

HOW CAN

Small Businesses

BE RESCUED IN THEIR EARLY YEARS ?

IN CÔTE D'IVOIRE

HIGHLIGHTS
OF THE STUDY



Dettes
intérieures

Manque de
compétence

Pression
fiscale

Corruption

Fournisseurs
Clients

HOW CAN

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REPORT MAY 2021

Highlights of the study

The survival of start-ups is a key issue in a country where the poverty rate is around 46%; where the informal sector occupies the bulk of the economy; and where youth are desperately seeking public jobs, in search of illusory security. In such a context, the private sector being the strongest vector for sound development, enterprise creation is crucial for the economy. While the government has made huge efforts to promote enterprise creation, addressing enterprise survival is now a new and fundamental step to consolidate the system. The issue becomes even more important in the current global health crisis related to COVID 19, which is having a major impact on the economic fabric of countries, particularly the poorest ones. Resilience will then rely more than ever on a private sector capable of generating income.

The study makes it possible to better identify the difficulties encountered by young SMEs and startups in Côte d'Ivoire, to make proposals to the authorities on ways to improve the business environment in Côte d'Ivoire and for young entrepreneurs to have a better understanding of the cultural assets and burdens in order to adjust their behaviour and the way they conceive their entrepreneurial project.

This study aims to provide contextualised and targeted recommendations to support small businesses in their early years based on updated information on the Ivorian entrepreneurial ecosystem and the main challenges faced by small and medium-sized enterprises (SMEs) in their early years. We attempt to answer this crucial question: How can small businesses be rescued in their early years?

Summary



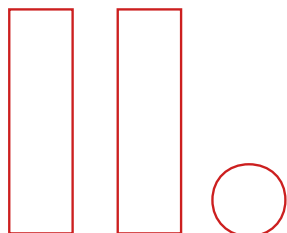
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OUR MAIN RECOMMENDATIONS FOR RESCUING SMALL BUSINESSES IN THEIR EARLY YEARS



1.

HIGHLIGHTS OF THE STUDY

What are the real problems of start-up entrepreneurs ?

How can small businesses be rescued in their early years?



Highlights of the study

■ What are the real problems of start-up entrepreneurs?

1. What is the weight of the internal environment ?

The problems of the entrepreneur's internal environment are mainly of two (2) kinds:

1.1. What are the impacts of the problems related to training and skills ?

Our results show numerous constraints related to the entrepreneur's knowledge and management skills. These are mainly :

- **Lack of skills in talent management** is one of the most cited difficulties by entrepreneurs. This is a major problem in the day-to-day management of their business.
- **Lack of knowledge in financial management:** like lack of knowledge in team management. This is a constraint that very often justifies the inability of a business to find financing, as these companies lack a financial basis and transparency in the management of their resources.
- **Poorly conceived marketing and sales policy:** pricing, targeting, determining margins, defining supplier and customer payment deadlines are all issues that can very quickly become limits to the sustainability of the business if the project leader does not have basic knowledge on these subjects.



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- **Lack of company structure:** this is a problem encountered in most small entities. At this level, companies do not have tools for planning, execution and control of tasks. Each member of the team tries to contribute as much as possible and the project owner is the 'jack of all trades',



to the point where the business has difficulty functioning in my absence

- **The choice of partners,** there are recurrent cases of dissolution of the business due to diverging visions of the partners and their incompatibility on several subjects. Thus, the lack of projection coupled with a lack of objectivity in the choice of partners can also be a hindrance to the development of the SME.
- **Lack of knowledge of the chosen sector of activity:** this is often linked to the entrepreneur's objectives and vision. Indeed, it is the lack of mastery of the sector that often prevents the entrepreneur from envisaging the development of his / her business and from taking advantage of economies of scale.
- **Lack of support in business management:** Many start-up entrepreneurs have identified business management in all its forms as one of the major difficulties they face. However, very few of them consider capacity building or support from management consultancy structures. This is what an entrepreneur meant when he said:

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We need to make our young brothers understand that you can have an exceptional idea and not be the right person or not have the qualities to develop it. Managing and developing a business may require abilities and skills that are not available to everyone. But you have to understand this and accept to be accompanied .

1.2. What are the impacts of problems related to the culture of entrepreneurship and innovation?

Ivorians are relatively disinterested in entrepreneurship, for historical reasons such as the success achieved in the production and export of cash crops for many years, the exponential development of the public sector and the profligacy it showed towards its staff. Thus, in the minds of many Ivorians, the status of civil servant had become an ideal that swept away aspirations for entrepreneurship for many years.

However, our analysis of the current environment and our meetings with the various supervisory structures show that the culture of entrepreneurship has generally improved over the last decade. It should be noted, however, that this improvement is not uniform. Apart from a few ethnic groups, the so-called merchant peoples, for whom the entrepreneurial culture is built up in the family, the entrepreneurial culture of the vast majority of respondents comes from their personal knowledge or from theoretical training for the luckiest ones.

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2. What is the weight of the external environment?

Beyond the difficulties that start-up entrepreneurs may encounter on a personal level, the constraints and obstacles vis-à-vis the environment constitute the most important barriers to their survival.

2.1. What are the obstacles related to the state and its administrations ?

The tax burden in Côte d'Ivoire will be 12.5% in 2020 according to the General Tax Directorate, a drop of 4% compared to 2019. This rate is below the community standard set by the West African Economic and Monetary Union (WAEMU), which is 20%. In addition to this drop in tax pressure, the adoption of a new tax annex reforming the taxation of SMEs is noteworthy. However, it would seem that trust between start-up entrepreneurs and other informal actors and the administration as a whole has been broken.

Our surveys show that there is a real mistrust between these different actors because the state's efforts seem to be directed towards widening the tax base rather than supervising or supporting the growth process of young enterprises. Below are the main difficulties encountered by entrepreneurs with the State and its branches:

**The burden of taxation, parafiscal charges and formalities**

The tax burden is considered too high by start-up entrepreneurs and is seen as one of the major constraints to their development.

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On the one hand, the taxation of start-up entrepreneurs as currently defined does not encourage the sustainability or growth of SMEs; on the contrary, it stifles them and keeps them in the informal sector. Indeed, there is no official mechanism of general exemption for start-up entrepreneurs in Côte d'Ivoire, who quickly find themselves submerged by tax, parafiscal and other service charges, because :

” *as soon as you create a business and put up a sign, they come* as one entrepreneur told us.

This situation, combined with the lack of transparency in the collection of obligations, makes entrepreneurs vulnerable to agents and some of them are forced to return to the informal sector. This is the case of one of them who said :

” *I stopped and went back to the informal sector and since then I have been working without any tax pressure.*

On the other hand, the slowness and poor quality of services in the administrations constitute the argument for the refusal of some actors to move to the formal economy. In some sectors of activity such as tourism and the hotel industry, the weight of fees, regulations and cumbersome formalities are not in favour of SMEs and start-up entrepreneurs and constitute a hindrance to their development. This is what this entrepreneur highlighted in these terms :

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3 years ago, it was said that Côte d'Ivoire was one of the best countries for business, you could set up a company in 24 hours, but now, everyone is unanimous on the fact that people are slow at CEPICI and in the ministries to make a simple appointment, they will tell you in 2 months and that's when you are a bit lucky.

This situation can lead to corruption in some cases, as another respondent stated :

Always the same things, they make you wait for long and it is not even obvious that your problem will be resolved. If you are in a hurry, you have to slip something in so that they can take care of you.

Lack of transparency in contributions and the weight of corruption

Côte d'Ivoire ranks 104th out of 180 economies in Transparency International's Corruption Perceptions Index with a score of 36/100. The figures for Côte d'Ivoire clearly show an increase in corruption in the administration. Thus, crooked agents take advantage of this situation, often coupled with the ignorance of entrepreneurs, to extract sums of money from them, most of which will not be returned to the state coffers. For example,

In Cocody Commune, for a woroworo to start its activity, you have to pay 150,000, but when you have the receipt, you see small sums of 32,500, One respondent said.

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Corruption is therefore a serious impediment to the entire Ivorian economy and is a major obstacle to the survival of young businesses.

Lack of communication and unavailability of information

Our respondents also highlighted anomalies in communication and access to good information.

Indeed, the two major points below stand out :

The lack of communication about the administration's offers and services for entrepreneurs. There is no government website or agency that can give the benefits that the state provides to start-up SMEs. On the contrary,

” *the encouragement of formal business creation is only oriented towards the enlargement of the tax base*

, a business leader we met in the interior of the country highlighted.

The lack of communication on the fiscal and parafiscal obligations of SMEs: it is important that this information be available and accessible to all in order to avoid any kind of interpretation and to prevent entrepreneurs from making choices based on erroneous information.

Incoherence of the SME promotion policy in Côte d'Ivoire

In 2014, an orientation law was adopted by Parliament to strengthen the legal framework for SMEs. This law preceded the Phoenix programme designed for the development of SMEs over the period 2015-2020. This programme was endowed with an amount of approximately CFA F 96 billion. However, given the current situation of the ecosystem, one wonders if SMEs have really benefited from these actions.

There are many inconsistencies in the state's SME promotion strategy:

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Irregularities in the payment of domestic debt, the debt owed to SMEs and other local businesses. Indeed, almost all the terms of reference of state contracts mention payment within 90 days of the end of the month. However, it is not uncommon to find that there are many young companies with public debt stocks of over 360 days.

That is what this entrepreneur pointed out :

” *I have not been paid for two years despite the fact that I have made deliveries. Normally they say the state pays after 90 days but it takes years.*

This, the effective payment of domestic debt is far from ordinary and is unfortunately a matter of exceptional measures.

The second point concerns the lack of clarity in the SME promotion strategy due to the unavailability of up-to-date exhaustive data on Ivorian SMEs, and a lack of monitoring and evaluation of the real impact of the various support programmes initiated by the state. It is difficult to define a global strategy to overcome a problem that is not known. It should also be pointed out that the high number of public actors involved in the ecosystem and the lack of coordination between them attenuate the action of the State and create confusion in the minds of entrepreneurs. The result is deplorable, after all the efforts made: companies suffer from a lack of coherent and consistent support from the State. It is certainly this observation that led to the creation of the Côte d'Ivoire PME agency, however its actions remain very concentrated in Abidjan and only reach a handful of entrepreneurs.

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The last point concerns the absence of a module on building entrepreneurial culture in the Ivorian education system. Indeed, entrepreneurship is not taught at any level of students' education. As a result, we have many entrepreneurs in the ecosystem without any entrepreneurial culture or managerial skills to run a business.

**Lack of contextualisation of entrepreneurial solutions:**

Entrepreneurs also deplore the implementation of many programmes not adapted to the Ivorian context and focused on theory. The state carries out many actions but without contextualisation and adaptation of measures to local realities these actions will always be without convincing results, unless the agencies deploy them just to "tick boxes". For example, the lack of practice in state programmes is highlighted by this entrepreneur who confided to us:

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I did a training course in digital marketing communication with one of the state agencies and it was a bad experience because it was only theory... The training course, which should have lasted two weeks, was stopped after one week without completing the programme.

However, transport allowances were paid and training certificates were distributed. This situation clearly shows that the state's actions suffer from monitoring and evaluation.



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2.2. Do start-ups have access to public markets ?

There are two main reasons why young and small enterprises find it difficult to access public contracts :

First, there is the unfair competition from large national and foreign companies. Indeed, SMEs and young companies are less equipped than large ones to manage large-scale projects. Public contracts are therefore naturally awarded to multinationals. This is why a business leader told us that

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we need to segment the market in order to give small businesses more of a chance

It is therefore to overcome this irregularity that the Ivorian state decided to award at least 30% of public contracts to SMEs, however, at the end of 2020, the share of SMEs in public contracts was largely below this objective. And even if they have access to public contracts, they are unfortunately victims of the non-payment of domestic debt by the state - they cannot count on being paid within the stipulated timeframe (90 days maximum) - which is decisive for financing their operations and expansion, as mentioned above.

On the other hand, with regard to **the conditions of award**, the lack of transparency in the award of public contracts and culpable complacency should be highlighted. Indeed, it emerged from our interviews that there are still conflicts of interest between the organisers of calls for tender for public contracts and the companies that win them, which is what is known as crony capitalism. According to one of our interlocutors, this is even at the root of certain bankruptcies, :

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” *as many companies are created just to respond to calls for tender because they are close to the authorities and when these close relations leave their posts, these companies, which can be described as fictitious companies, are forced to close down.*

Our respondents also identified non-payment of clients and the difficulty of working with some suppliers and external service providers as a barrier in the environment that should be considered by young enterprises. Indeed, this point may be linked to the lack of managerial skills and resources, as the absence or non-compliance with customer or supplier payment deadlines and contract terms can lead to significant strains on the company's cash flow and cause it to fail.

2.3. How does the start-up entrepreneur deal with the problem of finance ?

Access to finance is at the top of the list when entrepreneurs are asked about the difficulties they encounter. Indeed, access to credit is one of the major problems in the Ivorian entrepreneurial ecosystem. According to the respondents, this is reflected in the following four points :

- ➔ Inadequacy of financial products for the actors in the environment, the conditions and requirements of classic financial structures remain out of reach for many entrepreneurs. Due to their small size, the lack of clarity in their accounts and the irregularity of their income, many SMEs are forced to operate without ever resorting to external financing.


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- ➔ Alternative institutions such as microcredit and the like provide much more credit, but are criticised for having short repayment periods and high interest rates.
- ➔ The current state financial support system is not adequate, as it stifles entrepreneurs instead of helping them. This is the case of this entrepreneur who benefited from a loan at a rate of 10% repayable the following month thanks to a partnership between the youth employment agency and the Union Nationale des Coopératives d'Epargne et de Crédit de Côte d'Ivoire (UNACOOPEC-CI) which is a mutualist microfinance institution.
- ➔ For a start-up entrepreneur, such conditions are unbearable because, he finally thinks, "I work more to repay their loan than to develop my business".

2.4. What are the other obstacles to the survival of small businesses in Côte d'Ivoire ?


In addition to the points already mentioned above, we can add the following constraints :


-  **Difficulty in finding qualified and motivated personnel :** It is well known that it is almost impossible for a new SME to recruit employees with experience or masters from the best schools, due to a lack of financial resources. Unfortunately, they are forced to turn to less qualified and inexperienced staff. Given the importance and impact that qualified and motivated staff can have in the development of a business, it is clear that this factor can be a hindrance to the development of an SME.




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 **Lack of sufficiently strong employer or federal organisations** that are accepted by a large number of entrepreneurs is also a problem. Moreover, entrepreneurs feel a certain reticence about the management and capacity of these umbrella organisations to find real solutions to their problems, even though some recognise that it is important to belong to a federation because of the opportunities for sharing experiences and the technical support they can receive. However, the lack of communication, transparency and visibility on the actions of these federations dissuades most of them from getting involved. In this respect, one SME manager stated "I don't really see what they do to help small businesses emerge." This situation, coupled with the proliferation of associations or groups with diverse and multiple objectives, weakens their actions and leads to a lack of consultation and synergy with the authorities.

 **Lack of practice in the training of support actors** : today there are many training and coaching centres, but these courses are very often exclusively theoretical, whereas they should be coupled with support and practical application in their businesses.

 **Poor perception and use of the Business Plan (BP)**, in fact the BP is a tool for steering the company in which the vision, the main objectives and the ways and means of achieving these objectives are defined. It is an important and very useful document when it is properly designed. In the Ivorian context, however, many entrepreneurs write or have written their BP without taking into account the context and the real data.

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As a result, they put a lot of resources and energy into drafting a BP that will be of little or no use to them. This situation reflects a real lack of reliable and accessible data for making projections. To date, Côte d'Ivoire has no data bank or website where entrepreneurs can find updated figures for their sector in order to design a more contextualised, more up-to-date and more appropriate business plan.

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1. What do entrepreneurs offer ?

1.1. Their recommendations to the state ?

A better adaptation of policies and classification criteria to the Ivorian reality. Indeed, with the advent of COVID-19, the Ivorian state has set up funds to support the private sector, including SMEs. FS PME is estimated at CFA F 100 billion entirely devoted to small and medium-sized enterprises that meet certain criteria. However, entrepreneurs consider the criteria to be too high and not adapted to the realities of Ivorian SMEs, that is why "to date, the State has not been able to distribute 50% of this fund", an entrepreneur said, while another added "the State has the means to finance entrepreneurs, but the mechanisms are such that entrepreneurs do not have access to financing, and the constraints and conditions for financing must be reduced or adapted".

The structures and organisations in charge should serve as guarantees for the entrepreneurs with the banks ;


Insert the promotion of entrepreneurial culture earlier in the school curriculum : With a particular focus on the state's preferred sectors. The promotion of local processing of our products is an objective set by the Ivorian state, but to date no process, method or technique for processing coffee, cocoa or other crops is taught in our schools.





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The project to establish a vocational training high school for agriculture, animal resources and fisheries is a good example, but it is necessary to generalise the approach of a school that trains young people to meet the needs and problems of our economy.

 **Facilitate communication between the academic world and the actors of local industry development.** The exchange of skills between these two worlds will enable the education system to provide the economy with a better trained human capital with skills that are better adapted to the needs of local businesses.





 **Create a network of support structures and strengthen the capacities of existing structures:** an SME that is created needs quality support and supervision. This is why we recommend the establishment of a network of support structures equipped to appreciate the problems of SMEs.

 **Communicate and make accessible all information** on actions, offers, opportunities and obligations of all actors. Our interviews with the supervisory structures revealed that there are many support and training opportunities of which the entrepreneurs we met were not aware. A centralisation of all actions in favour of SMEs and start-ups in a single structure is desirable in order to make them available to all and avoid dispersion of state action.



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-  **Emphasise the fight against corruption in the entrepreneurial environment :** better communication, making information on the rights and obligations of companies available on online platforms of state agencies and the creation of a freephone number to denounce corrupt actors could help in this respect.
-  **The state's promotion policy should not only focus on tax revenues** but should also include protection and support for start-up entrepreneurs to help them through the first few years of business ;
-  **Greater openness in the awarding of contracts:** Research should be carried out on the ownership, expertise and previous experience of companies bidding for contracts in order to avoid conflicts of interest.
-  **Payment of domestic debt should not be the subject of exceptional measures :** Like access to finance, this is a very sensitive issue for Ivorian contractors who, despite the lack of payment, are obliged to continue their services year after year. For more coherence in the action of the State, concrete actions must be implemented by the State in order to pay these debts that are already due. This is especially true since, according to the legislation on commercial debts, the statute of limitations is four years, which means that if a debt is not collected after four years, it becomes ineligible.

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A follow-up plan should be drawn up and payment deadlines set within the regulatory timeframe, i.e. within 90 days, failing which the State could study ways of compensating with tax benefits. In the event of the adoption of a compensation mechanism, we recommend on the one hand the creation of a national aged balance of the domestic debt (an online site) on which all those to whom the State owes money could register by mentioning their due date and, on the other hand, the setting up of a GREEN number and an online platform to signal the passing of the deadline and to switch to compensation on the basis of a simple request with form. The federations and other employers' organisations should ensure that the deadlines for the settlement of domestic debt are respected.



Create a structure to support and supervise Ivorian entrepreneurs in their market conquests outside Côte d'Ivoire : the Ivorian population is estimated at more than 26 million, so it is a small market. To enable its SMEs to reach critical size, the Ivorian State would gain by defining a more elaborate strategy to accompany its SMEs in the conquest of West African and African markets. For example, the State could envisage partnerships between the agency in charge of coordinating State action and the economic interests office of the Ministry of Foreign Affairs.



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1.2. What are their recommendations to themselves ?

-  **Strengthen their managerial capacities :** the lack of management skills among SME managers is one of the main obstacles to the development of SMEs. It is therefore imperative for them to be accompanied in this direction in order to give their company a better chance.
-  **Deepening knowledge of business sectors :** a mastery of the chosen business sector allows the entrepreneur to build a competitive advantage by defining a better strategy and projection ;
-  **Using management consultancy structures or approved management centres :** we note that entrepreneurs who have used a management and support structure say they have had fewer difficulties during their first years.
-  **Agree to start small** by developing the business as the entrepreneur's managerial skills and entrepreneurial experience grow;
-  **Select partners carefully :** partners, if not chosen objectively, are often the source of dissolution of many SMEs. The individual objectives and overall vision of each partner should be agreed and reviewed before a partnership project is signed.

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Focus on the quality of products and services : beyond all these recommendations, it is important to highlight that if the business does not produce quality it will be difficult to ensure its sustainability. It is important to seize opportunities to provide solutions to real problems of the population. The more impactful the solution, the more it meets a need, the more it will be possible to grow, develop and improve it, and behind that to have clients in the long term.

1.3. What are their recommendations to other players in the ecosystem ?

The issue of access to finance : greater involvement of financial players in addressing the problem of SME financing upstream. Indeed, the lack of structuring (business model), transparency in the management of SMEs, the lack of managerial capacity of their leaders and the irregularity of their income are the main reasons for refusing financing to SMEs. It is therefore very clear that SMEs need support more than financing. In order to allow a greater number of SMEs to have access to financing, it is imperative for the financial world, with the support of the Centre for the Promotion of Investment in Côte d'Ivoire (CEPICI), to invest massively in the activity of coaching and accompanying SMEs from their creation until they become autonomous.

Giving a more important place to entrepreneurs' associations and federations: associations and federations are criticised for not communicating enough about their activities and missions, for lacking transparency in their functioning and for not being involved in the definition of public policy to promote SMEs.

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Addressing these criticisms, coupled with greater participation in the policy-making process, could give them back their rightful place and improve the perception of entrepreneurs, i.e. a framework for defending their interests and for exchange and sharing of experience between young and more established businesses.

Making incubators more accessible and focus on practice : The Ivorian ecosystem has seen the arrival of many incubation structures, but they are criticised for lacking practice and being oriented only towards entities in the technology sector. This confusion should be corrected in the understanding and promotion of the Start-ups concept. Indeed, It is not only technology companies, but useful, innovative companies in all fields that rely on technology. Incubators should adapt their offerings to take this approach into account.

2. What success stories could Côte d'Ivoire inspire ?

2.1. The Indian Jugaad

The classic low-cost system, which is based on trying to make things cheaper, leads to numerous perverse effects such as social dumping and consumer misinformation. To overcome these problems, some emerging countries have developed a new approach to low-cost management : frugal management. This model, still called "Jugaad", originated in India.

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In the local dialect, it is synonymous with creativity or ingenious repair. However, as a management technique, it emphasises the possibility of 'doing more with less' while maintaining the quality of the product and service, despite the actual reduction in cost. Jugaad is above all based on innovation and is much more complete than the classic model because it integrates a responsible approach. (Extract from the book **JUGAAD INNOVATION_low-cost-management-frugal**)

According to Navi Radjou and his co-authors in Understanding **frugal innovation the diptych**, Jugaad has become a challenge for all economies today. Firstly, because it has a structured approach to innovation with the characteristics and solves the problems of large budgets, standardised business processes, and controlled access to knowledge that result in products that are launched too late, too uniform, not functional enough, consume too many natural resources, and are too expensive. Preventing the continuation of such dysfunctions requires a radical approach, which Jugaad can inspire.

In the Ivorian context of an emerging country, training young entrepreneurs and decision-makers in the principles of Indian JUGAAD could be an asset in building a culture of entrepreneurship and innovation. Indeed, its six (6) principles can be adapted to the Ivorian environment :

- ➔ **Taking advantage of constraints :** les entrepreneurs devraient découvrir de nouvelles opportunités d'affaires dans les contraintes qu'ils vivent, derrière un obstacle se cache une opportunité d'affaires.
- ➔ **Doing more with less :** Les entrepreneurs pourront développer leur innovation et la mettre au service de leur résilience. Dans un contexte comme le nôtre, c'est la capacité de l'entrepreneur à se réinventer qui fera la différence.



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- ➔ **Being agile** : This means thinking and acting in a flexible way, so that decision-makers can better understand the situations and characteristics of SMEs and entrepreneurs can increase their resilience in the face of everyday difficulties or periods of crisis and readjust their plans.
- ➔ **Putting it simply** : innovation is in the simplicity
- ➔ **Including the excluded** : This means that everyone, or everything, has a contribution to make. We must therefore seek the impact of things taken together, even if they seem useless individually. The development of such a concept in Côte d'Ivoire would contribute to poverty reduction and add a more responsible touch to the Ivorian models.
- ➔ **Listening to one's intuition** : this principle is a quality specific to entrepreneurs, because the entrepreneur's choices are made in an environment of uncertainty. This principle can often be combined with the first principle. This is illustrated by the example of Tulsi Tanti, the Indian entrepreneur, who was faced with a serious power supply problem for his textile factory in India. So he invested in two wind turbines that powered his entire factory. Motivated by his success, he realised that 44% of Indians were without electricity. He therefore had the idea of creating Sulzon Energy in 1995. The company is now the fifth largest supplier of wind energy in the world and employs 13,000 people on six continents.

2.2. The Japanese Kaizen

The Japanese etymology of the word Kaizen reflects its purpose:

- Kai means change
- Zen means good, better


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Kaizen can therefore be translated as positive and continuous change. It is a Japanese technique for continuous quality improvement or refinement of the manufacturing process. According to Masaaki Imai, the founder of Kaizen, this philosophy relies on simple and "cheap" solutions, based on the common sense of the staff, and on the persistence of all those involved to keep in mind the idea of fighting all losses (non-value added steps) and to eliminate them.

brutal reform, the harmful effects of which are now more than decried by many specialists and business leaders. One of the objectives of Kaizen is to respond to market constraints. It is also highly adaptable to the context of Ivorian SME managers, many of whom live from self-financing and self-organisation on a daily basis and need to be trained in progressive managerial practices that are opposed to shock therapy. (Extract from Kaizen, principle of continuous improvement; from ADPME 2006/2007)

In the conclusions and recommendations of the summary note of the conference in Abidjan by prof. Keijiro OTSUKA, it is pointed out that :

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At the current stage of development of Côte d'Ivoire, it is recommended to start with labour-intensive industries, (e.g. shoe manufacturing, metal processing and some food processing industries). Knowledge-intensive industries can be developed, but will only benefit a small number of highly educated people. The practice of Kaizen is fundamental and a necessary first step in the industrialisation of Côte d'Ivoire, as companies that practice Kaizen are quicker to innovate, which contributes to the development of dynamic clusters.¹

¹ For more details on this concept, read the special edition 01/2020 of CAPEC's Economic Policy Letter.



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2.3. Effectuation theory

In the early 2000s, Sarasvathy, an American researcher, highlighted a mechanism that is almost the opposite of the classic conception of entrepreneurship, which she called effectuation. The American researcher then proposed another approach in which being an entrepreneur is based on a set of dynamic decisions that involve multiple interactions and that the entrepreneur-decision-maker must assume.²

In l'effectuation, logique de pensée des entrepreneurs experts, the author Philippe Silberzahn, argues that this theory presents two breaks with the common conception of entrepreneurship :

- Entrepreneurs act according to an "effectual" approach, in other words, they start from resources, from what they have at hand, to take action. Their mode of operation is not 'causal'.
- The business opportunity is not pre-existing, demonstrated. The entrepreneur's action can change their environment and create the market they need. Furthermore, this theory is supported by Sarasvathy's five principles of entrepreneurial action:

➔ **« A bird in the hand is worth two in the bush ».**

The classic business model strategy consists of defining goals and then finding the resources necessary to achieve them. This approach is called 'causal', because it looks for the causes (means) that will enable an expected and previously defined effect to be obtained. The principle of effectuation recommends that entrepreneurs start from the means at their disposal to define new goals.

² Extrait de l'incertitude entrepreneuriale et la théorie de l'effectuation : le cas LOGIPERF.

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**How can small businesses be rescued in their early years ?**

➔ « Acceptable loss ».

While classical strategy requires decisions to be made on the basis of an expected return that must be estimated, with effectuation, entrepreneurs think in terms of acceptable loss. They try something knowing what they can lose at worst, and they know they can afford that loss.

➔ « Crazy patchwork ».

While competitive analysis is one of the pillars of the strategic approach, as it allows one to fit into the structure of the industry one is entering, this principle advocates that entrepreneurs should be more interested in creating partnerships with different types of actors (stakeholders) in order to "co-construct" the future together.

➔ « Lemonade ».

This principle recommends that entrepreneurs welcome and take advantage of surprises along the way, whereas the strategic planning of the traditional approach aims to avoid them.

➔ « Pilot in the plane ».

These principles lead to a shift from a logic of prediction (trying to guess the market) to a logic of control (inventing it). The classical strategy is based on the axiom: "To the extent that we can predict the future, we can control it." Effectuation reverses this logic by postulating that "to the extent that we can control the future, we no longer need to predict it." Behind this logic of control is a creative vision of entrepreneurship, according to which the role of the entrepreneur is to create new worlds, not to discover pre-existing ones.

**Highlights
of the study**

**How can small businesses be rescued in their early years ?**

It should be noted that in the Ivorian environment, where reliable and up-to-date information is practically non-existent and where young entrepreneurs have few resources to carry out market research to feed their business plan, the principle of effectuation makes sense.

Especially since in our interviews with entrepreneurs in this study we found that few entrepreneurs actually used their business plan. To put it in a nutshell, we could say that effectuation is an attitude of the entrepreneur that requires them to be constantly alert and in action so as to seize all market opportunities and encounters along the way. It is a kind of construction, or even co-construction, in action, in total connection with the context and the environment.

2.4. Tax facilities: Senegalese and Mauritian examples

It has been shown that the first five years of a company's life are the most sensitive because they represent the start-up phase when the company is still fragile and has relatively low revenues to meet expenses. The tax burden on businesses during this period can be fatal for them, while the failure of too many start-ups can reduce the tax base in the long term. The protection of these young entities must be the business of our African states. This is precisely what Senegal has understood, by revising its exemption mechanism for small and medium enterprises in search of a more stable business model. Indeed, Senegal has decided on three years of exemptions from corporate taxes (IMF) and from contributions linked to the lump-sum contribution payable by employers (CFCE) from the date of creation of the company.

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Such a policy can have a double effect: encouraging informal actors to integrate the formal economy and significantly increasing the number of young enterprises passing the first three (03) years. Moreover, the implementation of additional facilities beyond this first phase can help enterprises to consolidate their achievements of the first three years.

Mauritius has strongly reformed its economy and more particularly its tax system. Indeed, since 2002, through the different investment models in Mauritius, tax rates have been simplified with a single fixed rate of 15%, thus eliminating the principle of double taxation. Thus, an income can only be taxed once: if you have received 100 as a professional (Corporate Tax), even 100 will not be taxed again at 15% when received personally (Income Tax).

2.5. The Swiss and German model

The German and Swiss cases have many advantages that can be used as a model for Côte d'Ivoire.

Firstly, Swiss SMEs have been recording record growth and competitiveness for several years. This positive record is due to various factors.

- The first is the fact that entrepreneurship is seen as a privilege in Switzerland. In contrast, according to the study "Petits entrepreneurs de Côte-d'Ivoire - étude socio-économique d'un milieu professionnel", the status of entrepreneur has long been poorly perceived by Ivorians, whereas the possibility of personal fulfilment is the main reason for Swiss people to take over or set up a business, far ahead of financial attractiveness.

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- Another success factor for Swiss SMEs is the quality of their human resources, which is closely linked to the performance of the Swiss education system, with apprenticeship as the keystone. According to the 2013 edition of a study jointly conducted by Credit Suisse and the University of St. Gallen entitled "**Success Factors for Swiss SMEs 2013**", SMEs once again identify highly qualified employees as essential pillars of success.

This confirms once again the considerable importance of human capital in an economy as poor in primary resources as Switzerland.

As far as the success of Germany, Europe's largest economy, is concerned, it can be said that there are many factors that have underpinned the growth of German business and industry.

Firstly, Germany's mercantilism is an effective economic strategy that compensates for the demographic deficit. Indeed, the powerful exporters present in German companies and the policies of the Länder provide the country's industries with a large consumer market despite the small local population. The Ivorian State must therefore draw inspiration from this example to define an institutional framework to support Ivorian SMEs in their conquest of the sub-region, Africa and even the world, because the local Ivorian market alone cannot ensure the sustainability of all the national champions that the country wants to build.

Secondly, there is the Mittelstand. Essayist Jacqueline Hénard, in her critical synthesis entitled "**L'Allemagne : un modèle, mais pour qui ?**" points out that this is a fabric of family-owned, medium-sized companies. These are mostly family companies with a mode of governance oriented towards the long term.



Highlights of the study

How can small businesses be rescued in their early years ?

The strength of the Mittelstand is based on the capacity of its companies to respond, with highly specialised and innovative products, to a worldwide demand for machine tools and professional capital goods.

Finally, the powerful German SME federations are the foundation for the development and continuous improvement of the German business environment. As the German business model is based on the autonomy or responsibility of the actors, the public authorities only set a general framework for the activity (and the general interest). In order to assert their particular legitimate interests, economic actors self-organise in federations.

Some are established partners of governments with whom they jointly define economic and social policies. Most German companies are happy to join because they find advice, expertise and advocacy. These federations play a key role in policy-making as they are the collective memory of the industries or sectors and the related issues. By putting forward their points of view in the debates preceding political decisions, they constitute a powerful support for companies. (Extract from "*Les PME allemandes Une compétitivité à dimension sociale et humaine*" by Isabelle Bourgeois and René Lasserre)

Drawing inspiration from the German model could enable the Ivorian ecosystem to create more structured federations that would take their rightful place in the process of building national champions. This can only be done if these federations evolve in an environment of transparency devoid of corruption.



II.

**OUR MAIN RECOMMENDATIONS FOR
RESCUING SMALL BUSINESSES IN THEIR
EARLY YEARS**



Our main recommendations for rescuing small businesses in their early years

These recommendations are inspired by the proposals of the respondents, the recommendations found in the literature and the analysis of Audace Institut Afrique as an economic freedom actor.

The **ten (10) main recommendations** of the study are presented below:



Our main recommendations for rescuing small businesses in their early years

1. Acquire managerial skills and deepen technical and sectoral knowledge

As training and capacity building are major needs of SMEs, it is imperative to implement a national educational programme to support and accompany entrepreneurs in building their managerial culture.

In addition, young people should carry out internships in companies to better understand how they work and why not start as an intrapreneur, within a structure to learn what is concrete before starting their own business.

**Our main recommendations for rescuing small businesses in their early years**

2. Use management consultancy structures or approved management centres (CGA)

These structures can play an important role if they are supported and subsidised by the State. Indeed, having the possibility of resorting to a CGA at a lower cost, for an entrepreneur starting out with no knowledge of management, is a breath of fresh air because it allows him to focus on what is essential for him, i.e. the development of his products and services.

We recommend that these structures be financed and/or subsidised so that any entrepreneur who wishes to be accompanied can be so as soon as he or she is registered and at a lower cost.



Our main recommendations for rescuing small businesses in their early years

3. Start "where you are and make the most of what you know"

In a country like ours and as advocated by the theory of effectuation, it is crucial for entrepreneurs to accept to start small with the resources they have, taking into account all the weaknesses of the Ivorian context in terms of economic freedom. It is important to emphasise that it is the action of the entrepreneur that can change his or her environment and create the market he or she needs.

The business opportunity is not necessarily pre-existing, it is the capacity of the entrepreneur to take advantage of the resources in his possession that creates the business opportunity. Thus this approach, far from being an antithesis of classical theory, is the most appropriate approach in the context of developing countries, where entrepreneurs struggle to find resources.

It advocates a dynamic approach, with the entrepreneur building their entrepreneurial culture from their own experience in the field instead of a market study or business plan, which would be more expensive and difficult to implement. Start where you are and make the most of what you have !

**Our main recommendations for rescuing small businesses in their early years**

4. Focus on quality and innovation and develop a dynamic network of relationships

The objective of an entrepreneurial project should be first and foremost to meet a need, but not only that. It is important to respond in the best possible way! Beyond all this capacity building and support, if the enterprise does not make products or services of "desirable" quality or does not respond to a real need, then it has no chance of surviving.

In this respect, entrepreneurs have the opportunity to protect their innovations, but also to benefit free of charge from innovations whose patents have expired and which are therefore now free.

To do this, they can contact the African Intellectual Property Office (OAPI), which has a local office in Abidjan.

**Our main recommendations for rescuing small businesses in their early years**

5. Build an Ivorian entrepreneurial culture by integrating it into the education system and laying the foundations for genuine economic freedom

The perception of entrepreneurship among Ivorians must be changed. Entrepreneurship adapted to the reality of the country must be promoted very early on in the education system. The system must clearly define that being an entrepreneur (creator of a company or head of a company) after school can be an interesting option and, above all, students must be given the means to make this choice by vocation or by passion and not by constraint.

The notion of local industry must also be at the heart of our education system, with particular emphasis on sectors that are the pillars of the state's development. The Ivorian school must help young people who wish to do so, to transform their environment and contribute to the construction of a stronger economy through the emergence of an important fabric of local SMEs.

Furthermore, it is essential to highlight that the effectiveness of these actions will depend on the capacity of the Ivorian State to guarantee real economic freedom in the entrepreneurial environment, because an entrepreneur, even a well-trained one, will have difficulty surviving in an environment without economic freedom. It should be noted that Côte d'Ivoire has scores that show the need to improve the context.



Our main recommendations for rescuing small businesses in their early years

6. Redefine the State's overall strategy for promoting entrepreneurship

The Ivorian State has made significant efforts to support young businesses through the establishment of numerous programmes and support mechanisms. However, these programmes are scattered among several actors whose field of intervention is not clearly defined. Thus, their actions lack synergy and their impacts are still insignificant or contradictory.

This is why we recommend the definition of a more global, coherent and inclusive strategy that would be implemented by a single structure, in this case the Côte d'Ivoire SME agency, whose action would be regularly controlled, monitored and evaluated in order to determine its impact. This requires a rigorous monitoring mechanism to measure the relevance of the measures implemented and to continually adapt the actions.

A great deal of work is needed to adapt measures to local realities, otherwise there is a risk of carrying out actions without convincing results just to "tick boxes". The definition of such a strategy requires a synthesis of what has already been done, an inventory of all the actors who make up the entrepreneurial ecosystem (including SMEs and start-ups) and their needs. Finally, we recommend that the State extend its support actions to other regions such as Yamoussoukro, Bouaké, Korhogo, Man and San Pedro.

Furthermore, we also recommend better organisation and more sustained support for the action of the structures that supervise and support SMEs and start-ups.



Our main recommendations for rescuing small businesses in their early years

6. Redefine the State's overall strategy for promoting entrepreneurship

Indeed, today it is obvious that these actors have a key role to play in the promotion of entrepreneurship in Côte d'Ivoire. This is why they must not be forgotten. On the contrary, they must be given a place of choice in the State's overall strategy, given the lack of managerial skills of many entrepreneurs.

They should therefore be identified, organised by area of competence and supported in order to ensure greater efficiency in their actions with entrepreneurs. Finally, we also recommend the definition of a real strategy for data collection, processing and provision of general and sectoral information.

It is necessary to think of centralized, reliable, updated online DATA platforms and regularly updated.

Our main recommendations for rescuing small businesses in their early years

7. Actively fight against corruption and lack of transparency in all State actions

The Ivorian State will only succeed in building a powerful network of SMEs by actively fighting against certain scourges that undermine economic life, notably corruption in all its forms, the slowness or cumbersomeness of the administration and the lack of transparency in the communication of the rights and obligations of SMEs, to mention but a few.

In this regard, we recommend that new Ivorian entrepreneurs take into account the dimension of corruption in the construction of their business model because, as long as it is not eradicated from our environment, they will have to deal with this scourge by finding ways and means to adapt to it or bypass it while having the will to participate in its eradication.

On the other hand, a generalisation of the Guinean approach in Côte d'Ivoire would guarantee greater transparency, open up competition and give all entrepreneurs a chance without any distinction. Indeed, the Guinean government has just put in place new provisions for good governance in the awarding of public contracts, by making all members of the government sign a performance contract obliging them and their families as well as all directors and heads of department of the public administration to no longer compete for public contracts. From now on, :

”

Whether it is a minister or other directors who have their wife or son in business, not only will that company not have a contract, but the latter will be sanctioned... Someone who is a customs officer cannot have his wife as a freight forwarder, no minister must have his wife in business.³

This is a real fight against conflicts of interest and favouritism that abound in the business environment of our countries.

³Statements by Professor Alpha Condé, President of the Republic of Guinea, Source: RTG



Our main recommendations for rescuing small businesses in their early years

8. Promote a Start-up and Grow approach

According to the Doing Business data, over the last eight (8) years, the Ivorian State has made enormous progress in terms of the formalities for creating a business. However, as far as the support and supervision of young businesses in their growth is concerned, much remains to be done. This is why we recommend the Start and Grow-up approach by setting up a mechanism for tax exemption, encouragement or support for young entrepreneurs.

This approach therefore advocates support and guidance for start-up companies beyond the creation facilities, by defining a policy of supervision during their first years until they have a more stable and viable business model.

It should be noted that tax revenues constitute more than 90% of the public revenues of the Ivorian state. Reducing its tax base may be a difficult step to take as it would impact on state revenues. However, state supervision, support and exemption of young companies and startups from the moment of their creation, as is done in Senegal, would allow them to overcome the very critical first few years, thus increasing the tax base and guaranteeing greater revenues for the state in the long term. Whereas taxes that are too high and too early would only ensure ephemeral revenues in the short term, as they very quickly stifle young businesses, most of which are still looking for a stable business model and which force them back into the informal sector.



Our main recommendations for rescuing small businesses in their early years

9. Facilitate access to traditional financing and promote alternative sources of financing

According to many studies, access to finance is the first need of SMEs just before the need to strengthen managerial and technical capacities, which shows how important access to finance remains for the survival of young enterprises..

In this respect, many initiatives, whose aim is to mobilise the actors of the financial system in order to lead the reflection on the support of small and medium-sized enterprises (SMEs), have been launched. These include programmes such as "La Finance s'engage" and the partnership framework set up by the Côte d'Ivoire SME agency with financial sector players.

But more concrete actions must be put in place :

- ➔ Create a climate of trust between financial actors and Ivorian entrepreneurs by, among other things, developing awareness-raising capsules on financial education, the functioning of the financial system and the key factors to be taken into account to obtain financing.
- ➔ Set up support and coaching programmes to deal with the real obstacles to the granting of financing to SMEs and other start-ups. It is therefore necessary to go beyond the problem of financing, it is necessary to understand the needs of the entrepreneur, to support and coach him or her. It is therefore necessary to multiply mentoring programmes such as the CGECI Academy or the new programme set up by Mansa Bank and the Voodoo Communication group.
- ➔ Banks and other financial institutions, wishing to increase their commitment to small businesses, should better train their teams in SME risk assessment, taking into account the specificities of the different sectors, and their clients in order to better adapt their offers to the Ivorian environment.



Our main recommendations for rescuing small businesses in their early years

9. Facilitate access to traditional financing and promote alternative sources of financing

- ➔ The State, through its various programmes, should set up a support and guarantee fund to support financing and adapt interest rates to the realities of SMEs, as was done during the COVID-19 crisis. There is also a need for a mechanism that would combine financing and support so that entrepreneurs have time to make the money work before the repayment schedule begins.
- ➔ The State should define a more favourable regulatory framework for SME financing, and participate in the promotion and popularisation of other sources of financing such as crowdfunding or participatory financing. To this end, platforms could be set up to facilitate safe crowdfunding.

**Our main recommendations for rescuing small businesses in their early years**

10. Facilitate the establishment of more consensual federations grouping SMEs by sector of activity

Federations, if they are well organised and if they occupy their rightful place, can play a very decisive role in defining government policy and actions towards businesses. Moreover, these federations can be real centres of competence and sectoral expertise because of their organisation by sector of activity and can allow the creation of a framework for reflection on the problems and issues of each sector.

Such an arrangement can only encourage the State to favour the sectoral approach in defining its actions, as is the case for Germany, which we described above.

The **full study** is available on the Audace Institut Afrique website and can also be requested by email.

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