



# Supporting MSMEs

**We will start in a couple of minutes. Please let us know your name and where you work by using the Chat box. Thank you!**

*17 November, 2020*

# Policy Background

# Policy framework

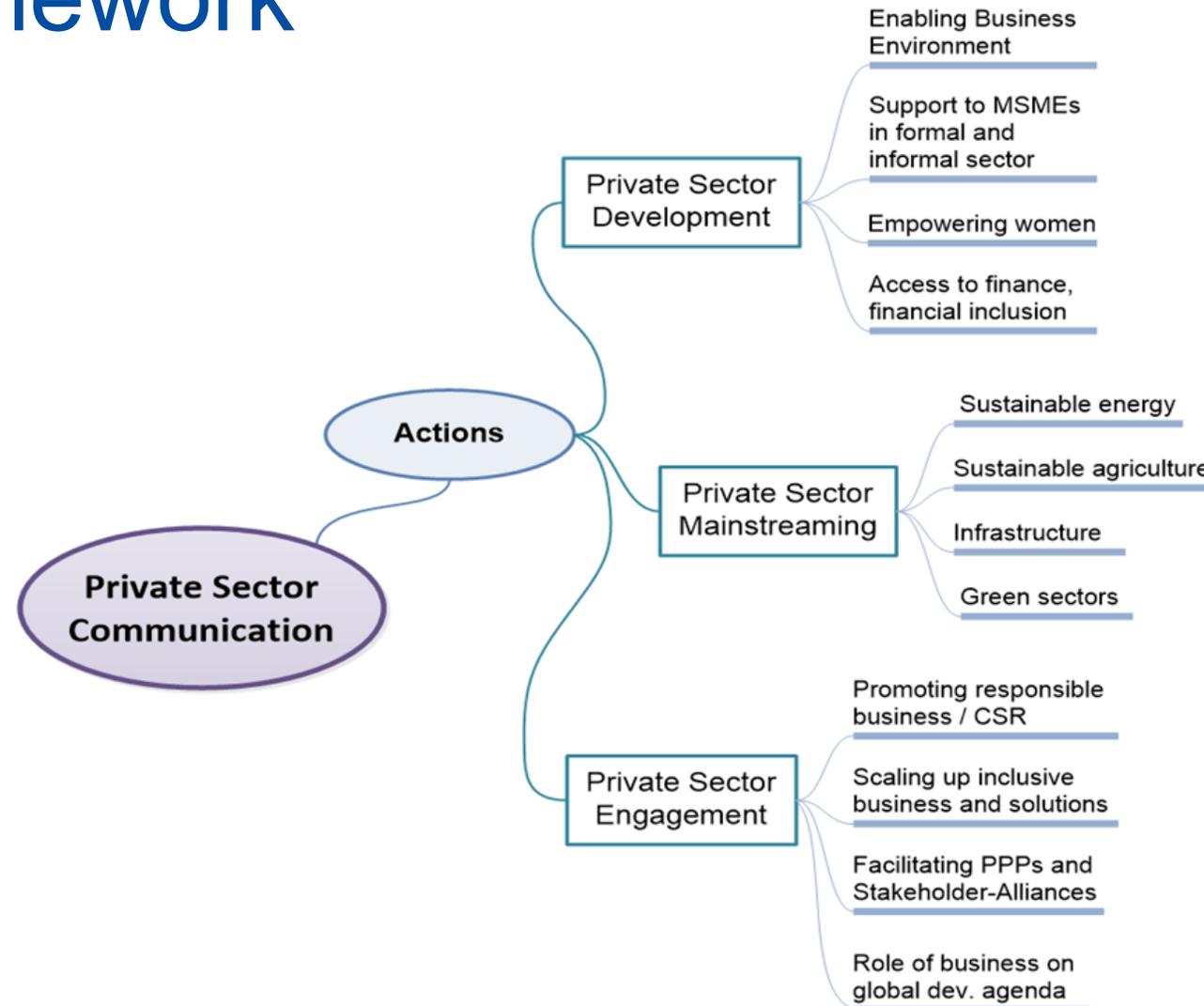
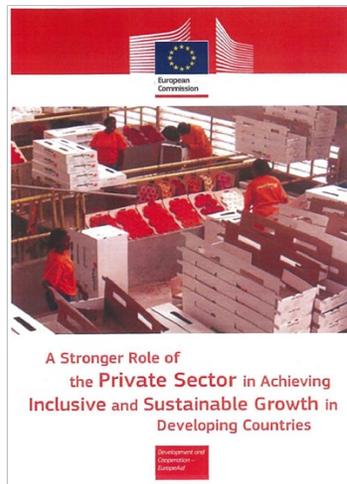
THE NEW EUROPEAN CONSENSUS ON DEVELOPMENT

‘OUR WORLD, OUR DIGNITY, OUR FUTURE’

JOINT STATEMENT BY THE COUNCIL AND THE REPRESENTATIVES OF THE  
GOVERNMENTS OF THE MEMBER STATES MEETING WITHIN THE COUNCIL, THE  
EUROPEAN PARLIAMENT AND THE EUROPEAN COMMISSION

“The EU and its Member States recognise the role of micro, small and medium-sized enterprises (MSMEs) as enablers of sustainable development, as well as essential actors in the fight against poverty. MSMEs are engines of growth, employment, innovation and social development.”

# Policy framework



# The EIP



## European Fund for Sustainable Development (EFSD)

- New guarantee to reduce risk
- Blending loans and grants
  - Africa Investment Platform
  - EU Neighbourhood Investment Platform



## Technical Assistance

- Support local authorities and companies preparing bankable projects
- Improving the investment climate in close engagement with the Private Sector

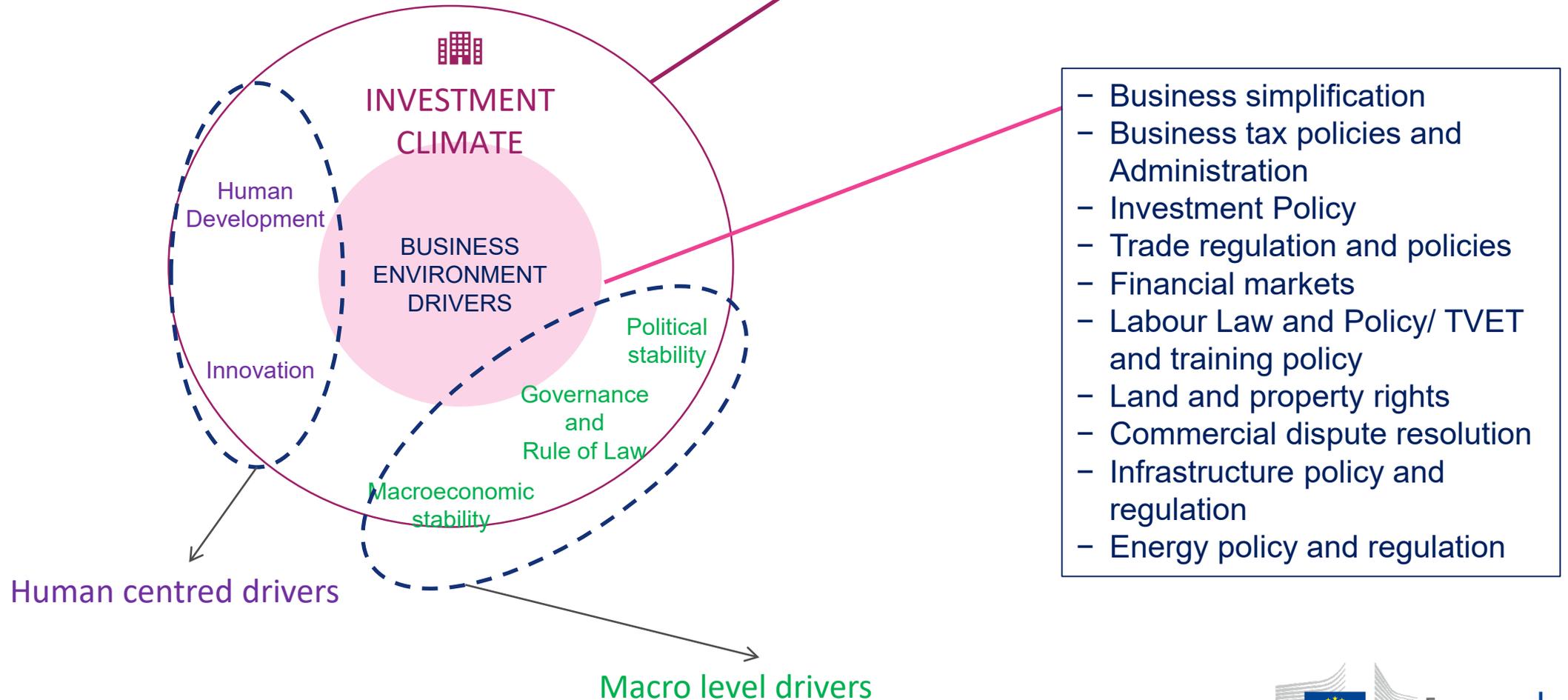


## Investment Climate

- Structured dialogue with business
- Market Intelligence & Analytics
- Policy and political dialogue
  - EU Cooperation

# Investment Climate Drivers

Wide range of location-specific factors determining whether domestic and foreign investments happen.



# Questions and definitions

- **What is an MSME?**
- **Do MSMEs drive job creation and productivity?**
- **What are their challenges?**
- **Are MSMEs really getting people out of poverty?**

# MSME Definitions



EU	Micro	Small	Medium
Staff	< 10	< 50	< 250
Turnover €	< 2M	< 10M	< 50M
Assets €	< 2M	< 10M	< 43M

	Micro	Small	Medium
EU	< 10	< 50	< 250
WBES	< 5	< 20	<100
WBG	< 10	< 50	< 300
ILO	< 10	< 100	< 250

Uganda	Micro	Small	Medium
Staff	< 5	< 50	>50
Turnover €	< 5,000	< 200,000	>200,000
Assets €	< 5,000	< 200,000	>200,000

All MSMEs in Indonesia are categorized as such by revenue and assets, as well as other criteria as described in Law 20/2008. To be considered an MSME, the business must be owned by individual or entity that is not subsidiary or branch of a medium or large corporation.

	Assets (in IDR)	Revenue (in IDR)
Micro business	<50 million	Up to 300 million
Small business	50 – 500 million	300 million – 2.5 billion
Medium business	500 million – 1 billion	2.5 – 50 billion

Source: Indonesian Law No. 20/2008 on Micro, Small and Medium Enterprises chapter IV article 6 on Criteria

Manufacturing Enterprises – Investment in Plant & Machinery		
Description	INR	USD(\$)
Micro Enterprises	upto Rs. 25Lakhs	upto \$ 62,500
Small Enterprises	above Rs. 25 Lakhs & upto Rs. 5 Crores	above \$ 62,500 & upto \$ 1.25 million
Medium Enterprises	above Rs. 5 Crores & upto Rs. 10 Crores	above \$ 1.25 million & upto \$ 2.5 million

Service Enterprises – Investment in Equipments		
Description	INR	USD(\$)
Micro Enterprises	upto Rs. 10Lakhs	upto \$ 25,000
Small Enterprises	above Rs. 10 Lakhs & upto Rs. 2 Crores	above \$ 25,000 & upto \$ 0.5 million
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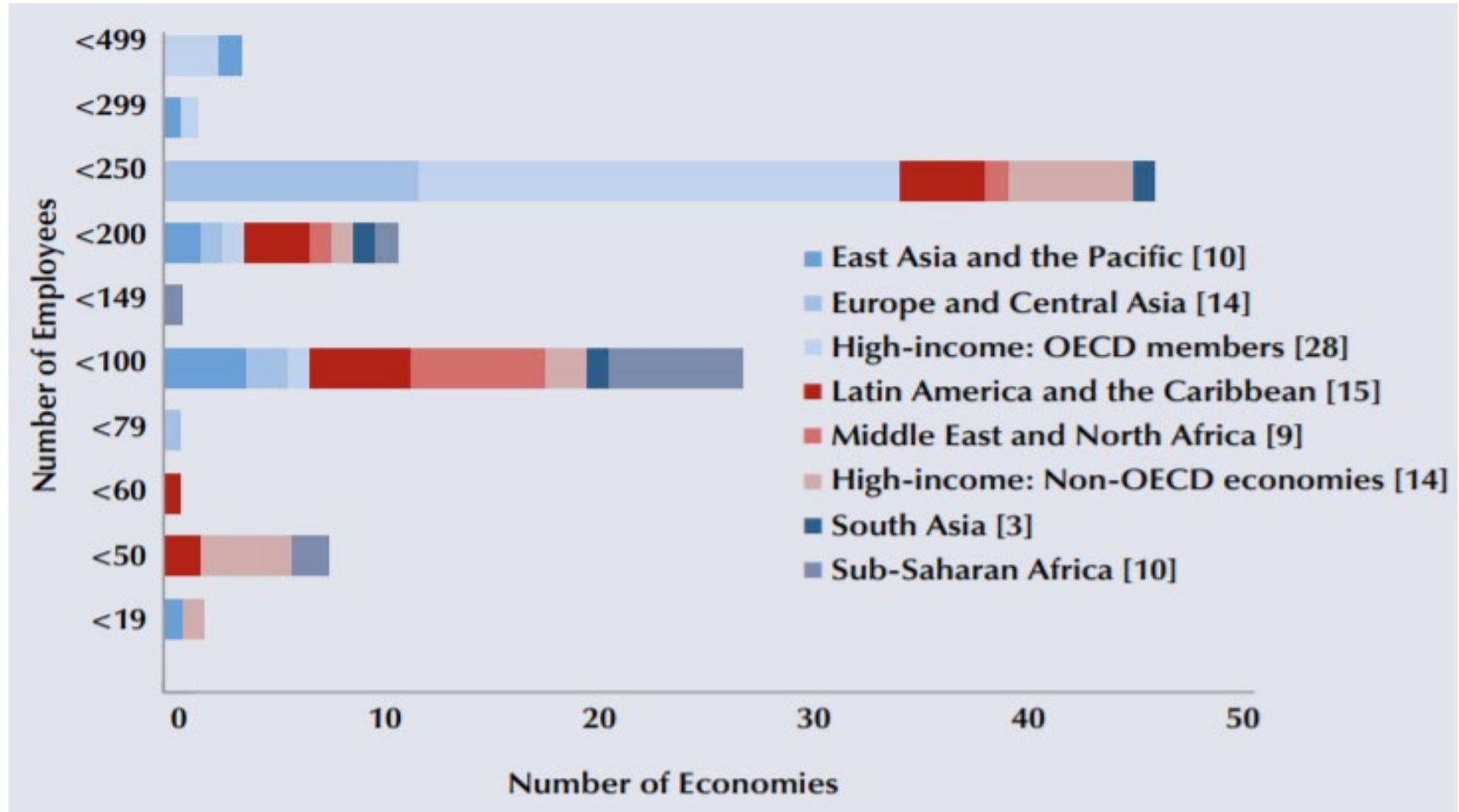
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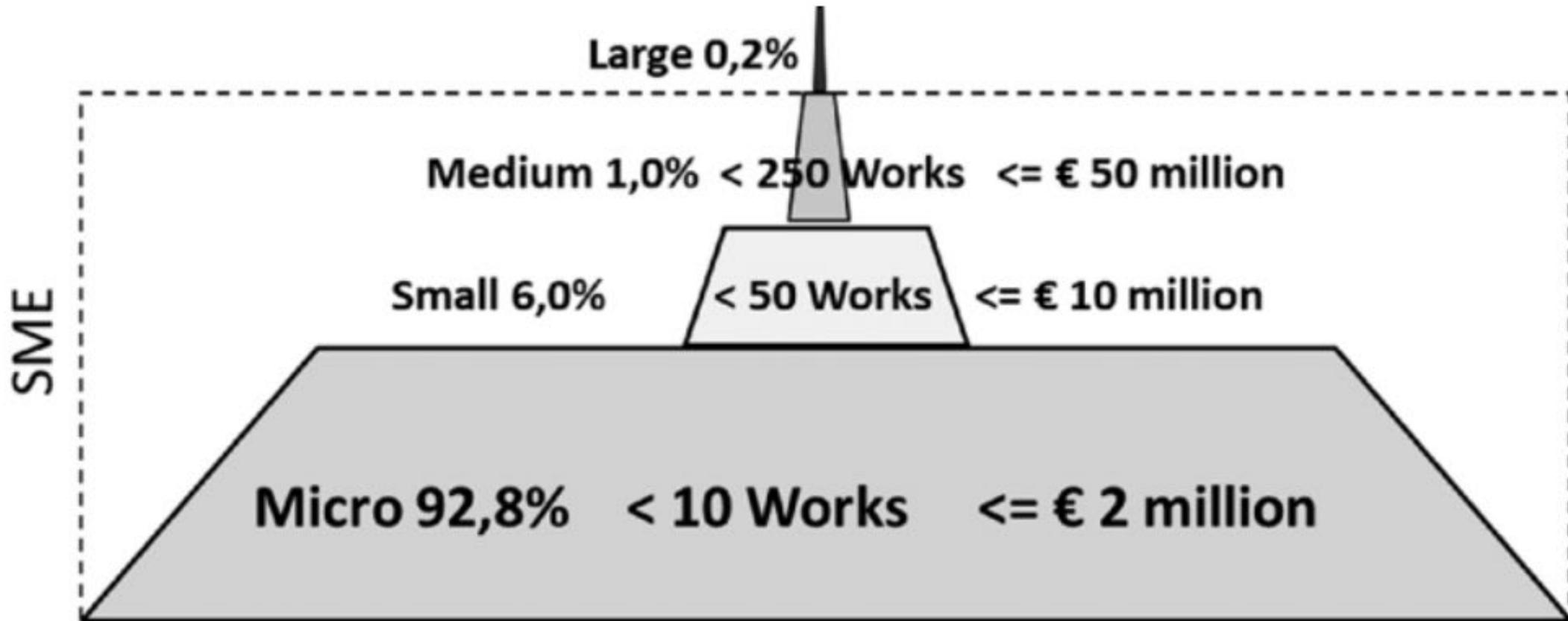
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# MSME threshold differences



# MSME share n° companies in the EU



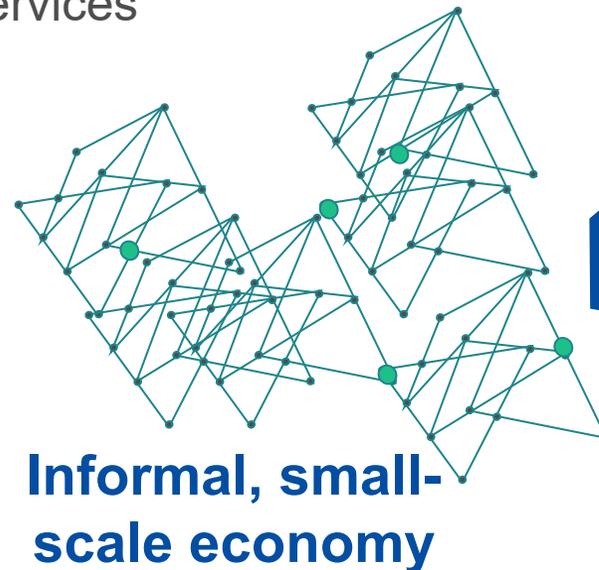
# MSME categorisation

Aspect	Micro Business	Small Business	Medium Business
 <b>Formality</b>	<ul style="list-style-type: none"> <li>Operates in informal structure.</li> <li>Unregistered business.</li> <li>Rarely or not paying tax.</li> </ul>	<ul style="list-style-type: none"> <li>Some operate in the formal sector.</li> <li>Some are unregistered or no business licenses.</li> <li>Only few that pay tax</li> </ul>	<ul style="list-style-type: none"> <li>Mostly in the formal sector.</li> <li>Mostly registered and pay taxes.</li> </ul>
 <b>Economic Relations</b>	<p>Most of them do not have a business relationship with larger business.</p>	<p>Many of them may have access to government programs (such as credit program) and have business relationship with large business (including foreign investment or PMA).</p>	<p>Most of them may have access to government programs (credit program) and many have business ties with large businesses (including PMA).</p>
 <b>Market Orientation</b>	<p>Generally sell to local markets for low income groups.</p>	<ul style="list-style-type: none"> <li>Many are selling to the domestic and export markets.</li> <li>Serving the lower middle class.</li> </ul>	<ul style="list-style-type: none"> <li>All of them sell to the domestic market and most of them are also to export market.</li> <li>Serving upper middle class.</li> </ul>
 <b>Women Entrepreneurs</b>	<p>The ratio of women who work as entrepreneurs is estimated very high than men.</p>	<p>The ratio of women who work as entrepreneurs is estimated quite high than men.</p>	<p>The ratio of women who work as entrepreneurs is estimated relatively very low than men.</p>

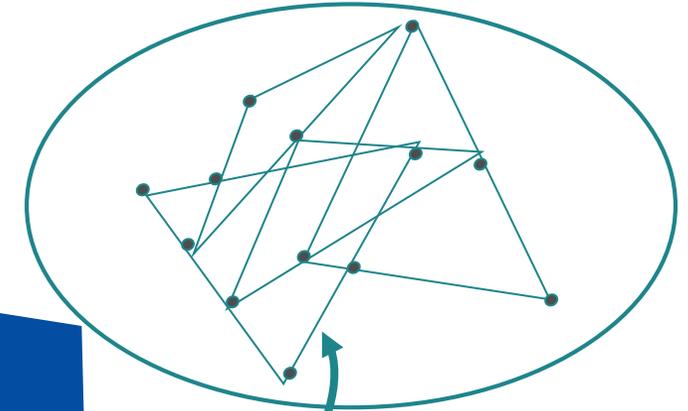
# MSMEs disconnection

## Differences in:

- Procedures & Practices
- Standards
- Attitudes
- Information and networks
- Opportunities and services



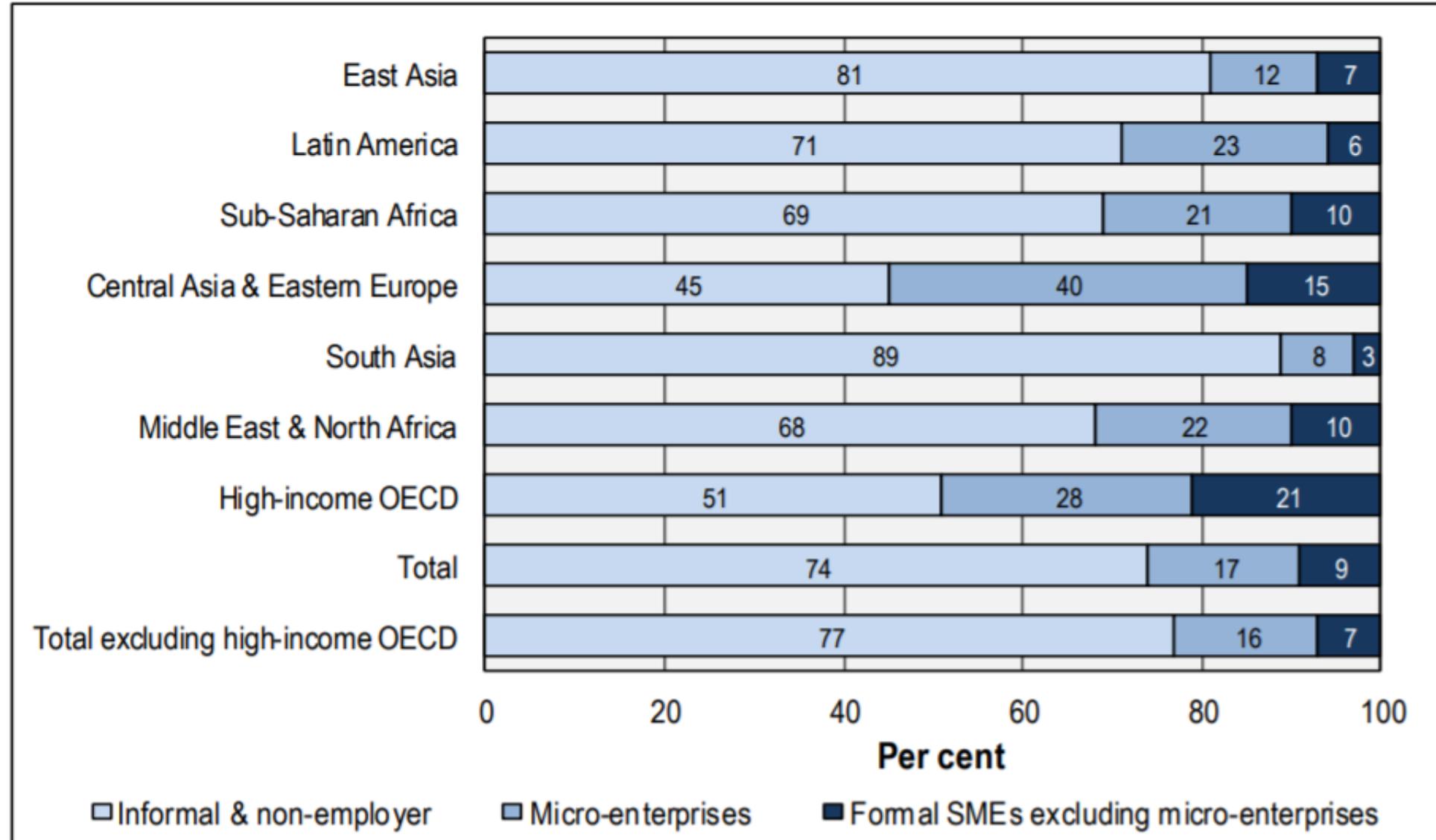
**Formal, large-scale economy**



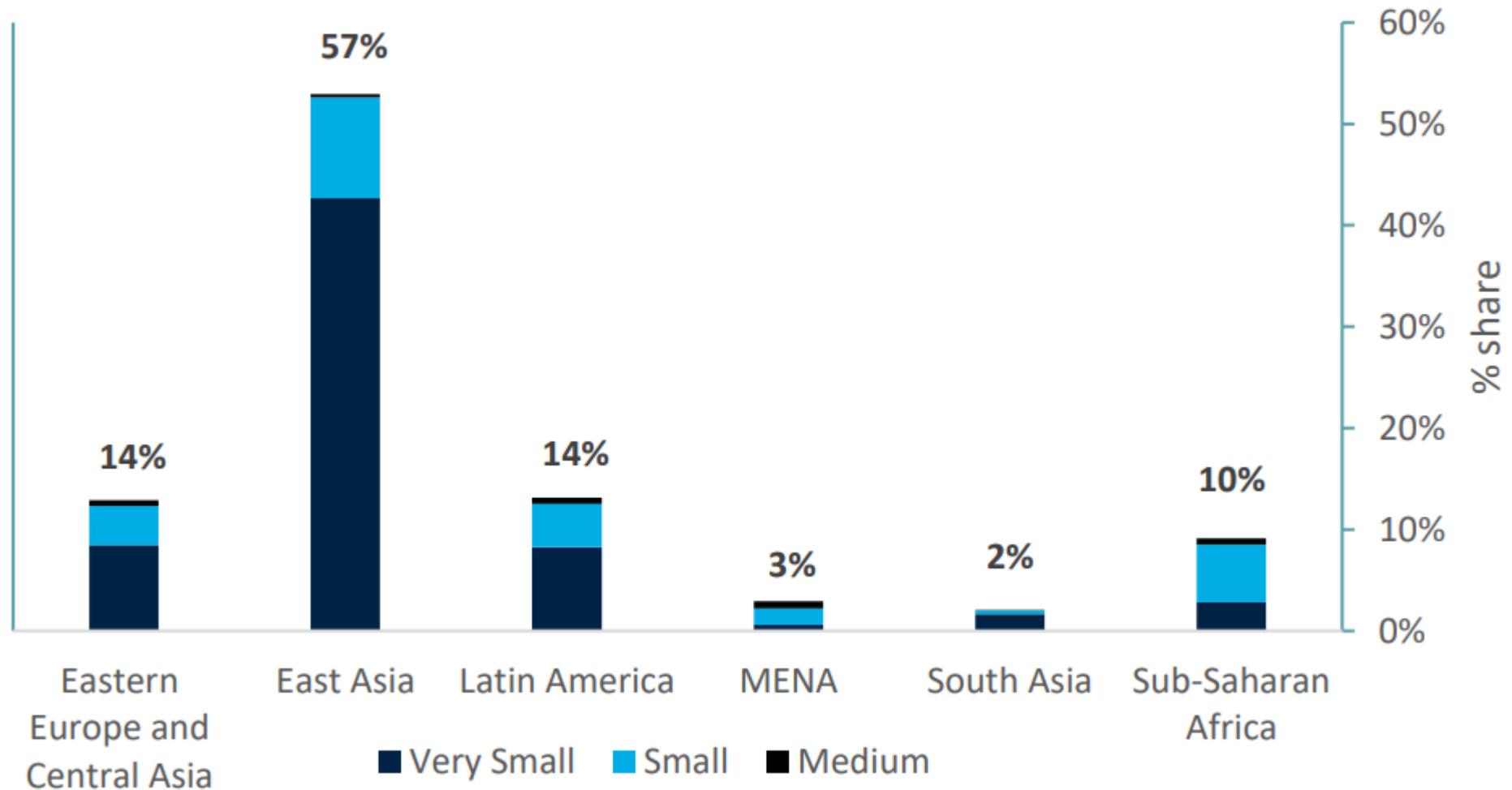
**Fundamental Disconnect**

**Market Development Challenge**  
‘Mainstream’ by developing:  
• Capacities  
• Relationships  
• Incentives

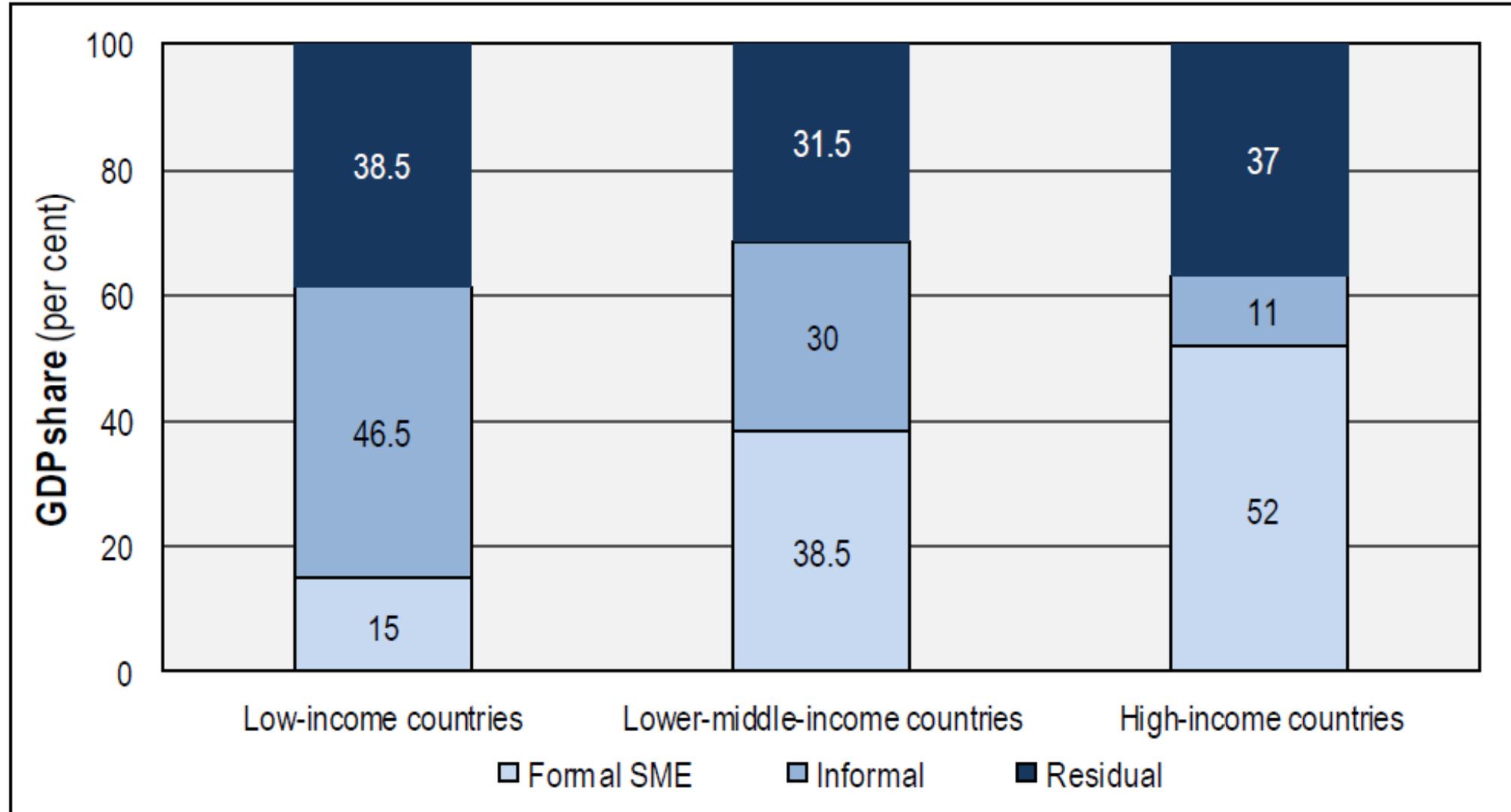
# Share of MSME type by region



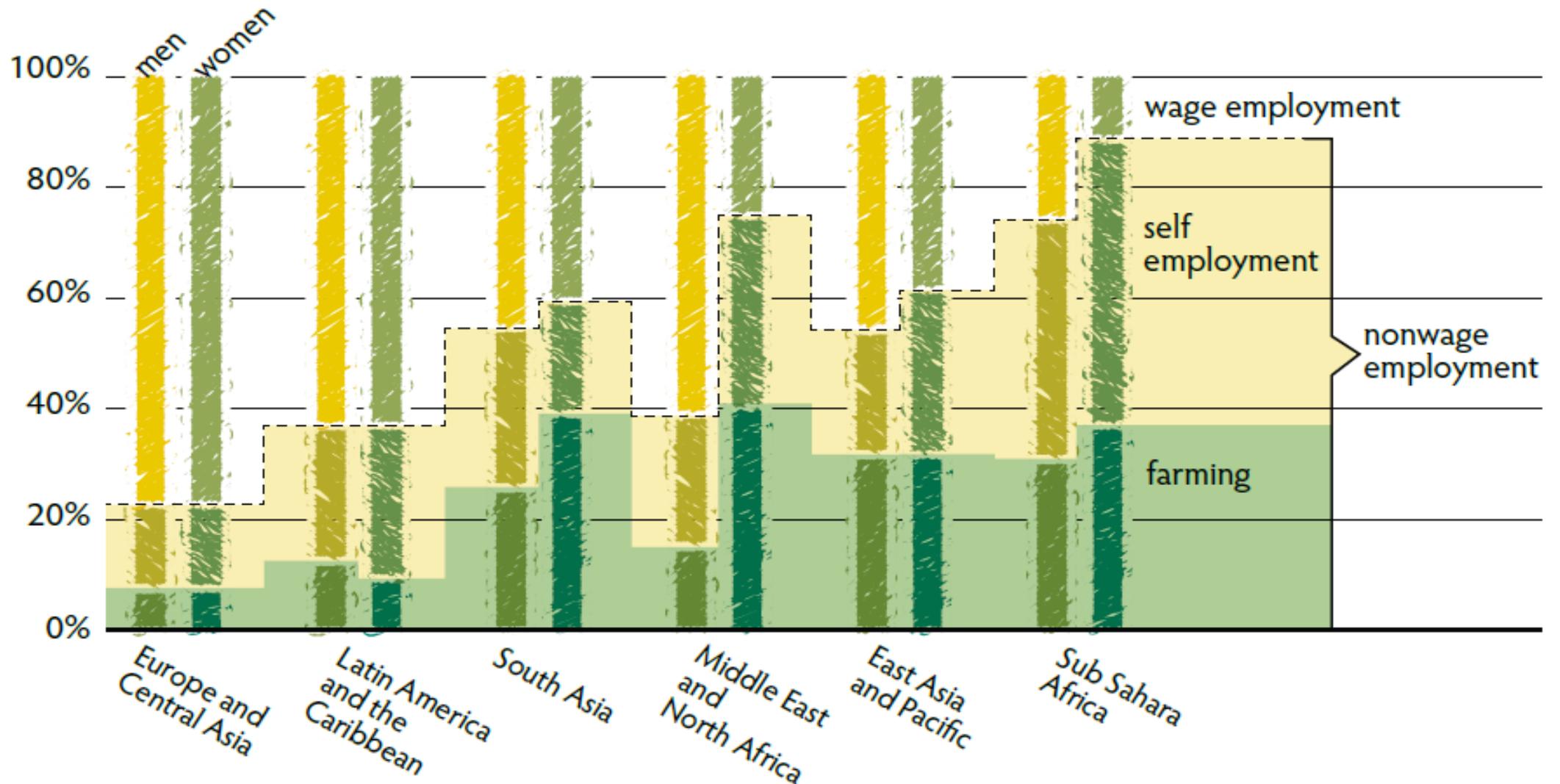
# Women-owned formal MSME by region



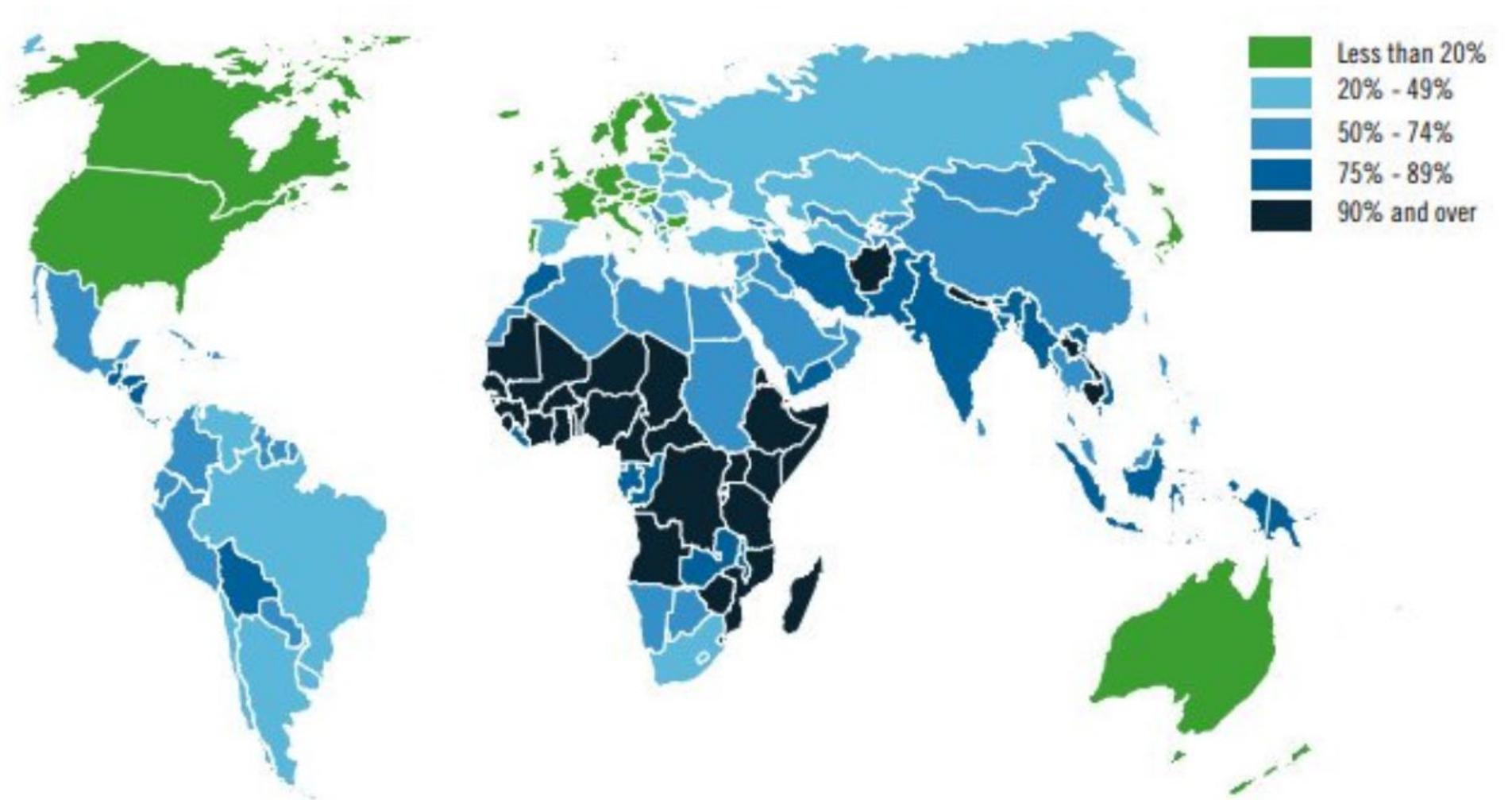
# MSME share of GDP per country income level



# MSME type of employment by gender and region



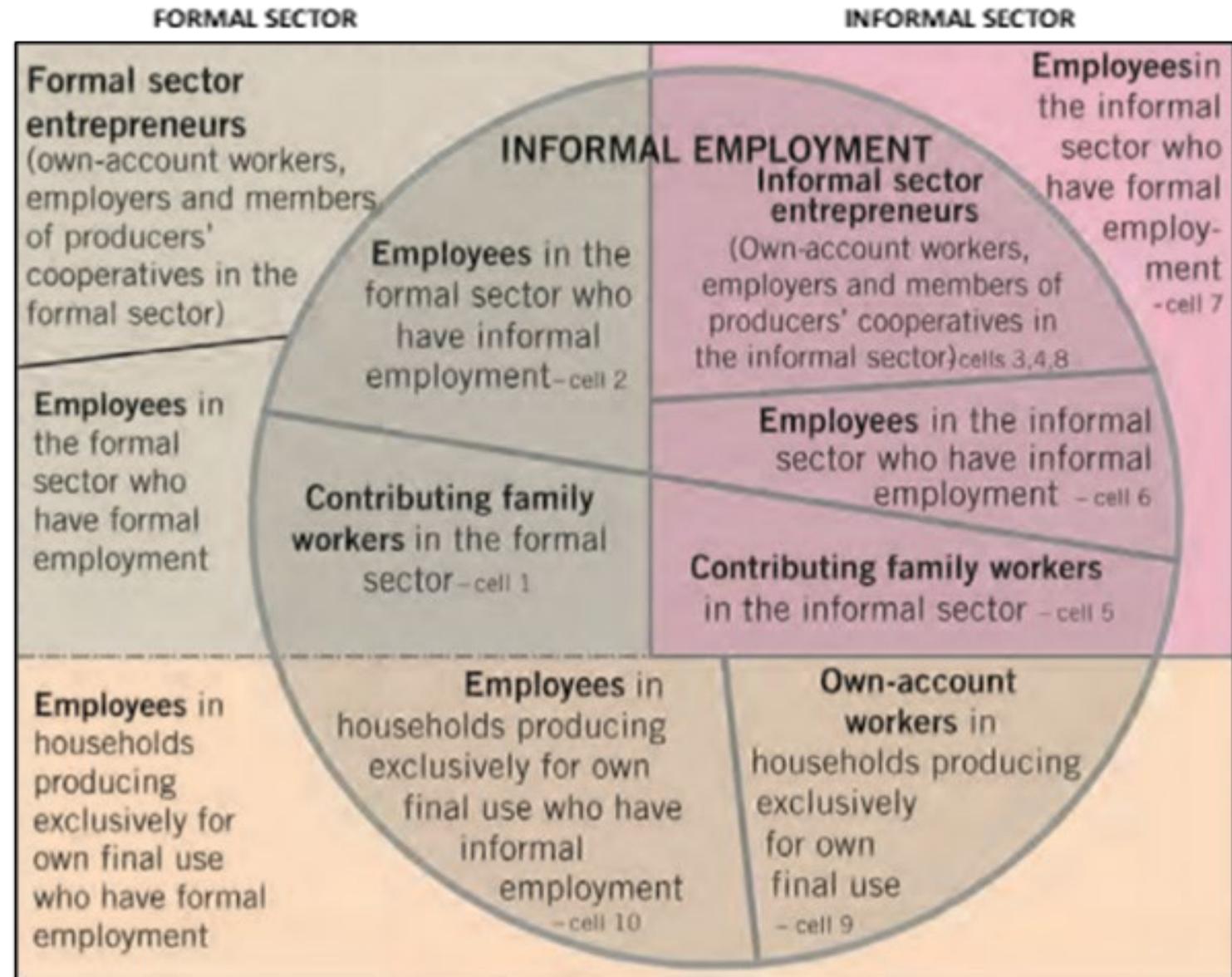
# Share of informal on total employment



# Informal employment

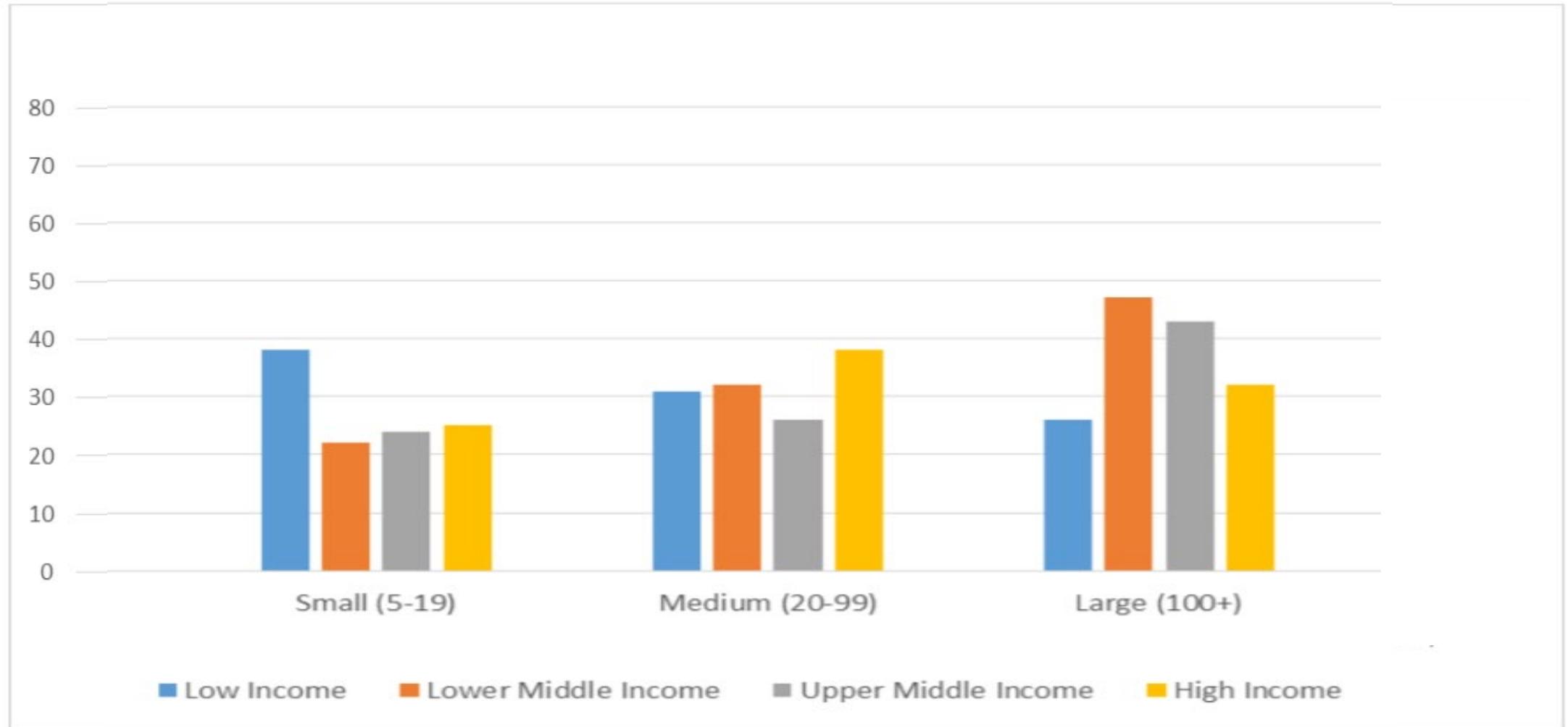
Employment in the Informal Economy  
 =  
 Employment in the informal sector  
 +  
 Informal employment outside the  
 informal sector

- No labour contract
- No access to social protection
- No access to training
- No access to finance
- Low salary (with often resulting low productivity)
- No voice and no trade-unions to represent them.



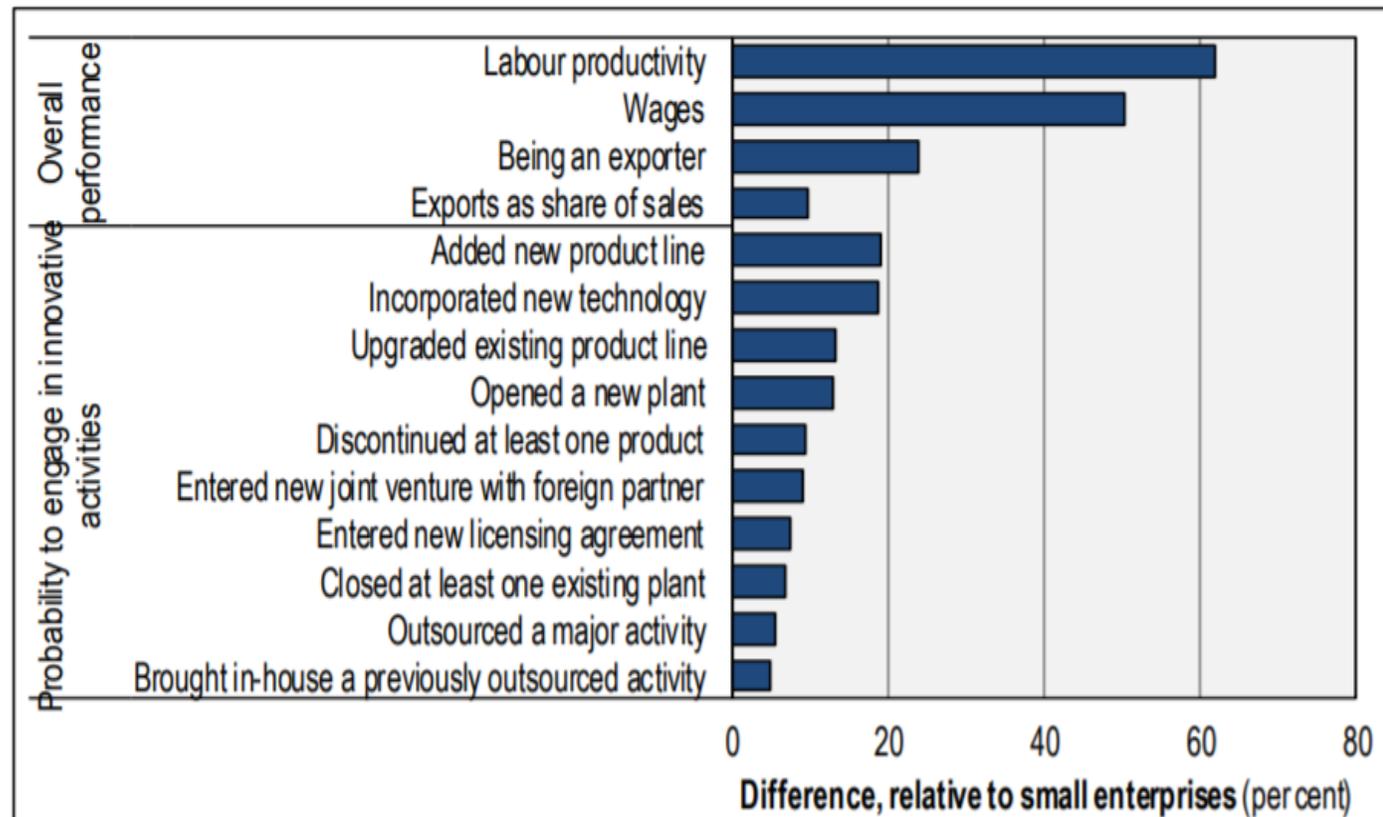
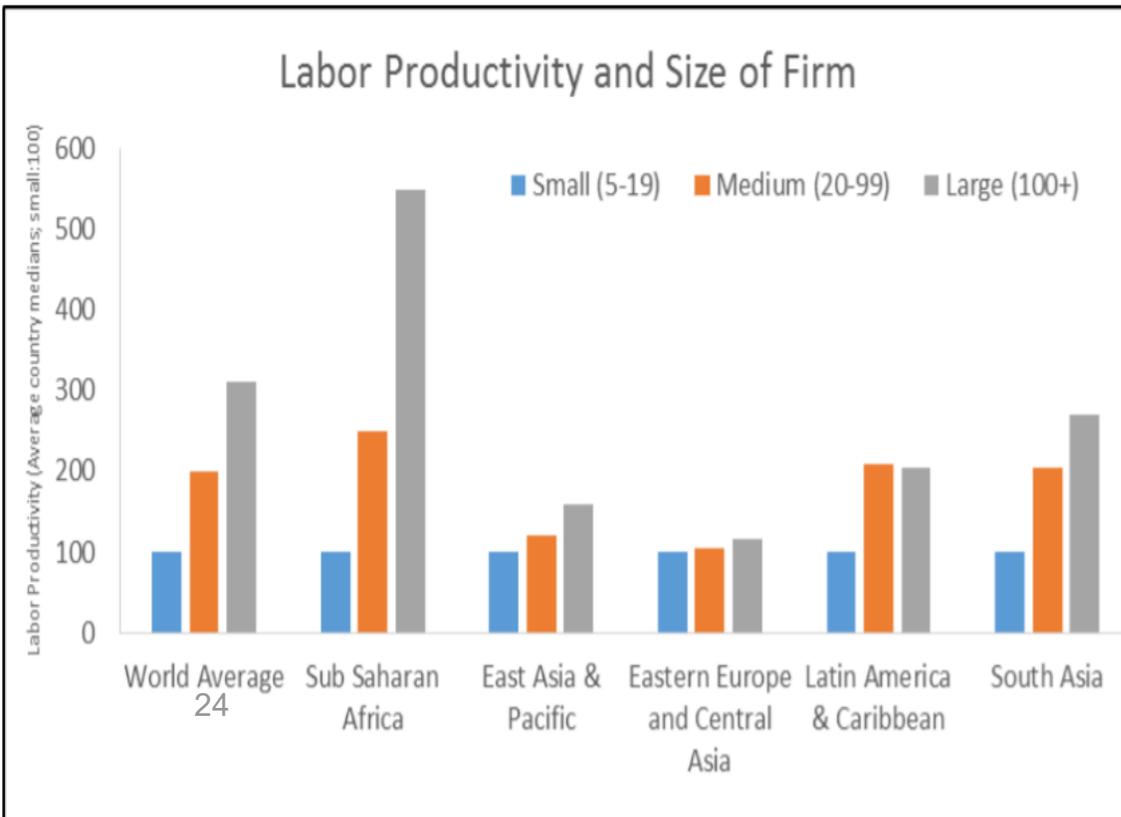
# MSMEs job creation and productivity

# MSME share of employment

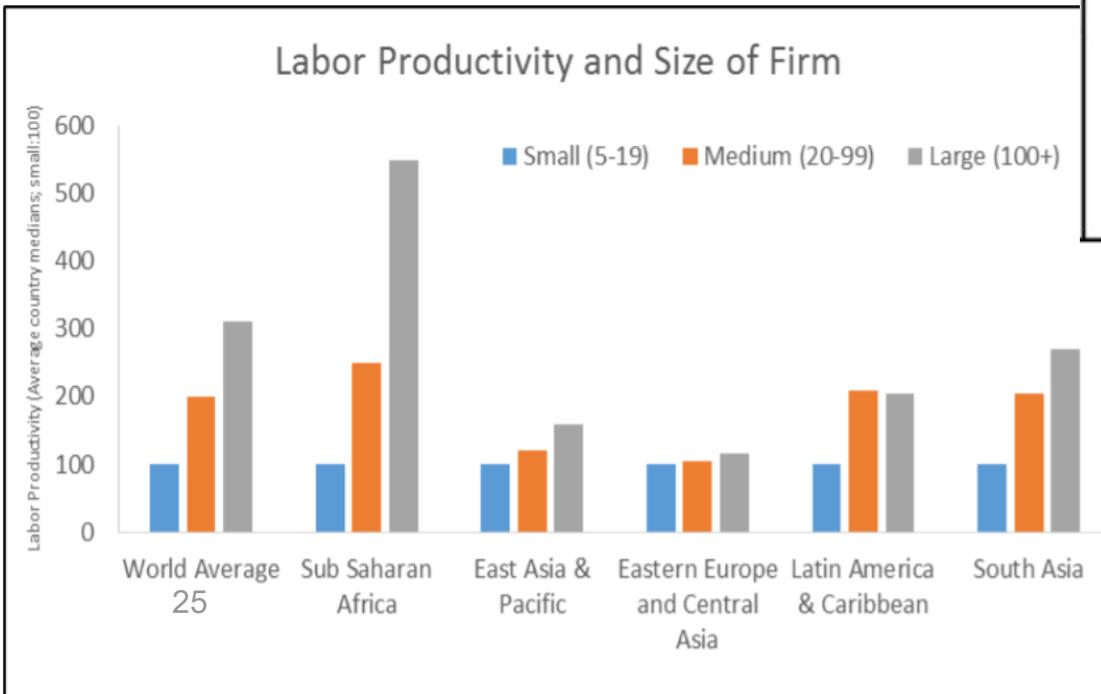
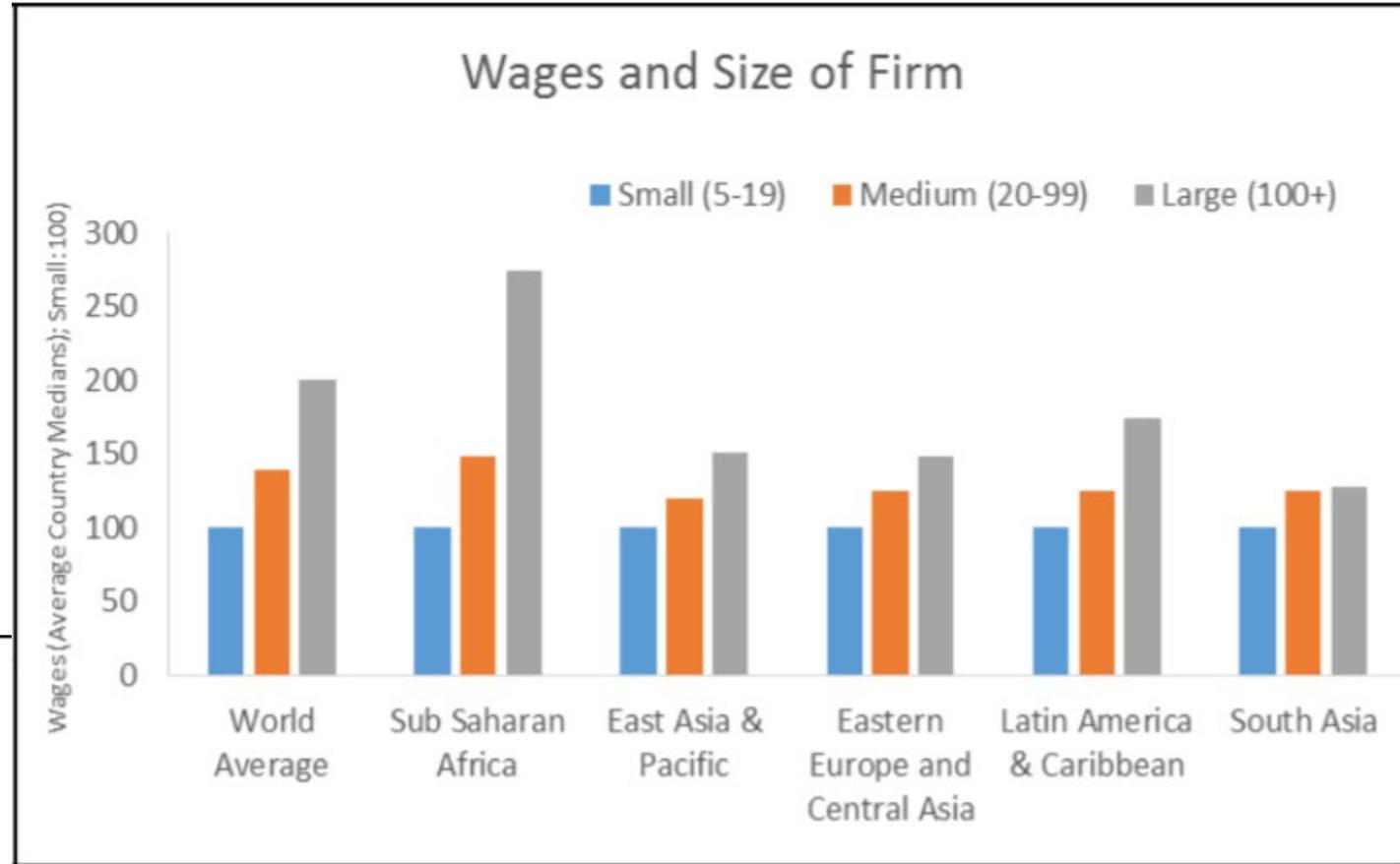


# MSME productivity

- MSEs have low rates of productivity
- A more granular division of MSEs suggest that under certain conditions, some of them can be innovative and more productive
- MSEs tend not to contribute to national competitiveness



# MSME wages



Source ILO 2015

# MSMEs in India

## LAND OF DWARFS\*

MSMEs in India are dominated by dwarfs — firms operating at suboptimal level — that never grow big and strong



**900,000-plus** MSMEs have shut down in the last 18 months due to demonetisation, GST and economic slowdown

Source: SME Chamber of India

### Indian MSMEs lag behind their global peers on productivity



\* Dwarfs are defined as firms established more than 10 years ago and employing under 100 workers. Young, large MSMEs firms are those under 10 years and employing 100-plus workers

Source: Economic Survey

# Are MSMEs getting people out of poverty

- MSEs represent a high part of employment share, in particular with the lowest income countries and population. They provide jobs, products and services to poor people
- MSE entry barriers are lower (education, skills, capital...) and they employ marginalised groups
- A more granular division of MSEs suggest that most are non-growing enterprises carrying survival activities
- Growing MSEs represent 1% of MSEs but 25% of new jobs in MSEs. Non-growing MSEs (the majority) are still a survival solution

# So why support MSMEs

- Supporting MSEs provide a stabilisation of low-income people
- However, supporting survival is counterproductive in the long-term. It fixates low productivity and growth, poor working conditions, no job security, low tax income...
- Support to MSEs should come with efforts towards formalization and improved productivity

# MSME Challenges

# MSME challenges

1. List the challenges that MSME face and rank by importance for the group.
2. Are the challenges the same for women entrepreneurs? If not, in what aspects?

# Internal / External challenges

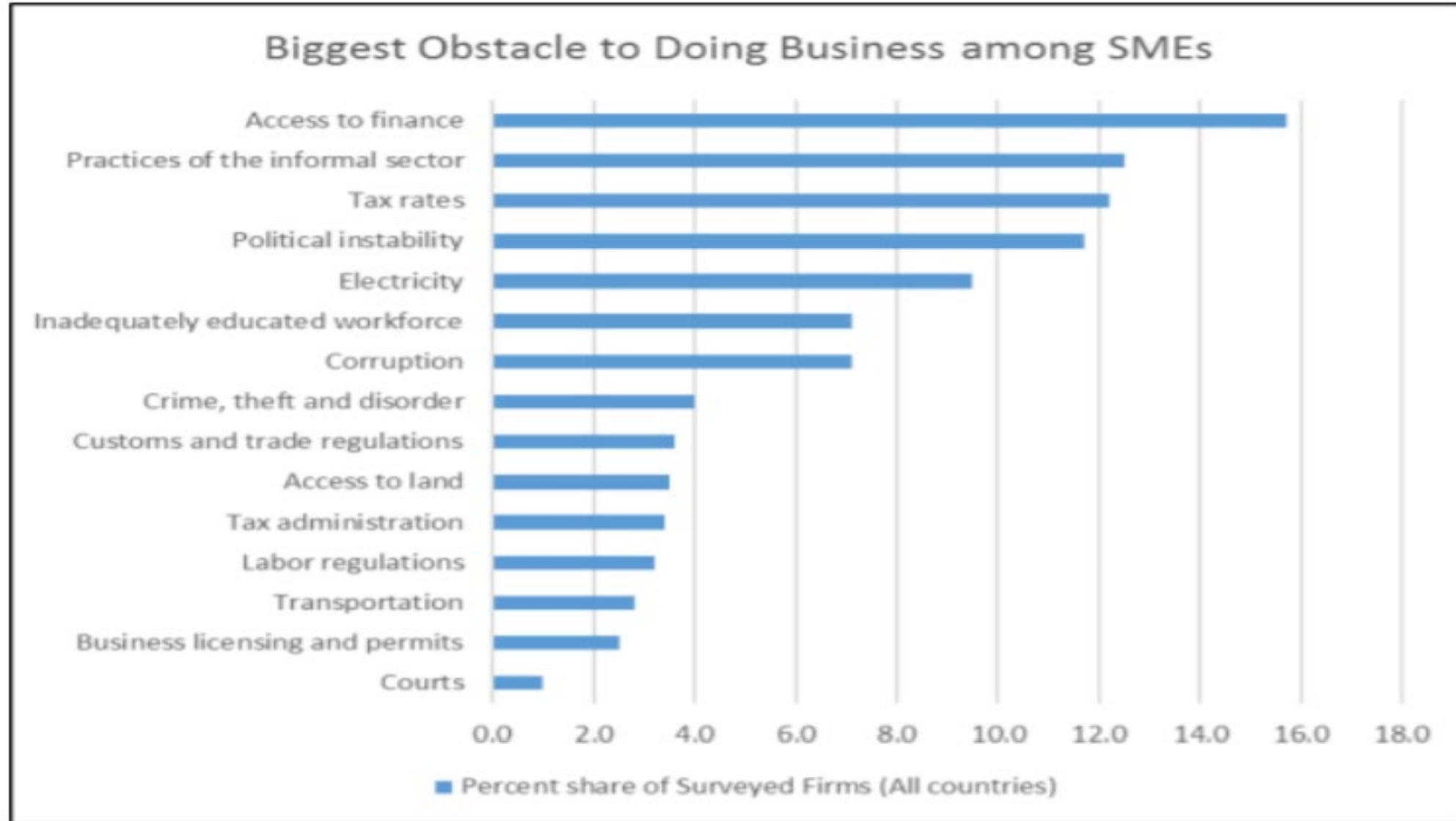
## MSME Competitiveness - Internal

- Lack of human resources
- Lack of managerial or technical know-how
- Lack of funds
- Lack of market information
- Lack of business linkages

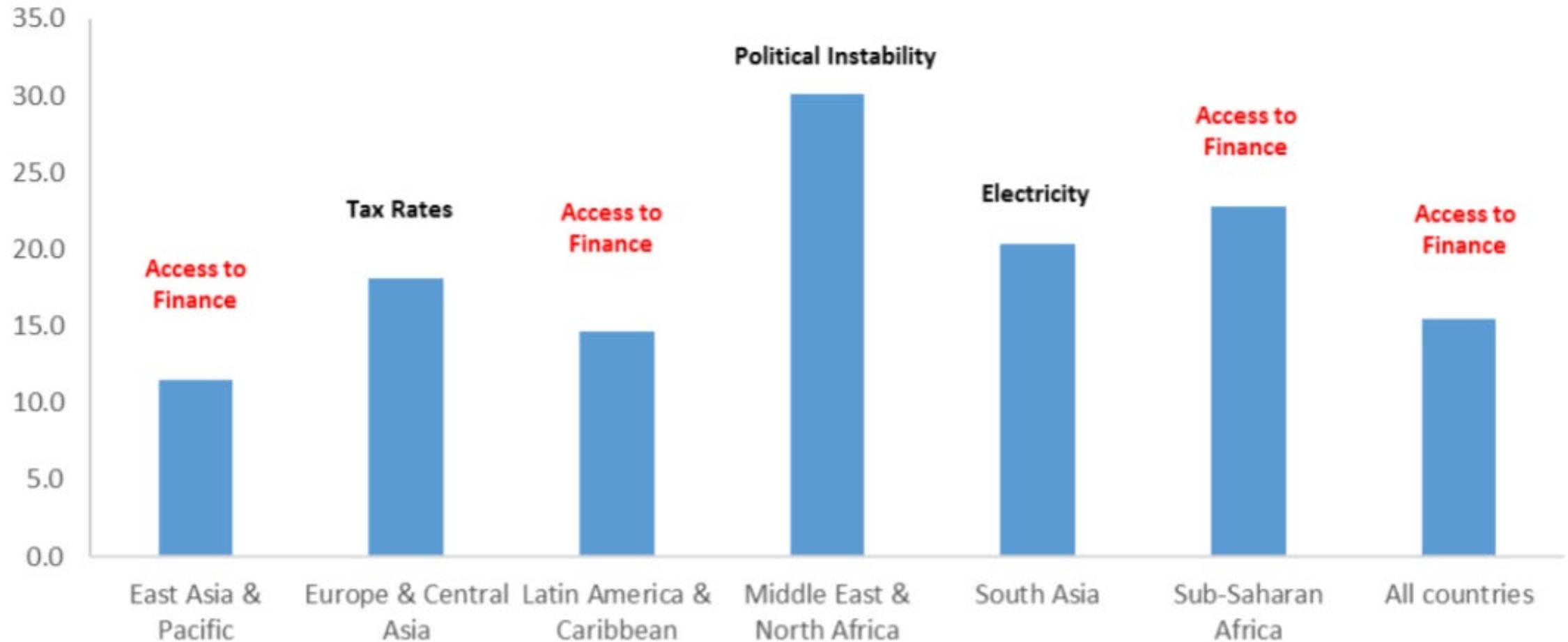
## Enabling Environment - External

- MSE promotion regulatory and policy framework often does not exist
- Funds supply and development of equity capital
- Development of intellectual property
- Development of trade and investment systems

# Biggest challenges overall



# Biggest challenge by region



# Women entrepreneur challenges

- Lack of power and access within markets and systems (e.g. negotiating power, decision making power)
- Low levels of asset ownership
- Limited mobility
- Literacy and financial literacy
- Even more challenges with financial inclusion
- Gender based violence and abuse
- Higher levels of informality



# Supporting MSMEs

## A systemic approach

### Market Systems Development

# What's different about MSD

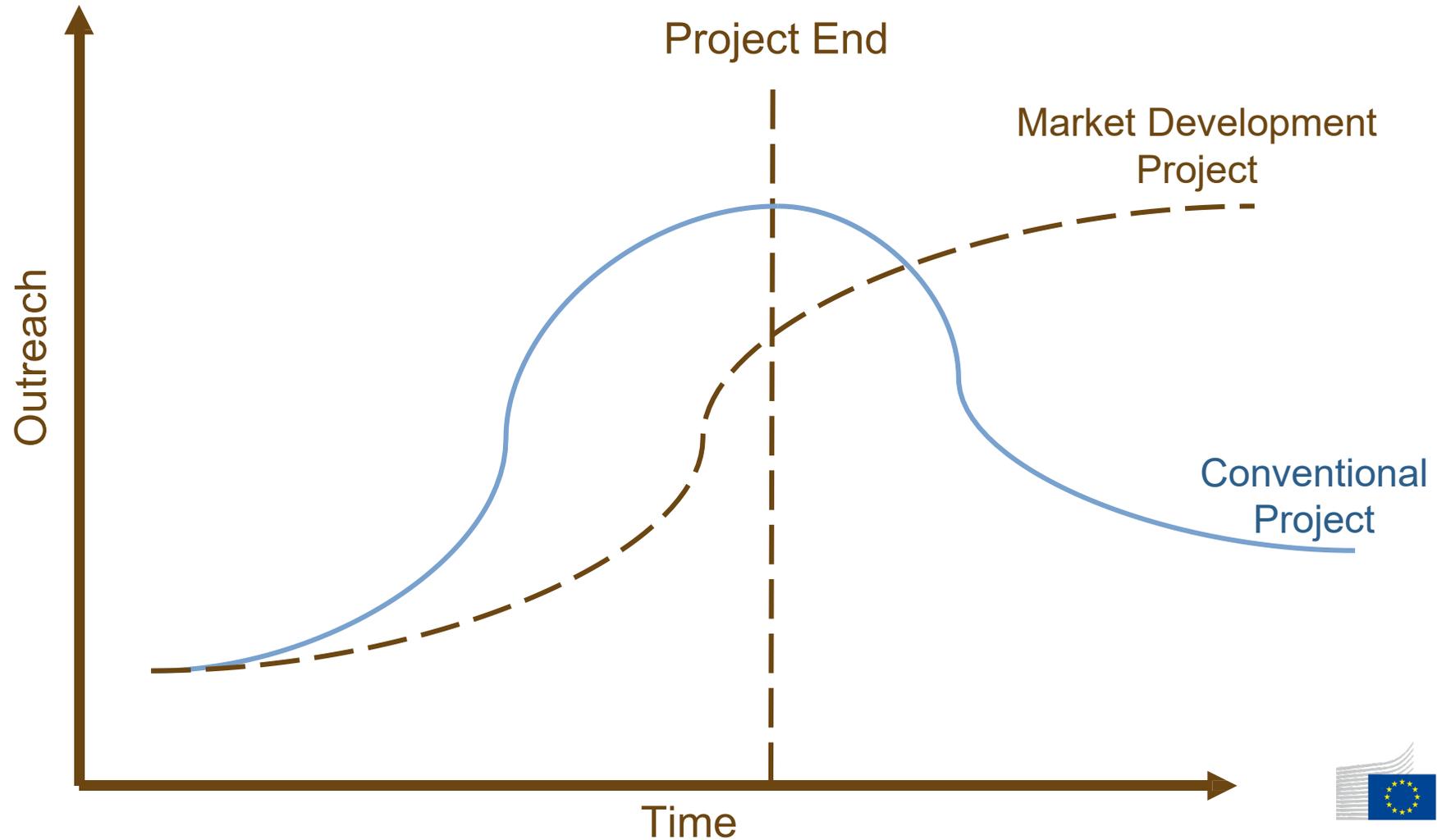
## *Conventional approach*

- What problems do people/businesses have?
- How can I help to solve these?

## *Market Development approach*

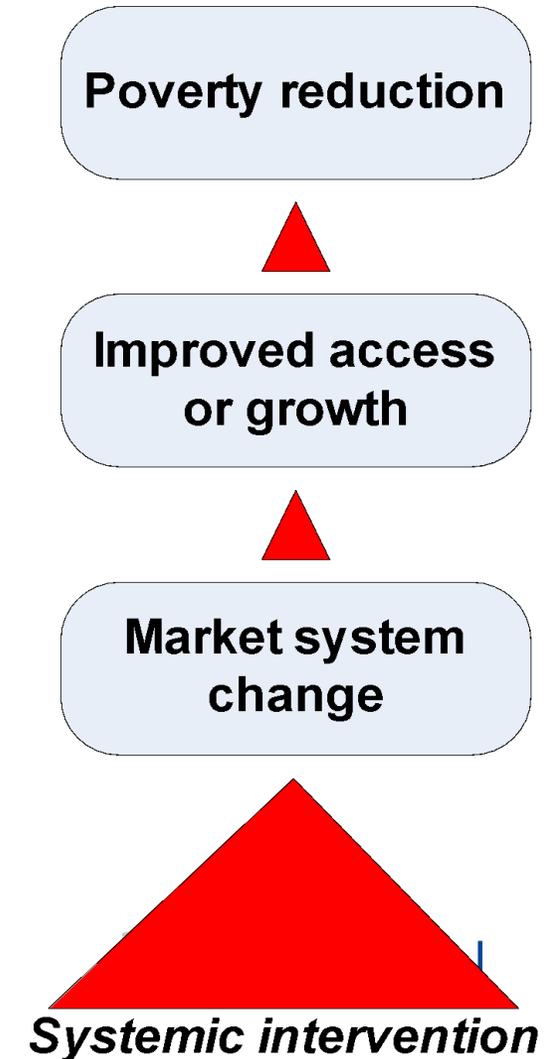
- What problems do people/businesses have?
- Why isn't their market environment providing solutions to these?
- Why isn't the market system working for the poor?

# Long term sustainability

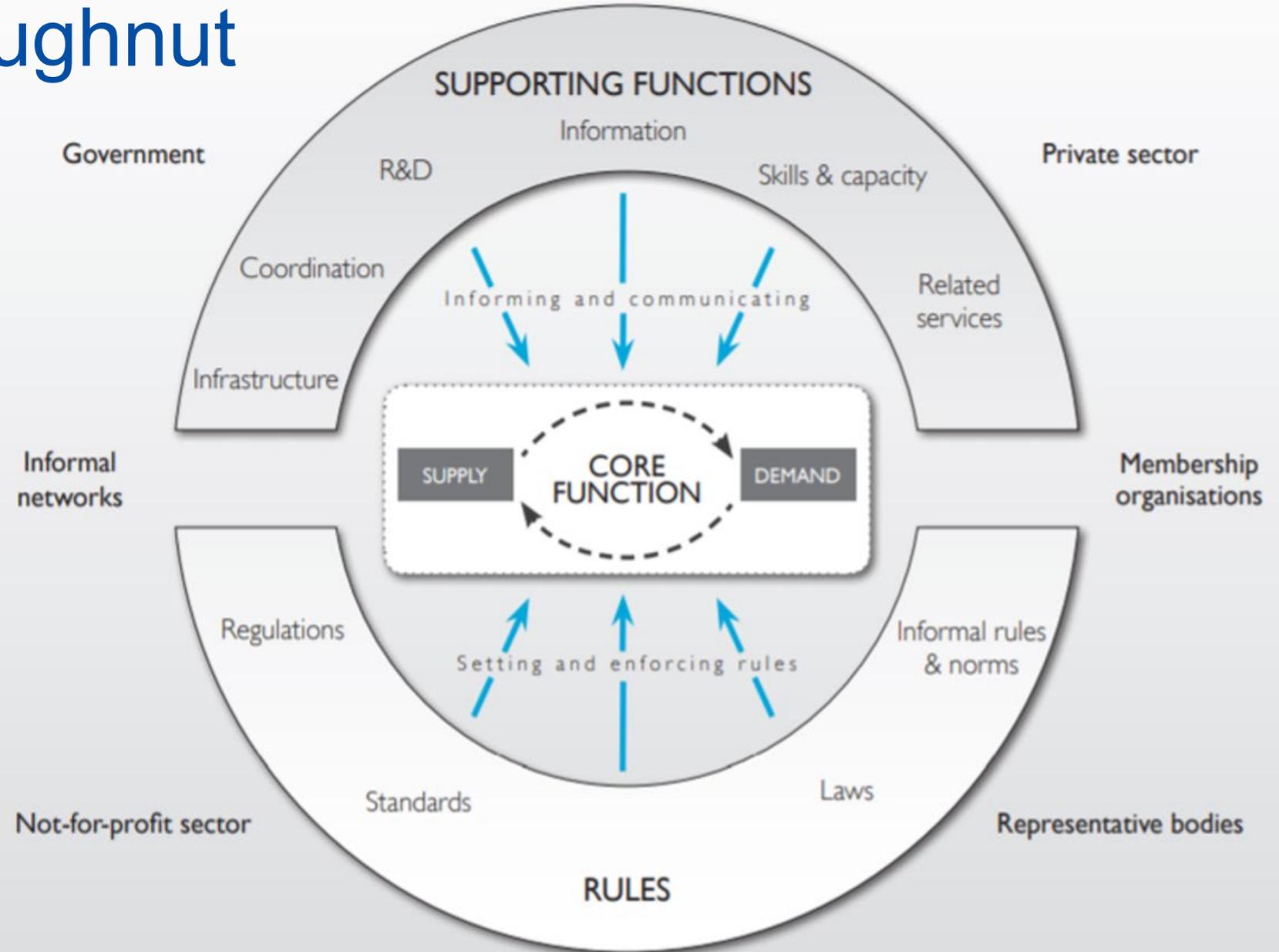


# Market development approach

- Inclusive growth is the best way to get people out of poverty and is the exit strategy for aid. Driven by private investment and productivity
- Strong focus on poor and microenterprises, which are dependent upon poorly functioning markets
- Expands understanding from individual to single company to systems. Individuals and businesses don't exist in isolation
- Introduces new development partners and more diverse intervention portfolio
- <sup>38</sup>“Good development” i.e. Sustained impact



# The MSD doughnut



# The fisherman

Give a person a fish, and you feed them for a day; show them how to fish, and you feed them for a lifetime



# Thinking systematically

Develop the market and make fishing sustainable



Equipment suppliers



Financial services



Boat repair services



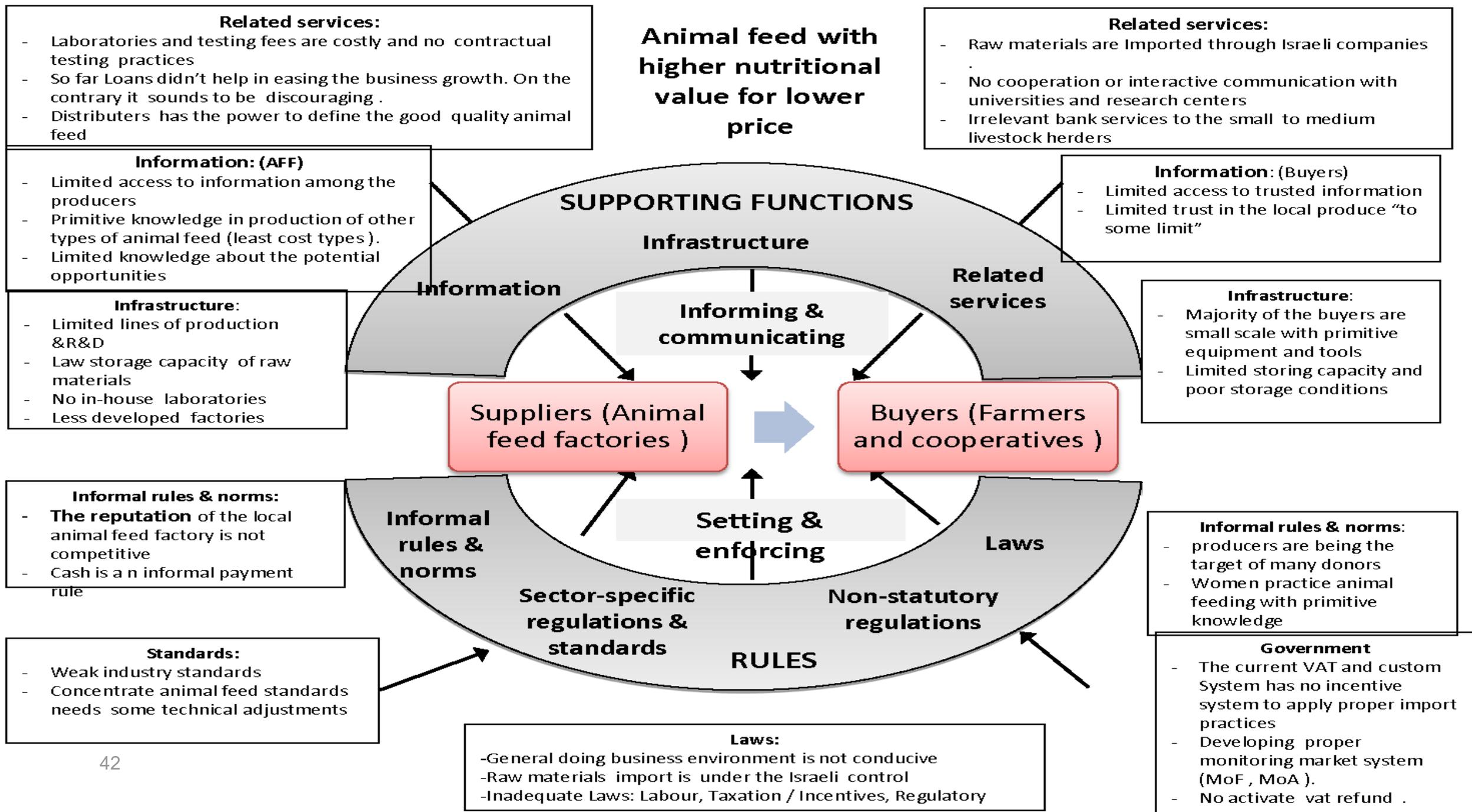
Retailers



Fishing quotas



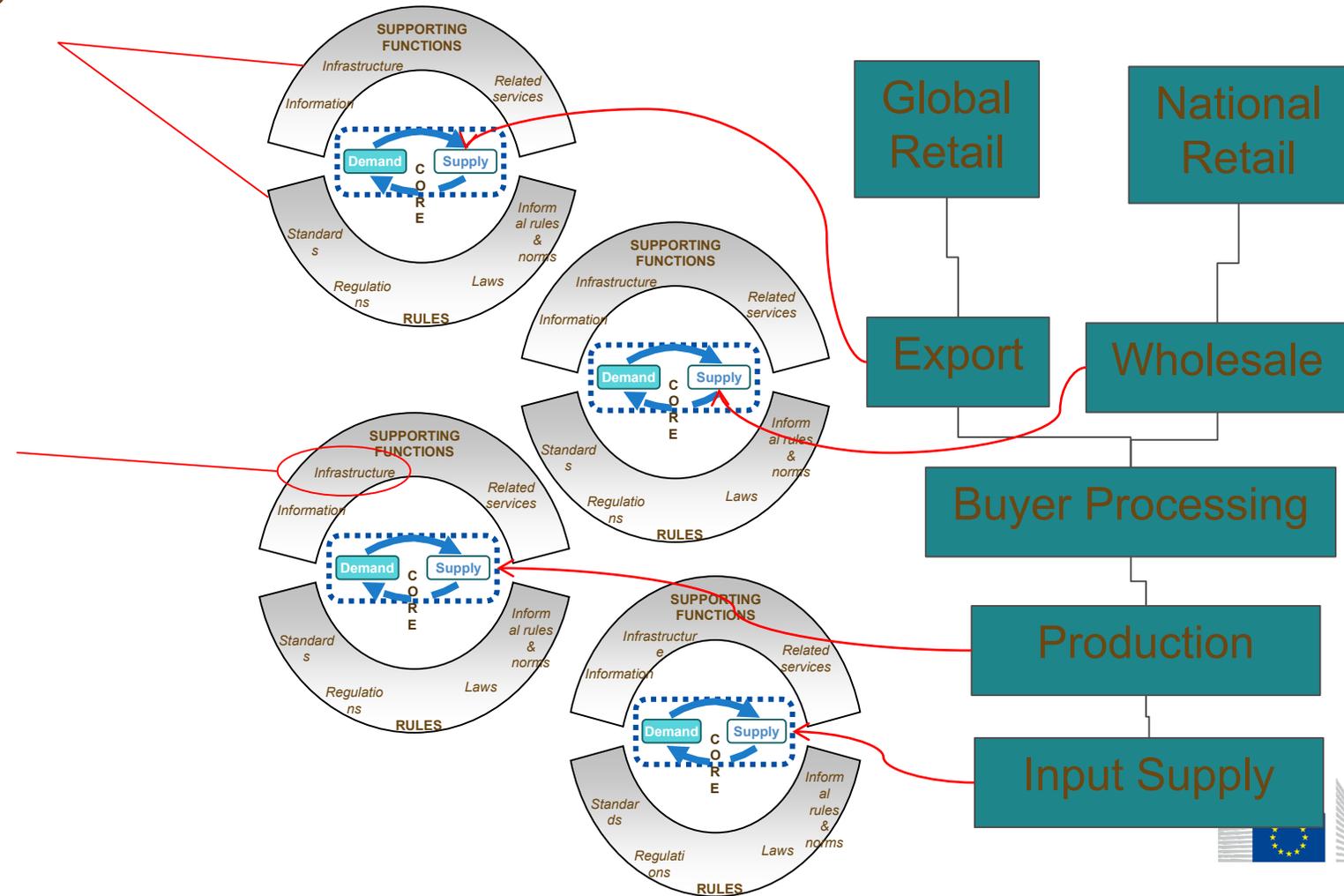
Processing & distribution



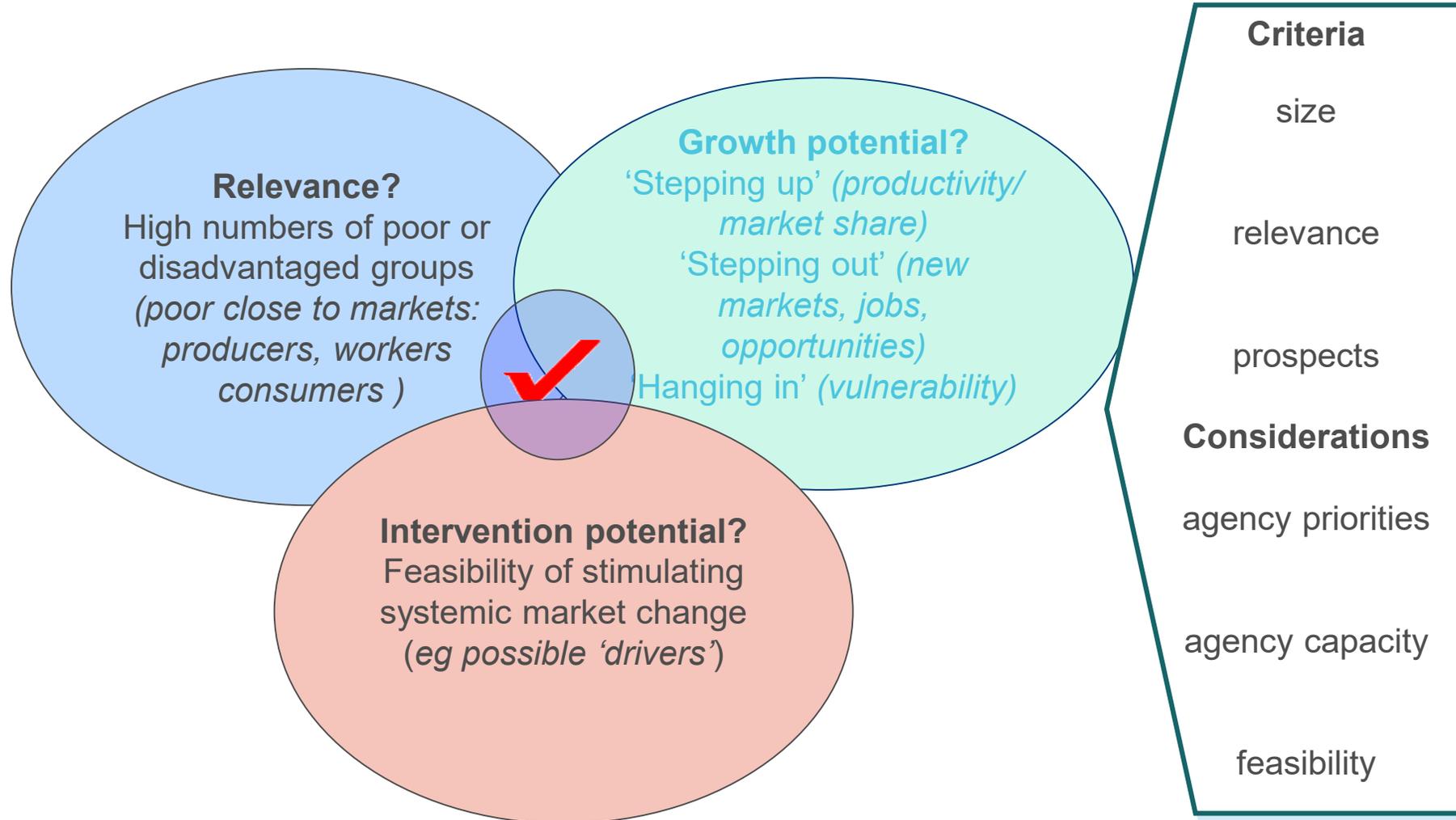
# Relation between Market Systems and VC

Supporting Functions and Rules at each stage

Each supporting function/rule has its own set of supporting functions and rules which dictate the terms of the transaction – we call this a supporting system



# Selection criteria



# Facilitate MSME growth with MS framework

- Principles
  - Holistic understanding of market players, rules and supporting functions
  - Catalytic, limited assistance
  - Time bound interventions
  - Iterative (allow for failure)
  - Indirect intervention (market should provide services and goods)
  - Sustainability (commercial and non-commercial incentives)
- Mechanisms
  - Technical assistance (in-kind)
  - Small grants for technical, business development, and capital investment
  - Finance and insurance product development (leasing, credit guarantee, impact investment, etc)
  - Policy reform

# Promotion of MSMEs in Morocco

- 2015 – 2018, executed by GIZ-Min. of Industry and Commerce, GFA
- **Context**
  - MSMEs: 98% of firms, 40% of GDP
  - High youth unemployment
  - Not achieving growth and inclusive employment potential
- **Interventions**
  - Support regulatory reform and standardisation
  - Setup nationwide training and advisory programme
  - Support Min. of Finance to create financial inclusion strategy, promotion of angel investment network, crowd funding, and financial training
- **Result**
  - Updated national MSME strategy and financial inclusion strategy
  - Introduction of business startup and management training
  - Nationwide network of 160 trainers supporting MSE development

# Aquaculture in the Niger Delta

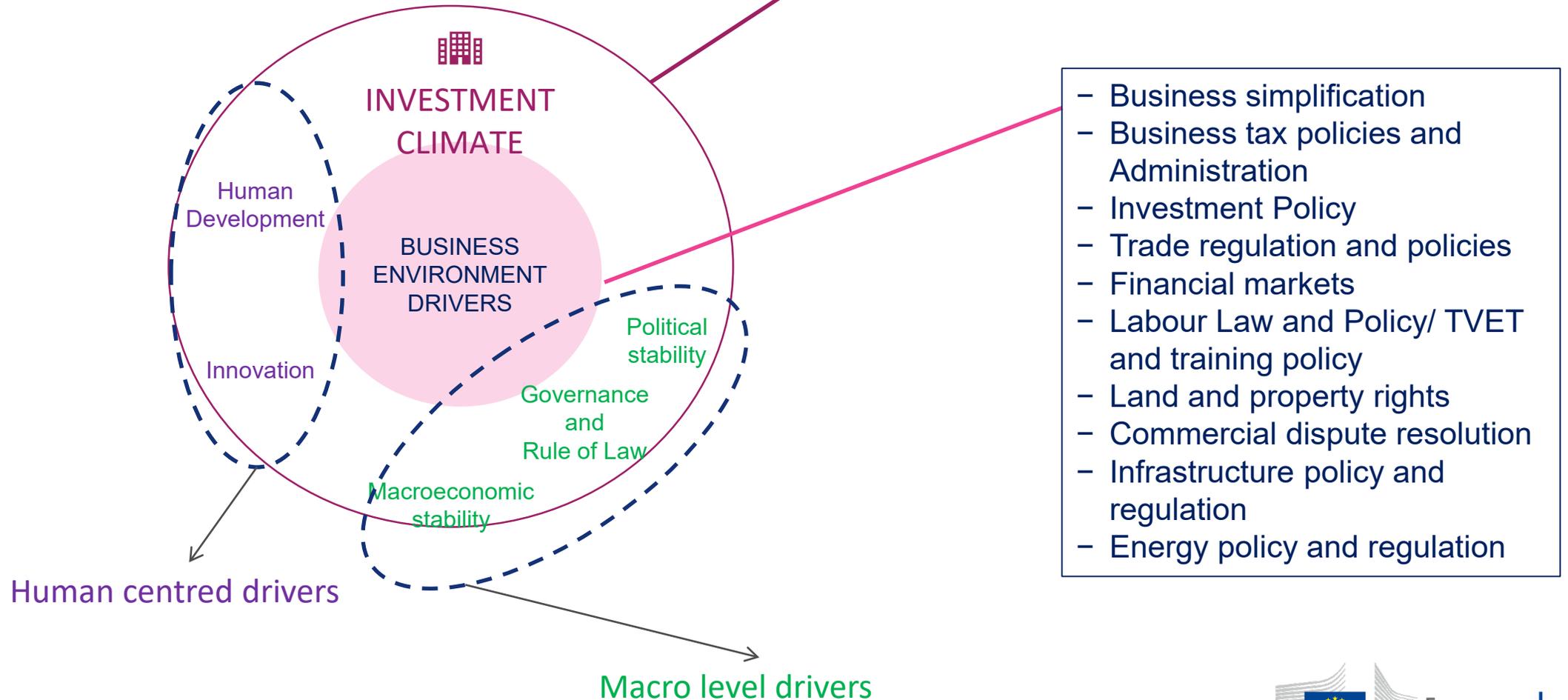
- **Partnership Initiatives in the Niger Delta**
  - EUR 50M Chevron-financed programme, 2012-2020, DAI implemented
- **Context**
  - Aquaculture is a key part of the agricultural economy of Niger Delta
  - Growing demand for catfish: 85,000MT(2007) >> 152,000MT (2009)
  - No. of small farmers has increased to more than 10,000
  - Increased number of hatcheries
  - However, low productivity, poor quality feed, lack of technical knowledge
- **Interventions**
  - Partner with local feed companies to improve targeting
  - Introduce commercial business and technical services
- **Result(s)**
  - <sup>47</sup> Small scale farmers have better quality, cheaper feed
  - Robust market for technical services driving increased productivity

# MSME targeted reforms

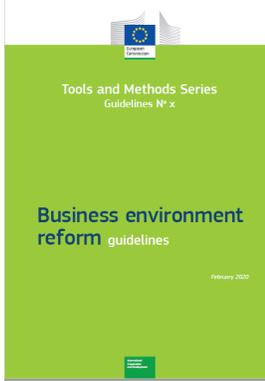
- IC and BER
- Formalisation
- Access to Finance

# Investment Climate Drivers

Wide range of location-specific factors determining whether domestic and foreign investments happen.



# BER Guidelines for MSME support



**Women's economic empowerment:** by removing the legal and regulatory barriers affecting a disproportionately high number of women-owned and managed enterprises found in the MSE sector;

**Encouraging formalisation.** Business environment reforms contribute to the formalisation of firms by creating the conditions in which informal firms find that formalisation offers more benefits than cost, along with the use of better enforcement mechanisms;

**Improving labour and labour-related legal and regulatory regimes** are used to address the job quality challenges faced by many of MSE workers;

**Promoting entrepreneurship.** These include support for entrepreneurship education, finance, innovation, and culture, and are mostly focused on entrepreneurial start-ups.

**Promote access to finance** through the development of the financial system

**Addressing the problem found in disadvantaged regions,** where poor people are more prevalent and MSEs more common (e.g., rural economies);

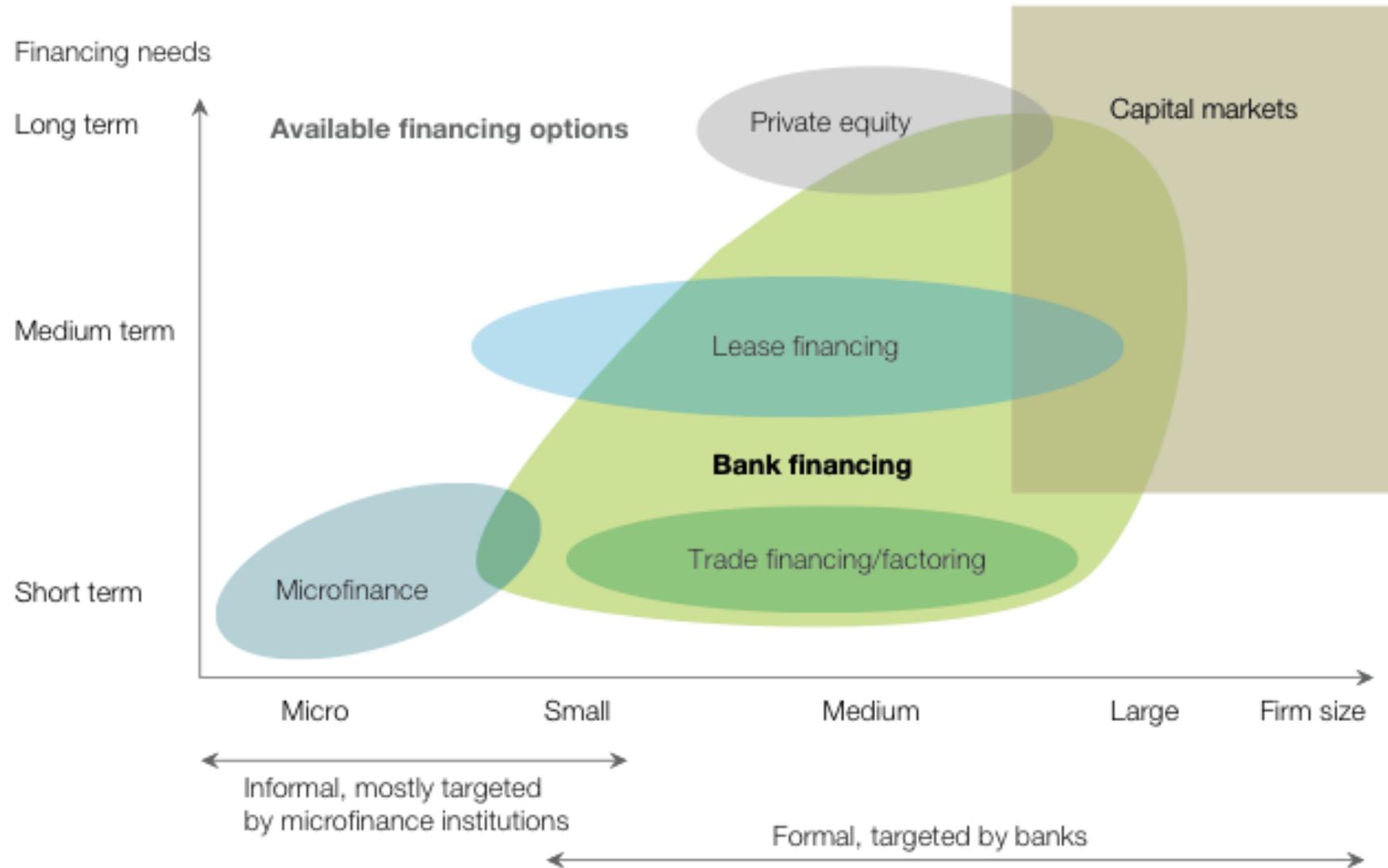
**Focusing on industries** in which poor people are more highly represented (e.g., agriculture).

**Supporting regular public-private dialogue** in which MSEs are better represented and more involved.

# Support the formalisation of MSMEs

Causes of informality	Strategies for formalisation
Low productivity and high costs of formalisation	Promoting productivity in MSEs <ul style="list-style-type: none"><li>- MSE development policies (access to markets, finance, technology)</li><li>- Association building, cluster development, local economic development</li></ul>
Complex procedures, inadequate regulation for the size and characteristics of MSEs	Revision/adaptation of regulations, procedures and norms <ul style="list-style-type: none"><li>- Simplification of administrative procedures</li><li>- Differential regulations</li></ul>
Informality as an attractive option: flexibility and independence	Incentives to formalise <ul style="list-style-type: none"><li>- Access to social security</li><li>- Access to public procurement</li><li>- Access to financial and business services</li></ul>
Limited inspection, state and social control	Enhancing the capacity to enforce compliance <ul style="list-style-type: none"><li>- Inspection with technical assistance</li><li>- Unique identification numbers</li><li>- Effective sanction systems</li><li>- Institutional coordination</li></ul>

# Access to Finance gap



# MSME challenges in Access to Finance

## Market Imperfections

- Risk-averse lenders
- Low-risk alternatives (e.g. treasury bills)
- Maturity mismatch preventing long term lending
- Low liquidity (in some markets)
- High cost of funds driving high lending rates
- Central bank policies restricting lending
- Lack of collateral registries
- Lack of experience lending to certain sectors



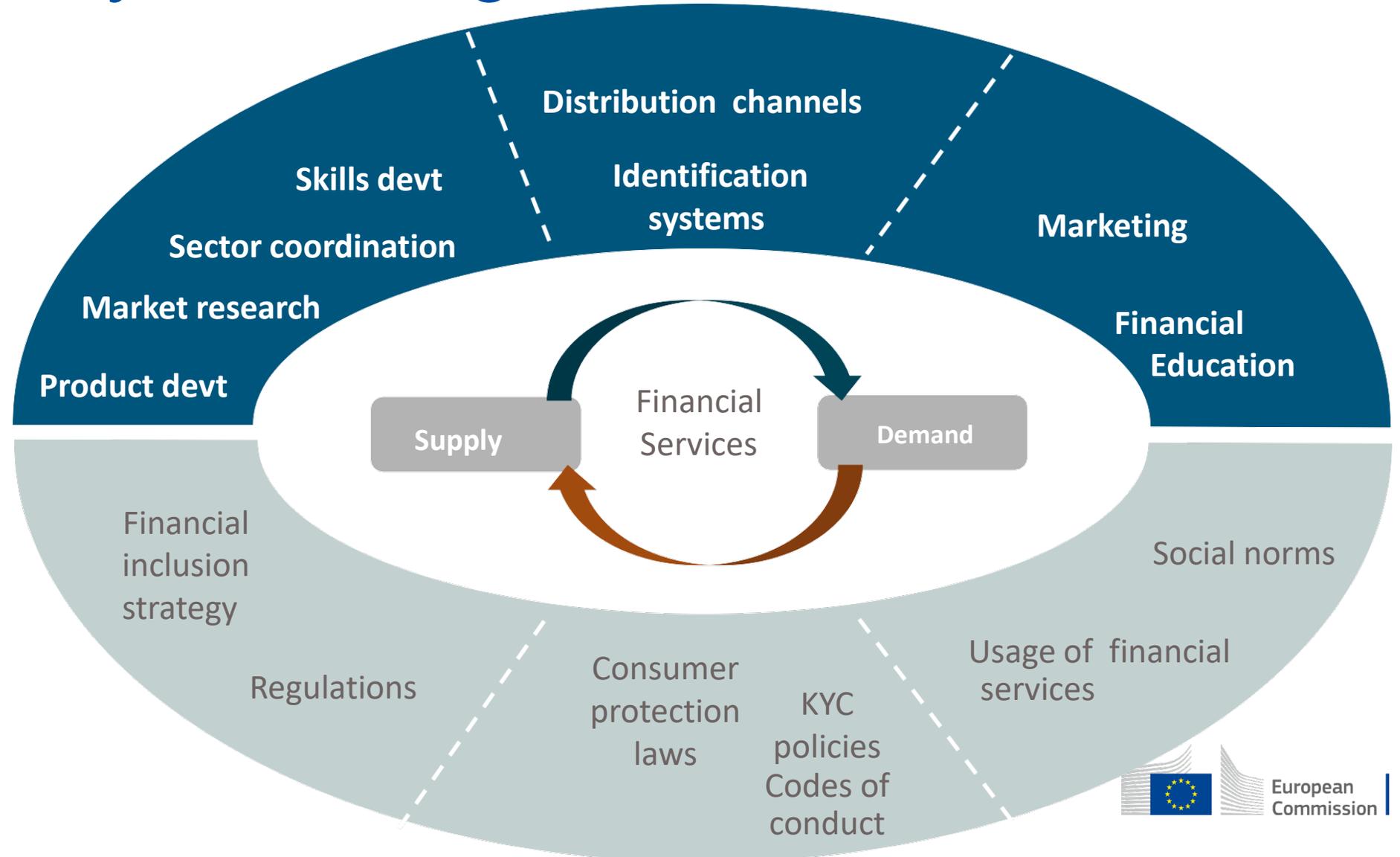
## Borrower Imperfections

- Poor / non-existent credit history
- Lack of acceptable collateral
- Limited access to financial institutions
- Minimal book keeping
- Informal corporate governance
- Social/cultural norms



**A lack of access to finance for enterprises  
restraining economic growth**

# Financial system doughnut



# EC support to financial systems

CGAP

SANAD MENA

MIFA Central Asia

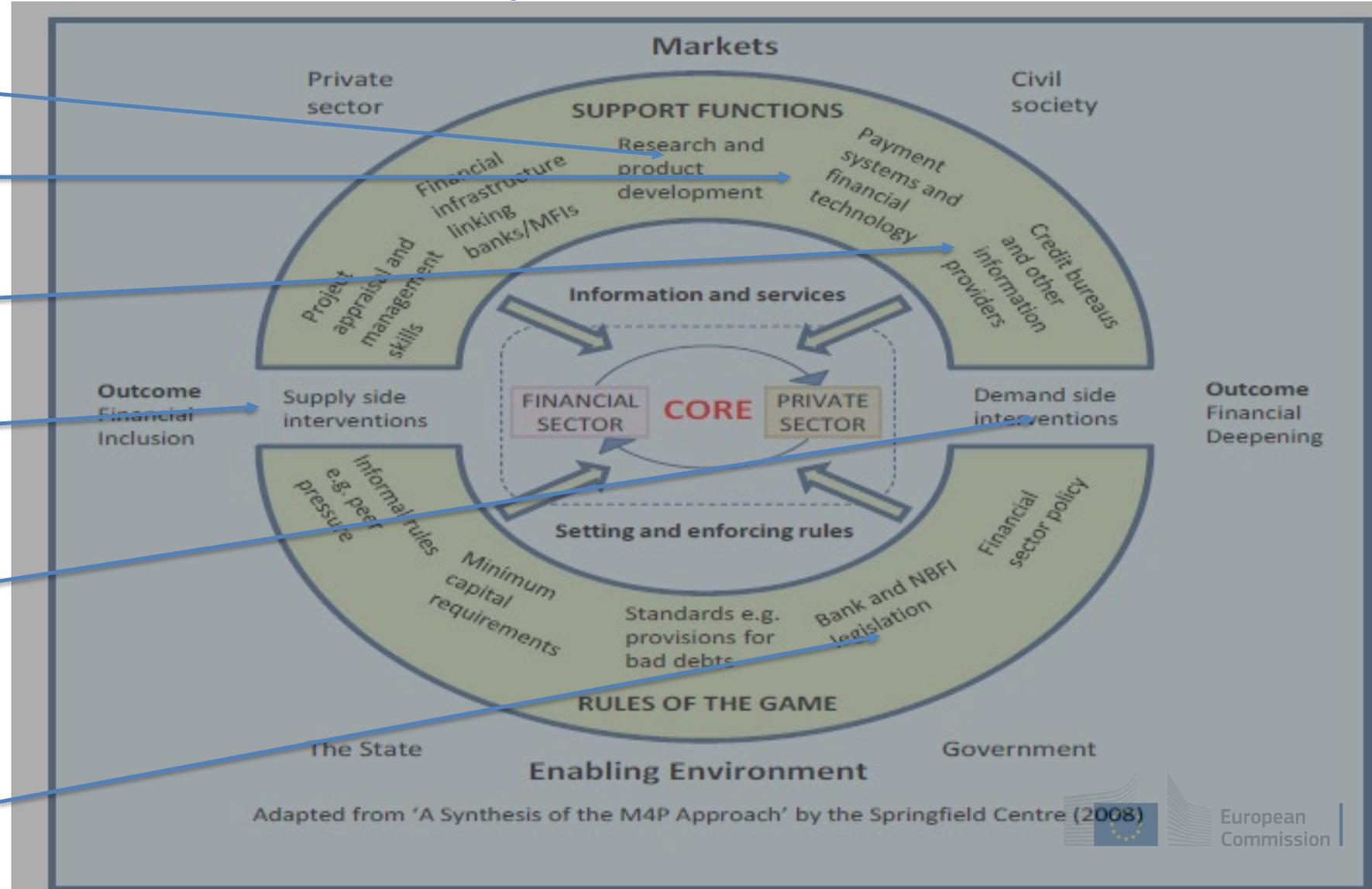
NASIRA

Jobs, Skills

Finance, Gambia

Moldova Regulation

Support



# Green growth and employment

- 1) Support clean technologies and innovative business models implemented by the Kenya Climate Innovation Centre (KCIC)
- 2) Private Sector Green Growth Programme implemented by Kenya Association of Manufacturers (KAM)
- 3) Improve the business climate for greener growth and sustainable development implemented by the Business Advocacy Fund (BAF)
- 4) Environmentally Sustainable Trade Growth in the East African Community implemented by TradeMark East Africa (TMEA)

Geography: Kenya



## Objectives of programmes:

- KCIC: advocate for policy and legal reforms to make climate related innovations commercially competitive e.g. support to policy reforms in the renewable energy sector allowed the introduction and use of ethanol as a source of renewable fuels in Kenyan markets whereas previously it was only used in the manufacture of alcohol.
- KAM: support development of policies, legislations and institutions supportive of private sector investments in renewable energy, energy and resource efficiency.
- BAF supports Business Membership Organisations (BMOs) to improve their chances of success when engaging government. As a result, BMOs have been remarkably successful in influencing policy reform and regulation.
- TMEA: Goal is trade facilitation by driving down the costs of doing business.
- 31 policies have been adopted (including but not limited to government legislation, business charters)
- TMEA has also developed a cross border trade strategy.



# Entrepreneurship and the EIP

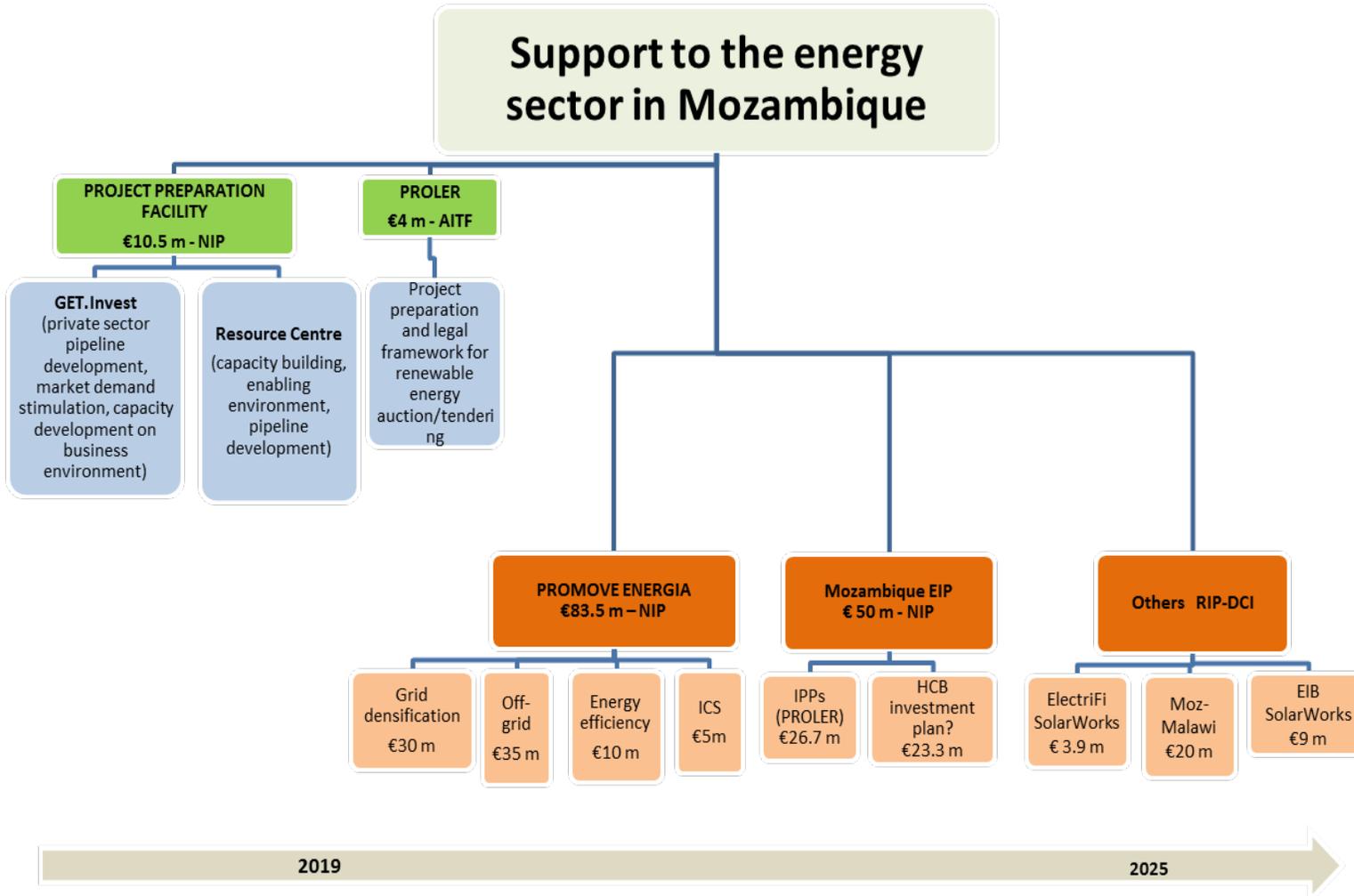
The lifeblood of any successful organization is a consistent flow of revenue to drive operations.

Entrepreneurs must often operate in an arena that provides little opportunity to secure required capital.

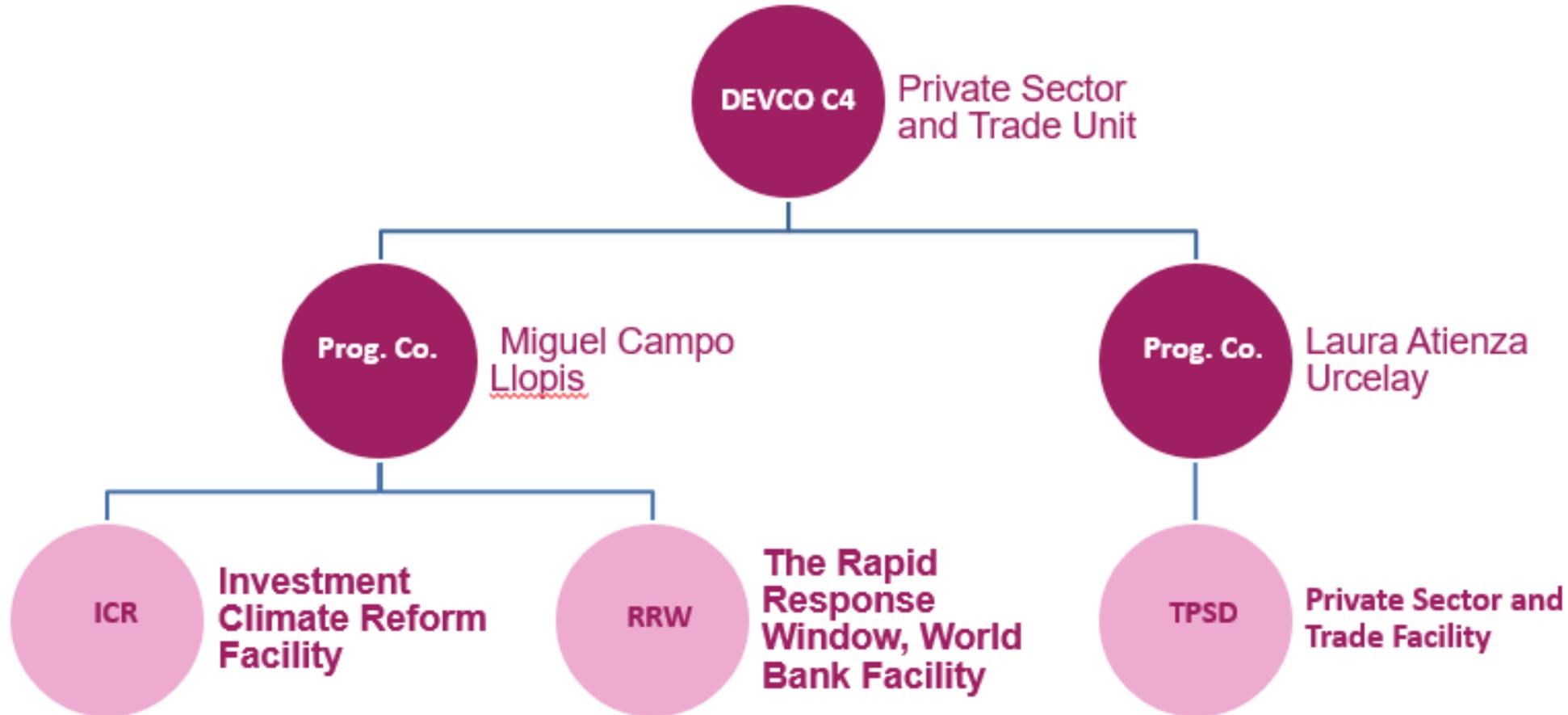
Energy programme in Mozambique linked investment operations to entrepreneurship programmes for off grid operations for private sector (demand stimulation, empowering local associations, market information, Business to Business match-making);

Project preparation and enabling environment

Direct Investment



# DEVCO C4 TA



# Q&A