



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.

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

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- 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 Medi39851(M)8.48565a98(A).men5131(d1(c)3.74217(t)-0.0579853(s)6.67043(-)4.88612(e)3.742o1.6423

- 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-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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