

PART 2: BENCHMARKING ETHIOPIAN MSME POLICIES AND INSTITUTIONS

Dr Ricardo R Pinto
February 2020

Benchmarking Ethiopian MSME Policies and Institutions:

Part 2

Table of Contents

| | |
|---|----|
| List of Acronyms | 3 |
| 1.0 Introduction | 5 |
| 1.1 Focus of work..... | 5 |
| 1.2 Methodology..... | 5 |
| 1.3 Acknowledgements..... | 5 |
| 2.0 Principles of Benchmarking | 6 |
| 2.1 Introduction | 6 |
| 2.2 Principles of Benchmarking..... | 6 |
| 2.2.1 What is Benchmarking..... | 6 |
| 2.2.2 Benchmarking principles and benefits..... | 6 |
| 2.2.3 Benchmarking in the Public Sector | 7 |
| 2.2.4 Benchmarking process..... | 8 |
| 3.0 Benchmarking MSME Policies and Institutions | 11 |
| 3.1 Introduction | 11 |
| 3.2 Quantitative International Benchmarking: 4 MSME Systems | 11 |
| 3.2.1 Ease of Doing Business Index (EDB)..... | 11 |
| 3.2.2 Global Entrepreneurship Monitor (GEM) | 14 |
| 3.2.3 Global Competitiveness Index (GCI) | 16 |
| 3.2.2 Enterprise Survey (ES)..... | 17 |
| 3.3 Quantitative Benchmarking: 4 MSME Systems | 18 |
| 3.3.1 Assessment of Ethiopian SME Policies and Institutions: Part 1 | 18 |
| 3.3.2 OECD SME Policy Index..... | 18 |
| 3.4 Qualitative Benchmarking..... | 19 |
| 3.4.1 MSME Policies: issues and recommendations..... | 21 |
| 3.4.2 MSME Implementation: issues and recommendations..... | 24 |
| 3.4.3 MSME Monitoring & Evaluation: issues and recommendations..... | 24 |
| Annexes | 26 |
| Annex 1: GEM Profiles: South Africa and Bangladesh..... | 27 |
| Annex 2: WB Enterprise Survey: 4 countries (2007, 2015 and 2013) | 29 |
| Annex 3: Ethiopia MSME Profile | 33 |
| Annex 4: Ukraine MSME Profile | 40 |
| Annex 5: South Africa MSME Profile..... | 47 |
| Annex 6: Bangladesh MSME Profile | 55 |

List of Acronyms

| | |
|-----------------|---|
| BDS | Business Development Services |
| BMO | Business Management Organisations |
| CSA | Central Statistics Agency |
| DAG/PSD | Donor Action Group / Private Sector Development Sub-Group |
| EBRD | European Bank for Reconstruction and Development |
| EC | European Commission |
| EDB | Ease of Doing Business Index |
| ES | Enterprise Survey |
| ETB | Ethiopian Birr |
| EU | The European Union |
| FeSMEDA | Federal Micro and Small Enterprises Development Agency |
| FeSMMIPA | Federal Small and Medium Manufacturing Industries Promotion Authority |
| FeUJCFSA | Federal Urban Job Creation and Food Security Agency |
| FeTVETA | Federal Technical and Vocational Education Agency |
| GCI | Global Competitiveness Index |
| GDP | Gross Domestic Product |
| GEM | Global Entrepreneurship Monitor |
| GIZ | Gesellschaft für Internationale Zusammenarbeit GmbH |
| GoE | Government of Ethiopia |
| GTP2 | Growth and Transformational Plan II |
| KPI | Key Performance Indicator |
| MoALR | Ministry of Agriculture and Livestock Resources |
| MoUDC | Ministry of Urban Development and Construction |
| MoTI | Ministry of Trade and Industry |
| MSE | Micro and Small Enterprises |
| MSMEs | Micro, Small and Medium Enterprises |
| OECD | Organisation for Economic Cooperation and Development |
| OSS | One Stop Service Centres |

| | |
|---------------|--|
| PPD | Public-Private Dialogue |
| RIA | Regulatory Impact Analysis |
| SA | South Africa |
| SME | Small and Medium-sized Enterprises |
| SSR | Sub-Saharan Region |
| TEA | Total early-stage Entrepreneurial Activity |
| TVET | Technical and Vocational Education and Training |
| UNDP | United Nations Development Programme |
| UNIDO | United Nations Industrial Development Organisation |
| UJCSNA | Urban Job Creation and Safety Net Agency |
| USAID | United States Agency for International Development |
| USD | United States Dollar |
| WB | World Bank |
| WEDP | Women Entrepreneurship Development Project |

1.0 Introduction

1.1 Focus of work

“Dr Ricardo Pinto has been commissioned by the Special Initiative on Training and Job Creation, launched under the brand Invest for Jobs by the Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by GIZ and Sequa, to undertake a Benchmarking of the micro, small and medium-sized enterprise (MSME) policies and institutions in Ethiopia with a focus on two key levers that governments have at their disposal to influence the development of the MSME sector:

- Policies: A policy is a set of ideas or plans that is used as a basis for making decisions, which is adopted or pursued by an individual, government, party, business, etc. In the context of MSMEs, the policies adopted influence such issues as development priorities, deployment of state and donor support, statistical basis, etc.;
- Institutions: an institution is an organisation or establishment founded for a specific purpose, such as implementing aspects of SME policies as define above. The institutional basis for implementing MSME policies is a critical factor in achieving effective development.

Therefore, an enabling policy and institutional environment is critical to effective MSME development. The aim of the Benchmarking of policies and institutions is to assess the current situation and make recommendations for the future development of the system for enterprise support with a focus on the roles and responsibilities of the Ministry of Trade and Industry (MoTI).

The international Benchmarking takes into consideration and builds upon the earlier analysis performed by the author, namely the “Assessment of Ethiopian MSME Policies and Institutions: Part 1” (2019). This report “Benchmarking Ethiopian MSME Policies and Institutions: Part 2” and the Assessment should be read together, as basis for reforming the MSME ecosystem in Ethiopia.

The Special Initiative on Training and Job Creation aims to create up to 100,000 jobs and 30,000 apprenticeships and to improve working conditions in the African partner countries, including Ethiopia.

1.2 Methodology

The methodology for the Benchmarking of the Ethiopian MSME policies and institutions involved the following elements:

- Determination of the benchmarking aim (August 2019);
- Selection of comparison variables (September 2019);
- Commissioning of international SME experts for comparator countries (October 2019);
- Quality control of four country reports (November-December 2019);
- Report drafting (November-December 2019);
- Incorporating feedback and finalisation of the report (December 2019 to February 2020).

1.3 Acknowledgements

I would like to express my gratitude to various individuals for contributing to the study, including Mr Thomas Ritter (project coordinator and quality control) and Ms Tessa Schneider (part of the data collection). MSME experts were responsible for the qualitative benchmarking information and statistical profiles in three of the four comparator countries, namely: Solomon Wole (Ethiopia), Zahidur Rahman (Bangladesh) and Rani Chetty and Volker Schmidt (South Africa). Any misunderstandings, errors, etc. remain my responsibility.

2.0 Principles of Benchmarking

2.1 Introduction

This report is Part 2 of MSME analysis commissioned by sequa. Part 1 was an Assessment of Ethiopian MSME Policies and Institutions, including programmes. The first report resulted in a series of policy conclusions and recommendations, which were verified in a high level policy workshop. The intention was for the analyses and recommendations made in Part 1 to be followed-up in the benchmarking exercise (i.e. Part 2 or this report). This report presents the actual qualitative and quantitative benchmarking and concludes with a series of recommendations for the wide range of Ethiopian policy makers actively engaged in the MSME sector.

2.2 Principles of Benchmarking

2.2.1 What is Benchmarking

Benchmarking has become a standard tool to basically improve the performance of the public, as well as the private sector. The underlying principle of benchmarking is that comparison of, for example individual MSEs, MSME policies, MSME support institutions, etc. can be an important catalyst to drive improvement in performance.

The basic idea is to find organisations/companies that are good at something, compare the organisation/company based on selected criteria, assess the organisation/company against those criteria, make plans for improving the performance, implement the plans and monitor and evaluate the results. Then repeat the process again and again. In a nutshell, benchmarking is about identifying and implementing good practice.

Benchmarking was developed in the private sector, whose objectives are defined principally by issues such as cost, time, productivity, competition, consumers, etc. The application of benchmarking is not nearly as straightforward and clear-cut when it comes to public policies and institutions.

However, there is extensive experience of benchmarking being used to improve public sector performance, with the Organisation for Economic Cooperation and Development (OECD) being a leading proponent of international policy benchmarking and other tools, such as peer review. The experience suggests that if benchmarking is customised to the needs of the public sector, it can be an important instrument for performance improvement (OECD, International Benchmarking - Experience from OECD Countries).

There is no standard definition of benchmarking - the differences relate to emphasis and application. However, in the context of this report, benchmarking could be so defined as follows:

Benchmarking is the structured process of identifying good practice leading to excellent MSME development performance, the observation and exchange of information about those practices, the customisation of those practices to meet the needs of Ethiopia's unique setting, as well as their implementation, monitoring and evaluation.

2.2.2 Benchmarking principles and benefits

The principle involved in benchmarking is not complicated. Benchmarking is a process of understanding what is important for an organisation's success, understanding its own processes, finding and learning from others whose processes may be more advanced and adapting to improve its own performance. Benchmarking requires self-assessment and self-criticism and the ability to translate practices that work in another context into a process appropriate to your own setting.

While the principles of benchmarking may be straightforward, there are four types that are often referred to, even though they are not unambiguous:

- Internal benchmarking: in which comparisons are made within the organisation;
- Competitive benchmarking: in which comparisons are made with direct competitors;
- Industry benchmarking: in which the benchmark partner is not a direct competitor but shares the same industry;
- Generic benchmarking: in which comparisons of processes and practices are made, regardless of the industry or field of the partner.
- Benchmarking is often also categorised on the basis of processes or practices:
 - Process benchmarking: in which the focus is on discrete work processes and operating practices;
 - Performance benchmarking: in which the focus is on comparing products and services;
 - Strategic benchmarking: in which the focus is on examining how companies compete.

The benchmarking that is undertaken in this report is set out in more detail below. It is a hybrid of the types highlighted above. The emphasis is on industry benchmarking (i.e. four countries and how they address the MSME sector) and on performance (in terms of policies and institutions). The focus is on comparative good practice that would enable the Government of Ethiopia (GoE) to reflect on its currently MSME policies and institutions and consider if/how to reform, so that these are more geared towards international good practice.

The potential benefits of benchmarking include, inter alia, the fact that it provides a systematic approach to quality improvement; highlights the need for change; establishes the extent of improvement required; provides a framework for change; enables the incorporation of good practices; stimulates a learning culture which is open to new ideas, etc.

However, benchmarking is no policy panacea. The criticism is that benchmarking may restrict innovation by focusing on processes that are already occurring within the industry, may set a cap to ambition by seeking to only emulate good practice, may reduce freedom to adapt to changing circumstances and prepare for the future, may only provide marginal improvements in processes.

There are no guarantees that benchmarking will produce the desired results, especially where public policy is concerned, such as MSME development, which is horizontal in nature and involves multiple players and influences beyond the role of government. On the other hand, the potential for improvement is high and, at worst, it is likely to increase an organisation's knowledge. Moreover, even incremental improvements in processes and practices can be significant to eventual success.

2.2.3 Benchmarking in the Public Sector

Benchmarking was developed in private sector management but is increasingly used in the public sector in order to improve the efficiency, effectiveness and legitimacy of government interventions. There are basically three types of benchmarking in the public sector (Groenendijk, N. 2009, EU and OECD Benchmarking and Peer Review Compared):

- Benchmarking of public sector organisations: very similar to private sector benchmarking (e.g. of an MSME) and most of the benchmarking done in the public sector is of this kind;
- Benchmarking of public policies: policy outcomes such as economic growth, unemployment reduction, etc. are the result of numerous activities by multiple actors, which impact the benchmarking process. Benchmarking focuses on the aspects that are within the control or influence of the actors involved;
- Benchmarking of policy systems: examples are national innovations and national welfare state systems. Policy systems concern a multitude of policy objectives whereas benchmarking of policies involves a single set of explicit policy objectives.

In the context of this study, the focus is on benchmarking the MSME policies and the institutions involved rather than the wider economic policy system.

2.2.4 Benchmarking process

There are typically a number of aspects to the benchmarking process:

- Identify the function to benchmark: in this case we wish to address MSME policies and institutions, mostly at the national level;
- Identify comparator countries: in this case we wish to use fairly large countries with established MSME policies and institutions, namely Bangladesh (identified by client), South Africa (African best-in class) and Ukraine (European transition economy);
- Select quantitative and qualitative performance measures: in this case based on a combination of the Assessment of Ethiopian SME Policies and Institutions: Part 1 (R. Pinto, 2019) and the best available international MSME policy benchmarking tool, namely the SME Policy Index (OECD);
- Collect comparative data: in this case for Ethiopia and the three comparator countries, using SME experts based in the countries in question who are familiar with their respective MSME systems;
- Analyse data and identify gaps: in this case, the data for Africa, Bangladesh and Ukraine is used to identify the Ethiopian gaps/issues in the MSME policy and institutional environment;
- Make recommendations: recommendations will be made for how Ethiopia can raise the MSME policy and institutional bar, thus providing it with a basis enhancing policy performance over time;
- Implement, monitor and evaluate it is for the GoE to determine which recommendations to implement and set the process by which the implementation will be monitored and evaluated.

The benchmarking process set out above is discussed in more detail below.

2.2.4.1 Identify the function to benchmark

The focus of a benchmarking exercise for a company is normally very clear and precise, such as benchmarking the productivity of an enterprise compared with its key competitor. The situation in the context of national policies is much less clear and precise. In the context of this research, the benchmarking is basically a follow-up the report Assessment of Ethiopian MSME Policies and Institutions: Part 1 (R Pinto, 2019), which recommended that benchmarking be carried out, among other MSME policy recommendations. Therefore, the function to benchmark is specifically MSME policies and institutions at mostly national level, with a focus on Ethiopia's MSME specificity. The exercise is designed to enable the relevant Ethiopian stakeholders to be fully aware not only of how their own MSME policies and institutions are structured (i.e. Part 1) but also, through benchmarking, to enable them to compare themselves with how the selected comparator countries are structured.

2.2.4.2 Identify comparator countries

The comparator in a benchmarking exercise is normally the best-in-class company in the private sector context. In the case of national policy-making, other factors must be considered in determining the comparator countries. For example, the most entrepreneurial countries are often considered to ones such as USA, UK, Malaysia, Sweden, etc. In the case of the Doing Business 2019 for example, the top 5 countries are New Zealand, Singapore, Denmark, Hong Kong and South Korea. However, to use these as the comparator countries would not make policy sense due to a multitude of factors, not least the very different sizes, populations, histories, legal and other contexts.

The selection of comparator countries allows Ethiopia to assess itself against peers in different policy contexts. In the context of this study, the comparator countries are highlighted in the Table below, together with a few key indicators.

Table 1: Benchmark Countries: Key Indicators

| Indicators | Ethiopia | South Africa | Ukraine | Bangladesh |
|--|----------|--------------|---------|------------|
| Population (mio.) | 94.1 | 57.7 | 42.0 | 164.9 |
| Surface area (mio.) | 1.1 | 1.2 | 0.6 | 0.15 |
| GDP per capita (USD) | 853 | 6.377 | 2.963 | 1.744 |
| 10-year average GDP growth (%) | 8.3 | 1.6 | 0.1 | 5.9 |
| 5-year average FDI inward flow (% GDP) | 4.5 | 1.0 | 2.3 | 1.1 |
| Regions/provinces | 9 | 9 | 24 | 8 |

Source: WEF Global Competitiveness Index 2019; author

The selected countries are very different yet are relatively large in terms of population and surface area, while also having diverse levels of policy development at national and regional level. They offer a rich variety from which Ethiopia could potentially derive policy-relevant lessons, including the African best-in class country (South Africa), a European transition country making rapid MSME development progress (Ukraine) and a beneficiary-determined country (Bangladesh).

2.2.4.3 Select performance measures (quantitative and qualitative)

Performance measures are used to assess the results of implementation practices so in benchmarking, metrics and measures may be used that are qualitative or quantitative in nature. They must involve measures that are relevant to the selected topic for benchmarking and must also be capable of being reproduced (e.g. over time and in different organisations). They may be absolute, relative or indexed. They may involve using existing metrics or developing new, customised ones. In the context of this study, which is a one-off exercise that is limited in time and resource, it is unavoidable to use existing performance measures, rather than carrying surveys, focus groups and similar in all four countries. This inevitably influences the selection of performance measures, since only those which can be relatively easily collected can be used.

Within the broad topics of MSME policies and institutions, there are many sub-categories of issues / performance measures which can be selected for international comparative / benchmark analysis. The focus of the benchmarking study is to identify good practices that would allow the GoE to perform its MSME development role more effectively. The selection of the measures is based on a combination of sources of information, which are addressed in detail in the following Chapter:

- International comparable data sources (e.g. World Bank Doing Business Rank);
- The most advanced international MSME benchmarking tool, the SME Policy Index (OECD);
- The Assessment of Ethiopian SME Policies and Institutions: Part 1 (R. Pinto, 2019).

2.2.4.4 Collect comparative data

The comparative data to be collected for Ethiopia, South Africa, Bangladesh and Ukraine concerns information in the public domain of the type previously discussed. The information for Ethiopia is relatively easily to collect using a national MSME expert in combination with the Assessment of Ethiopian SME Policies and Institutions: Part 1 report. The methodology uses the same approach for the comparator countries. Desk research was carried out about the countries in general, followed by the commissioning of national MSME experts based in the countries in question (the author, in the case of Ukraine). Each of the selected experts is well-versed in MSME development generally but with an emphasis on expertise in the respective national MSME policies and institutions. Each national consultant was presented with the information for Ethiopia, as a baseline and indication of the type of information to be collected. There was thus a clear basis for structuring the information to be collected for each country. The MSME experts then collected the information requested and several quality control rounds were made to ensure

consistency. Where comparative information was not available, this is clearly indicated in the analysis (e.g. there is no GEM for Ukraine).

2.2.4.5 Analyse data and identify gaps

The data collected for the four countries, as per the preceding section (2.2.4.4), was pooled, checked, supplemented and verified for consistency and coherence. The main emphasis of the benchmarking analysis was on identifying the performance differences and gaps, as far as MSME policies and institutions are concerned. The performance differences and gaps can theoretically be positive (Ethiopia is more advanced), negative (Ethiopia is less advanced) or neutral (Ethiopia is at parity).

2.2.4.6 Make recommendations

Clearly, there may be contextual and other factors that explain the gaps. In other cases, there are costs and benefits associated with striving to address the relevant MSME policy and institutional gaps in performance. Therefore, the author applies his MSME knowledge and expertise to make recommendations that offer the prospect of Ethiopia raising the MSME policy and institutional bar, thus offering the prospect of improving its performance over time.

2.2.4.7 Implement, monitor and evaluate

The final part of the benchmarking cycle deals with three critical issues: implementation, monitoring and evaluation. The international MSME expert made his professional judgements in terms of the recommendations. However, the GoE is responsible for making decisions. It is for policy makers (politicians and civil servants) to determine which proposed reforms, if any, should be implemented, as well as when and how. Moreover, as previously discussed, the value of benchmarking lies in checking how the reforms are proceeding and to regularly recalibrate the process, thus raising performance over time relative to the benchmarked countries. In other words, not only must the GoE determine which MSME reforms to prioritise, it must also establish a clear monitoring and evaluation (M&E) system to track progress and improve over time. The ultimate intention, by using benchmarking and applying international good practice in MSME development, is for Ethiopia's performance gaps to be eliminated over time.

3.0 Benchmarking MSME Policies and Institutions

3.1 Introduction

Within the broad headings of policy and institutions dealing with MSME matters, there are many sub-categories of issues / performance measures which could be selected for international comparative / benchmark analysis. The focus of the benchmarking study is on identifying good practices that allow the GoE to perform the MSME development function well. The selection of performance measures is based on a combination of three key sources of information:

- International comparable data sources (e.g. World Bank Doing Business);
- The most advanced international MSME benchmarking tool (i.e. OECD SME Policy Index);
- The Assessment of Ethiopian SME Policies and Institutions: Part 1 (R. Pinto, 2019).

3.2 Quantitative International Benchmarking: 4 MSME Systems

If meaningful comparisons are to be made, only truly comparable international statistics / indices / ranks can be used. The key relevant publicly available MSME data sources are the following:

- Global Entrepreneurship Monitor (GEM);
- Doing Business Index (EDB);
- Global Competitiveness Index (GCI);
- Enterprise Survey (ES).

3.2.1 Ease of Doing Business Index (EDB)

The World Bank's Ease of Doing Business (EDB) analysis is an international benchmark of business regulation. The survey concentrated on a simple business case that allows for comparability across economies and over time based on assumptions on the legal form of the business, size, location, and nature of its operations. The EDB index measures regulations directly affecting businesses. A nation's ranking on the index is based on the average of 10 sub-indices, as illustrated in the Table below.

A set of issues are worth highlighting, based on Ethiopia's comparative performance:

Global rank (out of 190 countries):

- It ranks poorly overall (159th/190) and also lower than the Sub-Saharan Region (SSR – 141st);
- Starting A Business (167th/190):
- It has the greatest number of procedures for starting a business (11) compared with SSR (7.4);
- It takes a somewhat longer time to start a business (32 days) compared with the SSR (23.3 days);

- It costs significantly more to start a business (52.7% of income per capita) compared with SA (0.2%) and SSR (44.4%).

Construction Permits (168th/190):

- It has the highest costs for dealing with construction permits (14.4% of warehousing value) compared with SA (0.2%) and SSR (44.4%).

Table 2: Ease of Doing Business (EDB) Index: selected countries and Sub-Saharan Region

| Indicator | Ethiopia | South Africa | Sub-Saharan | Bangladesh | Ukraine |
|---|-----------|--------------|-------------|------------|-----------|
| Ease of Doing Business Rank / Score (0-100) | 159/49.06 | 82/66.03 | 141/51.61 | 176/41.97 | 71/68.25 |
| 1 Starting business (Rank/Score) | 167/70.79 | 134/81.22 | 122/78.52 | 138/80.82 | 56/91.07 |
| Procedures (number) | 11 | 7 | 7.4 | 9 | 6 |
| Time (days) | 32 | 40 | 23.3 | 19.5 | 6.5 |
| Cost (% of income per capita) | 52.7 | 0.2 | 44.4 | 21.2 | 0.6 |
| Paid in min capital (% of income per capita) | 0.0 | 0.0 | 10.0 | 0.0 | 0.0 |
| 2 Dealing with construction permits | 168/52.84 | 96/68.25 | 125/58.59 | 138/60.82 | 30/76.91 |
| Procedure (number) | 13 | 20 | 14.7 | 15.8 | 11 |
| Time (days) | 134 | 155 | 145.7 | 273.5 | 85 |
| Cost (% of warehouse value) | 14.4 | 2.0 | 8.8 | 1.8 | 6.3 |
| Building quality control index (0-15) | 7.0 | 12.0 | 8.5 | 10.0 | 12.0 |
| 3 Getting electricity | 131/59.71 | 109/68.79 | 145/49 | 179/30.81 | 135/59.17 |
| Procedures (no) | 4 | 5 | 5.2 | 8.6 | 5 |
| Time (days) | 95 | 109 | 112 | 150.2 | 281 |
| Cost (% of income per capita) | 891.8 | 156.7 | 3456.5 | 2,155.9 | 402.5 |
| Reliability of supply & transparency tariff index (0-8) | 0 | 4 | 1.6 | 0 | 6 |
| 4 Registering property | 144/51.33 | 106/59.32 | 131/52.62 | 183/28.91 | 63/69.74 |
| Procedure (no) | 7 | 7 | 6.2 | 8 | 7 |
| Indicator | Ethiopia | South Africa | Sub-Saharan | Bangladesh | Ukraine |
| Time (days) | 52 | 23 | 53.9 | 270.8 | 17 |
| Cost (% of property value) | 6.0 | 7.8 | 7.6 | 7.2 | 1.8 |
| Quality of land administration index (0-30) | 6.0 | 15.0 | 8.8 | 6.5 | 14.5 |
| 5 Getting credit | 175/15.00 | 73/60.00 | 115/42.08 | 161/25.00 | 32/75.00 |
| Strength of legal rights index (0-12) | 3 | 5 | 5.2 | 5 | 8 |
| Depth of credit information index (0-8) | 0 | 7 | 3.3 | 0 | 7 |
| Credit registry coverage (% of adults) | 0.0 | 0.0 | N/A | 0.0 | 0.0 |
| Credit bureau coverage (% of adults) | 0.4 | 67.3 | N/A | 3.2 | 45.9 |
| 6 Protecting minority investors | 178/28.33 | 23/73.33 | 127/44.55 | 89/55.00 | 72/58.33 |
| 7 Paying taxes | 130/63.26 | 46/81.13 | 129/75.52 | 151/56.13 | 54/79.35 |
| Payments (no per year) | 29 | 7 | 37.4 | 33 | 5 |

| | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| Time (hours per year) | 300 | 210 | 280.6 | 435 | 327.5 |
| Total tax and contribution rate (% of profit) | 37.7 | 29.1 | 46.8 | 33.4 | 41.7 |
| Post filing index (0-100) | 51.56 | 60.28 | 54.6 | 44.36 | 85.95 |
| 8 Trading across borders | 154/56.00 | 143/59.64 | 139/53.59 | 176/31.76 | 78/77.62 |
| Time to export: Border compliance (hours) | 51 | 92 | 97.3 | 168 | 6 |
| Cost to export: Border compliance (USD) | 172 | 1,257 | 605.8 | 408.2 | 75 |
| Time to export: Documentary compliance (hours) | 76 | 68 | 72.8 | 147 | 66 |
| Cost to export: documentary compliance (USD) | 175 | 55 | 168.8 | 225 | 192 |
| Time to import - border compliance (hours) | 72 | 87 | 126.3 | 216 | 32 |
| Cost to import - border compliance (USD) | 120 | 676 | 684.3 | 900 | 100 |
| Time to import - Documentary compliance (hours) | 194 | 36 | 97.7 | 144 | 96 |
| Cost to import - documentary compliance (USD) | 750 | 73 | 283.5 | 370 | 162 |
| 9 Enforcing contracts | 60/62.77 | 115/54.10 | 128/48.87 | 189/22.21 | 57/63.59 |
| Time (days) | 530 | 600 | 655.1 | 1,442 | 378 |
| Cost (% of claim value) | 15.2 | 33.2 | 42.3 | 66.8 | 46.3 |
| Quality of judicial processes index (0-18) | 7.0 | 7.0 | 6.7 | 7.5 | 11.5 |
| 10 Resolving insolvency | 148/30.53 | 66/54.49 | 126/30.80 | 153/28.20 | 145/31.72 |
| Recovery rate (cents on the dollar) | 27.7 | 34.5 | 20.3 | 29.2 | 9.6 |
| Cost (% of estate) | 14.5 | 18.0 | N/A | 8.0 | 40.5 |
| Strength of insolvency framework index (0-16) | 5.0 | 11.5 | N/A | 4.0 | 8.5 |

Source: WB Doing Business (2019)

Getting Electricity (131st/190):

- It has high cost (891.8% of income per capita) of getting electricity compared with SA (156.7%) but does relatively well compared with SSR (3456.5%);
- It performs extremely poorly (0 out of 8) in terms of reliability of supply and transparency tariff index compared with SA (4) and SSR (1.6%).

Registering Property (144th/190):

- It takes a long time (52 days) to register property compared with SA (23 days) but is broadly on par with SSR (53.9 days);
- It performs poorly (6.0 out of 30) in terms of quality of land administration index compared with SA (15) and SSR (8.8).

Getting Credit (175th/190):

- It performs very poorly (3 out of 12) in terms of strength of legal rights index compared with SA (5) and SSR (5.2);

- It performs very poorly (0 out of 8) in terms of depth of credit information index compared with SA (7) and SSR (3.1);
- It performs very poorly (0.4% of adults) in terms of depth of credit bureau coverage compared with SA (67.3%) and other countries.

Paying Taxes (130th/190):

- It has a very large number (29 per year) of tax payments compared with SA (7 per year) but does relatively well compared with SSR (34.7 per year);

Trading Across Borders (154th/190):

- It performs very poorly (194 hours) in terms of time to import - documentary compliance compared with SA (36 hours) and SSR (99.7 hours);
- It is very expensive (750 USD) in terms of cost to import - documentary compliance compared with SA (73 USD) and SSR (283.5 USD);

Enforcing Contracts (60th/190):

It performs well (60th) in enforcing contracts but could improve further (e.g. time and cost).

Resolving Insolvency (148th/190):

- It performs very poorly (148th) in resolving insolvency compared with compared with other countries, especially SA (66th).

3.2.2 Global Entrepreneurship Monitor (GEM)

The Global Entrepreneurship Monitor (GEM) research project is an annual assessment of the national level of entrepreneurial activity in multiple, diverse economies. GEM is the largest ongoing study of entrepreneurial dynamics in the world.

The data used for the GEM is collected from two large surveys, namely the Adult Population Survey (APS) and the National Expert Survey (NES). The APS surveys at least 2000 adults of each country covered by the GEM and covers the entrepreneurial aspirations of the country's population. The NES surveys a group of business and academic experts in each country with a broad range of specialties for concrete measures of country's institutional factors.

The source of the analysis in the Table below is the African Entrepreneurship: Sub-Saharan African Regional Report (M. Herrington and D. Kelly, 2012). As can be seen from the Table, the GEM data for Ethiopia is extremely dated (2012) and the GEM was recently updated for South Africa (2017) but has not yet been carried out in Ukraine. Annex 1 contains a brief profile of South Africa and Bangladesh.

Table 3: Global Entrepreneurship Monitor (GEM): selected countries and Sub-Sahara Region

| Indicator | Ethiopia | South Africa | Sub-Sahara | Bangladesh |
|--|-----------------|---------------------|-------------------|-------------------|
| GEM Data collection year | 2012 | 2017 | 2012 | 2011 |
| Self-Perceptions | | | | |
| Perceived Opportunities Rate | 64.89 | 43.17 | 64.21 | 64.43 |
| Perceived Capabilities Rate | 69.10 | 39.93 | 71.56 | 23.63 |
| Fear of Failure Rate | 32.66 | 31.31 | 25.22 | 72.01 |
| Entrepreneurial Intentions Rate | 23.84 | 11.72 | 47.45 | 24.57 |
| Activity | | | | |
| Total early-stage Entrepreneurial Activity (TEA) | 14.73 | 10.96 | 23.53 | 12.77 |

| | | | | |
|---|-------|-------|-------|-------|
| Established Business Ownership Rate | 10.20 | 2.15 | 10.94 | 11.60 |
| Entrepreneurial Employee Activity Rate | 0.57 | 0.45 | 1.01 | NA |
| Motivations | | | | |
| Motivational Index | 3.40 | 1.46 | 1.45 | 1.83 |
| Gender Equity | | | | |
| Female/Male TEA Ratio | 0.78 | 0.69 | 0.77 | 0.21 |
| Impact | | | | |
| High Job Creation Expectation Rate | 13.60 | 32.00 | 18.43 | 10.26 |
| Innovation Rate | 13.72 | 29.66 | 21.79 | 6.78 |
| Business Services Sector Rate | 5.54 | 10.33 | 6.52 | 2.97 |
| Societal Values | | | | |
| High Status to Successful Entrepreneurs Rate | 91.85 | 74.86 | 82.31 | 100.0 |
| Entrepreneurship as a Good Career Choice Rate | 76.20 | 69.36 | 78.28 | 73.02 |

Source: *African Entrepreneurship: Sub-Saharan African Regional Report*, M. Herrington & D. Kelly, 2012.

Based on the GEM survey conducted in 10 sub-Saharan African countries, 65% of Ethiopian adults reported that they saw opportunities for going into business, 69% reported they had the skills and knowledge for a career in private enterprise and 24% of adults reported they are planning to go into business. Ethiopia's scores are below the sub-Saharan Africa region average. These low scores suggest that implementing the GoE's economic strategy with a focus on job creation will be a challenge.

According to the 2012 GEM Ethiopia report, 15% of Ethiopian adults were involved in early stage entrepreneurship activities, such as setting-up a business or running a new one and 10% reported running an established business. The former figure is well below the regional averages of 25. The survey suggests a close relationship between the educational level of respondents and their likelihood to start a business, where those with higher qualifications were more likely to engage in enterprise creation than those with no qualifications.

Barriers to enterprise creation identified by a domestic panel included education standards and financial services infrastructure. Other barriers include access to finance, poor commercial infrastructure and the lack of sufficient government support programmes. Ethiopia has one of the lowest levels of financial-institution penetration in the world, which makes opening a bank account and securing loans extremely difficult. A third of respondents who had to close their enterprise reported problems getting finance as their reason, which is the second highest figure in sub-Saharan Africa after Namibia at 39%. Ethiopia is also the most under-banked economy in the region, with 83,000 people for every commercial bank branch, largely concentrated in urban areas. In rural areas, 80% of the population do not have access to banking.

In order to promote enterprise growth and development in Ethiopia, access to finance and education coverage must be improved. Business advisory centres are needed to provide support to entrepreneurs who may lack formal education. Policies to expand financial services, including banking are required to foster enterprise creation in Ethiopia. 60.8% of new businesses are in the retail and hospitality sectors, followed by the government services sector at 15.1%. Agriculture still supports 80% of the population with only 6.1% of the share of early stage entrepreneurship across sectors. Since economic growth is seen as the role of government, there needs to be policies in place encouraging private enterprise creation in rural areas through extending banking and financial services, providing support and preferential loans to rural businesses and those in the agricultural processing sector and making enterprise creation one of the parts of agricultural extension services. Additionally, there is high potential for young entrepreneurs, with 57% of youth between 18 and 34 able to go into business but only 15% have done so and 25% intend to. Additionally, women are less engaged in entrepreneurial activities than males across all levels. Policies to support both youth and women in entrepreneurship activities would benefit economic development as a whole. Annex 1 presents similar profiles for the other countries highlighted.

A number of issues are worth highlighting, based on Ethiopia's comparative performance. The population has a:

- Relatively high fear of failure rate (32.66) compared with SSR (25.22);
- Relatively low entrepreneurial employee activity rate (0.57) compared with SSR (1.01);
- High motivational index (3.4) compared with SA (1.46) and SSR (1.45);
- Low job creation expectation rate (13.6) compared with SA (32) and SSR (18.43);
- Very low innovation rate (13.72) compared with SA (29.66) and SSR (21.79);
- Very low Business Services Sector rate (5.54) compared with SA (10.33) and SSR (6.52).

3.2.3 Global Competitiveness Index (GCI)

The Global Competitiveness Report is an annual report published by the World Economic Forum (WEF) and the Global Competitiveness Index (GCI) integrates the macroeconomic and the micro/business aspects of competitiveness into a single index. The GCI basically assesses the ability of countries to provide high levels of prosperity to their citizens, which depends on how productively a country uses its available resources. Therefore, the GCI measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity. The report has twelve pillars of competitiveness, with Singapore topping the ranks. These pillars fall under four main headings, as illustrated in the Table below for the benchmarked countries.

Table 4: WEF Global Competitiveness Index (GCI): selected countries and Sub-Sahara Region

| Indicator | Ethiopia | South Africa | Sub-Sahara | Bangladesh | Ukraine |
|---------------------------------------|----------|--------------|--------------|------------|---------|
| Global Competitiveness: Index / Score | 126/44 | 60/62 | (score only) | 105/52 | 85/57 |
| 1. Enabling Environment | | | N/A | | |
| Institutions | 126/42 | 55/57 | 47 | 109/46 | 104/48 |
| Infrastructure | 123/43 | 69/68 | 45 | 114/51 | 57/70 |
| ICT adoption | 137/20 | 89/50 | 34 | 108/39 | 78/52 |
| Macroeconomic stability | 127/64 | 59/88 | 69 | 95/73 | 133/58 |
| 2. Human Capital | | | | | |
| Health | 108/61 | 118/53 | 51 | 93/72 | 101/70 |
| Skills | 137/32 | 90/58 | 44 | 117/46 | 44/70 |
| 3. Markets | | | | | |
| Product market | 135/41 | 69/55 | 49 | 119/47 | 57/57 |
| Labour market | 124/50 | 63/61 | 55 | 121/51 | 59/61 |
| Indicator | Ethiopia | South Africa | Sub-Sahara | Bangladesh | Ukraine |
| Financial market | 107/51 | 19/83 | 51 | 106/52 | 136/42 |
| Market size | 63/55 | 35/69 | 40 | 36/67 | 47/63 |
| 4. Innovation ecosystem | | | | | |
| Business Dynamism: | 131/45 | 60/62 | 52 | 121/50 | 85/57 |
| Administrative requirements | 125/51 | 82/67 | 58 | 118/57 | 90/64 |
| Entrepreneurial culture | 127/40 | 39/56 | 46 | 114/43 | 73/50 |
| Innovation capacity: | 118/28 | 46/45 | 34 | 105/33 | 60/40 |
| Interaction and diversity | 119/31 | 40/46 | 34 | 111/33 | 70/40 |
| Research and Development | 77/24 | 44/38 | 20 | 82/23 | 50/80 |
| Commercialization | 126/32 | 64/57 | 37 | 113/41 | 60/58 |

Source: WEF GCI 2019

A number of issues are worth highlighting, based on Ethiopia’s comparative performance:

Global Rank and Pillars 1-3:

- It performs poorly overall (rank 126th/141 and 44 score) and much lower than South Africa (SA – 62nd and 62 score);
- It performs poorly across the key Pillars, namely enabling environment, human capital, markets and innovation ecosystem.
- There are only exceptions, where it performs somewhat better: market size (63rd/55) and R&D (77th/24);

Innovation Ecosystem: this pillar is explored in greater detail due to its greater direct relevance:

- It performs poorly in terms of business dynamism (131st/45) compared with SA (60th/62) and SSR (52 score);
- It performs poorly in terms of entrepreneurial culture (127th/40) compared with SA (39th/56) and SSR (46 score);
- It performs poorly in terms of innovation capacity (118th/28) compared with SA (46th/45) but better than the SSR (34 score);
- It performs relatively well in terms of R&D (77th/24) but this is poor compared with SA (44th/38) but better than SSR (20 score).

3.2.2 Enterprise Survey (ES)

The World Bank’s Enterprise Survey (ES) is a firm-level survey of a representative sample of an economy’s private sector. The ES covers a broad range of business environment topics including access to finance, competition, corruption, crime, gender, infrastructure, and performance measures. The World Bank has collected this data from face-to-face interviews with top managers and business owners in over 130,000 companies in 135 economies. The ES is answered by business owners and top managers. Typically, 1,200-1,800 interviews are conducted in larger economies, 360 interviews are conducted in medium-sized economies, and for smaller economies, 150 interviews take place. The Table below presents a subset of indicators which are particularly noteworthy for Ethiopia. Annex 2 presents the full data for the three countries based on the latest data available.

Table 5: WB Entrepreneurship Survey (ES): selected countries and years

| Indicator | Ethiopia (2015) | South Africa (2007) | Bangladesh (2013) | Ukraine (2013) |
|--|-----------------|---------------------|-------------------|----------------|
| Days to obtain an electrical connection (upon application) | 194.3 | 15.8 | 84.7 | 6.7 |
| Number of electrical outages in a typical month | 8.2 | 0.9 | 64.5 | 0.3 |
| If there were visits, average number of visits or required meetings with tax officials | 3.7 | 1.8 | 3.2 | 2.1 |
| Percent of firms expected to give gifts in meetings with tax officials | 17.4 | 3.1 | 41 | 50 |
| Percent of firms choosing access to finance as their biggest obstacle | 40.4 | 7.5 | 13.8 | 21.3 |
| Percent of firms using banks to finance investments | 12.9 | 34.8 | 19.8 | 30.3 |
| Percent of firms using banks to finance working capital | 16.4 | 21.1 | 29.9 | 14.8 |
| Value of collateral needed for a loan (% of the loan amount) | 296.2 | 103.6 | 271.1 | 160.5 |

| | | | | |
|---|------------------------|----------------------------|--------------------------|-----------------------|
| Percent of firms choosing customs and trade regulations as their biggest obstacle | 9.9 | 1.1 | 1.4 | 2.9 |
| Indicator | Ethiopia (2015) | South Africa (2007) | Bangladesh (2013) | Ukraine (2013) |
| Days to clear imports from customs | 19.2 | 5.2 | 10.6 | 3.9 |
| Percent of firms choosing access to land as their biggest obstacle | 4.6 | 2.7 | 2.9 | 3.9 |
| Senior management time spent dealing with government regulation (%) | 11.9 | 5.9 | 3.3 | 19.6 |
| Capacity utilization (%) | 63.3 | 79.6 | 84 | 75.6 |

Source: <https://databank.worldbank.org/source/enterprise-surveys>

A number of issues are worth highlighting, based on Ethiopia's comparative performance:

- It is a major problem to obtain electrical supply in terms of days to obtain a connection (194 days) compared with all other countries, including SA (84), as is the number of electrical outages per month (8) compared with SA (0.9);
- It is a major problem to obtain access to finance in terms of various issues: 40% see this as their biggest obstacle (7.5 in SA); only 12.9% used commercial banks to finance investments (34.8% in SA); only 16.4% use banks to finance working capital (21.1 in SA); there is a high value of collateral needed for a loan of almost 300% of the loan amount (103% in SA);
- The average number of visits or required meetings with tax officials (3.7) is high (1.8 in SA) and firms are expected to give gifts in meetings with tax officials (17.4%) compared with SA (3.1%);
- It also performs poorly compared with the benchmarked countries in various other ways: very low rate of capacity utilization (63.3%) but very high number of days to clear imports for customs (19.2); land access identified as the biggest obstacle (4.6%); customs and trade regulations identified as the biggest obstacle (9.9%) and senior management time spent dealing with government regulation (11.9%), where Ethiopia scores systematically much worse than the benchmark countries (except for the last indicator which is even worse in Ukraine - 19.6%).

3.3 Quantitative Benchmarking: 4 MSME Systems

The quantitative benchmarking process set out in Section 3.2 is only part of the story, albeit an important one that provides the GoE with comparative information with which to identify possible reforms and improvements to the MSME system in the country. However, in order to address many of the issues of relevance to this analysis, it is necessary to supplement the quantitative analysis with a series of qualitative benchmarks.

3.3.1 Assessment of Ethiopian SME Policies and Institutions: Part 1

As previously discussed (see Introduction), this benchmarking analysis is Part 2 of two separate but connected reports. The first was the Assessment of the Ethiopian SME Policies and Institutions: Part 1, which made a series of recommendations about MSME policies, institutions and programmes. The material contained in that report was used to determine the focus and emphasis of the qualitative indicators selected for the qualitative benchmarking process. The qualitative indicators selected were then also informed by international good practice, as discussed in the section below.

3.3.2 OECD SME Policy Index

There is no need to reinvent the wheel when it comes to good practice in relation to comparative international MSME benchmarking. The OECD's SME Policy Index does exactly this, in addition to covering many other MSME development themes, such as access to finance.

The SME Policy Index is a benchmarking tool for emerging economies to monitor and evaluate progress in policies that support SMEs, which is structured around the ten principles of the Small Business Act for Europe (SBA), providing a wide-range of measures to guide the design and implementation of SME policies and institutions.

The Index was developed by the OECD in partnership with the European Commission (EC), the European Bank for Reconstruction and Development (EBRD), and the European Training Foundation (ETF) in 2006 and has been applied to countries in several regions (e.g. Western Balkans, Eastern Partnership Countries, North-African and Middle East) since.

The main objective of the SME Policy Index is to provide governments with a framework to assess policies targeting SME development. It identifies strengths and weaknesses in policy design and implementation, allows for comparison across countries and measures convergence towards EU SME policy standards. It aims to support governments in setting targets on SME policy developments and strategic priorities to further improve the business environment and then engages governments in policy dialogue and exchange of experiences within the region and OECD good practices. The SME Policy Index is useful in assessing the evolution of the SME policy framework, the setting up of institutions and the introduction of specific policy measures.

Of the 10 dimensions of the SME Policy Index, the most relevant one for this benchmarking exercise is "Institutional and regulatory framework for SME policy making". Laws and regulations provide the 'rules of the game' which influence SMEs and their incentives to operate. A good legal framework reduces the transaction costs of economic activities and ensures that economic gains from starting and growing businesses are not expropriated, providing the incentives for individuals to maximise profits. Having a policy and institutional framework to tackle SME needs is an important pre-condition towards creating a favourable business environment in which SMEs can thrive. The way the institutional framework is designed plays an important role in how effectively the policy is implemented (Concept Note: Revision of the SME Policy Index Methodology for the Small Business Act for Europe Assessment in the EU pre-accession region and the Eastern Partnership Countries).

The methodology involves self-assessment by governments, independent assessment by experts, statistical analysis, etc. before drafts are produced, verified and eventually published. A questionnaire is used as the basis for the country benchmarking assessments. The core questions are to be scored individually and then accumulated to provide a score for each thematic component. The sub-dimensions are then aggregated to reach an overall level per dimension. These can then be compared across countries.

Clearly, it would be unrealistic to reproduce the OECD methodology with the budget and timescale available for this benchmarking analysis, however it is possible to use the relevant indicators and/or supplement and customise them to the specificities of the Ethiopian MSME ecosystem, as illustrated by the Assessment of the Ethiopian SME Policies and Institutions: Part 1.

3.4 Qualitative Benchmarking

An analysis of the SME Policy Index in combination with the Assessment of the Ethiopian SME Policies and Institutions: Part 1 leads to the selection of the customised qualitative indicators to be benchmarked. The country-specific MSME experts were asked to address each question and arrive at "yes / no" qualitative benchmarks in relation to the four countries, as illustrated in the Table below. Annexes 3 to 6 present the detailed rationale for each "yes/no" response presented in the Table below, including a brief statistical profile of each MSME environment analysed.

The qualitative benchmarks were selected based of the characteristics and specificity of the Ethiopian MSME ecosystem, including the conclusions and recommendations made in the Assessment of the Ethiopian SME Policies and Institutions: Part 1. There are three main sets of issues:

- Policy issues;
- Implementation issues;
- Monitoring and evaluation issues.

Table 6: Qualitative MSME Benchmarks: Ethiopia, South Africa, Bangladesh and Ukraine (2019/20)

| A: Policy | Ethiopia | South Africa | Bangladesh | Ukraine |
|---|-----------------|---------------------|-------------------|----------------|
| Is there a legal definition of MSMEs that is used consistently throughout legislation, statistics, etc.? | No | No | Yes | No |
| Is there an up-to-date multi-year MSME strategy/ programme/roadmap in place? | No | Yes | Yes | Yes |
| Is the MSME strategy embedded into the current national development strategy? | No | Yes | Yes | Yes |
| Does the MSME strategy include the following: | No | Yes | No | Yes |
| Measurable targets | Yes | Yes | Yes | Yes |
| Action plan | No | Yes | Yes | Yes |
| Monitoring and evaluation? | | | | |
| Does the MSME strategy include specific strategies for certain industries / sectors? | No | No | No | No |
| Does the MSME strategy build upon previous such strategies? | Yes | Yes | Yes | Yes |
| Is there a single institution in charge of national MSME policy making? | No | Yes | Yes | Yes |
| Is there an Inter-ministerial Coordination body for the MSME strategy / action plan? | Yes | No | Yes | No |
| Is there a Donor Coordination body for the MSME strategy / action plan? | No | No | Yes | Yes |
| Is the MSME policy sub-divided into urban and rural enterprises? | Yes | No | No | No |
| Is the MSME policy sub-divided into priority sectors? | Yes | Yes | No | No |
| Are MSMEs through Chambers/Business Associations involved in regular, two-way public-private dialogue (PPD)? | Yes | No | Yes | No |
| Is the MSME policy horizontal / cross-cutting in nature? | Yes | Yes | Yes | Yes |
| Is the MSME policy sub-divided into industrial and non-industrial enterprises? | Yes | No | No | No |
| Is the MSME policy further sub-divided into i) micro and small and ii) small and medium? | Yes | No | No | No |
| Is MSME policy clearly allocated at national, regional and local levels? | Yes | Yes | No | Yes |
| A: Policy | Ethiopia | South Africa | Bangladesh | Ukraine |
| Are Business Development Services (BDS) being offered by the government to MSMEs? | Yes | Yes | Yes | Yes |
| Is the government also providing Business Development Services (BDS) to MSMEs via private sector service providers? | No | Yes | Yes | Yes |
| Is there a requirement to conduct Regulatory Impact Analysis (RIA) / MSME Test for business-/MSME-related legislation? | No | Yes | No | Yes |
| Is there a formal requirement to conduct consultations to inform the development of MSME/business-related laws and regulations? | No | Yes | No | Yes |
| Was the private sector, civil society and BMOs consulted in the developing of the MSME strategy / plan? | No | Yes | Yes | Yes |

| B: Implementation | Ethiopia | South Africa | Bangladesh | Ukraine |
|--|-----------------|---------------------|-------------------|----------------|
| Is there a single national institution in charge of implementing the national SME strategy / action plan? | No | Yes | No | Yes |
| Does the national institution in charge of implementing the national SME strategy / action plan have regional offices? | Yes | Yes | Yes | No |
| Has a state budget been mobilised for the SME strategy / action plan? | Yes | Yes | Yes | No |
| Is there a website/portal dedicated to MSME matters? | No | No | Yes | Yes |
| Is national / regional / local MSME support delivered in a coordinated manner? | No | No | No | No |
| C: Monitoring & Evaluation | Ethiopia | South Africa | Bangladesh | Ukraine |
| Does the National Statistics Office collect data on SMEs: number, employment, value added to GDP, etc.? | No | No | No | Yes |
| Are there monitoring mechanisms in place for the implementation of the MSME strategy / action plan? | No | Yes | Yes | Yes |
| Are there monitoring mechanisms in place for the MSME implementation agency/body? | No | Yes | Yes | Yes |
| Is there independent evaluation of the state MSME projects / programmes? | No | No | Yes | No |
| Does the Policy and/or Implementation body produce a publicly available annual report on MSME strategy progress? | No | Yes | Yes | No |
| Does the Policy and/or Implementation body produce a publicly available annual report on MSME statistics / trends? | No | No | No | Yes |

3.4.1 MSME Policies: issues and recommendations

1. Consistent MSME definition: Ethiopia is not alone in not having a single MSME definition which is consistently applied. However, all countries are moving in this direction since it simplifies the collection of data and the application, monitoring and evaluation of MSME policies. The lack of consistent MSME definition means that there are significant data gaps, which in turn renders it difficult to set, monitor and evaluate MSME policies, programmes, etc. This needs to be corrected as soon as possible.

2. Up-to-date, multi-year MSME strategy: Ethiopia is alone in not having an up-to-date, multi-year MSME strategy. However, this is a critical policy gap which results in the country having an outdated policy framework and leads directly to fragmentation of MSME policies and institutions. A new and modern MSME strategy (and action plan) is required as soon as possible.

3. MSME strategy embedded in the national development strategy: Ethiopia is alone in not having an MSME strategy, which is embedded in the wider national development framework, reflecting the fact the MSE was originally drafted in 1997 and updated in 2011 and is now completely obsolete. This key policy weakness needs to be remedied as soon as possible.

4. MSME targets, action plan and M&E: Ethiopia is alone in not having MSME targets or M&E system. These is important to develop since it is not otherwise possible to check progress and impact. While Ethiopia does have an MSE action plan, it is based on an obsolete strategy (see 3 above), only covers part of the MSME sector (i.e. MSEs with a focus on urban areas and young people/women) and the new institutions than have been created in the meantime. These three key policy weaknesses need to be addressed in a the propose future new MSME strategy (See 2 above).

5. MSME strategies for certain industries / sectors: no country has MSME strategies for certain industries / sectors. However, Ethiopia is alone in that it places overriding importance (and resources) on the development of industrialisation in general and the manufacturing especially and more specifically, 7 manufacturing sub-sectors. This results in a very narrow basket in which to putting all of a country's manufacturing MSME eggs into. There is a need to broaden the focus on MSME support compared with the current policy emphasis.

6. Building upon previous MSME strategies: all countries, Ethiopia included, build upon the past experience of MSME development. However, Ethiopia is alone in that its current strategy was last updated in 2011 and is itself based on the previous strategy created in 1997. As such, the MSME foundation is both obsolete and in urgent need of modernising using international MSME good practice in policy making and institution building.

7. Single institution in charge of MSME policy-making: Ethiopia is alone in not having a single institution in charge of MSME policy-making. In fact, the MSME analysis (Pinto, 2019) illustrates that the situation in Ethiopia is significantly poorer than what exists in the other benchmarked countries. Ethiopian policy making is highly fragmented (at least three ministries in charge of MSME policy-making), it is so complex that almost no one understands the overall system and the trend is for the institutional fragmentation to actually increase over time. There is an urgent need for one ministry to take overall responsibility for MSME policy-making.

8. Inter-ministerial Coordination (IMC) body: in principle, only South Africa lacks an inter-ministerial body to coordinate the implementation of the MSME strategy / action plan. However, in practice, Ethiopia also lacks this since the coordination that exists at national and regional level which is led by the Ministry of Urban Development and Construction actually concerns a very partial and outdated MS strategy. There is a need to establish an effective IMC for the future up-to-date MSME strategy, via the Prime Minister's Office (and/or the Jobs Commission). This is necessary to secure effective inter-ministerial cooperation, so as to achieve systematic progress in the MSME ecosystem.

9. Effective Donor Coordination body: both Ethiopia and South Africa lack an effective donor coordination body for the MSME strategy /action plan. In practice, this is not necessary in SA since 98% of the MSME funding is derived from the state budget. In the case of Ethiopia, although there is a Private Sector Development Sub-Group (DAG/ PSD), in practice it is not working as anticipated. There is a need for a Private Sector Development/MSME donor coordination tool (see Pinto 2019) to ensure that the significant (over EUR 1 billion) and increasing level of donor funds is used effectively.

10. Balanced urban and rural focus: Ethiopia is alone in having a very strong focus on urban MSME policy-making, as per the MSE strategy / Ministry of Urban Development and Construction. At the same time, there is a very strong focus on rural MSME policy-making, as per the Ministry of Agriculture and Livestock Resources' activities. These two policy emphasis pull in opposite directions. In the other benchmarked countries, there is a horizontal or cross-cutting approach and a future MSME policy should be designed accordingly.

11. Priority sector focus: both Ethiopia and South Africa sub-divide MSME policy into priority sectors. However, whereas SA's approach to sectors is general, the Ethiopian one is highly specific. The Ministry of Urban Development and Construction's 2011 MSE Strategy focuses on 6 sectors and 37 specific activities. The Ministry of Trade and Industry focuses on 7 priority manufacturing industries. This results in an overly prescriptive and restrictive approach to MSME development which leaves previous little scope to support other sectors and sub-sectors demonstrating potential for development, employment, innovation, export, etc. A future MSME policy should be designed more broadly in order to support a more diverse range of MSMEs while still retaining a degree of targeting of policy and funding.

12. Public Private dialogue (PPD): although both Ethiopia and Bangladesh are in principle engaged in PPD, in practice the situation is not so advanced. It is only the Ministry of Trade and Industry that is engaged in PPD and only via the Chamber of Commerce and Industry, rather than seeking to establish it for the MSME stakeholders more generally. In the case of Bangladesh, PPD has just been mandated by the SME Policy (2019) and it is not yet evident how it will be implemented. A future MSME policy should be designed to include regular, two-way PPD involving a wide range of representative MSME stakeholders.

13. Horizontal / cross-cutting MSME policy: All countries have a broad (i.e. horizontal / cross-cutting) approach to MSME policy. But in reality the current Ethiopian MSE Strategy is alone in having a very strong focus on urban / youth / group entrepreneurship as the basis for policy-making and public support. A future MSME policy should be designed to be horizontal / cross-cutting to avoid the current extreme level of concentration, as well as policy/ institutional fragmentation (see Pinto, 2019).

14. Industrial / other focus: Ethiopia is alone in having a very strong focus on industrial MSME policy-making, as per the 7 priority sub-sectors and the Ministry of Industry and Trade. While recognising the important national drive to industrialise, this does not necessarily have to come at the expense / exclusion of other sectors with potential to generate growth and employment. Furthermore, as argued in the Assessment of the MSME Ecosystem (Pinto, 2019) the focus only 7 manufacturing sub-sectors may actually have unintended consequences, since there are very few firms in those sectors. This means that an increasing amount of state and donor funding is concentrated on a very narrow industrial/manufacturing base, resulting in absorption concerns, as well as potentially poor use of scarce funds, including market distortion. In other countries, there is a horizontal or cross-cutting approach which is broader than industrial focus. A future MSME policy should be designed accordingly.

15. Micro and Small / Small and Medium focus: Ethiopia is alone in having a very strong focus on MSE policy-making (through the Ministry of Urban Development and Construction and the current MSE strategy and the Ministry of Agriculture and Livestock Resources and its agricultural entrepreneurial support), as well as a separate and parallel SME approach (Ministry of Industry and Trade with a focus on 7 manufacturing sub-sectors only). In other countries, there is an integrated MSME approach and a future MSME strategy should be designed accordingly.

16. National, regional and local allocation of MSME policy: In principle, MSME policy is allocated at all levels in all benchmarked countries except Bangladesh. However, in Ethiopia, in practice this reflects the intentions of an out-of-date SME strategy which is divorced from the reality of day-to-day MSME related activities. For example, Pinto (2019) demonstrates that there are too many policies and institutions in the country, resulting in an increasingly fragmented MSME policy making as well as implementation environment. The generation of policy coherence on the part of the multiple MSME institutions at the various levels of operation (national, regional and local) is urgently required, through systematisation and rationalisation of an increasingly discordant ecosystem.

17. Business Development Services (BDS) provision by government: all countries provide BDS through public sector institutions. However, Ethiopia is alone in transforming the previous BDS system to the Industrial Extension Services (IES) system (i.e. focusing the previously general BDS approach specifically on the needs of industry / manufacturing) and at the same time effectively generating a monopoly in publicly provided BDS services, which cover all areas of enterprise operation and are potentially endless. Furthermore, the publicly provided BDS services (not called IES) are of extremely poor quality and may result in a dependency culture on the part of the supported enterprises (see R Pinto Industrial Extension Services Review, 2016). This approach should be reformed in the future. Public sector delivery of BDS should focus on information and signposting for potential start-ups and early stage enterprise support, which is the established principle of most MSME policies elsewhere.

18. BDS provision by private sector: Ethiopia is alone in the government not providing BDS via private sector service providers. In other countries, there is recognition of the critical role played by private sector BDS providers in supplanting the currently (very poor and potentially endless) BDS provision by the state bodies such as the IES delivered through the TVET college/institution system. A policy of supporting the development of private sector BDS provision, especially in relation to businesses that are past the survivalist stage and are growing / high growth enterprises should be developed in the future.

19. Regulatory Impact Analysis (RIA) / MSME Test: Ethiopia is alone in neither carrying out RIA on potential new legislation in general nor undertaking MSME Tests to assess the potential costs and benefits of new legislation and regulations on small enterprises, since they cannot be treated in the same manner as large firms (i.e. not having legal, taxation, HRD, accounting and other resources, unlike the large one). Other countries recognise that new laws and regulations could severely damage small business unless attention is paid to ensure that they are not treated in the same manner as large enterprises. A future MSME strategy should be designed according to the “think small first” principle.

20. Consultations for business-related laws and regulations: Ethiopia is alone in not carrying out consultation with the relevant stakeholders regarding business-related laws and regulations. It is critical to listen to and respond to the voice of the SME sector in relation to what affects them directly, as recognised by the other benchmarked countries. This is established good practice.

21. Consultation for the MSME strategy / plan: Ethiopia is alone in not having carried out consultation with the relevant stakeholders regarding the current MSME strategy / plan. This reflects, in part, the fact that the original one was created in 1997 and the current one is an up-date undertaken in 2011. Nevertheless, it is critical to listen to and respond to the voice of the SME sector in relation to the possible content of a future MSME policy.

3.4.2 MSME Implementation: issues and recommendations

22. Single MSME implementing institution: Only Ethiopia and Bangladesh have more than one institution in charge of implementing the national SME strategy / action plan. However, whereas Bangladesh has two and their roles are clearly divided, the institutional environment in Ethiopia is overlapping, complex and becoming ever more so over time (see Pinto 2019). There are multiple implementing agencies including the Federal Small and Medium Manufacturing Industries Promotion Authority (SMEs in manufacturing); Federal Urban Job Creation and Food Security Agency (MSEs in urban areas); Ethiopian Agricultural Transformation Agency (MSEs in agricultural areas); Federal Technical and Vocational Education and Training Agency (Industrial Extension Services) and several others. This still leaves major gaps in policy to support MSMEs (e.g. non-priority manufacturing sectors). There is a need for single institution to be awarded responsible for MSME implementation, just as there is a need for a single ministry to be responsible for MSME policy making, so as to overcome the recurrent problems arising from policy overlap and institutional fragmentation.

23. Regional network / offices: the only country where the institution in charge of implementing the national MSME strategy / action plan does not have regional offices is Ukraine. The state simply lacks the resources at the present time, reflecting the aftermath of the conflict and closure of the Russian markets to the Eastern part of the country. However, the issue in Ethiopia is not that it lacks either state funds or regional institutional structures. Rather, there are simply far too many of the latter. The various implementation agencies mentioned in point 22 above all have their multiple and varied regional structures (Regional SMMIPA / ReUJCFSA / TVETA / Rural Transformation Centres, etc.) which are often overlapping and require greater coordination of MSME support. This is an increasingly discordant yet growing set of institutional structures that are ripe for rationalisation (see Pinto 2019).

24. State budget for MSMEs: in both South Africa and Ethiopia, a significant amount of public funding has been mobilised by the state in support of MSME development. In the case of SA, almost all resources (98%) are derived from the state budget. In Ethiopia, the state also provide significant funds for MSME development, including Industrial Extension services. The state funds supports a multitude of national, regional structures (previously discussed), as well as local (1750+ One Stop Service Centres mostly at Kebele level). Indeed, over 20,000 people are actually employed in the various MSME related infrastructure and almost all provision is for free (see Pinto, 2019). However, there are question marks (see section C: Monitoring and Evaluation below) as to whether these major state funds are being used well, let alone being used as efficiently as possible. The same applies to the EUR 1 billion worth of donor / IFI funds flowing into private sector development (see Pinto, 2016). There is thus a need to streamline the Ethiopian MSME policy and institutions in order to enhance value for money for the state budget.

25. Dedicated MSME website/portal: although the benchmarked countries have MSME websites of various sorts, in practice, these mostly reflect the MSME institutional structure, with the ministry with MSME policy responsibility having a public sector oriented website and the institution(s) with MSME implementation responsibility having other public sector oriented website(s) with their particular policy orientation. This also applies the Ethiopia, which means that the information available is not collected in one integrated portal which is specifically designed to collect all MSME-oriented information, knowledge resources, events, finance, etc. one easily accessible location. This only country which has initiated (Phase 1) of an integrated MSME-oriented portal this respect is Ukraine (see www.sme.gov.ua). This greatly facilitates access to MSME information for enterprises and the same process should be initiated in Ethiopia.

26. Coordination of national / regional / local MSME support: in no benchmarked country is the national / regional / local MSME support being delivered in a coordinated manner. However, Ethiopia stands out for being particularly ineffective in achieving this important form of coordination. This reflects the outdated MSME policy, the multiplicity and fragmentation of national and regional institutions, as well as the fact that the regions are autonomous and may choose to develop their own policies and/or institutional models. There is a need for effective coordination of national / regional / local MSME support. The only body that has the overarching remit to achieve this in a coherent manner is the Prime Minister's Office (or possibly the Jobs Commission).

3.4.3 MSME Monitoring & Evaluation: issues and recommendations

27. MSMEs data and statistics: Whereas Ukraine has good MSME data, the situation is exceptionally problematic in the case of Ethiopia, South Africa and Bangladesh, although in the latter the data is about to improve. The Ethiopian profile (see Annex 3) amply demonstrates that the fundamental problem stems from a lack of unitary MSME definition combined with inconsistent and irregular MSME surveys carried out by the Central Statistics Agency (CSA). This results in an outdated, unreliable and inadequate MSME statistical base in Ethiopia. There is clearly a need for

a coherent MSME definition, combined with more frequent surveys delivering quality variables with which to better design, monitor and evaluate MSME policies and their implementation.

28. Monitoring of MSME strategy / action plan: Ethiopia is alone in not having a monitoring mechanism for the implementation of the MSE strategy. This is not entirely surprising, since the strategy obsolete, however, a future modern and horizontal MSME strategy along the lines proposed in this report should also be designed with monitoring (and independent mid-term and end-term evaluation) of progress made, as an integral element, including baselines, targets, KPIs, etc.

29. Monitoring of the MSME implementation body: Ethiopia is alone in not having a monitoring mechanism for the MSME implementation bodies themselves. Regular reports are produced, however, there is no systematic monitoring mechanism put in place by the supervisory bodies (i.e. MoUDC, MoTI etc.), except for occasional monitoring field visits and statistical reports that are often compiled by hand and thus unreliable. Effective monitoring is particularly important given the overlapping policy remits and the multiplicity of institutions. A future MSME policy should be designed with monitoring (and evaluation) of MSME institutions as integral elements.

30. Independent evaluation of MSME projects / programmes: Apart from Bangladesh, there is no independent evaluation on state funded MSME development projects. This important gap in the MSME ecosystem is particularly problematic in the case of Ethiopia given the very large number of publicly funded programmes. The exceptions are the periodic evaluations carried out by the donors/IFIs for their projects and programmes, which may be submitted to the relevant Ministry. Without the introduction of evaluation, preferably independent evaluation, Ethiopia will not in a position to assess the impact of the MSME activities / programmes, what works and does not, etc. potentially resulting in wasting scarce state / donor funds.

31. Annual report on MSME strategy: Ethiopia is one of two countries not to produce a publicly annual report on the progress or otherwise being made with implementing the MSME strategy / action plan. The difference between the two is that whereas Ukraine does produce such a report and submits it to the Government for consideration but does not make it publicly available, Ethiopia does neither one nor the other. A future MSME strategy and action plan should include a requirement to report on the implementation progress being made, as well as public dissemination of the said report for transparency and accountability purposes.

32. Annual report on MSME trends: Finally, neither Ethiopia nor South Africa produce a publicly available annual report on MSME statistics and trends in the country, including sectorial, gender, age, regional and other important policy dimensions. Such MSME “observatory” reports allow national, regional and local policy makers to understand the dynamics of the sector and design or calibrate their MSME policies, programmes, initiatives, etc. accordingly. Ethiopia should start by creating a single definition, developing up-to-date and appropriate statistics (see 27 above) and then compiling annual statistical reports on the MSME sector that can be used by the relevant stakeholders.

Annexes

Annex 1: GEM Profiles: South Africa and Bangladesh

Annex 2: WB Enterprise Survey: 4 countries (2007, 2015 and 2017)

Annex 3: Ethiopia MSME Profile

Annex 4: Ukraine MSME Profile

Annex 5: South Africa MSME Profile

Annex 6: Bangladesh MSME Profile

Annex 1: GEM Profiles: South Africa and Bangladesh

South Africa GEM Summary

Recent data from Global Enterprise Monitor (GEM) show that twenty years after the end of apartheid, food access is available to less than one in six South African households and youth unemployment sits at 55%. To address this, The New Growth Path aims to create 5 million new jobs through raising skills and education levels and promoting small and medium enterprises with a single agency responsible for funding. As stated in the New National Development Plan – Vision 2013 (NDP), *“By 2030, the share of small- and medium- sized firms in output will grow substantially. Export growth, with appropriate linkages to the domestic economy will be critical in boosting growth and employment, with small- and medium-sized forms the main employment creators.”*

According to the 2012 GEM report, South Africa, despite being one of two second stage efficiency driven economies in sub-Saharan Africa, it is also where enterprise dynamism is still at its lowest and the greatest difference exists between male and female entrepreneurship. South Africa has low levels of business activity and women are especially unlikely to become entrepreneurs. Two thirds of new entrepreneurs are men and 16% of men and 12% of women intended to set up their own business. 39% of early stage female entrepreneurs said they had no other choice than to start a business, while just 27% of men said the same.

36% of the adult population are deemed potential entrepreneurs, which is the lowest in sub-Saharan Africa. Early stage entrepreneurship was in decline from 9.1% to 7.3% of the adult population in 2012. Established business ownership was at 2.3% for the same year. South Africa is among the lowest reported levels on entrepreneurial activity worldwide. 39% of young people saw the opportunity to open their own business, making South African the lowest in the region and a similar proportion stated they had the skills to run their own business. 20% of young people are considered to be potential entrepreneurs, which is far below the sub-Saharan average of 76%. South Africa must cultivate a business culture since private sector was identified as a primary engine for job creation.

On the other hand, business discontinuance is far below the regional average of 16%, at 5%. New entrepreneurs in South Africa are represented in more sectors than in other sub-Saharan African countries, although retail and hospitality represent 53.6%, mining, government services, administration, transport, information, manufacturing and wholesale sectors are also represented. Just 3% of entrepreneurs operate in the agricultural sector and 3% also in financial and professional services. South Africa also has more innovative products when compared to non-innovative products, so there is potential for greater enterprise profitability.

Impediments to setting up a business include access to a bank account or other finances from established institutions, which just one in three South Africans have. Two thirds of those who closed their enterprise in the 2012 GEM survey stated funding or profitability as the reason. Policies that aim to alleviate this constraint, while also promoting entrepreneurial education that emphasizes skills and good management could go a long way to improving the situation for entrepreneurs in South Africa.

Bangladesh GEM Summary

According to GEM survey data from 2011, 32% of the working age population of Bangladesh reported they expected to start a business within the next 3 years. Of those, approximately half reported that they do not have the funds to do so and 65% of females reported not having the funds. Early-stage entrepreneurial activity was 12.8%, making it lower than the average of factor driven economies which were at 13.4%. Entrepreneurial activity in Bangladesh is highly male-dominated. The rate for early stage entrepreneurial activity for males was 21% and 4.3% for females. Among other benchmark countries, male opportunity driven early stage entrepreneurship was highest in Bangladesh at 15.5% and second lowest for females at 2.9%. Early stage entrepreneurial activity was more pronounced in the 25-34 years aged group when compared to other countries in the region. In Bangladesh, the 25-34 and 35-44 age groups played a similar role in early stage entrepreneurial activity and after age 44, the rate declines sharply.

7.1% of adults were trying to start a business, which is also below the average of factor driven economies at 9.2%. 7.1% of the working age adult population were owner-managers of a business between 3 and 42 months, which was higher than the 4.8% average among factor driven economies. 11.6% of the adult population had owned and managed a business older than 42 months, which was double the average for factor driven economies at 5.6%. 24% of the working age population were entrepreneurially active in 2011. Just 4.8% of early stage entrepreneurs

had high growth expectations which were lowest compared to other countries. For established businesses, this rate was 4.14% which was the highest among comparing countries. Entrepreneurs reporting new product/market combinations, export propensity and high or medium technology sectoral choices were proportionally the lowest among comparator countries.

Opportunity perception in Bangladesh is the highest among comparator countries and is ranked third globally at 64.4%. Capability perception was the second lowest, though, at 23.6% with the fear of failure ranked highest in Bangladesh when compared globally. 25% of the total population was actively participating in entrepreneurial activity. Established business activity was 11.6% in Bangladesh, which was more than double that of similar economies at 5.6%. Just 2% reported closing their business within the last 12 months, which was the second lowest among factor driven economies. 30% of businesses that closed stated issues in obtaining finance as the reason and 41.7% reported that it was not profitable. The survival rate of early stage businesses in Bangladesh was 91% compared to the 40% average of factor driven economies. 'Consumer oriented services' was the main sector for early stage and established businesses. 'Business oriented services' was the main weakness for sector distribution of businesses.

Bangladesh is showing much potential to move from a factor driven economy to an efficiency driven economy but must increase the level of entrepreneurial activity, especially for women, and intervention programmes can be put in place to increase the level of aspirations.

Note: GEM has not been carried out in Ukraine.

Annex 2: WB Enterprise Survey: 4 countries (2007, 2015 and 2013)

| Indicators | Ethiopia 2015 | South Africa 2007 | Bangladesh 2013 | Ukraine 2013 |
|--|------------------|----------------------|--------------------|-----------------|
| Bribery index (% of gift or informal payment requests during public transactions) | 19.8 | 3 | 43.9 | 44.7 |
| Capacity utilization (%) | 63.3 | 79.6 | 84 | 75.6 |
| Age of the establishment (years) | 12.5 | 15.7 | 18.5 | 13.7 |
| Days to clear direct exports through customs | 7.7 | 4.5 | 7 | 4 |
| Days to obtain a construction-related permit | 47.5 | 55 | 53.4 | 1.3 |
| Days to obtain an electrical connection (upon application) | 194.3 | 15.8 | 84.7 | 6.7 |
| Days to obtain an operating license | 5.4 | 36.2 | 33.5 | 16.5 |
| If there were outages, average duration of a typical electrical outage (hours) | 5.8 | 4.5 | 1.2 | 3.1 |
| If there were visits, average number of visits or required meetings with tax officials | 3.7 | 1.8 | 3.2 | 2.1 |
| Number of electrical outages in a typical month | 8.2 | 0.9 | 64.5 | 0.3 |
| Percent of firms choosing access to finance as their biggest obstacle | 40.4 | 7.5 | 13.8 | 21.3 |
| Percent of firms choosing business licensing and permits as their biggest obstacle | 0 | 2.9 | 0.4 | 2.1 |
| Percent of firms choosing corruption as their biggest obstacle | 7.1 | 7.1 | 7.9 | 19.2 |
| Percent of firms choosing courts as their biggest obstacle | 0.5 | 1.2 | 0 | 1.3 |
| Percent of firms choosing electricity as their biggest obstacle | 10.1 | 14.7 | 27.8 | 1.8 |
| Percent of firms choosing customs and trade regulations as their biggest obstacle | 9.9 | 1.1 | 1.4 | 2.9 |
| Percent of firms choosing inadequately educated workforce as their biggest obstacle | 1.7 | 6.7 | 4 | 2.5 |
| Percent of firms having their own Web site | 34.8 | 36 | 26.3 | 55.3 |
| Percent of firms using banks to finance investments | 12.9 | 34.8 | 19.8 | 30.3 |
| Percent of firms using banks to finance working capital | 16.4 | 21.1 | 29.9 | 14.8 |
| Proportion of investment financed by banks (%) | 7.8 | 25.8 | 12.4 | 11 |
| Proportion of investment financed internally (%) | 83.3 | 68.5 | 74.5 | 66.9 |
| Proportion of loans requiring collateral (%) | 85.8 | 71.2 | 84.4 | 56.4 |
| Value of collateral needed for a loan (% of the loan amount) | 296.2 | 103.6 | 271.1 | 160.5 |
| Years of the top manager's experience working in the firm's sector | 13.5 | 13.8 | 18.3 | 16.4 |
| Days to clear imports from customs | 19.2 | 5.2 | 10.6 | 3.9 |

| | | | | |
|--|---------------|-------------------|-----------------|--------------|
| Days to obtain an import license | 12.8 | 30.3 | 10.1 | 17.4 |
| If a generator is used, average proportion of electricity from a generator (%) | 48.9 | 10.9 | 26.1 | 23 |
| If the establishment pays for security, average security costs (% of annual sales) | 1.1 | 2.1 | 1.9 | 5.2 |
| Indicators | Ethiopia 2015 | South Africa 2007 | Bangladesh 2013 | Ukraine 2013 |
| If there were losses, average losses due to theft and vandalism (% of annual sales) | 3.4 | 2.4 | 3.9 | 3.8 |
| Number of water insufficiencies in a typical month | 2.7 | 0.1 | 0.7 | 0.1 |
| Number of years firm operated without formal registration | 0.1 | 0.3 | 0.8 | 0 |
| Percent of firms choosing access to land as their biggest obstacle | 4.6 | 2.7 | 2.9 | 3.9 |
| Percent of firms choosing crime, theft and disorder as their biggest obstacle | 0.9 | 40.4 | 0.9 | 1.1 |
| Percent of firms choosing labour regulations as their biggest obstacle | 0.4 | 5.6 | 0.4 | 1.9 |
| Percent of firms choosing political instability as their biggest obstacle | 0.4 | 1.1 | 36.7 | 11.9 |
| Percent of firms choosing practices of the informal sector as their biggest obstacle | 5.8 | 4.9 | 1.2 | 7.7 |
| Percent of firms choosing tax administration as their biggest obstacle | 6.6 | 0.1 | 0.5 | 5.9 |
| Percent of firms choosing tax rates as their biggest obstacle | 7.6 | 1.7 | 1.4 | 15.5 |
| Percent of firms choosing transportation as their biggest obstacle | 3.9 | 2.3 | 0.6 | 1.1 |
| Percent of firms competing against unregistered or informal firms | 23.1 | 45.3 | 39.4 | 50.1 |
| Percent of firms expected to give gifts in meetings with tax officials | 17.4 | 3.1 | 41 | 50 |
| Percent of firms expected to give gifts to get a construction permit | 51.2 | 0 | 54.6 | 73.1 |
| Percent of firms expected to give gifts to get a water connection | 20.7 | 4 | 56.3 | 16.5 |
| Percent of firms expected to give gifts to get an electrical connection | 22.3 | 6.7 | 47.6 | 27.6 |
| Percent of firms expected to give gifts to get an import license | 23.1 | 2.7 | 77.2 | 41.9 |
| Percent of firms expected to give gifts to get an operating license | 2.3 | 0 | 58 | 35 |
| Percent of firms expected to give gifts to public officials "to get things done" | 8.3 | 15.1 | 48.5 | 73.1 |
| Percent of firms expected to give gifts to secure government contract | 19.7 | 34.2 | 48.9 | 99.1 |
| Percent of firms formally registered when they started operations in the country | 95.6 | 91 | 86 | 98.3 |

| | | | | |
|--|---------------|-------------------|-----------------|--------------|
| Percent of firms identifying access to finance as a major constraint | 20.3 | 15.5 | 22.8 | 12.5 |
| Percent of firms identifying an inadequately educated workforce as a major constraint | 3.4 | 8.7 | 15.7 | 7.4 |
| Percent of firms identifying business licensing and permits as a major constraint | 6.4 | 3 | 9 | 5.4 |
| Percent of firms identifying corruption as a major constraint | 27.9 | 16.9 | 49.6 | 37.7 |
| Percent of firms identifying crime, theft and disorder as a major constraint | 2.4 | 38 | 8 | 8.3 |
| Percent of firms identifying customs and trade regulations as a major constraint | 13.5 | 1.9 | 6.2 | 8.6 |
| Percent of firms identifying electricity as a major constraint | 33.3 | 20.8 | 52 | 6.5 |
| Percent of firms identifying labour regulations as a major constraint | 0.9 | 5.9 | 3.4 | 6.2 |
| 5 of firms identifying practices of competitors in the informal sector as a major constraint | 19.3 | 11.3 | 9.1 | 29.8 |
| Percent of firms identifying tax administration as a major constraint | 17.1 | 2 | 10.8 | 15.2 |
| Percent of firms identifying tax rates as a major constraint | 22.8 | 4.6 | 7.3 | 42.9 |
| Percent of firms identifying the courts system as a major constraint | 7.5 | 1.6 | 10.1 | 4.4 |
| Percent of firms identifying transportation as a major constraint | 8.3 | 3.9 | 14.6 | 4.5 |
| Percent of firms not needing a loan | 32.8 | 50 | 41.9 | 37.7 |
| Percent of firms offering formal training | 20.8 | 36.8 | 21.9 | 22.6 |
| Percent of firms owning or sharing a generator | 49.1 | 18.4 | 62.8 | 8.8 |
| Indicators | Ethiopia 2015 | South Africa 2007 | Bangladesh 2013 | Ukraine 2013 |
| Percent of firms paying for security | 55.3 | 76.4 | 78.3 | 77.2 |
| Percent of firms using e-mail to interact with clients/suppliers | 74 | 70.5 | 36.6 | 87.9 |
| Percent of firms using material inputs and/or supplies of foreign origin | 36.7 | 37.8 | 50.4 | 48.2 |
| Percent of firms using technology licensed from foreign companies | 7.7 | 12.4 | 16.7 | 13.8 |
| Percent of firms whose recent loan application was rejected | 15.1 | n.a. | 15.6 | 11.2 |
| Percent of firms with a bank loan/line of credit | 32.8 | 30.1 | 34.1 | 18.5 |
| Percent of firms with a checking or savings account | 92.6 | 97.9 | 86.4 | 88.7 |
| Percent of firms with a female top manager | 4.5 | n.a. | 4.8 | 18.8 |
| Percent of firms with an annual financial statement reviewed by external auditors | 58.1 | 71.7 | 37.2 | 32.8 |
| Percent of firms with an internationally-recognized quality certification | 4.3 | 26.4 | 14.3 | 16.6 |
| Percent of firms with female participation in ownership | 36.2 | 22.6 | 12.7 | 31.5 |

| | | | | |
|--|------|------|------|------|
| Percent of firms with legal status of Sole Proprietorship | 55.1 | 24.3 | 65 | 26.4 |
| Products shipped to supply domestic markets that were lost due to theft (% of product value) | 0.5 | 0.8 | 0.3 | 0.5 |
| Proportion of permanent full-time non-production workers that are female (%) | 33.9 | 41.9 | 10.7 | 46.7 |
| Proportion of permanent full-time workers that are female (%) | 27.8 | 29.1 | 15.8 | 41.4 |
| Proportion of private domestic ownership in a firm (%) | 95.9 | 89.7 | 98.4 | 98.1 |
| Proportion of products lost to breakage or spoilage during shipping to domestic markets (%) | 1.2 | 1.4 | 0.7 | 0.7 |
| Proportion of total inputs that are of foreign origin (%) | 17.5 | 14.6 | 28.7 | 24.6 |
| Proportion of total sales that are exported directly (%) | 5.9 | 2.5 | 14.9 | 3.3 |
| Proportion of workers offered formal training (%) | 27.1 | 63.6 | 70.4 | 57.2 |
| Proportion of working capital financed by banks (%) | 8.7 | 7.1 | 13.6 | 3.6 |
| Senior management time spent dealing with the requirements of government regulation (%) | 11.9 | 5.9 | 3.3 | 19.6 |
| Value of gift expected to secure a government contract (% of contract value) | 0.5 | 1.7 | 2.9 | 14.2 |

Source: <https://databank.worldbank.org/source/enterprise-surveys>

Annex 3: Ethiopia MSME Profile

Author: Dr Solomon Wole; editing and quality control: Dr Ricardo Pinto

Ethiopian MSME Statistics (various years) ¹

| Indicators | Informal sector/micro enterprises ² | Small scale manufacturing industry ³ | Large and medium manufacturing ⁴ | Total |
|--|--|---|---|---------|
| Total number of enterprises (all) | 799,353 | 121,557 | 3,150 | 924,060 |
| MSMEs as % of total enterprises ⁵ | 98.28% | 1.33% | 0.40% | N/A |
| Persons employed by MSMEs (%) | 24.52% | 59.18% | 16.29% ⁶ | N/A |
| Value Added created by MSMEs (%) | 1.25% ⁷ | 21.28% | 77.253% | N/A |
| GDP created by MSMEs (%) | N/A | N/A | N/A | N/A |
| Exports created by MSMEs (%) | N.A | 3.62% | 96.38% | N/A |
| Productivity created by MSMEs (%) | N/A | N/A | N/A | N/A |
| MSMEs per capital (per 10,000) | N/A | N/A | N/A | N/A |
| MSMEs Births (%) | N/A | N/A | N/A | N/A |
| MSMEs Deaths (%) | N/A | N/A | N/A | N/A |
| MSMEs Churn (%) | N/A | N/A | N/A | N/A |

Source: various (see footnotes)

Adequate data are not available to undertake comparative analysis on the Ethiopian MSMEs sector. The only organised sources are the survey reports of the Central Statistics Agency (CSA). However, the survey reports are only administered periodically and are extremely out of date. In the case of micro enterprises/informal sector, the survey dates back to 2003 and in the case of small scale industries and large and medium manufacturing, it dates back to 2016. Furthermore, the CSA survey reports only provide data on the manufacturing industries. These important constraints must be considered in reading the analysis below.

The total number of MSMEs reported by different surveys of CSA (i.e. informal sector survey of 2003, small scale manufacturing survey and large and medium scale manufacturing survey reports of 2016) is estimated at 924,060 enterprises. According to the informal sector survey, micro enterprises were concentrated in manufacturing (43.3%), trade, hotels and restaurants (37.8%) and community and personal services (13.8), implying a combined share of 94.8% of the total number of urban informal sector enterprises. The CSA's small and large and medium survey reports of 2016 indicate that the sectors are dominated by manufacture of food processing (47.9% of small scale manufacturing) and large and medium scale industrial activities (29.5%) respectively.

- 1 All data for small scale manufacturing enterprises and large and medium scale enterprises refer to 2014/15, while the micro enterprises is for 2003
- 2 CSA, report on urban informal sector sample survey, January 2003
- 3 CSA, report on small scale manufacturing industries survey, September 2016
- 4 CSA, report on large and medium scale manufacturing and electricity industries survey, September 2016
- 5 Calculated from raw 1 above
- 6 Out of the total 333,084 are persons engaged while 329,451 are employees, LMMI survey report 2016, IBID
- 7 Report on informal sector survey, page 43, IBID

The MSME sector employs a total of 4.07 million people (including persons engaged). The largest employer is the small-scale manufacturing activities accounting for 59.2% of the total employment in the MSME sector, distantly followed by micro informal enterprises (24.5%) and large and medium enterprises (16.3%). The total value added at national account concept of MSMEs is about Birr 59.89 billion. Of the total, large and medium enterprises account for 77.5%, distantly followed by small scale manufacturing activities accounting for 21%. Micro enterprises account for a mere 1.2% of total value added.

There is no information on the exports of micro enterprises but only for small scale and large and medium scale industries. According to the CSA survey reports, the total value of exports of small scale and medium to large scale enterprises was Birr 5.6 billion, of which large and medium industrial activities accounted for 96.4%, while small scale industries accounted for 3.6% of the total.

Statistical data on the MSME sector are neither complete nor up-to-date, even when scanty information is available from SCA survey reports, to make meaningful analysis of the sector. Data on contribution to GDP, labour and capital productivity, start-up and attrition rate of enterprises, employment by skill categories, for example, would allow in-depth analysis for policy design and implementation.

Ethiopian MSME Profile (October 2019)

A: Planning and Design

1. **Is there a legal definition of MSMEs that is used consistently throughout legislation, statistics, etc.? No**

There is not a uniform/single MSME definition in the country. The strategy defines micro enterprises as those employing < 5 persons and initial capital of ETB 100,000.00 or (\$6,000.00 or €4,500.00), while small enterprises are defined as those employing 6-30 persons and initial capital of ETB 100,001.00 to 1.5 million (or \$90,000.00 or €70,000.00). There is no official definition for medium and large enterprises, however. The Central Statistics Agency (CSA) defines micro enterprises using amount of initial paid-up capital and size of employment. Accordingly, CSA defines micro enterprises as those mainly engaged in marketed production, are not registered companies or cooperatives, have no full written book of accounts, have less than 10 persons engaged in the activity, have no license and use non-power driven means of production. On the other hand, small enterprises are defined as those engaging less than 10 people and use power driven machinery, and large and medium enterprises are defined as those enterprise engaging more than 10 persons and use power driven machinery. Source: MSE strategy, 2011 and CSA survey reports.

2. **Is there an up-to-date multi-year MSME strategy/programme/roadmap in place? No**

The MSE Development Strategy was initially created in 1997 and updated in 2011. However, it is now out of date in multiple senses. It has been superseded by policy developments, such as the Growth and Transformational Plan II (GTP2), which changed the focus to the manufacturing sector, the Entrepreneurship Strategy, etc. As the name implies, the focus is only on micro and small but not medium enterprises. In reality, the focus is actually on group-based job creation entrepreneurship and a survivalist approach which is focused on urban areas. The strategy would need to be redone to cover the whole of the MSME sector, aligned with the current national policy environment and consistent with international MSME good practice. Source: R. Pinto, Ethiopia MSME Assessment Report, 2019; 2007 and 2011 MSE strategy documents.

3. **Is the MSME strategy embedded into the current national development strategy? No**

The Growth and Transformational Plan II (GTP2) acknowledges the importance of MSMEs in creating gainful employment through self-employment or providing direct wage employment and, in doing so, the MSME sector is envisaged as key instrument to reduce poverty. Based on the MSE development strategy, the plan envisages encouraging micro enterprises to graduate to medium and large enterprises. However, since the GTG II postdates it, the MSE Strategy is not embedded in the current national development strategy since it was updated in 2011. Source GTP2 document, 2016.

4. Does the MSME strategy include the following:

- Measurable targets? **No**
- Action plan? **Yes**
- Monitoring and evaluation? **No**

The 2011 MSE development strategy has a detailed actions plan(s), outlining support packages and institutional arrangements, including delineation of responsibilities between the federal government agency and regional bureaus, as well as the creation of a national coordination Council to supervise implementation of the strategy. On the other hand, it fails to provide targets as to how many micro and small enterprises would be created or reached by the support packages both at national and regional levels. It does not mention the need for putting in place monitoring and evaluation mechanism. Source: MSE development strategy 2011.

5. Does the MSME strategy include specific strategies for certain industries / sectors? **No**

The MSE strategy does not put in place strategies for promoting specific industrial sectors, even for those identified as priority manufacturing sectors and the 37 activities in the MSE strategy (see also 14 below). The implementation instruments identified in the MSE strategy are generic. Source: MSE development Strategy, 2011.

6. Does the MSME strategy build upon previous such strategies? **Yes**

The Current MSE strategy revised in 2011 is based on the 2007 micro and small enterprise development strategy. There is neither a small and medium enterprise development strategy nor a micro, small and medium enterprise strategy. Source: 2007 and 2011 MSE strategy documents.

7. Is there a single institution in charge of national MSME policy making? **No**

There are at least three Ministries in charge of MSME policy making. The Ministry of Urban Development and Construction (MoUDC) is responsible for MSEs with a focus on urban unemployed. The Ministry of Industry and Trade (MoTI) is responsible for SMEs in 7 priority manufacturing sectors: Agro-processing, Food and beverage industries, Textiles and clothing, Leather and leather products, Chemical and construction inputs, Metals and engineering, Woodwork including furniture and traditional handicraft (MSE Development Strategy, 2011, p.64). The Ministry of Agriculture and Livestock Resources (MoALR) is responsible for rural entrepreneurship, with a focus on rural youth. This means that the national MSME policy making is fragmented and in need of streamlining. Source: MoTI, MoALR and MoUDC.

8. Is there an Inter-ministerial Coordination body for the MSME strategy / action plan? **Yes**

The 2011 strategy envisaged the establishment of national and regional level MSE development councils respectively. The Urban Job Creation and Safety Net (UJCSNA) activities are overseen at a national level by a Council whose members are composed of State Ministers of and regional presidents. The newly reorganised Federal Small and Medium Manufacturing Industries Promotion Authority (FeSMMIPA) has also a coordination council chaired by MoTI with membership composed of State Ministers and regional government presidents. In both cases, the structure of the Council goes down to regional, zonal and woreda/district levels. However, whether this structure works well or not in terms of effective coordination of the MSME strategy is another matter and it has been argued that it does not. Source: R Pinto, Ethiopia MSME Assessment Report, 2019, and UJCSNA and FeSMMIPA.

9. Is there a Donor Coordination body for the MSME strategy / action plan? **No**

Both UJCSNA and FeSMMIPA have projects funded by World Bank, namely the Women Entrepreneurship Development Project and the SME financing Project respectively. According to information from UJCSNA and FeSMMIPA, they are yet to secure other donor funding. It has been argued that there is a need to strengthen donor coordination in relation to Private Sector / MSME Development. Source: UJCSNA and FeSMMIPA; R Pinto, Ethiopia MSME Assessment Report, 2019.

10. Is the MSME policy sub-divided into urban and rural enterprises? Yes

Two sets of policies are applied in Ethiopia. The urban MSME policies are focused on MSEs operating in urban areas while a separate policy exists to promote rural entrepreneurship. Both target unemployed youth, especially the rural strategy aims at keeping urban youth from migrating to towns by organising them into self-employment schemes. Source: MSME strategy, 2011 and Rural Entrepreneurship strategy, 2012. Source: MSE strategy and UJCSNA.

11. Is the MSME policy sub-divided into priority sectors? Yes

The 2011 MSE strategy has identified sectors with a total 37 specific activities. Also, FeSMMIPA is mandated to focus on the promotion of the 7 priority manufacturing industries previously mentioned. Source: MSE strategy and FeSMMIPA.

12. Are MSMEs through Chambers/Business Associations involved in regular, two-way public-private dialogue (PPD)? Yes

The Ethiopian Chamber of Commerce and Sectoral Association meets with its member MSMEs to discuss policy and regulatory constraints facing them. The findings of the consultative meeting are discussed at a Public-Private Dialogue (PPD) forum, which is chaired by MoTI. Source: Chamber of Commerce and Sectoral Associations.

13. Is the MSME policy horizontal / cross-cutting in nature? Yes

GTP 2 has identified three cross-cutting issues, namely youth and women, environment and green economic growth and urban-rural linkages. The micro and small enterprise strategy does not identify cross-cutting issues like youth, women, people with disabilities and environment. Its key objective is to create employment and to nurture “developmental entrepreneurs” which can be generalised as growth-oriented entrepreneurs. Source: GTP2 document.

14. Is the MSME policy sub-divided into industrial and non-industrial enterprises? Yes

The MSE strategy of 2011 has identified six broad sectors, namely manufacturing, mining, construction, trade, services and urban agriculture as priority sectors. Within these sectors, the strategy has identified a total of 37 specific activities (i.e. 7 in manufacturing, 4 in construction, 2 in trade, 2 in mining, 15 in services and 4 in urban agriculture). This has been supplemented more recently with a focus on manufacturing SME in 7 sub-sectors (priority manufacturing sectors: Agro-processing, Food and beverage industries, Textiles and clothing, Leather and leather products, Chemical and construction inputs, Metals and engineering, Woodwork including furniture and traditional handicraft). Source: MSE strategy, 2011.

15. Is the MSME policy further sub-divided into i) micro and small and ii) small and medium? Yes

Policies for both micro and small and small and medium exists, as the establishment of the two previously mentioned agencies indicate. The challenge is that the policy is not in black and white and also the small and medium enterprise policy does not address the wider spectrum of SMEs as FeSMMIPA is responsible for priority industries but no institution is formally assigned to address non-priority sectors. Based on discussion with FeSMMIPA, it wishes to assume this responsibility, although the matter is yet to be discussed or decided at the Government level. Source: FeSMMIPA.

16. Is MSME policy clearly allocated at national, regional and local levels? Yes

According to the MSE strategy, the promotion of MSEs is to be achieved at national, regional, zonal and woreda levels. Actual implementation of the strategy is the responsibility of the regional governments, while the federal agencies play technical backstopping roles. The same implementation modalities are applied when it comes to small and medium manufacturing industries as FeSMMIPA acts as the technical backstopper, while the actual implementation is the responsibility of regional governments. Micro finance institutions, especially those established by regional governments, also have direct involvement in the local One Stop Service Centres (OSS), where their representatives focus on loan financing and repayment. In addition, private micro finance institutions also provide BDS services to their clients. Source: MSE strategy and Association of Ethiopian Micro Finance Institutions (AEMFI).

17. Are Business Development Services (BDS) being offered by the government to MSMEs? Yes

While there are no written rules that gives a monopoly of Business Development Services (BDS) to government offices but in practice it is provided by government offices at district levels. The One Stop Service Centres (OSS) at district level organise unemployed youth into micro enterprises and provide soft skills like business management training and also offer BDS to business start-ups, and TVET trainers provide technical Industrial Extension Services to MSEs. Source: UJCSNA and Federal TVET Agency (FTA).

18. Is government also providing Business Development Services (BDS) to MSMEs via private sector service providers? No

BDS are provided via government institutions (see above). Those who provide BDS via private sector providers are limited to donor funded projects, for example the Women Entrepreneurship Development Project (WEDP), however, they have to adhere to government procurement regulations, meaning that they focus more on costs rather than competencies and experiences for recruiting private sector BDS providers. As a result, private sector BDS provision is underdeveloped. Source: WEDP.

19. Is there a requirement to conduct Regulatory Impact Analysis (RIA) / MSME Test for business-/ MSME-related legislation? No

There is currently no mechanisms for Regulatory Impact Analysis (RIA) / MSME Test for business-/ MSME-related legislation. This means that not only is new legislation not checked for the likely costs and benefits, including the possible impact on MSMEs, but the absence of impact analysis means that existing regulations are not reviewed and revised periodically to reflect changing circumstances. Source: UJCSNA.

20. Is there a formal requirement to conduct consultations to inform the development of MSME/ business-related laws and regulations? No

FeSMMIPA hosts a quarterly consultative meeting with representatives of small medium manufacturing industries sectoral association and support institutions like the Revenue Authority, Electricity Corporation, Chamber of Commerce attend the meeting. During the meeting, challenges and problems encountered by small and medium manufacturing industries are discussed and the recommendations of the meeting are presented to the small and medium manufacturing industries Development Council. Source: FeSMMIPA.

21. Was the private sector, civil society and Business Management Organisations (BMOs) consulted in the developing of the MSME strategy / plan? No

The MSE strategy was formulated by a team of experts drawn from the former Federal MSE Development Agency (FeMSEDA) and MoTI. The team was assisted by a national expert and the committee provided the draft document to the Prime Minister's Office for feedback. There was no consultation with civil society, private sector or business associations, though a consultative/validation meeting was held with regional government on the final draft. Source: UJCSNA.

B: Implementation

22. Is there a single national institution in charge of implementing the national SME strategy / action plan? No

There are at least three national institutions in charge of implementing the SME strategy / action plan. The Urban Job Creation and Food Security Agency is responsible for MSEs with a focus on urban unemployed. The Federal Small and Medium Manufacturing Industrial Promotion Agency is responsible for SMEs in priority manufacturing sectors. The Ethiopian Agricultural Transformation Agency is responsible for rural entrepreneurship with a focus on rural youth. This means that the national institution system is highly fragmented. The fragmentation is also reproduced at the regional level. Source: Urban Job Creation and Safety Net Agency (UJCSNA), Agricultural Transformation Agency.

23. Does the national institution in charge of implementing the national SME strategy / action plan have regional offices? Yes

All three institutions in charge of implementation have their own regional structures. Federal level agencies such as FeSMMIPA and UJCSNA play a coordinating role while regional and woreda level agencies focus on the implementation of policies and strategies. The support structure at the regional level is not uniform, as in some regions Industrial Extension Services are provided by the regional Bureau but not TVET (e.g. Tigray region). In some of the regions, the federal structure (i.e. FeSMMIPA and UJCSNA) have been duplicated. Thus, some regions have customised their MSE support structures in a manner that suits their local contexts. This results in a need for streamlining the regional and local structures that support MSME development. Source: M Gebreyesus (Ph.D.) et al, IBID.

24. Has a state budget been mobilised for the SME strategy / action plan? Yes

The government allocates budget for the implementation of the strategy for UJCSNA and FeSMMIPA, and their counterpart regional bureaus and OSS at local level. The state funds are supplemented with donor/IFI funding. For example, the World Bank provides loans to both previously mentioned institutions (WEDP and SME finance projects). Micro finance institutions affiliated with regional government also allocate regional funds to address access to finance constraints for MSMEs. Source: UJCSNA and FeSMMIPA.

25. Is there a website/portal dedicated to MSME matters? No

UJCSNA has a website: www.urban_job_creation_and_safety_net_agency.gov.et, as does FeSMMIPA: www.sme.gov.et. The two websites are not comprehensive in terms of the information they provide. The problem with the web portals/websites is that they are not regularly updated, despite the fact that all government agencies have IT departments. While donors update their websites, they do not have much data on MSMEs. The content is also limited, since the websites do not provide comprehensive information on the policies, strategies of the sector, as well as annual achievement or operational progress reports. UNIDO is planning to update the FeSMMIPA website as part of the national entrepreneurship strategy implementation support.

26. Is national / regional / local MSME support delivered in a coordinated manner? No

In practice both the MSE Council, and Small and Medium Manufacturing Industries Council coordinate the implementation of the national policies and strategies for urban job creation/micro enterprises and small and medium manufacturing industries respectively. MoTI and MoUDC are represented in both councils. In reality, however, there is little coordination among the different actors and the system is characterised by duplication of work and redundancies. Source: UJCSNA and FeSMMIPA.

C: Monitoring and Evaluation

27. Does the National Statistics Office regularly collect good data on SMEs (e.g. number, employment, value added to GDP, etc.)? No

MSME surveying is part of the task of the Central Statistics Agency (CSA), however, it is not very regular. For example, the latest survey report on micro enterprises dates back to 2006 and the latest survey report on small and large and medium industries dates back to 2016. Since statistics are an important guide to MSME policy, this is a constraint. The problem with the statistical surveys arises from lack of regularity and consistency. Information on urban informal sector survey are not consistent with the survey reports of small scale manufacturing industries, for example. So is the coverage of the statistical surveys, since the CSA does not undertake surveys on services sector. Data-wise, there is lack of comprehensive information, even in the manufacturing industry survey reports, as they do not include GDP, labour and capital productivity, etc. to help design informed policies and strategies. Source: CSA.

28. Are there monitoring mechanisms in place for the implementation of the MSME strategy / action plan? No

The targets to be reached in terms of number of enterprises and action plans for implementing the MSME strategies are drawn every fiscal year and updated quarterly. Quarter, half year and annual progress

reports are submitted to the respective Ministries, as well as to the respective Councils. Periodic monitoring field visits are also carried out by the Urban Job Creation and Safety Net Agency staff, as well as the staff of FeSMMIPA, to the regions, and regional bureaus perform the same role in their respective localities. However, there is no formal monitoring and evaluation mechanism put in place by the agencies. UJCSNA and FeSMMIPA.

29. Are there monitoring mechanisms in place for the MSME implementation agency/body? No

The Agencies are required to submit quarterly, half yearly and annual reports to their respective Ministries. They are also required to submit reports to their respective Councils. There is no systematic or close follow-up or monitoring mechanism put in place by the higher supervisory bodies (i.e. MoUDC and MoTI), except occasional monitoring field visits undertaken by their staff. Source: UJCSNA and FeSMMIPA.

30. Is there independent evaluation of the state MSME projects / programmes? No

There is no independent evaluation on MSME development projects, except for the periodic performance evaluation reports submitted by the implementing projects/agencies/donors to the respective Ministries: Source: UJCSNA and FeSMMIPA.

31. Does the Policy and/or Implementation body produce a publicly available annual report on MSME strategy progress? No

Neither UJCSNA nor FeSMMIPA produce such reports periodically or annually. Source UJCSNA and FeSMMIPA.

32. Does the Policy and/or Implementation body produce a publicly available annual report on MSME stats / trends? No

Annual reports are not prepared for public consumption. They are only produced for the supervisory Ministries and Councils. Even then the reports are annual plan implementation progress reports, rather than structured and analytical reports on statistics and trends in the MSME sector. No data is available at the agencies on the number of MSMEs they have reached. Source: UJCSNA and FeSMMIPA.

Annex 4: Ukraine MSME Profile

Author: Dr. Ricardo Pinto

Ukrainian MSME Statistics (2017)

| Indicators | 2017 |
|--|------------|
| Total number of enterprises (all) | 1,805,059 |
| Total number of enterprises (MSMEs) ⁸ | 1,802,290 |
| MSMEs as % of total enterprises | 99.85% |
| Persons employed by MSMEs (%) | 63.72% |
| Value Added created by MSMEs (%) | 51.15% |
| GDP created by MSMEs (%) | N/A |
| Exports created by MSMEs (%) | 27.70% |
| Productivity created by MSMEs (UAH) ⁹ | 348,332.52 |
| MSMEs per capita (per 10,000) ¹⁰ | 80 |
| MSMEs Births (%) | 12.07% |
| MSMEs Deaths (%) | 6.61% |
| MSMEs Churn (%) | 18.68% |

Sources: Ukrstat

The basic statistical profile of the country is illustrated in the table above.

A recent OECD Compendium of Enterprise Statistics in Ukraine (2018) highlights the issue below.

The overwhelming majority of Ukrainian firms in the business sector are MSMEs, similar to most countries across the world. In 2017, enterprises with less than 250 persons employed represented more than 99% of all enterprises in the business economy, accounted for 61% of the total business employment and 54% of total turnover and 47% of value added of the business sector.

Ninety 6% of Ukrainian business enterprises are micro-enterprises (i.e. enterprises with less than ten persons employed). Also, 83% of enterprises in the business sector are individual enterprises.

Eighty nine percent of all enterprises operate in the services sector, accounting for about 45% of employment and generating 56% of the value added. Close to half of the value added in business services are generated in wholesale and retail trade sector.

In general, as in other economies, larger enterprises are more productive than smaller firms. This is especially true in industrial sectors where large capital investments are required. Labour productivity of large enterprises in Ukraine generally follows this pattern. Nevertheless, in the construction industry, dominated by smaller enterprises, the productivity of small firms is similar to that of large enterprises.

In 2017, 14% of enterprises in total economy were located in the capital city Kiev, employing 24% of the workforce. Also, 11% of all individual enterprises were in Kiev, and 25% of all legal entities. The latter employed 30% of the workforce and generated 40% of the turnover in the total economy of Ukraine.

8 MSMEs are defined as enterprises with 1 to 249 persons employed (legal entities and individual enterprises).

9 UAH value / legal entities only.

10 MSMEs are defined as enterprises with 1 to 249 persons employed and enterprises' annual income is not more than 50 million euro.

Ukrainian MSME Profile (November 2019)

A: Planning and Design

1. Is there a legal definition of MSMEs that is used consistently throughout legislation, statistics, etc.? **No**

There is no uniform/single MSME definition in the country. The Law of Ukraine "On Development and State Support of SMEs" defines the legal and economic principles of state policy on SMEs support and development. In addition, this Law amended the Commercial Code of Ukraine, according to which businesses are divided into micro, small, medium and large businesses based on the number of employees and annual income from all business operations. These definitions partially comply with the legislation of the European Union (EU), in particular, Regulation EC 70/2001, pertaining to the criteria of number of employees and annual income from any activity but it does not include the third criterion, namely balance sheets. Source: [MSME Strategy](#).

2. Is there an up-to-date multi-year MSME strategy/programme/roadmap in place? **Yes**

The MSME Development Strategy was approved by the Cabinet of Ministers in 2017 and the MSME Action Plan was approved by the Cabinet of Ministers in 2018. The process of developing the MSME strategy was long and drawn out, this being the 7th attempt at doing so since independence. The MSME strategy is multi-year and is valid until the end of 2020. Plans are underway to evaluate, update and extend the MSME strategy. Source: [MSME strategy and MSME Action Plan](#).

3. Is the MSME strategy embedded into the current national development strategy? **Yes**

The MSME strategy takes into consideration the overarching government goal, which is to orientate itself towards the European Union (EU) and eventually become a member state. In this context, the most important framework of national development is the EU's Association Agreement (AA). The MSME sector is a key element of the AA and the strategy is embedded within this national framework, as well as taking the EC's Small Business Act (SBA) into consideration. Source: [Association Agreement](#); [EC SBA](#); [MSME Strategy](#).

4. Does the MSME strategy include the following:

- Measurable targets? **Yes**
- Action plan? **Yes**
- Monitoring and evaluation? **Yes**

Both an MSME Strategy and an MSME Action Plan have been approved by the Cabinet of Ministers of Ukraine. The Action Plan includes Measures, Timeframes, Responsibilities as well as Key Performance Indicators (KPIs). The MSME Strategy includes three general and five special targets / indicators, setting out the current situation and what is expected to be achieved by the end of 2020. The MSME strategy also provides a framework for monitoring and evaluation: *"To ensure that monitoring and evaluation of the Strategy implementation are transparent, open and unbiased, an independent assessment may be made with engagement of international experts, research institutions, and other qualified parties. The results of such assessment will serve a basis for drafting a new strategy after the year of 2020."* Source: [MSME Strategy and Action Plan](#).

5. Does the MSME strategy include specific strategies for certain industries / sectors? **No**

The MSME strategy does not put in place any specific strategies for promoting certain industries of sectors. The approach is horizontal / cross-cutting in nature. Source: [MSME Strategy](#).

6. Does the MSME strategy build upon previous such strategies? **Yes**

There were multiple attempts to create an MSE strategy but the current strategy is the first successful

one, which was approved by the Government of Ukraine. In this sense, the strategy does not build upon previous ones. However, there were previous SME Programmes and there is an SME Law so, the MSME strategy does build upon previous policy efforts. Source: [MEDTA](#).

7. Is there a single institution in charge of national MSME policy making? No

MSME development policy making is the responsibility of a single institution, namely the Ministry of Economic Development, Trade and Agriculture (MEDTA). The capacities of the ministry are relatively low, therefore, the implementation side of the MSME activities has been awarded to an advisory body of MEDTA, namely the SME Development Office (SMEDO). As expected, various aspects of MSME policies are the responsibility of various other ministries / agencies, etc. Source: [MEDTA](#).

8. Is there an Inter-ministerial Coordination body for the MSME strategy / action plan? No

The MSME Strategy is horizontal in nature and assumes that coordination is required in order to monitor progress and ensure effective implementation. To this end, in 2018 MEDT published a Decree on Inter-Ministerial Coordination, which enables the process to occur. However, the IMC is still not operating and needs to be further developed in the future. It is also expected that SMEDO will work towards the establishment of Inter Agency Coordination (IAC), focusing on state bodies such as agencies, offices, public companies, etc. Source: [MEDTA](#); [SMEDO](#).

9. Is there a Donor Coordination body for the MSME strategy / action plan? Yes

MEDTA is responsible for overall donor coordination in the country. Specifically, within the context of private sector and / MSME development, SMEDO shares responsibility with MEDTA for donor coordination. SMEDO undertakes donor coordination in order to secure donor funding to supplement the state funding. The SME strategy states: *“MEDTA will hold meetings with representatives of international financial organisations and donor-funded international technical assistance projects twice a year for the purpose of coordinating attraction of technical assistance for the Action Plan implementation.”* However, there is a need to strengthen donor coordination in relation to Private Sector / MSME development, once the donor coordination remit is transferred to the Cabinet of Ministers, a process that has started. Source: [FORBIZ](#).

10. Is the MSME policy sub-divided into urban and rural enterprises? No

The MSME strategy does not emphasise urban and rural aspects, though it recognises the importance of rural development. The approach is horizontal / cross-cutting in nature. Source: [MSME Strategy](#).

11. Is the MSME policy sub-divided into priority sectors? No

The approach is horizontal / cross-cutting in nature. Source: [MSME Strategy](#).

12. Are MSMEs through Chambers/Business Associations involved in regular, two-way public-private dialogue (PPD)? No

The MSME strategy recognises the importance of Public-Private Dialogue (PPD): *“There is a need to further develop Public Private Dialogue (PPD) for the SME sector, as a regular two-way mechanism of dialogue and cooperation. The reformed and restructured Entrepreneurship Council (which includes representatives of Regional Councils of Entrepreneurs) should become an important element of the dialogue via an SME-focused Working Group.”* However, the National Entrepreneurship Council, which has the function of engaging in dialogue with business associations and relevant stakeholders, is still awaiting reform. At the regional level, the respective Regional Entrepreneurship Councils are variable in how they operate. MEDTA and SMEDO plan to establish SME-focused PPD in the future. Source: [MSME Strategy](#); [FORBIZ](#).

13. Is the MSME policy horizontal / cross-cutting in nature? Yes

The MSME strategy’s approach is purely horizontal / cross-cutting in nature. Source: [MSME Strategy](#).

14. Is the MSME policy sub-divided into industrial and non-industrial enterprises? No

The MSME strategy does not emphasise industrial aspects, as the approach is purely horizontal / cross-cutting in nature. A separate Industrial Strategy is being prepared by MEDTA. Source: [MEDTA](#).

15. Is the MSME policy further sub-divided into i) micro and small and ii) small and medium? No

The approach covers all small business, regardless of whether they are micro, small or medium in size. During the process of creating the MSME strategy, there were discussions about whether it would be useful to distinguish the approach as far as medium-sized enterprises were concerned because of their policy specificity. However, it was concluded that this could be considered in a strategy beyond 2021. Source: [MSME Strategy](#), [MEDTA](#).

16. Is MSME policy clearly allocated at national, regional and local levels? Yes

The MSME strategy is horizontal in nature and focuses on the national level. However, it recognises that it is important for the 22 regions (oblasts) to also deal with MSME matters, as well as cities and amalgamated communities (Hromadas). The national level includes the National MSME Strategy, the regional level includes Regional Development Strategies, which include a focus on SME development and Smart Specialisation from 2021 onwards. The cities often include a local economy development strategies and/or SME programmes. The amalgamated communities (Hromadas) are being formed, sometimes with local economic development strategies, which incorporates an element of SME development. The SME strategy notes that: *“There is a need to ensure that regional SME development strategies or programmes are agreed on at the national, regional and local levels (with allowance for specificities of each region) and reflect actual needs of SMEs, that resources are used effectively, and that monitoring, coordination and evaluation are embedded at regional level. Coordination with strategic directions of this Strategy will result in better regional SME coordination, facilitate better coordination of regions' efforts, and establish a dialogue at the national and local levels.”* In order to do so, MEDTA has released Guidance for regions and localities on this issue. Source: [MSME Strategy](#); [Recommendations on the Long Term Planning of MSME Development at the level of regions, cities and amalgamated communities](#).

17. Are Business Development Services (BDS) being offered by the government to MSMEs? Yes

Public Business Development Services (BDS) are underdeveloped in the country. Business registration and other administrative services are offered through the ca. 700 Centres for Administrative Services (SNAPS). MEDTA and SMEDO are piloting the so-called “SME Information Points” in the SNAPS to assist potential and early stage entrepreneurs, with a view to rolling out the MSME-oriented information and signposting services in the future. However, most BDS provision is offered with donor support (e.g. 15 EU-funded centres) and oblast / city level offices, as well as some private sector provision. Currently, there is little state-funded BDS provision but this is expected to increase in the future. Source: [FORBIZ](#).

18. Is government also providing Business Development Services (BDS) to MSMEs via private sector service providers? Yes

The provision of BDS via the private sector is mostly limited to donor funded projects, such as the regional network of 15 business centres supported by the EBRD. There are some private BDS providers but the sector remains underdeveloped partly because demand for paid-for services by SMEs is low. MEDTA and SMEDO use private BDS provision to support the SME sector in the future, using the public procurement process ([Prozorro](#)). There are some business consultancies operating without any form of donor or government support but these tend to focus mostly on medium-sized or large enterprises which are able and willing to pay for their services. Source: [FORBIZ](#).

19. Is there a requirement to conduct Regulatory Impact Analysis (RIA) / MSME Test for business-/MSME-related legislation? Yes

In the process of drafting regulations, government authorities perform a Regulatory Impact Assessment (RIA). In order to improve the quality of RIA, in 2015 it became mandatory for regulatory bodies to evaluate SME costs via the “M-test”, which assesses the costs SMEs incur for ensuring compliance with regulations (Resolution of Cabinet of Ministers #1151). However, both the RIA and the M-test methodologies need to be improved to raise awareness of possible costs, benefits and impact on MSMEs. Source: [MSME Strategy](#).

20. Is there a formal requirement to conduct consultations to inform the development of MSME/ business-related laws and regulations? Yes

The Regulation on Public Consultations on Formulating and Implementing State Policies (996, 3 November 2010) requires consultations on draft regulations relating to the strategic public policy objectives lasting at least 15 days. Moreover, the Law "On Access to Public Information" requires that such information be published at least 20 working days before the feed can be considered, leading to adoption. According to the Law "On Principles of Regulatory Policy in Economic Activity", the period for feedback from individuals, legal entities and associations cannot be less than one month. Most regulators comply with the above provisions by posting draft regulation on official web sites and engaging with stakeholders, though this could be further improved. Source: [MSME Strategy](#); [FORBIZ](#).

21. Was the private sector, civil society and Business Management Organisations (BMOs) consulted in the developing of the MSME strategy / plan? Yes

The MSME stakeholders were extensively consulted in the process of developing the strategy and action plan. In the case of the strategy, when the early draft was prepared, there was a dedicated whole day workshop to obtain feedback and group sessions on each of the strategic objectives. The draft was revised and then circulated for formal consultation lasting 30 days. The extensive feedback received was used to revise the strategy, including holding 15 public events where MEDTA held detailed discussions about the draft. When the SME Action Plan was drafted, it went through a further public consultation process lasting 30 days and the feedback received resulted in the action plan being revised. It is only following the above two processes, including the internal consultation process with all ministries, that MSME strategy and action plan were formally approved the Cabinet of Ministers. Source: [FORBIZ](#).

B: Implementation

22. Is there a single national institution in charge of implementing the national SME strategy / action plan? Yes

The SMEDO was especially created with the purpose of coordination the implementation of the SME strategy and action plan, as well as addressing the MSME policy priorities of MEDTA, as they arise. It currently has 10 staff and it is expected that it will eventually be fully funded by MEDTA or another part of the government. Source: [MEDTA SMEDO Decree](#).

23. Does the national institution in charge of implementing the national SME strategy / action plan have regional offices? No

SMEDO is fully funded by the donor community in the first instance, which means that its staff complement is currently 10 staff but there are no regional offices primarily due to lack of state funds and the serious military and reform challenges that the country faces. However, to make up for the lack of regional presence, SMEDO is building cooperation networks including: i) regions ii) business centres such as the 15 centres funded by the EU; and iii) SNAPS (SME Information Points), which are in the process of being piloted. Should the concept prove to be successful, MEDTA could potentially engage with a network of up to 700 SNAPS / SME Information Points. Source: [FORBIZ](#).

24. Has a state budget been mobilised for the SME strategy / action plan? No

The SME Action Plan identifies the activities which are likely to be needed to implement each of the foreseen activities, however, an annual state budget has not been allocated to support implementation. The reality is that, given the current military conflict in the Donbass region, state funds are limited and MSME development is currently not prioritised as much as it should be. Thus, the country relies quite heavily on donor support to achieve many of the measures in the national MSME strategy and action plan. Source: [MSME Strategy and Action Plan](#).

25. Is there a website/portal dedicated to MSME matters? Yes

MEDTA and SMEDO have been working on a portal concept which is designed to link / connect all relevant MSME-oriented information in one location (see www.sme.gov.ua). This portal is dedicated to MSME matters and covers potential entrepreneurs who wish to start a business, actual entrepreneurs who wish

to grow their business, list of business support programmes, European Union / national / regional / local funding opportunities, as well as an MSME-oriented calendar of events, such as training, conferences, workshops, etc. The portal in phase one of its development, is gradually being enhanced over time and the intention is to ensure that it is regular updated with events, reports, etc. Source: [MSME Portal](#).

26. Is national / regional / local MSME support delivered in a coordinated manner? No

MEDTA is responsible for MSME policy in the country and SMEDO for the implementation of the national MSME Strategy and Action Plans. However, there is no tool to coordinate the delivery of MSME support at the national, regional and local level. The regional administrations (oblasts) are responsible for the regions through the latest Regional Development Strategies, which to be adopted in December 2019, including an SME / smart specialisation element, as well as SME programmes. The cities and amalgamated communities may or may not have SME programmes and local economic development strategies. Source: [FORBIZ](#).

C: Monitoring and Evaluation

27. Does the National Statistics Office regularly collect good data on SMEs (e.g. number, employment, value added to GDP, etc.)? Yes

There are three main sources of MSME information: State Statistics Service (UkrStats), National Bank and State Fiscal Service (SFS). Several sets of business statistics are compiled by UkrStats, providing breakdowns of data that are typically not produced in other countries, for example, structural business statistics identifying SMEs on the basis of both the number of employees and turnover. Nevertheless, the need to enhance quality and quantity of MSME statistics is noted by the MSME strategy and the statistical base is gradually improving as a result. Most of the standard MSME statistics are already available but this need to be further developed to be compatible with EU / EuroStat MSME data. An OECD report recommended compilation of data for new indicators of high-growth enterprises and employer enterprises; develop data on trade activities by enterprise characteristics and produce regional statistics also based on establishment as statistical unit, to improve the measurement of regional distribution of employment and economic activity. Source: [Ukrstat](#), [OECD Compendium](#).

28. Are there monitoring mechanisms in place for the implementation of the MSME strategy / action plan? Yes

The MEDTA is responsible for monitoring progress with implementation of the MSME strategy / action plan. It contacts all the relevant bodies, especially SMEDO but also other ministries, offices and agencies, to collect information and determine progress made with the strategy and action plan. The monitoring report is forwarded to the Cabinet of Ministers for consideration and action. Source: [MEDTA](#).

29. Are there monitoring mechanisms in place for the MSME implementation agency/body? Yes

SMEDO is currently an advisory body to MEDTA and is tasked mainly with overseeing the implementation the relevant aspects of the SME strategy and action plan. It is a donor-funded institution and, as such, is required to produce regular statements of progress. In the future, SMEDO is expected to be funded by the government / MEDTA and will develop separate monitoring mechanism connected with accountability in the use of public funds. Source: [FORBIZ](#).

30. Is there independent evaluation of the state MSME projects / programmes? No

There is no independent evaluation on MSME development projects, except for the periodic performance evaluation reports prepared by the implementing projects/agencies/donors. However, the SME strategy does foresee two types of independent evaluation. The first being an interim evaluation and the second the final evaluation of the overall MSME strategy. Source: [FORBIZ](#); [MSME Strategy](#).

31. Does the Policy and/or Implementation body produce a publicly available annual report on MSME strategy progress? No

The only source of information of this nature is the previously mentioned (see 28 above) monitoring report on progress with implementation of the MSME strategy / action plan, which is presented to the Cabinet of Ministers but is currently not published and/or publicly available. The OECD is currently working on

recommendations for the monitoring report on the progress made with implementing the MSME strategy. Source: [FORBIZ](#); [OECD](#).

32. Does the Policy and/or Implementation body produce a publicly available annual report on MSME stats / trends? Yes

The national statistics office (Ukrstat) produces regular statistics on enterprises of all sizes (Activities of Large, Medium, Small and Micro Entrepreneurship Entities). An Annual SME Report with statistical data and analysis has been prepared and this is expected to be regularly updated. The OECD has also produced a Compendium of Enterprise Statistics in Ukraine 2018. Source: [Ukrstat](#), [OECD Compendium](#); [SMEDO](#).

Annex 5: South Africa MSME Profile

Authors: Rani Chetty and Volker Schmidt; editing and quality control: Dr Ricardo Pinto

For the purpose of this exercise and to enable a better understanding, the term SMME (small, medium and micro-enterprises), as used in South Africa, will be referred to as MSME to be consistent with the terminology used in this report.

South African MSME Statistics (various)

| Indicators | 2016- Q2/2019 |
|---|---------------|
| Total number of enterprises (all) ¹¹ | 768,687 |
| Total number of enterprises (MSMEs) | N/A |
| MSMEs as % of total enterprises ¹² | 95.8% |
| Number of persons employed by MSMEs (%) ¹³ | 66% |
| Value Added created by MSMEs (%) ¹⁴ | 24.6% |
| GDP created by MSMEs (%) ¹⁵ | 37.7% |
| Exports created by MSMEs (%) ¹⁶ | N/A |
| Productivity created by MSMEs (Rand) ¹⁷ | N/A |
| MSMEs per capita (per 10,000) ¹⁸ | 125 |
| MSMEs Births (%) ¹⁹ | 6.9% |
| MSMEs Deaths (%) | 4.5% |
| MSMEs Churn (%) | 11.4% |

Main source: STATS SA www.statssa.gov.za Note: Stats SA conducts the Annual financial statistics (AFS) survey to collect a range of financial statistics in respect of enterprises in the formal business sector of the South African economy, excluding agriculture and hunting services, financial intermediation, insurance, pension funding and business services not elsewhere classified, government and educational institutions. Information is collected for the financial year of enterprises that ended on any date between 1 July of a particular year and 30 June of the following year.

- 11 Integrated Business Register (CIT) March 2018 indicated 3,131,903 enterprises in SA, of which 993,069 supposed to submit tax returns but only 768,687 were assessed as a formal business (77.4%). The 2005 figure of 553,491 from the World Bank research is still a valuable figure and can be used as a verified comparison figure for growth of enterprises during the period until 2017 (Tax Statistics-Company Income Tax).
- 12 MSMEs are defined as formal enterprises with 1 to 200 persons employed (legal entities and individual enterprises) in SA, paying corporate income tax), of which 734,159 have declared a taxable income below R1 mill p.a., 33,834 have a taxable income between R 1-100 mill p.a. / approx. US\$ 7,2 mill, and only 694 large companies declared a taxable income of > R100mill p.a. (tax assessed 2016 SARS). These figures go hand in hand that 57.7% of the tax was paid by 370 large companies (0.2% of all companies) with a taxable income in excess of R200 million. According to latest SEDA statistics Q1/2019, 736,198 are determined as formal SMMEs. See <https://www.sars.gov.za/About/SATaxSystem/Pages/Tax-Statistics.aspx>
- 13 Total number of formal SMME business sector employees during the first quarter of 2019 was 10.8 million from overall total of 16.38 million employees in SA. See <https://www.southafricanmi.com/> and <http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202019-Q1.pdf>
- 14 Percentage is based on enterprises' defined sectors and related total income of R 3,071 trillion profit before tax of all SA enterprises in 2018. The Q4 / 2018 Quarterly Financial Statistics (QFS) report by Stats Sa released the income of R 755,612 bill on small firms across all industries in SA. Comparison figures show a yearly decline of approx. 5,17% of income earned. (QFS), Apr 2019) see also: <https://www.southafricanmi.com/sa-by-numbers.html>
- 15 The Figure of 37.68% by SA Market Insights based on Stats SA and Reserve Bank April 2019. The contribution of SMEs to GDP is contested. See <http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202017-Q3.pdf>
- 16 No reliable data available, all based on assumptions and indicated under 4% by DSBD. Value of SA enterprises exports in 2018 was 29.91% of total GDP, of which 80% was generated only by 1% of the largest trading enterprises. <https://globaleledge.msu.edu/countries/south-africa/tradestat>
- 17 Direct productivity figures are not available for MSME's. Figures Stats SA P0021 from Nov./ by Annual Financial Statistics 2017 show a net profit of R 1,609 bill and employment cost of R 499,190 bill of formally employed workers. The general labour productivity index/rate by ILO for all enterprises is 0.71%. No reliable data available on SMMEs in SA - estimates vary too much between R111 300 and R 50645 p.a. per worker (Stats SA 2015/2017) and see <https://www.ceicdata.com/en/indicator/south-africa/labour-productivity-growth>
- 18 Based on formal SMEs in 2. and estimated population 2019
- 19 Global Entrepreneurship Monitor, 2016

In South Africa (SA), a small business is officially defined in Section 1 of the National Small Business Act of 1996 and amended by the National Small Business Amendment Acts of 2003 and 2004 and categorises small businesses in SA into distinct groups, namely: survivalist, micro, very small, small and medium, hence the use of the term “SMME” for small, medium and micro-enterprises.

The SMME sector is categorised as micro-businesses which are defined as businesses with five or fewer employees and a turnover of up to R100,000. Very small businesses employ between 6 and 20 employees, while small businesses employ between 21 and 50 employees. The upper limit for turnover in a small business varies from R1 million in the Agricultural sector to R13million. Medium-sized businesses usually employ up to 200 people (100 in the Agricultural sector), and the maximum turnover varies from R5 million in the Agricultural sector to R51 million in the Manufacturing sector and R64 million in the Wholesale Trade, Commercial Agents and Allied Services sector. Hence, the SMME sector is classified by the number of people employed, annual turnover and asset value of a company.

A SA SMME is an enterprise with one or more of the following characteristics:

- Fewer than 200 employees;
- Annual turnover of less than R64 million;
- Capital assets of less than R10 million;
- Direct managerial involvement by owners.

The total number of formal enterprises can normally be determined by the South African Revenue Services (SARS) and the business registration of Companies and Intellectual Properties Commission (CIPC) but Stats SA provides different figures which are not consistent with that of the South African Revenue Services (SARS) and CIPC or the data from the reserve bank.

The absence of reliable, comprehensive and consistent data has led to wide-ranging estimates on the number of SMMEs in SA and their contribution to the GDP and employment. In the absence of an updated Business Census and the shortcomings of the Companies and Intellectual Properties Commission (CIPC) a SMME data vacuum exists. Data from Statistics SA (Stats SA) and CIPC must be interpreted with caution as they only capture a portion of the total SMME landscape (mainly the formal sector).

To highlight some general trends in 2019, Stats SA figures show that there is a decrease in the number of jobs in small businesses. According to the Head of Small Enterprises at Standard Bank, on average about 50% of all start-up businesses in South Africa fail within 24 months and 70% of the businesses fail after 5-7 years due to the inability and inexperience of their owners.

Formal SMMEs

According to South African Revenue Service (SARS), in 2014 there were 816,726 active SMMEs paying company corporate income tax. These businesses can be defined as formal SMMEs.

While figures for informal survivalist entrepreneurs are estimated at 2,893,925 (5%) and the informal SMME an estimated +/- 2,2 million (36% of the SMME market), totalling 5,1 million, the latest Stats SA Quarter 1/2019 report reflects that only 736,061 SMMEs have been estimated. The NDP predicts that 90% of the 11 million jobs will be created in the SMME sector by 2030, contributing to reduction of unemployment to 6%

Stats SA's Quarterly Labour Force Survey data provides a split of combined formal and informal SMMEs located in urban and rural areas. In 2017, it was estimated that 1,595,867 (69%) of SMMEs are registered in urban areas and 713,133 (31%) in rural areas.

According to Stats SA, age categories are defined across SMME ownership as follows: youth under the age of 34 years (25.7%); 35-44 (28.6%); 45-54 (26.4%) and 55+ (19.2%). SA's SMME sector shows an underrepresentation of youth when compared to the population of youth.

According to Stats SA, the distribution of SMMEs by industry is as follows: Wholesale and Retail 952,998 (84% informal), Construction 327,088 (71% informal), Domestic Services 316,586 (67% informal), Finance 257,632 (44% informal), Manufacturing (73% informal), Transport (63% informal), Agriculture 82378 (68% informal) and Mining 8076 (70% informal) (Stats SA PALMS database, 2017).

While data related to SMME sector are mere estimates, it is extremely difficult to validate the impact that the SMME sector has on the GDP or indeed its impact on addressing the triple challenge of reducing poverty, inequality and unemployment.

South African MSME Profile (December 2019)

A: Planning and Design

1. Is there a legal definition of MSMEs that is used consistently throughout legislation, statistics, etc.? **No**

No uniform MSME definition is used in South Africa (SA), which is why this is identified as a weakness in the Strategic Plan 2014-19 by the Department of Small Business Development (DSBD). The MSME criteria contained in the National Small Business Amendment Act (NSBAA) is defined per economic sector (see below). DSBD defines micro enterprises as those employing < 10 persons, small 11-50, medium 51-200 and large 201+. The annual turnover is also defined differently by the various Government departments/ministries, public and private institutions:

| | Micro | Very small | Small | Medium |
|-----------|-------------------------|-------------------------------------|---------------------------------|------------------------------------|
| Threshold | <R500,000 / US\$ 35 000 | R500,000 < R1 million = US\$ 69 000 | R1m < R5 million = US\$ 345 000 | R5m < R20 million = US\$ 1,38 Mill |

Furthermore, Stats SA and DSBD determine MSMEs as both formal entities and informal businesses. Formal businesses data are based on registration by the Companies and Intellectual Properties Commission (CIPC), registration either as Proprietary Limited or Close Cooperation) and South African Revenue Service (for Tax and VAT). Sources: [Stats SA](#).

2. Is there an up-to-date multi-year MSME strategy/programme/roadmap in place? **Yes**

The Strategic Plan 2014-19 developed by DSBD is the multi-year MSME strategic development framework which will continue to be implemented until the end of 2019 financial year. Plans are developed each year by DSBD and preparation of the new MSME strategy, as well as reviewing legislation applicable to this sector, is planned for the next financial year (2019/2020). Source: [DSBD Strategic Plan Part 1](#); [SEDA annual report](#); and [SEFA](#).

3. Is the MSME strategy embedded into the current National Development Plan (NDP) strategy? **Yes**

The National Development Plan (NDP) 2030 is the overarching roadmap for all Government planning, including that for MSME support and development. The NDP proposes promoting and developing creative and cultural industries to contribute substantially to small business development, to provide access to young people by easing rules for small businesses, support for small businesses through better coordination of relevant agencies, development finance institutions, public and private incubators, support small businesses and encourage government and the private sector to procure from small businesses. Source: [NDP](#).

4. Does the MSME strategy include the following:

- Measurable targets? **Yes**
- Action plan? **Yes**
- Monitoring and evaluation? **Yes**

The Strategic Plan 2014-2019 is a 5-year plan linked to the electoral cycle laying out the mandate and the overall objectives, while the Annual Performance Plan (APP) is compiled annually and has measurable targets for the MSME sector. The APP also lays out the priorities and the budget for the coming year. As indicated in the APP, monitoring and evaluation is conducted by the Department of Performance Monitoring and Evaluation (DPME). Source: [Strategic Plan DSBD 2015-2019, revised 2017](#).

5. Does the MSME strategy include specific strategies for certain industries / sectors? **No**

The MSME policy does not include a focus on specific industries or sectors. Source: [DSBD Strategic Plan Part 1](#); [DSBD Strategic Plan Part 2](#).

6. Does the MSME strategy build upon previous such strategies? **Yes**

There have been various SME strategies dating at least back to 1995 (National Strategy for the Development and Promotion of Small Business in South Africa) and 2005 (Integrated Strategy for the Promotion of Entrepreneurship and Small Enterprises). Previous strategies tended to focus on special sectors where MSMEs had the potential to play a significant role. Source: [Integrated Strategy](#).

7. Is there a single institution in charge of national MSME policy making? **Yes**

The main public driver in charge of coordinating MSME policy and its implementation is the Department of Small Business Development (DSBD), which was created in 2014. The Government of SA (GoSA) recognised that while the MSME sector could contribute to achieving its objectives in terms of employment, addressing poverty and inequality, the support provided by the Department of Trade and Industry (DTI) was insufficient, hence the establishment of DSBD as a stand-alone institution focussing on MSME and co-operative development. The DSBD is mandated to promote MSMEs and set the MSME framework in SA. The DSBD was established to achieve the goals set out by the National Development Plan 2030 (NDP) through the Strategic Plan 2014-2019. Source: [DSBD Strategic Plan Part 1](#).

8. Is there an Inter-ministerial Coordination body for the MSME strategy / action plan? **No**

The Department of Small Business Development (DSBD) has overall responsibility for MSME policy-making and also the Strategic Plan 2014-2019. It is not supposed to work in silos and all major Ministries/ Departments involved in MSME activity have linked strategies in place. The key other departments are Department of Trade and Industry (DTI), Department of Agriculture, Forestry and Fisheries (DAFF), National Treasury and, at the regions, the 9 Provincial Departments of Economic Development. Local Government is represented by the Municipalities and guided by COGTA. Source: [Strategic Plan and Annual Report](#).

9. Is there a Donor Coordination body for the MSME strategy / action plan? **No**

Since 98% of MSME support in SA is delivered via government funding, donor funding in the MSME sector is limited. Each year a new Annual Performance Plan is developed. Meetings held with the DSBD reveal that the planned new MSME strategy will include blended funding where the private sector, mainly the commercial banks, crowd-funding and international foundations, will be brought on board. Source: [Budget Speech](#).

10. Is the MSME policy sub-divided into urban and rural enterprises? **No**

The MSME policy is not divided into urban and rural enterprises. The MSME statistics indicate an imbalance between urban and rural MSMEs, since 69% are located in urban environments. The MSME strategies (national, provincial and local) set support to rural communities as an objective. Source: [Economic Overview](#).

11. Is the MSME policy sub-divided into priority sectors? No

The Strategic Plan of DSBD operates at the national level as an enabler for provinces to promote and facilitate implementation at the local level. At the implementation level, however, attention does focus on obstacles that confront small businesses in specific sectors. The MSME policy is linked to the NDP 2030, which guides the economic priority areas, including services, manufacturing, agriculture, construction, mining and green industries. Source: [SEDA](#); [SEFA](#).

12. Are MSMEs through Chambers/Business Associations involved in regular, two-way public-private dialogue (PPD)? No

The South African Chambers are a loose group of different Chambers from historically different backgrounds and race groups (pre-1994). Hence, thriving business chambers are driven by local economic interest groups and do not represent a united country-wide front. The strongest and largest national chamber is South African Chamber of Commerce and Industry ([SACCI](#)), whereas black businesses are mainly represented by National African Federation Chamber ([NAFCOC](#)). Public Private Dialogue (PPD) takes place intermittently using different platforms, mainly driven by DSBD and DTI, as well as their implementation agencies [SEDA](#), [SEFA](#), [IDC](#) and the [National Empowerment Fund](#). Source: [SEDA](#), [SEFA](#), [IDC](#), [NAFCOC](#), [SACCI](#)

13. Is the MSME policy horizontal / cross-cutting in nature? Yes

The MSME policy is guided by the National Development Plan 2030 (NDP), which focusses on cross-cutting issues in MSME for Departments responsible for programmes in Arts, Culture, Sport and Health, Economic Development, Women Empowerment, People with Disabilities, youth, rural and urban development and green economy. Hence, MSME development cuts across all areas. Source: [SEDA](#); [SEFA](#).

14. Is the MSME policy sub-divided into industrial and non-industrial enterprises? No

MSME policy is not sub-divided into industrial and non-industrial enterprises. Source: [NDP](#).

15. Is MSME policy further sub-divided into i) micro and small and ii) small and medium? No

MSME policy focusses mainly on formal and informal MSME enterprises with an emphasis of formalising the MSME sector. No policy distinction is made between micro and small enterprises and, in fact, the very small and micro enterprises are often merged. Source: [DSBD](#).

16. Is MSME policy clearly allocated at national, regional and local levels? Yes

The national policy is the responsibility of the Department of Small Business Development (DSBD). All planning is linked to the NDP, which is cascaded down in the provinces and the cities like Johannesburg, Durban and Cape Town, including the MSME Strategic Plan. In the Provinces, MSME policy is implemented by the Departments for Economic Development, as well as their economic development agencies (e.g. in Gauteng: Enterprise Propeller, Growth and Development Agency, Tourism Agency, Gambling Board, etc.). At the local level, the Integrated Development Plans (IDP) of the municipalities adapt local needs with the national economic framework. Local MSME policies are defined and driven by the economic demand and business environment and vary greatly from location to location. Source: [NDP](#); DSBD mandate; [Gauteng Strategic Plan](#); [Johannesburg IDP](#).

17. Are Business Development Services (BDS) being offered by the government to MSMEs? Yes

BDS is offered by the government in support of the MSME strategy. This is coordinated at the national level by the DSBD and implemented by the Small Enterprise Development Agency (SEDA) and the Small Enterprise Finance Agency (SEFA), as well as others, such as the DTI agencies of IDC and IDC and the National Empowerment Fund, the National Youth Development Agency (NYDA). At the provincial level, subsidiaries of the previously mentioned national agencies are located in all major local municipalities. Additional BDS support is delivered through provincial agencies and localities mainly in the more economically powerful municipalities. Source: [DSBD Strategic Plan Part 1](#); [DSBD Strategic Plan Part 2](#); [NDP](#).

18. Is government also providing Business Development Services (BDS) to MSMEs via private sector service providers? Yes

The DSBD provides BDS through its agencies SEDA and SEFA. Although DSBD does not directly provide BDS to private service providers, SEDA and SEFA may decide on if and how to utilise the services of private sector providers, especially in the establishment of incubators for MSMEs and co-operatives. New initiatives facilitated by DSBD have been promised for 2020 onwards with blended funding and public private partnerships, mentoring and coaching by private business as addressed in the June/2019 Budget speech of the Minister. Source: [DSBD 2019 Budget Speech](#).

19. Is there a requirement to conduct Regulatory Impact Analysis (RIA) / MSME Test for business-/ MSME-related legislation? Yes

Cabinet Resolution of 01 October 2015 makes it compulsory to subject any proposed regulation to Socio-Economic Impact Assessment (SEIA), not just for MSME-related regulations. Furthermore, Goal 3 in the DSBD strategic plan 2015-2019 emphasises sound governance and optimal utilisation of available resources. Source: [DSBD Strategic Plan](#) and [DSBD Annual Performance Plan](#).

20. Is there a formal requirement to conduct consultations to inform the development of MSME/ business-related laws and regulations? Yes

There is a formal requirement by regulations for all strategies, regardless of whether they are related to businesses or not. Public participation and consultation are stated as a constitutional imperative. The preparation of all laws and regulations have to follow a lengthy consultation process, which depends on the feedback received. Drafts must be submitted to the public, including MSME stakeholders, for comments and other inputs, before being finalised by the decision-making bodies (e.g. Green Papers, White Papers etc.). Source: [SA Legislative Process](#); [Public Participation Process](#); [Public Participation Framework](#).

21. Was the private sector, civil society and BMOs consulted in the developing of the MSME strategy / plan? Yes

The consultations in SA are an in-depth process allowing for input from all citizens of the country. This refers to all plans, not just for the MSME sector. After consultation at the grassroots level, which is facilitated at local government by municipalities to the political mandate and the Constitution of the country, the priorities are identified and plans are developed and made public. The public including private sector and NGOs/ CSOs are expected to respond to the plans. The National Treasury has provided a framework that will guide the planning process for any strategy, including for the MSME sector. Source: [National Treasury](#).

B: Implementation

22. Is there a single national institution in charge of implementing the national SME strategy / action plan? Yes

The Department for Small Business Development (DSBD) took over the mandate to support SME development. However, the actual implementation role is carried out by the Small Enterprises Development Agency (SEDA), established in 2004. SEDA is mandated to implement government's small business strategy, design and implement a standard and common national delivery network for small enterprise development and integrate government-funded small enterprise support agencies across all tiers of government. SEDA's mission is to develop, support and promote small enterprises throughout the country, ensuring their growth and sustainability in co-ordination and partnership with various role players, including global partners, which make international best practices available to local entrepreneurs. MSME implementation is carried out at national, provincial and local level, however, this is expected to be coordinated by the national DSBD and ultimately SEDA. Source: [DSBD](#); [SEDA](#).

23. Does the national institution in charge of implementing the national SME strategy / action plan have regional offices? Yes

SEDA is the main body responsible for implementing the national SME strategy / action plan and has 9 Provincial offices and 58 branches throughout the country. It also has 48 Independent Incubation Centres. Separately, other national agencies also have provincial and local offices in the major municipalities. Some mobile units and one-stop service centres have also been established to cater mainly for the rural communities. Source: [SEDA Organogram](#).

24. Has a state budget been mobilised for the SME strategy / action plan? Yes

The DSBD Strategic Plan Part 2 and the Annual Performance Plan include the specific resources and budget estimates according to the priorities for the 3-year Medium Term Expenditure Framework. The budget speech by the Minister for DSBD in June 2019 indicated the availability of R 8.15 bill (EUR 500 million) until 2021/22, out of which 91% will be subsidies for MSMEs and the rest are operational costs. The DSBD state agencies will receive 80% of the transfer budget. Other budgets are available for MSME development via the relevant departments on national, provincial and local level. Source: [DSBD Budget Speech](#).

25. Is there a website/portal dedicated to MSME matters? No

There are several websites that provide information related to MSME matters, however, there is no single website / portal that provides a co-ordinated effort or information. Many portals for MSMEs, whether public or private, offer a substantial amount of ad hoc information. The Department of Small Business Development and [SEDA website](#) offers the main official public support in the form of e-services, tender documentations, job offers and success stories. The [SEFA website](#) provides products and services for funding. The [NYDA website](#) offers support through their and media centres and [IDC website](#) offers funding. Various other platforms, public and private are available, sometimes involving paywalls. Source: see links.

26. Is national / regional / local MSME support delivered in a coordinated manner? No

At the national level, the Parliamentary Committee for Small Business Development was established in 2018 to oversee the progress made by DSBD in coordinating the SMME functions that are located in various departments. Ensuring effective coordination further down at the regional and local level depends on the capacities of the responsible Departments / Agencies in the provinces and the municipalities. Research indicates that fragmentation and duplication are common. Better governance in terms of coordination of various dimensions of MSME support has been promised in the latest budget Speech of the newly appointed Minister for DSBD. Source: [Parliamentary Committee for Small Business Development](#); [DSBD Budget Speech](#).

C: Monitoring and Evaluation

27. Does the National Statistics Office regularly collect good data on SMEs (i.e. number, employment, value added to GDP, etc.)? No

Every national and provincial department, funded science, research and professional council and Higher Education institution must provide Stats SA with information related to the national data capturing themes. On average surveys are made within a period of 5 years. Data of the economic dynamics are reported through annual and quarterly estimates of national accounts with the focus on business cycle indicators, structural industry statistics and private sector financial statistics. A specific focus on MSMEs has not been compiled as such but has been addressed partly in the different components. DSBD developed a research agenda to address the development and growth within the MSME and co-operative sectors in SA to create more reliable data and information but the work is on-going. Despite attempts to improve the collection of data, there is a lack of coherent MSME statistics and standard definition of MSMEs in SA (some sources combine small and micro enterprises), resulting in multiple estimates, which call into question the reliability of the MSME statistics. Source: [Stats SA Work Programme 2018](#); [DSBD Research Agenda](#).

28. Are there monitoring mechanisms in place for the implementation of the MSME strategy / action plan? Yes

At the level of implementation, every department, agency and institution has its own monitoring element in its mandate. Quarterly performance reports are generally in place and available to the public. The MSME strategy is monitored through the provision of Quarterly and Annual reports mostly on the achievement of targets as in the plan. The Department of Planning, Monitoring and Evaluation (DPME) oversees the Government's implementation of policies and strategies, as well as of the execution of their strategies. Source: [DSBD Approved Annual Plan](#).

29. Are there monitoring mechanisms in place for the MSME implementation agency / body? Yes

The Minister of DSBD signs agreements with SEDA and SEFA. As the main DSBD implementing agencies, SEDA and SEFA are required to submit quarterly and annual reports for assessment of progress. An integrated assessment of the monitoring reports of all relevant public MSME interventions of all departments/ ministries and their agencies down to the local level, is not known to exist. Source: [SEDA Report](#); [SEFA Report](#).

30. Is there independent evaluation of the state MSME projects / programmes? No

There is no regular independent evaluation on MSME development projects. There are surveys but these deliver often contradictory results and can only be a part of effective evaluation. Source: [DSBD](#).

31. Does the Policy and/or Implementation body produce a publicly available annual report on MSME strategy progress? Yes

Annual reports are prepared for public dissemination. The reports are structured and analytical and provide mainly progress/feedback on issues such as: general information, performance information on executed programmes and possible successes and limitations, governance issues, HR management performances and the financial information (e.g. under- or over-spending). This is applicable to all levels of Government (national, provincial and local). The Department of Planning, Monitoring and Evaluation (DPME) has overall responsibility for M&E for all departments. It monitors annual performance plans and the reports are made publicly available. Source: [DSBD](#); [SEDA](#); [SEFA](#).

32. Does the Policy and/or Implementation body produce a publicly available annual report on MSME stats / trends? No

The DSBD publishes an annual report on its activities in relation to the MSME sector. However, the focus is on its programmes, outputs and how public funds were utilised. A publicly available annual report on MSME statistics and trends is not available at present. Source: [DSPD Annual Report](#).

Annex 6: Bangladesh MSME Profile

Author: Zahidur Rahman (partly); Saiful Islam / HB Consultants Ltd (partly); as well as editing and quality control: Dr Ricardo Pinto

Bangladeshi MSME Statistics (2013)

| Indicators | 2013 |
|--|-----------|
| Total number of enterprises (all) | 7,818,565 |
| Total number of enterprises (MSMEs) | 7,813,315 |
| MSMEs as % of total enterprises | 99.9% |
| Percent of labour-force employed by MSMEs (%) | 86% |
| Value added created by MSMEs (%) | 45% |
| GDP created by MSMEs | 25% |
| Exports created by MSMEs | 75-80% |
| Productivity created by MSMEs (in Bangladesh Taka) | 401,913 |
| MSMEs per capita (per 10,000) | 482.30 |
| MSME Births (%) – 2003 data | 4.52% |
| MSME Deaths (%) – 2003 data | 1.88% |
| MSME Churn (%) – 2003 data | 6.4% |

Sources: Economic Census, 2013, BBS, UNDP, 2016 and USAID funded National Private Sector Survey, 2003

Bangladeshi MSME Profile (February 2020)

The basic statistical profile for SMEs in Bangladesh is described in the table above. Statistics on Bangladesh MSMEs are sporadic as no reliable sources of such statistical information existed until the 2013 Economic Census was carried out by the Bangladesh Bureau of Statistics. This, too, lacked the requisite focus as it concentrated mainly on just the employment generating characteristics of MSMEs. Like almost all other countries, the vast majority (99%) of all enterprises in Bangladesh are MSMEs or CMSMEs where the Bangladeshi definition adds 'cottage' to the nomenclature of SMEs, as those enterprises smaller than even micro enterprises.

Bangladesh MSMEs employ about 25% of the total labour force. MSMEs also account for around 90% of all industrial units, 45% of total manufacturing value added, 80% of industrial employment, and 25% of the Gross Domestic Product (GDP). It is estimated that MSMEs are responsible for 75-80% of the country's export earnings. MSMEs are credited in 2013 for creating 7.86 million jobs, with the vast majority of them (6.6 million) created in the small enterprise category.

Of the 7.813 million SMEs in Bangladesh in 2013, around 859,318 are small enterprises and 7,018 are medium enterprises. This means that the remainder of 6.947 million enterprises having 1 to 30 personnel employed are micro and/or 'cottage' industries.

Location wise, 5.58 million of SMEs are located in the rural areas and 2.22 million operated in the urban areas. With a majority located in the rural areas, MSMEs remain a driving force for creating employment in rural job markets and fostering growth in the rural areas.

One of the biggest achievements of the Bangladesh economy has been its stellar performance in the export market. With exports of US\$ 40.53 billion amounting to 12.77% of its GDP of US\$ 317.465 billion (nominal), MSME's are credited with an estimated 75-80% of this export performance. Much of the ready-

made garments sector, where Bangladesh is the second largest exporter in the world, is comprised of MSMEs driving the impressive export performance in this field. Another major export area where MSMEs predominate is in the leather and leather goods area.

A: Planning and Design

1. Is there a legal definition of MSMEs that is used consistently throughout legislation, statistics, etc.? Yes

The definitions used until recently by different agencies involved with MSMEs were inconsistent and there was thus a lack of uniformity in data-sets and statistics maintained by the various agencies. In 2016, however, MSMEs were first defined in the newly declared Industrial Policy and subsequently this definition was also adopted in the SME Policy of 2019. As a result, there is now a uniform MSME definition which is used by all agencies including the Bangladesh Bureau of Statistics (BBS), the Ministry of Industries(MoI), and the Bangladesh (Central) Bank. However, the adoption of a uniform definition is yet to be reflected in statistics maintained by the various agencies. The Bangladesh Bureau of Statistics has been implementing a 3-year Survey of Manufacturing Industries (starting 2019) which is likely to produce data in conformity with the current SME Policy of 2019. BBS also performs a Census of Manufacturing Companies on a 10-year cycle and this is likely to be implemented again on schedule. The MSME definition which is now broadly accepted as a unified definition at the policy level is based on the value of fixed assets (excluding land and buildings) and/or the number of employees (see table 1). This unified national definition is expected to be followed by all government entities dealing with SMEs. Source: [Financing Solutions for Micro, Small And Medium Enterprises in Bangladesh, World Bank, 2019](#)

Bangladeshi MSME Definition

| Sl. No. | Type of Industry | | The amount of investment (replacement cost and value of fixed assets, excluding land and factory buildings) in Taka | Number of employees |
|---------|------------------|---------------|---|---|
| 1. | Cottage | | Below 1 million | up to 15 |
| 2. | Micro | Manufacturing | 1 million to 7.5 million | 16 to 30 or less |
| | | Service | Below 1 million | up to 15 |
| 3. | Small | Manufacturing | 7.5 to 150 million | 31 to 120 |
| | | Service | 1 million to 20 million | 16 to 50 |
| 4. | Medium | Manufacturing | 150 million to 500 million | 121 to 300 |
| | | Service | 20 million to 300 million | 51 to 120 |
| 5. | Large | Manufacturing | More than 500 million | More than 300 (Except RMG/ Labour Intensive Industries) More than 1000 (For RMG/ Labour Intensive Industries) |
| | | Service | More than 300 million | More than 120 |

Source: National Industrial Policy (2016) and SME Policy (2019)

2. Is there an up-to-date multi-year MSME strategy/programme/roadmap in place? **Yes**

The SME Policy (2019) forms the basis for MSME development for the next five years (2019-2024). The Ministry of Industries (MoI) is supposed to monitor the overall implementation of strategy set out in the policy. The policy emphasizes six strategic objectives and eleven implementation strategies with defined indicators and also identifies the relevant responsible implementers. For each strategy component, the policy also provides a timeline. The six strategic objectives are given below:

- Identify the role of important sectors related to the development of a sustainable environment-friendly SME sector and implementation strategies for SME related policies;
- Create necessary infrastructure and cluster development, women entrepreneurship development and support policies for financial and non-financial services for the development and expansion of SME sector;
- Improve SME-friendly environment by increasing the scope of institutional funding in SME sector, adoption of ICT based technology, development of productivity strategy, marketing of products, linking SMEs with large industries and strengthening of legal and institutional structures;
- Establish public-private partnership (PPP) and create new SME initiative (start-up) for SME sector development; upgrade government policies and rules/regulations those create hindrance for smooth running of business and its development.
- Increase and strengthen R & D activities to increase SME competitiveness and innovative capability.
- Make effective coordinated arrangements to bring all the ministries, government organisations, trade bodies under a single platform and strengthen core institutions to solve existing and emerging problems in the SME sector. Source: [SME Policy \(2019\)](#)

3. Is the MSME strategy embedded into the current National Development Plan (NDP) strategy? **Yes**

Bangladesh has identified the SME sector as the main pillar of industrial development in the National Industrial Policy (2016) which aims to boost industry and increase its contribution to the GDP from 25% to 32% by 2024, which is then logically also embedded in the SME Policy (2019). The SME policy (2019) also states that achieving SME sector targets will determine the success of National Industrial Policy, as well as multiple other development strategies, such as the Seventh-Five-Year-Plan, the Vision 2021; Least Developed Country graduation by 2014, Sustainable Development Goals 2030 and Vision 2041. Source: [SME Policy \(2019\)](#); [National Industrial Policy \(2016\)](#); [Seventh-Five-Year-Plan](#), [Vision 2021](#); [LDC graduation](#), [SDG](#); [Vision 2041](#).

4. Does the MSME strategy include the following:

- Measurable targets? **No**
- Action plan? **Yes**
- Monitoring and evaluation? **Yes**

The SME Policy is somewhat ambiguous in terms of measurable targets. While it states the intention to increase the SME sector's contribution from 25% of GDP to 32% by 2024, its six objectives and eleven explicit implementation strategies do not present any measurable targets. The SME Policy does include a time bound action plan. The 11 implementation strategies have been broken down into sub-activities and the lead implementer and associate implementers are identified. Based on the complexity of the process involved, the individual measures have been categorised as follows: short-term (implementable in 1 year); medium term (2-3 years); and long term (4-5 years). The SME Policy devotes the entire Chapter 6 of the policy on the monitoring of policy implementation strategies. This M&E system introduced two important policy-coordination committees, namely the National SME Development Council and the National SME Task Force. In addition to the Council and the Task Force; a technical committee and some subject specific working committees will be constituted. The SME Policy includes a section/discussion of the monitoring and evaluation of the SME Policy itself. It states that "A central monitoring system will be introduced for taking substantial SME development activities by the coordinated efforts of government and the private

sector actions ... The overall responsibilities of monitoring the implementation of SME Policy 2019 will be the responsibility of Ministry of Industries. Ministry of Industries will establish a SME databank. This databank will work as a research and data centre and will be associated with the main stakeholders.” The Ministry of Industries will also coordinate activities of all SME related organizations. Source: [SME Policy \(2019\)](#)

5. Does the MSME strategy include specific strategies for certain industries / sectors? No

The SME Policy (2019) and its 6 objectives and 11 implementation strategies are not sector specific. That said, one of the implementation strategies does recognise the importance of SME clusters in the country (identified by SME Foundation – see below) which are sector-specific and aims to develop them through the provision of incubation support, Business Development Services, access to finance, entrepreneurship training facilities, etc. There are many sector specific interventions outside MSME focused initiatives by the government that impact MSMEs (as well); however, the SME Policy itself is not sectoral in nature. Source: [SME Policy \(2019\)](#)

6. Does the MSME strategy build upon previous such strategies? Yes

Over the years, both the national policy and the regulatory framework in Bangladesh has often focused on promoting the MSME sector. As a results, the SME Policy (2019) and the strategic goals incorporated therein are based on previous experiences and experiments with polices and strategies. The country embarked upon its MSME policy during 2003-04. The Bangladesh Bank had formulated guidelines for SME financing in 2004 and the SME Policy 2005 was formulated by the Ministry of Industry (MoI) to assist achieving the Millennium Development Goals. At that time, the Government of Bangladesh (GoB) constituted a National Task Force of SME development to draw up a realistic strategy for promoting rapid growth of MSMEs. The GoB also constituted an Advisory Panel and an SME Foundation. Source: [SME Policy \(2005\)](#)

7. Is there a single institution in charge of national MSME policy making? Yes

The new SME Policy 2019 stipulates that the National SME Development Council (NSDC) is the highest policy making body. The Minister of the Ministry of Industries is the Chairman of the NSDC. The overall policy responsibility for the SME Policy 2019 rests with the Ministry of Industries, with the Bangladesh Small and Cottage Industries Corporation (BSCIC) and the SME Foundation (see below) being responsible for implementation of the strategies and action plan. However, as regards policy formulation, in Bangladesh, MSMEs are cross-cutting and also involve several agencies setting policies, including the Ministries of Finance, Commerce, Bangladesh Bank (SME lending), etc. Several special bodies have also been established to support MSMEs, including the SME Foundation, the Bangladesh Small and Cottage Industries Corporation, the Bangladesh Industrial Technical Assistance Centre, the Bangladesh Council of Scientific and the Industrial Research, the Business Promotion Council and Bangladesh Bank’s SME & Special Programmes Department. In addition, the Palli Karma Sahayak Foundation (PKSF) and the Department of Youth Development are also involved. Source: [SME Policy \(2005\)](#)

8. Is there an Inter-ministerial Coordination body for the MSME strategy / action plan? Yes

The highest policy making body, the National SME Development Council (NSDC), is itself an inter-ministerial body, headed by Minister for Industries. It includes 33 members such as representatives from the Bangladesh Bank, the National Board of Revenue, the Bangladesh Investment Development Authority (BIDA), the Tariff Commission, the Bangladesh Bureau of Statistics (BBS), the Bangladesh Small and Cottage Industries Corporation, the SME Foundation, and five representatives from the private sector including the Federation of Bangladesh Chambers of Commerce and Industry (FCCI) and the National Association of Small and Cottage Industries of Bangladesh (NASCIB). In addition to the NSDC, an inter-ministerial National SME Task Force is also envisioned in the SME Policy as an Executive Committee to identify the priorities of proposed initiatives in the SME Policy (2019). This Task Force, in addition to relevant ministries and government agencies, there are six private sector representatives including from NASCIB and Bangla Craft. Source: Discussion with Deputy Managing Director of SME Foundation and [SME Policy \(2005\)](#)

9. Is there a Donor Coordination body for the MSME strategy / action plan? Yes

The Government of Bangladesh coordinates with the development partners (donors) through the Local Consultative Group (LCG). Members of the LCG comprise the Secretary of the Economic Relations Division of the Ministry of Finance and multilateral and bilateral aid organisations from various countries. The LCG is organised into an Executive Committee and subgroups on various topics. The GoB Co-chairs the Executive Committee and is involved in some of the subgroups. Source: [ADB](#) With the involvement of the existing donors of the refinance scheme, the Bangladesh Bank and the Ministry of Industries seeks to increase funds for the refinance scheme and find new donors for this purpose. Source: [ADB](#)

10. Is the MSME policy sub-divided into urban and rural enterprises? No

The SME Policy 2019 does not itself classify the SME sector across rural and urban enterprises. However, the Bangladesh Bank (Central Bank) requires urban and rural classification of SME lending across rural, urban and regional levels in reporting from credit granting institutions. Source: [Small and Medium Enterprise \(SME\) Credit Policies & Programmes, Bangladesh Bank](#)

11. Is the MSME policy sub-divided into priority sectors? No

The SME Policy does not specify any priority sector and is cross-cutting in nature. However, its goals and implementation strategies and associated plans do address issues connected to sectors. Source: [SME Policy \(2019\)](#)

12. Are MSMEs through Chambers/Business Associations involved in regular, two-way public-private dialogue (PPD)? Yes

The SME Policy 2019 highlights the issue of Public- Private Dialogue for effective collaboration activities with different NGOs, business associations and chambers related to MSME development. It has stresses collaboration and dialogue with the Federation of Bangladesh Chamber of Commerce and Industries (FBCCI), the National Association of Small and Cottage Industry Bangladesh (NASCIB), the Bangladesh Agro-processing Association, the Metropolitan Chamber of Commerce and Industries, the Dhaka Chamber of Commerce and Industries, the Chittagong Chamber of Commerce and Industries, the Bangla Craft, the Business Initiative Leading Development (BUILD), the Women Entrepreneurs Association of Bangladesh. As mentioned earlier, the highest policy making body is the National SME Development Council and that includes five representatives from the private sector. In addition, the National SME Task Force includes six representatives from the private sector. Source: [SME Policy \(2019\)](#)

13. Is the MSME policy horizontal / cross-cutting in nature? Yes

The SME policy of 2019 is essentially cross-cutting in nature, as is apparent from the six factors which are emphasised in the policy, namely access to finance, technology, market, education and training, business support services and information. Source: [SME Policy \(2019\)](#)

14. Is the MSME policy sub-divided into industrial and non-industrial enterprises? No

The SME Policy has adopted a cross-cutting approach to SME issues that covers both industrial and non-industrial enterprises. While explicitly not mentioned in the SME Policy, it is understood from discussion with MoI that it can cater for the needs of industrial enterprises through BSCIC, which has 76 industrial estates. The SME Foundation can also have a focus on non-industrial as well as industrial enterprises. Source: Discussions with Ministry of Industry officials

15. Is MSME policy further sub-divided into i) micro and small and ii) small and medium? No

The MSME Policy is holistic and cross-cutting. It does not differentiate policies for micro and small enterprises or policies specifically for small and medium enterprises. Source: [SME Policy \(2019\)](#)

16. Is MSME policy clearly allocated at national, regional and local levels? No

The SME Policy 2019 does not allocate at national, regional and local levels as such. However, it does require the implementing agencies (i.e. BSCIC and SME Foundation) , in consultation with the relevant MSME stakeholders, to cater for the needs of national, regional and local levels. The effectiveness of this mechanism will only become evident once the agencies prepare their plans for the next years following

the recent adoption of the SME Policy this year. Moreover, in implementing various strategies involving the above issues, the SME Policy recognises the importance of horizontal intervention and it stresses, for example, the need to hold a product fair at Upazila (sub-district), district, divisional and national level. It also recommends the creation of regional SME Product Exhibition Centres. In other words, the SME Policy recommends interventions of cross-cutting issues at the national, regional and local levels. Source: [SME Policy \(2019\)](#)

17. Are Business Development Services (BDS) being offered by the government to MSMEs? Yes

The MoI provides Business Development Services (BDS) through Bangladesh Small and Cottage Industries Corporation (BSCIC) and the SME Foundation. BSCIC has an extensive network of 76 industrial estates and, in theory, has an extensive network of infrastructure of BDS that it can provide to MSMSEs. However, it is apparent that the publicly funded BDS provided through BSCIC and SME Foundation is yet to reach a level where they are of much value to the MSME entrepreneurs as evidenced by MSME stakeholders who have used such Business Development Services (BDS). Initially, most of the training provided by the SME Foundation were more supply-driven than demand-driven as evidenced by the discontinuation of many of the original training programmes. Source: [SMEF](#), [BSCIC](#), [Impact Assessment of SME Foundation's Activities, BIDS](#)

18. Is government also providing Business Development Services (BDS) to MSMEs via private sector service providers? Yes

BDS is mostly delivered through public sector agencies such as the BSCIC and SME Foundation. However, there is use of private sector providers to a lesser degree. The projects/ programmes funded by development partners/ donors (e.g. USAID, DFID, IFC, etc.) have been much more effective in providing BDS to MSME via the private sector. The SME Policy 2019 aims to change the approach of providing BDS to MSME through a greater involvement of the private sector in the future. Source: [SME Policy \(2019\)](#)

19. Is there a requirement to conduct Regulatory Impact Analysis (RIA) / MSME Test for business-/ MSME-related legislation? No

RIA or Regulatory Impact Analysis or Assessment is a systemic approach to critically assessing the positive and negative effects of proposed existing regulations and non-regulatory alternatives and is an important element of evidence based policy making. This approach has not been adopted by Bangladeshi civil servants who prefer the more traditional methods of public discussions before adoption. The MoI and SME Foundation do allow for feedback from various stakeholders on various issues including the government's yearly budget proposals with MSME stakeholders including the membership of the various Chambers of Commerce (and Industry). A discussion with the SME Foundation led to an observation that RIA will be identified as a possible tool during the implementation of SME policy from 2019 to 2024. There is no indication of such assessment or test in the policy. Source: [OECD web-site](#), discussion with SMEF officials

20. Is there a formal requirement to conduct consultations to inform the development of MSME/ business-related laws and regulations No

There is no MSME related law or act requiring consultations on the statute books at this moment. However, the MoI usually conducts inter-ministerial meetings, stakeholder workshops and invites comments through their website for vetting any law and regulation before it sends it to the cabinet for approval. Source: Discussion with MoI officials

21. Was the private sector, civil society and BMOs consulted in the developing of the MSME strategy / plan? Yes

The newly adopted SME Policy (2019) was the outcome of a long and detailed dialogue process with all major stakeholders. The consultation process involved workshops, meetings, compiled feedback of private sector (Chamber of Commerce and Industry), civil society, academics and BMOs through SMEF and BSCIC as well as open comments on the draft policy published in the website before finalisation of the policy. Source: Discussion with SMEF officials

B: Implementation

22. Is there a single national institution in charge of implementing the national SME strategy / action plan? **No**

The SME Policy 2019 categorically states that BSCIC and SME Foundation are the main implementing agencies for the SME Policy/ Strategy. However, both are under the direct supervision of the Ministry of Industries, which means that the scope for effective coordination is great. The National SME Development Council (NSDC) is the highest policy making body. However, the NSDC lacks full time personnel and a secretariat and partly uses SME Foundation resources for its functioning. Source: [SME Policy \(2019\)](#)

23. Does the national institution in charge of implementing the national SME strategy / action plan have regional offices? **Yes**

The Mol, the main SME policy agency implements its activities through the Bangladesh Small and Cottage Industries Corporation (BSCIC). BSCIC has extensive regional offices with 76 SME populated industrial estates. The other implementing agency, the SME Foundation does not have any regional offices. Source: [BSCIC](#), [SMEF](#)

24. Has a state budget been mobilised for the SME strategy / action plan? **Yes**

The Mol is mainly responsible for overseeing the MSME policy and its implementation and thus receives a budgetary allocation for its two agencies. The Bangladesh Small and Cottage Industries Corporation and SME Foundation receives a budget for their activities through the Mol. As the SME Policy of 2019 has been recently adopted, it is still unclear how the Mol will create the new SME budget to address the expanding context of the SME Policy. As regards SME lending, the Bangladesh Bank (and other donors such as the Asian Development Bank, JICA, IDA etc. through their projects) provides refinancing facilities to commercial banks and Non-Banking Financial Institutions. Source: [Financing Solutions for Micro, Small And Medium Enterprises in Bangladesh, World Bank, 2019](#)

25. Is there a website/portal dedicated to MSME matters? **Yes**

The SME Foundation's website is the main website dedicated for MSME purposes. BSCIC also has its own website, as does the Ministry of Industry (Mol) as Bangladesh Bank (BB). There is, however, still significant scope for improvement perhaps through an integrated portal for all MSME matters. Source: [SMEF](#), [BSCIC](#), [Mol](#), [BB](#)

26. Is national / regional / local MSME support delivered in a coordinated manner? **No**

A desirable and required level of coordination has not existed hitherto due to ambiguity in terms of jurisdictions, coverage and objectives; even among donor-funded projects. The new SME Policy addresses issues relating to all regional/ local areas down to the level of districts (administrative units) and sub-districts, and identifies SME strengths, opportunities and potential of each district. It is expected that the two key MSME agencies will better coordinate their MSME activities in the future. Source: [SME Policy \(2019\)](#)

C: Monitoring and Evaluation

27. Does the National Statistics Office regularly collect good data on SMEs (i.e. number, employment, value added to GDP, etc.)? **No**

The Bangladesh Bureau of Statistics (BBS) does have overall responsibility to collect MSME data and does so through the provision of periodical surveys. The data currently available is of poor quality and inconsistent partly because of a lack of a single MSME definition. However, there is the prospect of improvement in the future, now that the SME Policy (2019) is using the same definition as that of the Industrial Policy (2016). The BBS is implementing 3-year Survey of Manufacturing Industries (2019) which is likely to finally bring some uniformity in the dataset in conformity with the current SME Policy. BBS

also performs a Census of Manufacturing Companies (10-year cycle), which is likely to be implemented again in the coming years and which may also deliver better quality MSME data. In addition, the SME Unit of the Bangladesh Bank maintains updated data on SME financing/ lending but which also does not provide segregated data, for example, structural business statistics identifying SMEs on the basis of both the number of employees and turnover. There is a need to compile of data for new indicators of high-growth enterprises and differentiation of enterprises by ownership (e.g. women entrepreneurs); on trade activities by enterprises, on regional statistics to improve the measurement of regional distribution of employment and economic activity. Source: [BBS, SMEF, BB , Financing Solutions for Micro, Small And Medium Enterprises in Bangladesh, World Bank, 2019](#)

28. Are there monitoring mechanisms in place for the implementation of the MSME strategy / action plan? Yes

The SME Policy devotes an entire Chapter on the monitoring of strategies included in the policy. Accordingly, a central monitoring system will be introduced for the development of SME activities with the efforts of government and the private sector actions as inputs. The overall responsibility of monitoring the implementation of SME Policy 2019 falls on the MoI, which will also establish an SME databank. This databank will operate as a research and data centre and will interact with the main stakeholders. The strategic tools for monitoring of implementation are to determine contribution of SMEs in national economy accurately; update various SME related indicators/statistics on a periodical basis; conduct research activities on various issues related to the SME sector and undertake research on SMEs activities. Moreover, the two important policy coordination committees, namely the National SME Development Council and National SME Task Force, both chaired by the MoI, are the main bodies for monitoring of the implementation of the strategies. This is in addition to seven other working committees and technical committees providing support for the monitoring of implementation. The M&E system was put in place on 25 December 2019, where yearly monitoring responsibility was assigned to the National Task Force, which will also conduct monthly meetings and inform MoI of progress. Source: [SME Policy \(2019\)](#); Discussion with SMEF officials

29. Are there monitoring mechanisms in place for the MSME implementation agency / body? Yes

Both BSCIC and SME Foundation have M&E systems in place as they are required to submit annual reports. The SME Foundation has internal monitoring capacity in-built with research units, policy advocacy functions, cluster development activities, women entrepreneurship development activities, business support services, finance and credit services and an ICT function. In addition, an MoI team monitor SMEF activities. BSCIC also has a monitoring team comprising of a research officer, an evaluation officer, a statistician and a data analyst. Source: Discussion with SMEF, [SMEF Portal](#), [BSCIC](#)

30. Is there independent evaluation of the state MSME projects / programmes? Yes

Independent evaluation of the state MSME projects / programmes happens on an intermittent and irregular basis. In most cases, however, MSME projects and programmes are evaluated by independent third parties. In addition, research bodies and university based 'think-tanks' such as the Bangladesh Institute of Development Studies and Dhaka University, conduct independent studies on the SME sector in general and conduct research outsourced by the SMEF. The MoI plans to commission an independent evaluation of the impact of training programmes provided by SMEF and re-evaluate all programmes every 3 years. The National SME Development Council will be required to conduct meetings half yearly to evaluate the progress of policy implementation activities. Also, the Planning Commission of the Government of Bangladesh has currently commissioned an independent study in SME sector, which is expected to be used as a kind of baseline study against which the effectiveness of the newly adopted SME Policy 2019 can be assessed. Source: Discussion with SMEF; [BIDS](#), [Planning Commission](#)

31. Does the Policy and/or Implementation body produce a publicly available annual report on MSME strategy progress? Yes

Although irregular and intermittent in the past, the SME Policy 2019 allocates policy implementation responsibility to the MoI and requires it to publish an international journal on annual/ bi-annual basis on SME development and publish directories about business support services and technology periodically. For this activity, SMEF and BSCIC will be the principal and the MoI will be the associate implementer. The BSCIC and SME Foundation prepare annual reports (publicly available) on their own strategies, their

performance and achievements. Source: [SME Policy \(2019\)](#); [SMEF BSCIC and Mol annual report](#)

32. Does the Policy and/or Implementation body produce a publicly available annual report on MSME stats / trends? No

The Ministry of Industry is mainly responsible for implementing the SME Policy 2019 through its two implementing agencies (BSCIC and SME Foundation). Both agencies are required to prepare annual reports which are publicly available through their websites. The SME Foundation is publishing annual reports as per the requirements of the Company Act in line with Corporate statutes but these do not include the data, statistics, trends of MSMEs. BSCIC has prepared an online database system on industry, an MIS report and an annual report but not on general MSME statistics or trends. Source: Discussion with SMEF, [SMEF](#); [BSCIC](#)

-
- i Export figures are compiled by the Export Promotion Bureau in Bangladesh (EPB). Unfortunately, the size of the enterprise is not a major consideration by the agency in collecting and compiling export statistics. The EPB concentrates on collecting statistics by type of commodity product exported. The quantum of exports created by SMEs has been estimated by looking at the involvement of SMEs in the area related to the specific commodity or product being exported and then estimating the export created figure from that.
 - ii Calculated by using the 2013 GDP of Bangladesh of US\$161,297 million, taking 25% of that and then converting the figure to Taka using the Taka-US\$ exchange rate average in 2013 (Tk.77.8825 to US\$1) and then finally dividing the resulting Taka figure by the number of MSMEs.
 - iii There are no statistics found for this or for the next two items (deaths and churn). However, the USAID funded National Private Sector Survey of 2003 identifies around 6 million MSMEs in 2003. Using $N_{2013} = N_{2003} * e^{rt}$, we can calculate $r = 2.64\%$ where N is the number of MSMEs in thousands. This 'r' is the annual net rate of increase in the ten years from 2003 to 2013 of the number of MSMEs. After calculating the death rate (see footnote below), the birth rate can be calculated by adding the death rate to the annual rate of increase in the total number of MSMEs.
 - iv We calculate the death rate also from the USAID funded National Private Sector Survey (p.48, Section 3.14) which gives a figure of 564,658 entities closed over 5 years. As the report itself says 'this figure is under-reported'. However, in the absence of any other figure, we will use this data and the report's estimate of the number of MSME's of around 6 million and arrive at a figure of 1.88%. Adding this to the net increase figure gives us 4.52% for SME births.



Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH

Registered offices
Bonn and Eschborn

Friedrich-Ebert-Allee 36 + 40
53113 Bonn, Germany
T +49 228 44 60-0
F +49 228 44 60-17 66

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany
T +49 6196 79-0
F +49 6196 79-1115

E info@giz.de
I www.giz.de