one of the main areas of improvement for SME growth. Basic business skills training needs to be part of primary and secondary school education.
- Cooperation of the private sector with higher educational and training institutions in curriculum design and labour market placement can counteract the current mismatch between skills and labour market demands.
- Large-scale entrepreneurship training should be replace by selective support for talented individuals.
- Insufficient access to finance remains a root cause for SME failure. More flexible finance models for SMEs (private equity, credit lines, collateral registries) allow for entrepreneurial risk-taking and open up new funding in addition to traditional bank lending.
- Development actors need to pair financial advice with business development training to foster local enterprise growth.
- Training targeted at businesses’ needs limit the risks for finance institutions.
- Intrinsic motivation of entrepreneurs is crucial; businesses established out of necessity are more likely to fail.
- Creating technology which responds to local needs will allows SMEs to capitalize on their embeddedness in communities and flexibility compared to large companies.
- Enterprise formalization must not be the main goal, but it should be a pragmatic cost-benefit analysis for the individual entrepreneur.
- Investing in a business-enabling environment should focus initially on better regulations that encourage judicial reform and procedural justice in administrative processes, such as enforcement of contracts for SME development.

About the debate

The Broker's debate on SMEs moved away from traditional approaches to SME development, shedding light on multiple angles of this issue. The debate took part within The Broker's Employment dossier and engaged 35 local and international experts from international financial institutions, NGOs, consultancies, research institutions, enterprises and INGOs.

The reason for initiating this debate was that continued growth, entry into the formal economy, and increasing productivity seem to be obstacles that many SMEs cannot overcome. Consequently, the gap between large corporations investing in building the capacity of their employees and technological innovation and more informal, traditional SMEs without the means and expertise to do likewise continues to widen. This will likely lead to increasing inequality, leaving a majority of the working population, behind with few opportunities to improve their precarious employment situation and livelihoods.

Taking this complex situation as a starting point, the main question in this debate was: how can SMEs become more productive and viable engines of inclusive growth in developing countries? By offering answers to this question, the debate not only provides recommendations for promoting SME growth, it is also the starting point of a broader conversation on the effectiveness of current SME development assistance. With the shift to'aid for trade' and public-private partnerships, cooperation with the private sector has assumed an unprecedented role in development policies. Linkages between SMEs in the developing world and developed economies, for example through the Dutch Good Growth Fund, allow governments to transform their donor role into that of facilitators.

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Although 90% of businesses in Sub-Saharan Africa's markets are small and medium enterprises (SMEs), they do not play a significant role in current GDP growth. However, SMEs can lead a much-needed economic diversification, explore new sectors and become the drivers of inclusive growth. To explore this potential, the Broker engaged 35 international experts in a discussion on how to support African SMEs in accessing market niches and enable them to create more and better jobs.

Investing in small and medium sized enterprises could lead to a giant leap for African economies. Many development programmes have already recognized this, but there is a lot speculation about how investments in SMEs could be more effective and how they could trigger higher productivity, better employment opportunities, and higher skilled work. What is certainly true, is that SMEs have the potential to empower a burgeoning African workforce. As a possible gateway to the labour market for recent graduates and the long-term unemployed, they also offer economic opportunities to those with innovative ideas and entrepreneurial spirit. But how can the potential of SMEs to be drivers of economic growth and job creation be realized? To find an answer, The Broker started a debate to build on the expert meeting 'Let investment work for employment' that it organized in 2014 with the Dutch Ministry of Foreign Affairs and the International Finance Corporation (IFC). This report synthesizes the insights and conclusions from the debate, shedding light on multiple angles of SME development.

Education, training and finance

Quality education emerged as one of the main factors in facilitating the growth of enterprises. Contributors to the debate argued basic business skills training needs to be embedded in educational programmes as early as primary school.

Cooperation of the private sector with higher educational and training institutions in curriculum design and labour market placement can furthermore counteract the current mismatch between skills and labour market demands. Better qualified staff and reforming outdated curricula, together with citizenship education for teachers, can move the focus beyond economic development alone and increase democratic awareness.

Access to finance remains one of the biggest challenges for SME growth. More flexible finance models for SMEs, such as private equity, credit lines and collateral registries, allow entrepreneurs to take risks and tap into new funding opportunities, in addition to traditional bank lending. For development organizations and international financial institutions, pairing financial advice with business development training was identified as key to fostering local enterprise growth. Capacity building likewise needs to address not only employees, but also employers in order to streamline business operations.

Training targeted at businesses' needs in turn limit the risks for financial intermediaries, while intrinsic motivation of entrepreneurs is another crucial factor for SMEs to be a success. Businesses established out of necessity are less likely to endure phases of stagnating growth or to seek innovation.[1] Exposure to international trends can provide inspiration for the latter. But creating technology which responds to local needs rather than replicating Western tech products and services, will allow SMEs to capitalize on their embeddedness in communities and flexibility compared to large companies.

Formalizing SMEs is not a must

While agreeing that investing in a business-enabling environment (BEE)[2] can yield benefits for SMEs through improved infrastructure and conducive laws and regulations (i.e. tax policies), the contributing experts disagreed on its importance.

Some argued that, with prudent management and operations, SMEs could also flourish in unfavourable business settings. Formalizing SMEs, most contributors agreed, needs to be a pragmatic cost-benefit analysis. Especially in weak states, the costs of for instance subscribing to formal social security schemes might not be worthwhile if services are inadequate. Likewise, if contract rights are not enforced by authorities and corruption reigns, entrepreneurs have little incentive to incur the costs of formalization.

Governments can facilitate a BEE, for instance through targeted SME-promotion policies, judicial reform, or regulating value and supply chains. For intergovernmental organizations and international non-governmental organizations, key recommendations were to design SME support programmes that extend beyond a single grant cycle, to allow for upscaling in different enterprise development phases. Replacing large-scale entrepreneurship training with selective support for talented individuals was mentioned as another crucial factor for successful SME assistance.

Opportunities and constraints - how do SMEs fit into African economies?

Across the African continent, for example in Ghana, Nigeria and Kenya, gross national income (GNI) per capita is rising – and with it, the middle classes. But growth is not automatically shared equally within these national economies. At 70.9%, Sub-Saharan labour participation is the highest worldwide, according to the 2015 World Employment and Social Outlook report of the International Labour Organization (ILO), while youth unemployment amounted to 11.8% in 2014 (the EU average for the same year was 16.7%). While at first glance the demographic dividend seems to play in Sub-Saharan Africa's favour, 8 out of 10 people are in vulnerable employment and working poverty is widespread.[3]

Sub-Saharan economies are primarily built on exports of primary commodities to emerging markets. At the same time, 90% of businesses in Sub-Saharan Africa's markets are SMEs. As such, if they have sufficient access to credit and explore new sectors, SMEs can lead a much-needed economic diversification.[4] They also have the potential to trigger inclusive growth. But private sector promotion cannot achieve this as a 'natural side-effect'; empowerment of the marginalized needs to be a pronounced programme objective.

Although, as mentioned above, there are many opportunities for SME development in the African context, a large number of SMEs operate in the informal sector, are stifled by low productivity rates and operate in crowded market segments with low entry barriers. The objective of SME development programmes is to overcome these constraints and focus on the opportunities, for example on how much such enterprises actually contribute to sustainable job creation, inclusive societies and innovative industries in the long term. Multiple paths towards SME growth were outlined in The Broker debate, ranging from factors such as an enabling environment, education and training, to finance, the role of institutions and management styles.

How important is an enabling environment?

As they provide fertile ground on which SMEs can flourish, enabling environments have been the focus of research and development assistance programmes in the past. The World Bank's Doing Business reports for instance underline that improving "business regulations are important for new business creation and for the performance of small firms". But how much can tax reform achieve in a country where civil war is raging, where roads are non-existent or poorly maintained, and where distrust between people obstructs business relations? And do these reforms benefit local employees or do they cement the exploitive practices of big corporate businesses?

While most contributors to the debate emphasized the need for a business-enabling environment and the need for governments to facilitate it, they rarely specified what exactly they understood by a BEE. A good BEE inspires entrepreneurship, provides proximity and access to markets and supports the establishment of business clusters. The latter in particular can help increase employability, competition and innovation, which are key components of SME growth.

A number of contributors, however, challenged this traditional mantra of business development. SMEs can grow in a challenging external environment, if internal factors are ideal. Markus Loewe and Caroline Reeg of the German Development Institute argued that education, sector experience, exposure to international trends and business networks may counteract a stifling environment marred by corruption and high taxation for businesses. Social institutions and informal networks, which are often not included in standard BEE approaches, also heavily affect business environments.

In contrast to those experts who portrayed enabling environments as a source of inspiration for entrepreneurs, others noted that entrepreneurship can also simply be a necessity in an unfavourable business environment. Informal and unprofitable small businesses often remain the only source of income in countries where the formal economy is characterized by social exclusion or cannot accommodate a burgeoning workforce. This should serve as a crucial reminder to policymakers in SME development assistance programmes, that business owners might in fact be forced into entrepreneurship rather than embark on it by their own choice. Offering better social security schemes and increased access to insurance markets can be one way of deterring these 'involuntary entrepreneurs' who can barely make a living in overcrowded markets.

Is formalization the way to SME growth?

However, if entrepreneurs can count on a working infrastructure, administration and contract enforcement, this might serve as a strong incentive for formalization. Formalization in turn can increase government revenue through taxation and has the potential to provide better jobs, which provide social safety nets and adhere to labour law and regulations.

According to the African Development Bank Group, the majority of SMEs in Africa operate informally, with nine out of ten rural and urban workers in Africa engaged in informal businesses. Formalization is often mentioned as a way to weed out businesses with little growth prospects and to support those small firms which have the potential to raise their productivity and number of employees. Yet the reality is complex. SMEs in Africa often face the choice between complying with high regulations and incurring costs which threaten their viability or remaining informal, which prevents them from being eligible for bank credits and vulnerable to corrupt public authorities.

Formalization is a cost-benefit analysis for small businesses, which need to gauge whether the opportunities arising from abiding by tax regulations, having an official address, account and employee files outweigh the costs of these measures. Governments can play an active role in making the step into formalization more attractive, argued AfDB Vice-president Zuzanna Brixiova, by cutting regulations and encouraging entrepreneurship in high-quality, value-added sectors. Easing entry procedures to the formal market by introducing simple tax systems like lump-sum taxes are additional steps national authorities can take to bring micro and small entrepreneurs out of shadow economies. Powerful trade unions can be another strong impetus for businesses to seek formalization.

Barely legal? The role of informal workers' associations and trade unions in SME growth

Powerful trade unions can be another strong impetus for businesses to seek formalization. Unions have branded themselves as fighting for decent work all over the world for many decades. In Africa, they are non-governmental institutions with large constituencies, extensive national networks and the potential to be a mobilizing force on social or political issues.[5] Responding to a vibrant informal economy, they also reach beyond the formal sector, through more informally organized workers' associations. But can these association make up for the benefits associated with formal status for informal enterprises?

Their influence can actually be more far-reaching. Workers' associations can pressure governments to invest in inclusive growth, better labour rights and the enforcement of contracts. Since these are some of the key benefits for formal enterprises, strengthening informal workers' associations could provide an alternative to formalization. Especially when faced with weak governments, informal workers' associations can serve as platforms for citizen's empowerment. Apart from taking the concerns of informal employees seriously, workers' associations can also contribute to enterprise growth by providing training and advice to their members.

What is the role of institutions in SME growth? An interventionist perspective

Informal associations provide some of the tasks usually performed by public institutions. In the context of weak governance, what role can governments realistically play in boosting SME growth?

A key outcome of the debate was that education is a cornerstone in fostering enterprise growth – and it is government's responsibility. Quality education equipping labour market entrants with skills for high-growth industries should be a policy priority. Another area identified for government in providing an enabling business environment was creating business incubators and networks. From this perspective, governments should not only be a source of regulation and policy formation, but also encourage judicial reform and procedural justice in administrative processes(such as enforcing contracts and property rights).

Active policy steps to foster business growth and job creation put forward in the debate are national youth employment strategies, policies increasing information and market access, and better urban planning.

Furthermore, especially when institutions are weak, governments should encourage and assist businesses in complying with global accreditation standards. Information campaigns geared towards improving the financial literacy of entrepreneurs and their ability to draft business plans should complement private sector business training. UNCTAD's Hilary Nwokeabia championed this interventionist approach, arguing that, as the main duty bearers for a guaranteeing a BEE, governments should provide continuous technical support and the logistics for supply chain management as two quasi-public goods. Nwokeabia identified the lack of technical capacity to engineer growth in value chains and unreliable supply chains as two main shortcomings of current public sector interventions. Such intervention is not a one-way street. Governments will benefit from increased revenue generated through tax payments by formal SMEs.

The participants in the debate contested state finance for SMEs as a possible alternative to private sector investment. While AfDB Vice President Zuzana Brixiova argued that there needs to be at least an exit strategy for subsidized programmes alongside incentives for external actors to take up SME development programmes, Alia El Mahdi from the University of Cairo was more sceptical. She argued that in Egypt, state finance for inclusive growth through the Social Fund for Development only had minor impacts on increasing the number of female led-businesses.

A special case: SMEs in fragile states

In fragile and post-conflict states, these deficiencies of weak governments are magnified. In addition to deep social divisions, structural inequality, political instability and a lack of security for property or persons exacerbate the difficulty of doing business. Yet the concrete political and social dimensions that affect the potential of SMEs in these settings are often under-researched. Speaking of the case of Liberia, Tonia Dabwe argued that successful SME development interventions in post-conflict states need to include trauma and psychological support as much as they need to invest in the 'human aspect' of business. Given the importance of networks and clustering emphasized by the participants, distrust between individuals in post-conflict societies is one of the main obstacles to trading and business cooperation. At the same time, Paula Nagler and Wim Naude from Maastricht University argued thatunemployment is one of the main drivers of conflict. While evidence for the effectiveness of employment creation in preventing violent conflict remains inconclusive, a lack of other economic opportunities might be at least a contributing factor to especially young people becoming involved in crime and joining warring militias.

Most experts therefore ascribed a strong, if not leading, role to government in SME support programmes. Even though the quality of governance significantly differs among African countries, according to the Mo Ibrahim Foundation an upward trend can be detected for overall governance in 39 African states between 2009 and 2014. While some participants argued that the government should take on a more pronounced financial role in SME development, others named education as one of the main pillars where they see room and need for government engagement. The skills mismatch, especially among young people, was cited as one of the main reasons for unemployment in Africa. As private sector employment is often dominated by foreign businesses who seek highly qualified staff, local job seekers have a hard time securing these well-paid opportunities. SMEs have the potential to thus provide an entryway for graduates into the national job market.

Teaching for success? The role of education in boosting SME growth

Quality education is fundamental to equipping labour market entrants with analytical, creative and team skills. A lack of qualified personnel and investment in educational infrastructure are root causes of the current mismatch.Cooperation with local institutions for technical vocational and educational training (TVET), such as vocational schools and universities, can enhance the efforts of international organizations working on education projects. Yet there are also opportunities for more direct engagement of the private sector. Successful entrepreneurs can provide inputs to curricula, hold guest lecturer positions and offer internship opportunities to students. The close ties established will allow SME executives to easily access a pool of potential employees and to identify talent. For recent graduates, in addition to relevant skill sets, this coupling will provide them with insights into different sectors and 'a foot in the door of leading businesses. 'Some participants argued that this introduction to entrepreneurship and business training can start as early as primary and secondary school. Highly demanded IT and ICT/social media skills should furthermore be essential to educational programmes.

But again, this is a reciprocal process. Innovative educational practices, such as automated education services via mobile technology or massive open online courses (MOOCs) can bridge the gaps in access to education and quality teaching.

So much for the theory. MOOCs in particular have high entry barriers for African students, ranging from insufficient internet access to language barriers and the lack of prior knowledge. Similarly, a key shift in educational programmes has been to divert from broad-based training to targeted support for talented individuals with entrepreneurial spirit. Another main conclusion of the debate was that early-age education in entrepreneurial skills would lay the groundwork for more selective business training in the transition from education to labour markets. Yet this could potentially create or strengthen an already powerful business elite, and cause further rifts in already fragmented societies.

Perfect entrepreneurs through business and entrepreneurship training?

The majority of participants in the debate mentioned targeted business and entrepreneurship training as a key factor for business growth. As a premise for training, research needs to identify high-growth sectors of national economies, which could accommodate an influx of skilled graduates and re-trainees. Training, as a supplement to more labour market-oriented education, should focus on job relevant skills, such as operating production equipment in agriculture. Most crucially, training need to emulate the real business world rather than treat participants as if they were living in a vacuum. Fee structures, adjusted to local incomes and possibly individual participants' financial capabilities, can provide an incentive to accomplish training goals. Another crucial addition to entrepreneurship training isemployability training, which teaches jobseekers interviewing skills and the formal requirements of the job application process.

Business development services (BDS) are an essential provider of training and a popular tool for policymakers to promote SME growth. They can also serve as follow-up consultants to businesses at a later stage. Some participants in the debate noted that external consultants are usually more capable than business owners to lead management and other training courses and that training is most effective if administered by the private sector. Pairing of financial support and advice in drafting business plans and assessing market access and business operations is crucial to ensure that business growth is not hampered by a lack of resources or expertise. For management standardization accreditation, Micheline Goedhuys of Maastricht University pointed to a conflict of interest for BDSs. Private firms providing assistance in management standardization accreditation often also play a regulatory role in finding their own clients in cases of non-compliance.

Furthermore, Sarah Craig of Innovations for Poverty Action argued that, even where training lessons are implemented, they do not significantly increase profits or employment. Standardized business development training is often insufficient to address individual companies' shortcomings. Aid organizations therefore need to be flexible and recognize that, in some contexts, rules of thumb for financial decision-making, for instance, can be more effective than traditional accounting training.

But there are alternatives to traditional BDS. Innovative and cost-effective alternatives for SME learning and training can be barter systems or workers' associations that provide trainings for informal businesses. Digital business networks can provide another low-cost option for SMEs to increase their capacities and establish relations with other businesses. Incorporating SMEs into large businesses, completely or in parts of their value and supply chains, also offers opportunities for them to benefit from corporate training by the parent company.

Are specific leadership and management styles more effective in boosting SME growth?

Some participants argued that management and leadership styles are even more important than an enabling environment. Scaling, i.e. the step-by-step growth of an enterprise based on its human and financial capacities, can determine business survival or failure. Creating enterprise boards and committees for medium-sized businesses can be a source of more active and multilateral management. Compliance to international business standards can also unlock external investments for SMEs and allow them to access global markets. Standardization should be a cost-benefit analysis depending on the size of the enterprise. Medium-sized businesses which cooperate with larger firms or government counterparts are likely to benefit from improved operational performance (accounting, strategy and marketing) and increased cost-effectiveness.

As in the business development services sector, both international organizations and multinational companies play a significant role in financing SMEs. But is this external form of support not creating dependencies which hamper the 'emancipation' of businesses?

Which finance model is most effective in helping SMEs achieve self-subsistence?

Access to finance is one of the major constraints preventing businesses in Africa from growing. As the 'missing middle', SMEs fall outside microfinance schemes and the loan structures larger companies can draw on. They are therefore either underserved or not served at all. ECDPM, for example, found that 70% of financing comes from local supplier's own funds and another 25% from supplier's credit. [6] Their limited capital in turn prevents SMEs from expanding their facilities or taking on bigger contracts. Reasons for this limited access to formal finance institutions include minimal track records (i.e. through lack of accounting files) and insufficient collateral needed to secure debt capital. On top of that, credit institutions in fragile economies are often risk averse and thus opt to finance bigger businesses. Especially women entrepreneurs struggle to access finance in the formal banking system.

To increase finance opportunities, two financial experts advocated private equity as a flexible, tailor-made and low-interest solution to bank credits. Credit lines were also mentioned as an alternative to traditional loans. [7] If information gaps on the creditworthiness of SMEs prevent financial institutions from investing in them, credit and collateral registries could solve this issue. Accepting movable collateral such as inventory, livestock, equipment and machinery can furthermore enhance credit opportunities for SMEs which lack other assets, such as land or real estate. Banks, however, are often hesitant to include moveable assets in their policies when there is no legal framework supporting this method of finance. Regulatory reform governing the use of moveable assets as collateral (or "secure transaction reform") can thus pave the way to these new approaches to SME finance.

Crowdfunding, which has become a successful means of financing SMEs in Europe, is another emerging financing option in Africa. [8] As a way to respond to small investment needs, crowdfunding platforms are especially fit for social enterprises and community-based businesses (see The Broker dossier on Social Entrepreneurship). Impact investment by NGOs and financial institutions, for instance with the aim to boost women's entrepreneurship, emphasized the potential of this mode of finance to catalyze social change.

Foreign direct investment: a sustainable means of financing SMEs?

The participants were divided on whether foreign direct investment is a curse or blessing for SME development. Digital technologies specialist Stephen Haggard argued that foreign investment provides extensive opportunities for business growth and demonstrates the success and viability of a business to other investors. While UNCTAD's Hilary Nwokeabia conceded that African private SME investors do not have the financial resources to improve value and supply chain organization, he urged for the intervention of public institutions in negotiations between foreign investors and African enterprises.

Given that private sector engagement in SME development assistance has yielded mixed results, especially in fragile states, the majority of participants were cautious if not sceptical about foreign direct investment. Particularly in extractive industries which produce high economic rent, FDI hampers the upscaling of local sectors. Formal SMEs incur high costs if they comply with complex procurement procedures and national and international legislation governing the sector. Transfers of knowledge and investments in public infrastructure often become sidelined in favour of more direct gains for foreign companies. At worst, foreign investment goes hand in hand with tax evasion and seasonal labour.

Inclusive growth: SMEs as a safe haven for the marginalized?

Due to the fact that rising GDPs in economies across the continent have failed to translate into broad-based relative prosperity, inclusive growth in Africa has become a hot topic. Arguing from a normative perspective, Hilary Nwokeabia maintained that SMEs should be a cornerstone for inclusive industrial growth in developing countries. But can they be an instrument to share the pie more equally? And if so, how?

Inclusive growth through SME development assistance is a balancing act. On the one hand, even for international development organizations, the focus is no longer on social aid programming but on generating profit in local economies. On the other hand, international assistance for SME development should not be used to strengthen the power of local elites. The need emphasized in the debate for networks in SME development in the shape of informal organizations (e.g. religious or ethnic-based trade associations) might also increase the economic and social marginalization of certain groups. But it is not only structural exclusion that constrains inclusive entrepreneurship. Alack of finance and experience for instance often hinders young entrepreneurs from engaging in more productive SME sectors such as transport, gastronomy and services.

Support for SMEs as social businesses is based on their economic output in Africa. Responsible for 45% of overall employment and the majority of private sector activity, SMEs harbour the potential to enhance social inclusion.Consultant Matthijs De Bruijn and investment manager Som Toohey advocate private equity as an instrument to create value for environmental, social and governance (ESG) management. Especially the long-term horizon of private equity allows for not only setting up ESG goals, but also following up on them.

Experts sceptical about the idea of inclusive growth as a somewhat natural side effect of SME promotion argued that traditional, strictly finance-oriented approaches to SME development may perpetuate social exclusion. Targeted programmes with the specific aim of increasing employment opportunities for certain groups such as women, youth or migrants, can be a step towards socially inclusive SMEs. The public sector can for instance intervene through subsidies for such programmes or by directly investing in SMEs devoted to social inclusion.

SMEs as small links in bigger value and supply chains: a survival strategy?

Insufficient technical capacity to engineer growth in the value chains and unreliable supply chains have been two key reasons for limited successes in SME promotion by African governments. Especially in the start-up phase of SMEs, public institutions can assist in facilitating knowledge for the design of complementary production systems, adaptation and innovation of technologies and regulation of supply chains.

Incorporating SMEs into larger companies' supply chains is one way to ensure business viability and growth. Either aspure feed industries or as part of the government procurement system, SMEs may not expand their area of business but can grow in terms of output and staff size. Local subsidiaries of big companies can offer their employees more stable and better quality jobs. They can moreover expand their business to respond to different steps of the supply chain, moving from mostly a purely agricultural business to one that also has its own trade, marketing, and transport departments.

The future of SMEs in Africa

As a general consensus of the debate, there is limited knowledge about the real impact of current SME development assistance programmes as engines for inclusive growth. One of the overarching issues is that SME support programmes focus too much on skills development rather than on labour market placement. Poor education and training are indeed root causes of the current mismatch between skills and labour market demands, and limit innovations which could respond to market gaps. But an overcrowded informal SME sector also provides few opportunities for employment and expansion. Both informal and formal SMEs suffer from limited access to finance and the unpredictability of weak and corrupt governments.

But the SME sector does have the potential to change local economies. With sector-specific approaches and tailor-made responses to the needs of local businesses, SMEs can explore market niches and expand their operations. Organizations engaged in SME assistance should furthermore abstain from a mass-scale approach to entrepreneurship training and instead focus on promoting talented individuals. More projects aiming at increasing the employability of young people are crucial given Africa's demographic dividend. However, such approaches can only succeed when they are embedded within a comprehensive approach or framework that includes taxation, value chain development, regional and international trade, social institutions, and informal networks, among others. It is the multiple angles of SME development that should be tackled within new SME development assistance and programmes.

Footnotes

1. See for example: Peter van der Zwan and Jolanda Hessels (2013), Start-up motivation and (in)voluntary exit, Panteia/EIM for the research program SCALES.

2. Following USAID's definition, a business enabling environment (BEE) "includes norms and customs, laws, regulations, policies, international trade agreements and public infrastructure that either facilitate or hinder the movement of a product or service along its value chain [...] [A]t the national and local level [it] encompasses policies, administrative procedures, enacted regulations and the state of public infrastructure [as formal factors]". Informal factors include social norms, business culture and local expectations.

3. ILO (2015, January), *World Employment and Social Outlook. Trends 2015*.

4. See for example: the United Nations Economic Commission for Africa's North Africa Office report SMEs actors for sustainable development in North Africa

5. Hubert René Schillinger (2005, March), *Trade Unions in Africa: Weak but feared*, Global Trade Union Program, International Development Cooperation

6. Claudine Sigam and Dalila Iddrissu, Extractive industries, related benefits, and financial intermediation in Africa, ECDPM's Great Insights Volume 2, Issue 2 (February-March 2013)

7. Credit lines are agreements between financial institutions and customers which establish a maximum loan balance available at any time, which the bank permits the borrower to maintain. Interest will only be paid on the amount of money the borrower actually draws on, which could be below the maximum agreed upon.

8. For example The World Bank's Kenya Climate Innovation Centre (KCIC) has launched its crowdfunding mentorship programme for entrepreneurs in East Africa. See more here.

Recommendations for promoting SME growth

For research institutions

- more research on and evaluation of impacts of programmes (predominantly economic, but also social, environmental, gender) and on the nexus of conflict and SME development
- prior field studies mapping the needs and demands of local populations
- identification of high-growth sectors

For international organizations' and national government's SME support programmes

- sector-specific approaches and tailor-made responses to local businesses' needs
- selective support to talented individuals rather than mass scale training
- special focus on youth training; both skills-building (in response to labour market demands) and employability training
- focus on existing small enterprises to foster their growth rather than medium-sized start-ups to 'fill' the missing middle

education:

- early entrepreneurship training (primary & secondary school)
- cooperation with private sector in labour market placement and curriculum design
- investment in building teachers' capacities

finance:

- new approaches (PEs, credit lines, collateral registries) which allow for entrepreneurial risk-taking and new securities for credits and loans
- pairing of financial advice with business support services and training

For the private sector

training:

- capacity building for employees and employers
- precept to training: intrinsic motivation of entrepreneurs
- focus on job-relevant skills
- need to emulate real business world, for instance through fee structures
- need for pairing finance and operational advice
- needs to foster innovation and awareness of local needs and market niches
- Enabling environment:
- investments can improve infrastructure and create networks for enterprises, yet its importance is contested

For local SMEs

- formalization should not be a priority, but pragmatic cost-benefit analysis
- accreditation management standards in relation to firm size (mostly lucrative for globally trading enterprises)
- mapping of local needs and demands to ensure products find a market
- innovation, by following global trends but finding a 'local version'

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