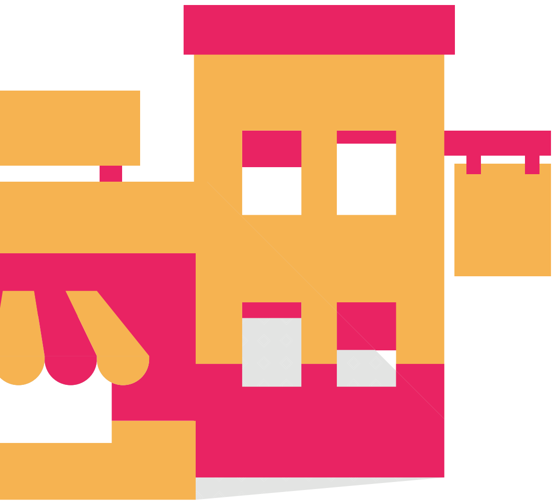
Benin

KEY CHALLENGES FOR THE 'MISSING MIDDLE'



#ClosingTheGap

Assessment of the entrepreneurial ecosystem in Benin

October 2017

Commissioned on behalf of:
Dutch Good Growth Fund (DGGF) / Investment fund local SMEs

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Ministry of Foreign Affairs of the Netherlands

Dutch Good Growth Fund

Enclude
PEOPLE. PRINCIPLES. PROSPERITY.

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Executive summary

This report presents the results of a study conducted on behalf of the Dutch Good Growth Fund (DGGF) as part of the ClosingTheGap series of entrepreneurial ecosystem assessments, which were commissioned to get a better understanding of the 'missing middle' in francophone West Africa. This report details findings on the main factors that hamper growth of SMEs in Benin, one of the six focus countries in the series, and suggests possible solutions, especially regarding access to finance.

This analysis looks at six dimensions or domains which, taken together, define the character of the ecosystem for entrepreneurs, and how supportive or inhibitive that system is for entrepreneurial growth. These 6 domains are **Culture, Policy, Markets, Finance, Support, and Human Capital**. We conducted a desk study to map these dimensions of the entrepreneurial ecosystem in Benin and identify potential opportunities for improvements, followed by a field visit of one week at the end of 2016 to conduct 45 interviews with stakeholders from the various ecosystem domains. The fieldwork was followed by a workshop co-hosted by the Dutch Embassy on February 9th 2017, gathering 40 key stakeholders (entrepreneurs, representatives from financial institutions and public and private business development service providers) to validate findings and discuss possible solutions to overcome the identified ecosystem gaps.

A small and vulnerable market

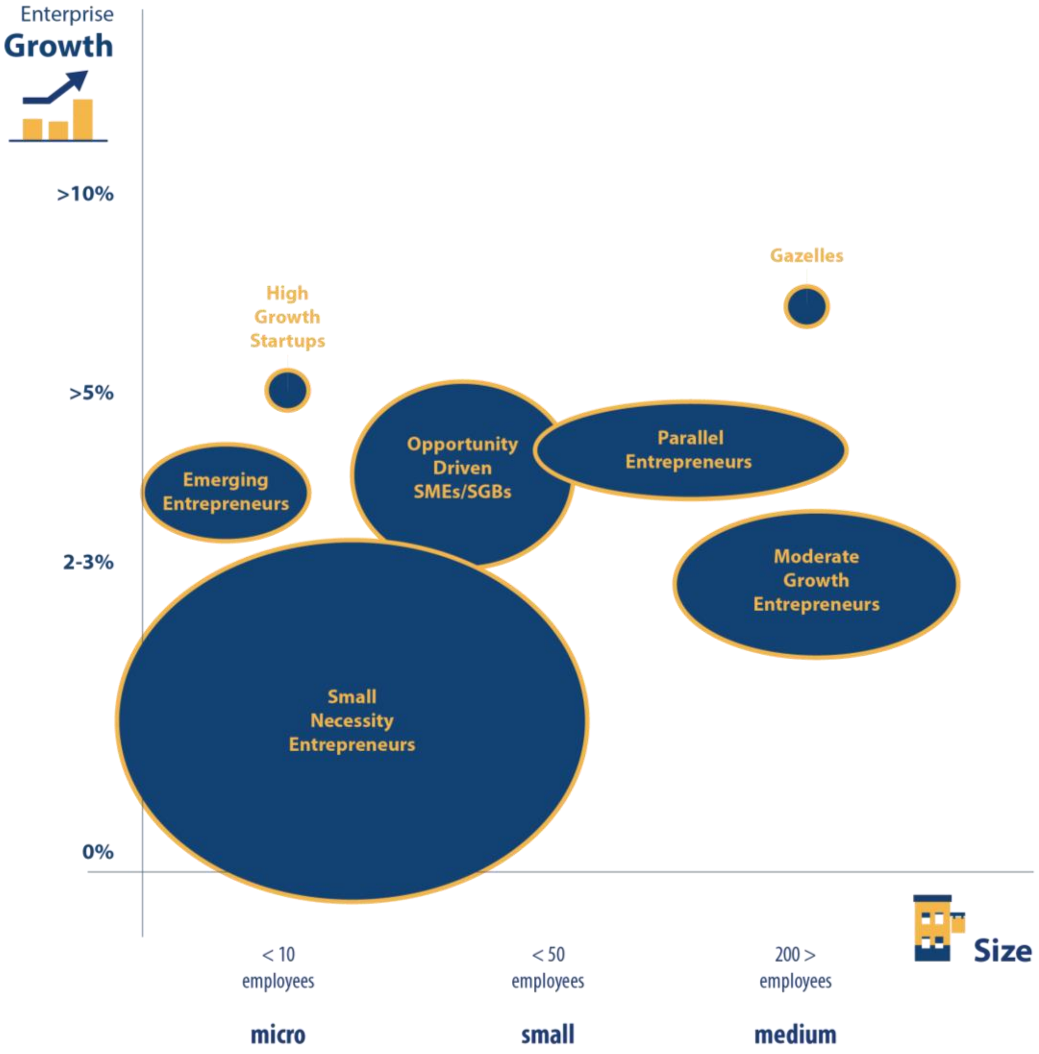
Despite unique political stability for nearly 30 years and steady annual economic growth levels of around 5%, Benin is still a low-income country with a GDP per capita of $789 in 2016. It is a small market that relies heavily on informal re-export with Nigeria, taxation of which represents 25% of government revenue. Benin's entrepreneurial ecosystem is considered to be nascent, compared to other Sub-Saharan African countries. Aspects that stand out include the very high degree of informality of SMEs, the lack of entrepreneurial culture, insufficient availability of skilled and professional staff, low quality and availability of Business Development Services (BDS), and very limited access to finance for SMEs.

The country's (re-) exports suffered as a result of the 50% currency devaluation in neighbouring Nigeria in mid-2016. In addition, the political transition to a new government in Benin in that year took time to develop. Initiatives to modernise the constitution were rejected by parliament in April 2017. Overall, the entrepreneurial ecosystem has experienced slight improvements in the areas of starting a business and resolving insolvency, but access to energy, access to finance, and the complicated tax regime remain serious issues.

Weak incentives for SME funding

There is a clear mismatch between the needs and availability of funding for SMEs, which is provided mostly by banks and some MFIs, as there is a lack of other funding structures. Whereas banks focus on basic, short-term, highly collateralised credit, SMEs want longer-term funding that would enable them to take full advantage of business opportunities. One difficulty is that banks do not understand SME businesses and their processes very well. Another is that the central bank encourages banks to provide low-risk, collateral-based lending. Even so, banks already have high levels of portfolio at risk. Moreover, they lack access to long-term funding and capital, which restricts their own lending capacities.

Leasing is currently unavailable in Benin as it is costly to manage and demand is underdeveloped. Investors also find a small and difficult market in Benin; setting-up and maintaining investments is more costly and time-consuming than elsewhere and there are not many known placement opportunities.



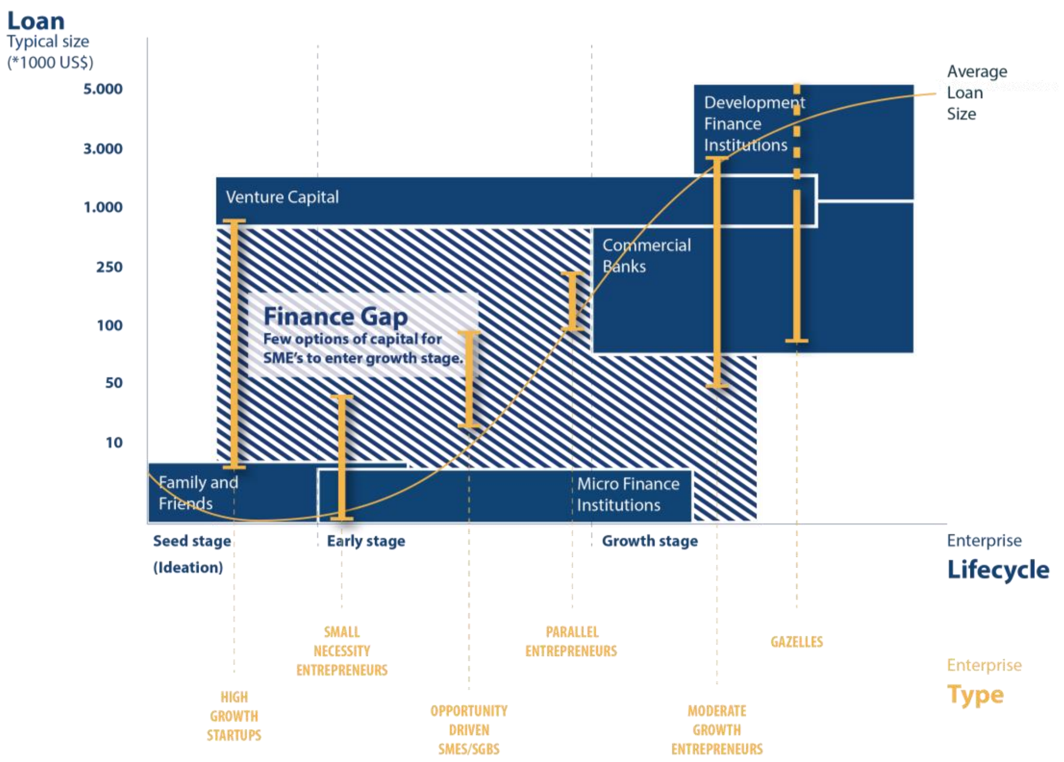
Many SMEs face the financing gap

The majority of the SMEs in Benin are small necessity entrepreneurs, and women are especially likely to fall into this line of work simply as a way of securing a livelihood for themselves and their families. Enterprises fund their first 5-7 years mainly with their own money, sometimes supplemented with limited amounts from family and friends. After that, retained earnings are the main source for investments, sometimes enhanced by small amounts from MFIs. Bank financing only becomes viable once an enterprise has been well established and able to provide substantial collateral. It takes most SMEs years to reach this level. Banks also want to establish a relationship for 1-2 years with SMEs before they take their credit requests seriously. Hence, applications of young/start-up entrepreneurs are generally unsuccessful.

Some of the most important factors contributing to the lack of financing for small and medium businesses can be summarized as follows:

- **SMEs are not 'bankable':** a main challenge for SMEs in accessing funding is their high degree of informality, which also implies lack of professionalism, organized business management systems and processes, openness and a stable, long-term business approach. This makes it challenging for funders to assess their repayment capacity. It is easier for banks to focus on secured lending, especially because the courts lack knowledge on handling economic disputes, even more so if there is no solid collateral. If SMEs could produce clear business plans and financial data for funders, it would go a long way towards increasing their chances of obtaining funding. Most banks already have a high proportion of non-performing loans in their portfolios – on average, 22% of loans are 90 days or more in arrears. This is partly due to a lack of capacity to follow-up on late reimbursements at the banks, but also because the state is late in its payments to suppliers and because the courts take a very long time to process economic disputes. Taken altogether, this is a high-risk situation and in a worst-case scenario could wipe out the banking sector if, for example, half of the arrears had to be written-off. Therefore, banks are not inclined to consider riskier or unsecured lending to SMEs.
- **Bank reticence:** banks generally lack access to reasonably priced long-term funding. This makes it difficult for them to provide long-term loans to businesses. Instead, they focus on fee-generating services such as credit cards, which have an immediate positive impact on the bottom-line, and secured lending to large companies. According to the June 2016 figures of the Benin banking association, 34% of bank credit portfolios consist of loans to the state (down from an even higher 45% in 2014), 31% are loans to larger corporates, and 35% are to individuals.
- **Limited investor appetite:** Benin is hardly targeted by international investors, because of its small market-size and the perception that doing business in Benin is difficult, expensive and slow. Moreover, investors need local banks to provide working capital to investees, in order for them to grow and prosper to the extent that they would be good equity investment candidates.

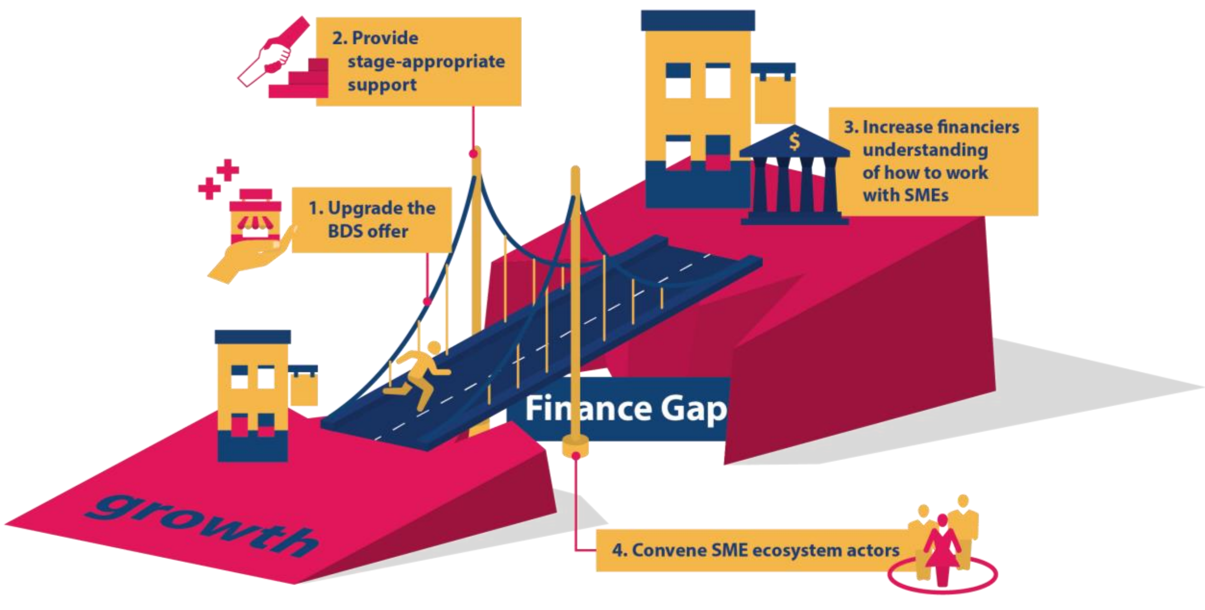
The resulting financing gap for Beninese SMEs is shown in the image below:



Possible solutions

The two most promising pathways for closing the financing gap for SMEs seem to be helping missing middle enterprises transition out of informality and grow into bankable, investable businesses, while stimulating more tailored and widespread delivery of financial services to missing middle enterprises. **A number of concrete actions to close the financing gap** were suggested by the research team and local stakeholders:

- Upgrade the quantity and quality of the BDS offer
- Accompany entrepreneurs
- Increase understanding of financiers
- Convene SME ecosystem actors



1. Introduction

1.1. Objective of the study

This study has been conducted on behalf of the Dutch Good Growth Fund (DGGF), an initiative of the Dutch Ministry of Foreign Affairs. The DGGF part 'Investment Funds local SMEs' is a "fund of funds" investment initiative of the Dutch Ministry of Foreign Affairs that aims to improve access to finance for the missing middle – that is entrepreneurs who have outgrown micro-financing but do not yet have access to conventional financial services.

The Seed Capital and Business Development (SCBD) Facility was established to further the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary funds and local SMEs. In addition, the program incorporates a knowledge-sharing component that supports research, tests assumptions and shares insights on financing SMEs in developing countries and emerging markets, and fosters industry-wide knowledge exchange.

Under the SCBD knowledge development and sharing component, the DGGF #ClosingTheGap series aims to improve the common understanding of key challenges faced by entrepreneurs and especially the "missing middle" in countries covered by the DGGF mandate. The #CTG series is a tool to facilitate and support local and international stakeholders' efforts to set the agenda for SME development. Working together, local stakeholders and their international partners should be better able to identify solutions to the main gaps in entrepreneurial ecosystems that hamper the growth of local enterprises.

The study was commissioned to get a better understanding of the 'missing middle' in francophone West Africa, of which Benin is one of the focus countries. The report describes the main factors that hamper SME growth and access to finance, and suggests possible actions to increase SMEs' access to funding.

1.2. *Methodology*

The first DGGF #ClosingTheGap study piloted in 2015 in Kenya applied the Entrepreneurial Ecosystem Diagnostic Toolkit, published by the Aspen Network of Development Entrepreneurs (ANDE). Based on the lessons learned from the pilot in Kenya, the methodology was customised for this study. As shown the figure, the research follows the Babson entrepreneurial ecosystem model, one of the leading models in the current thinking about entrepreneurial ecosystems. A more detailed description of the methodology can be found in annex 5.

The six ecosystem domains studied were:

- **Culture:** is the culture supportive of and enabling entrepreneurship?
- **Finance:** can the entrepreneur gain access to debt, equity and other financial products?
- **Human capital:** are the required human resources accessible for local enterprises?
- **Policy:** do policies enable and facilitate entrepreneurship?
- **Markets:** do entrepreneurs have sufficient business opportunities?
- **Support:** do entrepreneurs have access to enterprise development support services?

To map these domains and identify opportunities for improvement in Benin, first a **desk study** was performed at the end of 2016, during which we analysed how Benin's scores compare to other countries in Africa in each domain, by combining multiple indicators from a number of different indices.

Box 1: World Bank Enterprise Surveys in Benin

DGGF is a partner of the World Bank Enterprise Survey Unit to perform enterprise surveys in the countries covered by the current assignment. In Benin, a survey was performed in 2009 and 2016. The findings from this survey are used in this report, acknowledging its concentration on more formal, larger and more professional firms.[1]

After the desk study, we conducted a **field visit** of one week in November 2016. Representatives from various ecosystem domains were interviewed, including 10 entrepreneurs, 20 SME support structures (including semi-public and private structures), and 13 financial players (banks and MFIs)[1]. The discussions with these experts enriched the information from the desk study, and pointed to some of the causes of the difficulties facing the 'missing middle' in Benin. In addition, the discussions helped to identify some of the key stakeholders in the Beninese ecosystem that could act as frontrunners in developing a more SME friendly ecosystem.

[1] Full list of interviewed people can be found in annex 1

Finally, we gathered 40 local stakeholders including entrepreneurs, representatives from financial institutions and public and private business development service providers to discuss perspectives on the Beninese entrepreneurial ecosystem during a **workshop** co-hosted by the Embassy of the Netherlands on 9 February 2017. This session served to validate findings and discuss possible solutions. See annex 2 for a list of workshop participants.

2. The business landscape in Benin

2.1. Benin in a nutshell

Box 3: Benin key facts

Area:	114,763 km^2
Population:	10.7m
Capital:	Porto-Novo
Other economic hubs:	Cotonou, Parakou
Official language:	French
Other languages:	Fon, Yorouba, Bariba
Religion:	Muslim (28%), Roman Catholic (26%), Vaudou
Currency:	FCFA
GDP per capita:	$789[1] (2016)

Cotonou is clearly the country's economic hub, with about 85% of the country's SMEs operating in its greater metropolitan area. Other areas of concentrated economic activity include Porto Novo and several agriculture zones.

Politically, Benin is considered reasonably stable since 1989, and the presidential elections in 2016 resulted in a peaceful and uncontested transfer of power. However, the new government had a difficult start because of depleted state coffers and resistance to change by some interest groups, such as ministries that contest budget limitations and business groups that want to keep their (trade) benefits. Initiatives to modernise the constitution were rejected by parliament in April 2017, which did not improve the political landscape.[2] Secondly, the new government is considered untested, and several discussion partners mentioned that enterprises and funders have adopted a 'wait-and-see' approach.

Uncertainty about the future direction and efficacy of the government contributes to the current lack of economic confidence, and slows the emergence and development of opportunities for enterprises. This is the case not only for the many micro-enterprises that operate solely within their local context, but also for a large part of the trade-oriented SMEs that partly depend on economic and political stability. This is clearly the case for the transit-trade sector, which encompasses about 10-15% of Benin's economy and has been gravely affected by the recent 50% devaluation of the Nigerian currency and by the imposition of trade controls by Nigeria. This has impacted the Beninese economy, as 75% of imports are re-exported and over 25% of government income comes from trade levies.

[2] http://www.worldbank.org/en/country/benin/overview

Benin uses the CFA Franc (FCFA), the currency of the West African Economic and Monetary Union, or the 'Union Économique et Monétaire Ouest Africaine' (UEMOA). The FCFA is guaranteed by the French treasury and its exchange rate is fixed to the Euro. It has been kept stable against the Euro/French Franc since 1994, when a devaluation of 100% took place. The inflation rate difference between Benin and the EU has since then mounted to 107%, and Benin has therefore become less attractive as a source of imports. A second indication that the FCFA might be overvalued is Benin's high trade balance deficit, which is currently around 5-10% but historically has risen as high as 30% of GDP. Even worse, the currency of Nigeria was devalued in June 2016 by 50%, making it expensive to export to Benin's largest and most dynamic neighbour.

In all, export-oriented SMEs in Benin are likely to find it difficult to compete on the international market because of its overvalued currency, and imports are relatively cheap, which is disadvantageous for local producers. Although currency stability is considered useful by the funders we interviewed, they also fret that debt denominated in FCFA will be worth less if a devaluation occurs. This might well be a reason financial institutions in Benin have difficulty attracting long-term funding, which in turn limits their ability to provide long-term funding to clients.

2.2. *Benin's entrepreneurial ecosystem in a regional context*

The Beninese ecosystem scores lower than most other West African countries[3] according to our scoring methodology, which is based on a range of indicators including the WB Doing Business ranking, WEF Global Competitiveness Index and the UN Human Development Index.

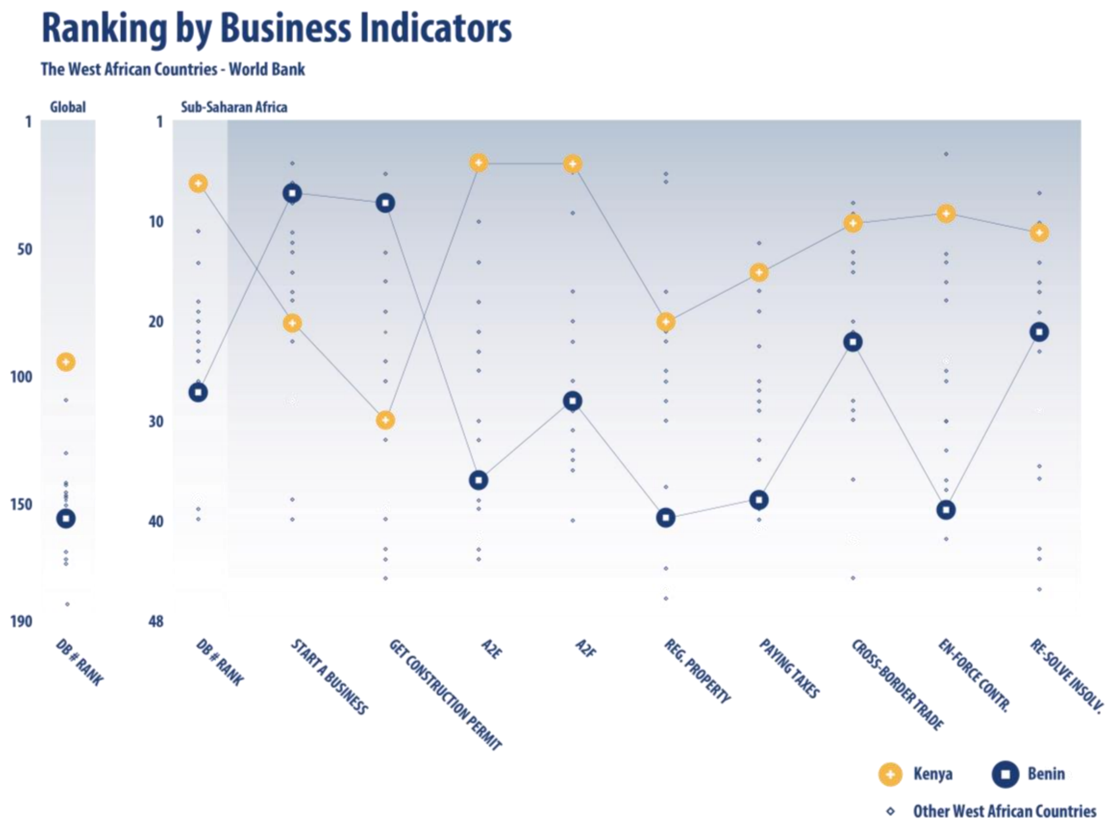
	FINANCE	MARKETS	SUPPORT	HUMAN CAPITAL	POLICY	CULTURE	Average 6 domains
FRANCOPHONE WEST AFRICA							
Senegal	3,59	5,00	5,35	5,49	5,67	6,16	**5,21**
Cote d'Ivoire	3,70	4,64	5,51	5,24	4,66	5.80	**4,95**
Cameroon	3,50	4,62	4,90	4,77	3,61	3,92	**4,22**
Togo	3,21	3,81	3,94	4,59	5,04	4,60	**4,20**
Benin	2,62	3,99	2,82	4,19	3,04	5,33	**3,66**
Burkina Faso	2,61	3,33	3,35	2,50	4,28	5,46	**3,59**
ANGLOPHONE WEST AFRICA							
Nigeria	3,64	5,35	2,59	4,43	4,21	4,25	**4,08**
Ghana	4,22	5,25	4,02	5,98	5,08	5,81	**5,06**
EAST AFRICA							
Rwanda	5,05	5,23	5,99	6,05	7,99	7,74	**6,34**
Kenya	5,96	6,64	6,09	6,46	4,93	5,38	**5,91**
Ethiopia	2,96	3,34	4,33	4,26	5,20	6,46	**4,43**
Uganda	3,89	4,12	4,21	4,09	4,63	5,23	**4,36**
Madagascar	2,86	3,82	3,87	3,87	4,17	6,31	**4,15**
Tanzania	3,10	4,19	4,03	3,50	4,34	4,24	**3,90**
SOUTHERN AFRICA							
South Africa	6,90	7,68	7,25	6,52	7,85	6,25	**7,08**
Botswana	6,16	4,74	5,14	5,42	7,23	6,50	**5,86**
Namibia	5,36	4,94	5,59	4,81	6,91	6,50	**5,68**
Zambia	3,31	5,24	4,84	6,23	6,05	6,31	**5,33**
Mozambique	2,57	4,10	4,81	3,78	5,17	4,59	**4,17**
Malawi	3,43	3,09	4,06	3,97	4,71	4,83	**4,02**

3 See Annex 6 for details on the scoring methodology.

Index sources used for the scoring of the 6 domains were the World Bank's Enterprise surveys (ES), the World Economic Forum's Global Competitiveness Index (GCI), the Global entrepreneurship and Development Index (GEDI) produced by George Mason University, and data from the Doing Business (DB) project of the World Bank and the Global Innovation Index, co-published by the United Nations (UN)[4].

Benin's overall ecosystem score is the lowest after Burkina Faso, when compared to other African countries. Besides the score for the domain 'Finance', where all countries score low, Benin shows low scores in the 'Support' and 'Policy' domains as well. Benin's scores for the Human Capital and Culture domains fall in the middle range, when compared to other Africa nations. Looking specifically at the Human Development Index, Benin scores at the low end (166th out of 188 countries). Furthermore, Benin has a mid-level corruption score, on which it is (ranked 83 out of 168 countries), although some local contacts thought that the country fared worse than that.

Figure 1: World Bank Doing Business Indicators Ranking for West African Countries

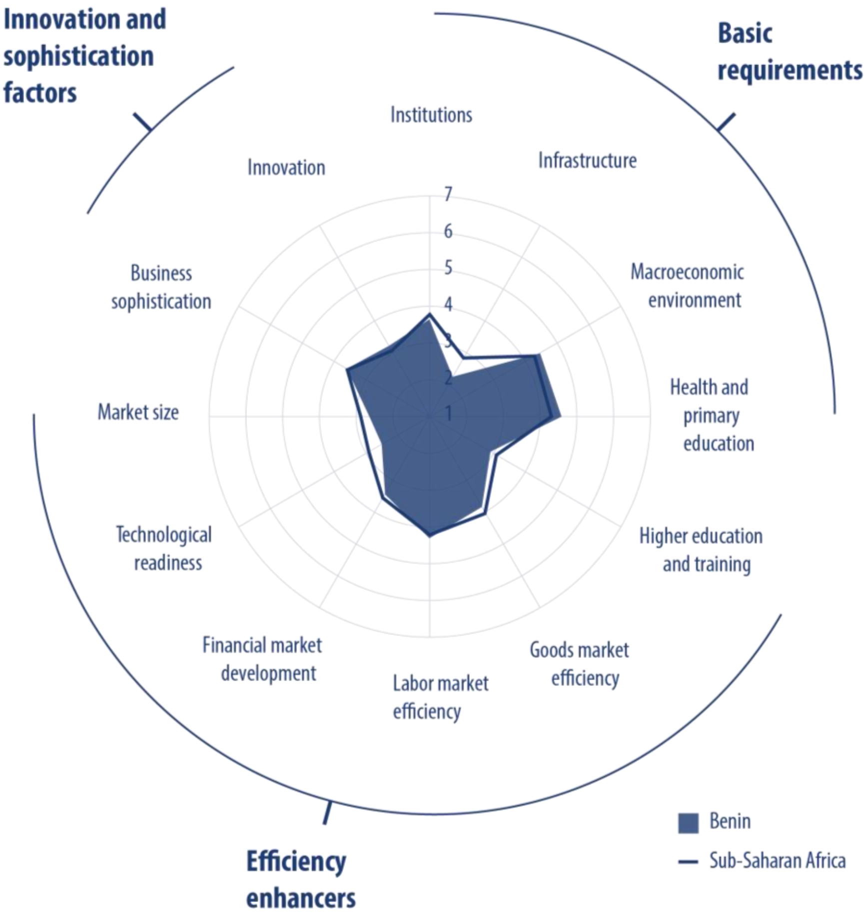


In World Bank's ease-of-doing-business index, Benin ranks 158th among 189 countries, which is similar to Zimbabwe, Sudan and Niger. However, one remarkable standout is Benin's relatively strong score on the 'Setting up a business' indicator, where Benin moved from 117 in 2016 to 57th in the 2017 rankings, together with Ivory Coast, which stands at 50. Starting a business in neighbouring countries Nigeria and Togo (ranked 138 and 123 respectively) is considered much more challenging. Respondents indicated, however, that improvements in business start-up

[4] More details on the scoring methodology are included in the Methodological note in Annex 6

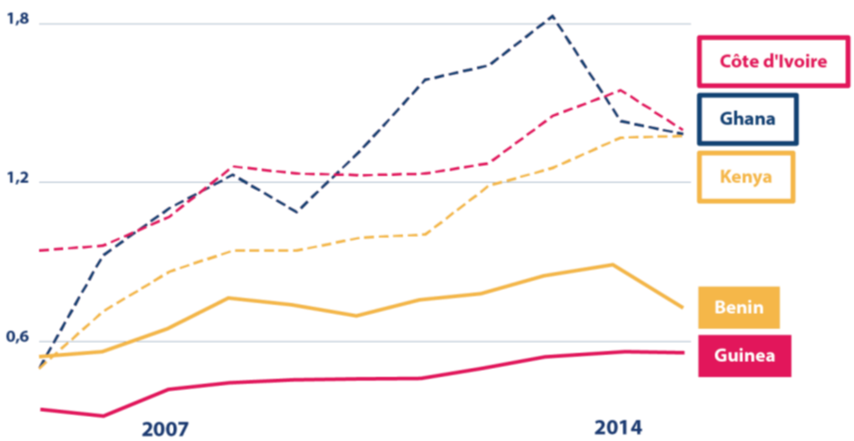
processes are for still mostly on paper and have not yet lead to visible improvements on the ground due to a lack of implementation capacity.

Figure 2: WEF Global Competitiveness Index for Benin and Sub Saharan Africa



Although Benin is quite a stable economy in the region, with GDP per capita increasing at a slow pace, it is still a low-income country in terms of GDP per capita (see figure 1 below). The level is comparable to countries like Guinea, and still below other countries in the region such as Ghana and Ivory Coast.

Figure 3: GDP per capita in Benin and selected countries]



The country's economy depends on trade and agriculture—namely cotton and staple crops such as maize, sorghum, rice and manioc.

2.3. *The Beninese private sector*

The Beninese private sector is characterised by its high degree of informality; probably 85% of enterprises are (semi-) informal, and consequently the large majority of workers in Benin are employed in the informal private economy: about 95%[5].

The SME landscape

For this study, and in line with definitions applies by local stakeholders e.g. APIEX, SMEs are defined as those firms that employ between 5-100 staff and have annual revenues of up to FCFA 100m (<€150k). Compared to Senegal, for instance, SMEs appear to be smaller in Benin[6].

Once enterprises reach a turnover above FCFA 100m-200m (€150k-€350k), they are in principle fundable by traditional banks, as long as they have solid collateral to offer. For enterprises with a turnover above FCFA 1mrd (€1.5m), attracting short-term funding was considered less of an issue. However, these larger firms are few and far between.

Obviously, SMEs in Benin are not a homogenous group. They differ greatly in terms of size, degree of formality, experience, market orientation and related funding needs. Many different approaches could be employed to segment the market, such as industry or various measures of enterprise size. In Benin, however, respondents said these factors are less relevant since funders don't focus on them and many SMEs are not sector focused. The main variable driving SMEs' access to funding appears to be their level of professionalism and business experience.

For this study, we have classified the SME sector based on two criteria: size and growth. The segmentation results in 6 different types of entrepreneurs, with distinctive funding needs, that would benefit from customised support:

- **Small necessity entrepreneurs** make up the largest segment, often barely larger than a micro enterprise. They are typically set up to provide an income for the owners' family, and are concerned with survival rather than growth. In some cases, access to finance would usefully increase their working capital, but their financial management and business planning practices are often insufficient to approach funders.
- **Moderate growth entrepreneurs** are traditional firms offering a product or service with stable demand, but they usually don't introduce innovative products or production techniques. They have annual growth rates of a few percent, and some grow into mid-sized enterprises. They are often family businesses with a somewhat higher rate of formality (around 20%) than the small necessity entrepreneurs, and they are typically on the verge of having access to bank financing.
- **High growth start-ups** are typically young entrepreneurs, sometimes starting a business in the services or technology sectors. These new entrepreneurs typically struggle for several years, learning to handle the basic challenges of doing business in Benin, such as bootstrapping, handling authorities and coping with unreliable infrastructure. As elsewhere, there is not much funding available for early stage start-ups. Benin has a limited number of these start-ups, in comparison to neighbouring countries such as Senegal or Ivory Coast.

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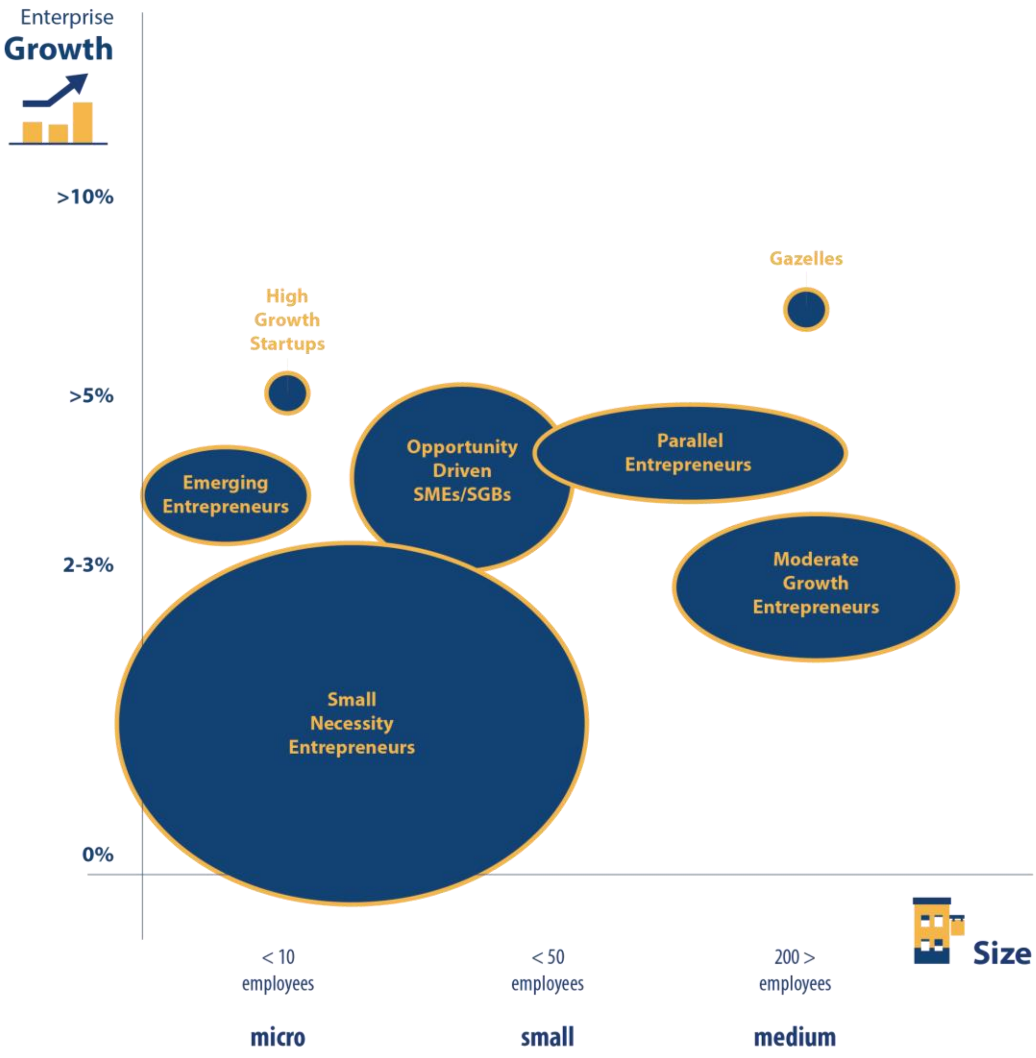
[5] INSAE, 2010

[6] In Senegal the annual turnover of SME ranges for instance from €75,000 to €300,000.

- **Opportunity driven SMEs** are enterprises that engage in opportunistic business behaviour, copying successful business models seen elsewhere and regularly switching or adding new business activities in different sectors. This group includes entrepreneurs that run several businesses at once (**parallel entrepreneurs**), and its members tend to lack a long-term business vision and have limited market knowledge and understanding of client-needs.
- **Gazelles** are successful start-ups that have made the transition from small to mid-size firm relatively quickly, thanks to annual growth rates above 10%. Often formally registered, they usually have or plan to have 20-100 employees, achieve a mature financial performance and are headed by a strong business leader. Gazelles usually look for multiple, larger, and longer-term funding sources.

Figure 4: Sub-segmentation of SME's in Benin



Adapted from Intellecap[7] and authors' reserach

[7] ClosingTheGap Kenya, Intellicap 2015. Size of sub-segments is estimated by authors based on enterprise surveys and other data.

SMEs and Access to Finance

The available enterprise surveys seem to be biased towards larger, more formal and Cotonou-based SMEs, and are less representative of smaller, more rural and informal enterprises. Even so, access to finance is considered to be the most important obstacle to doing business by Beninese SMEs (cited by 33%), followed by access to electricity (19%), practices of the informal sector (14%) and difficulties with tax administration, tax rates and regulations (respectively 10%, 10% and 6%, World Bank, 2017).

Many interview respondents mentioned that being an entrepreneur in Benin involves constantly searching for short-term business opportunities to survive the next months, rather than focused building of a client- and quality-oriented enterprise over the long-term. The result is copycat-SMEs, which respondents viewed as unstable due to their lack of market knowledge and understanding of client needs. Such enterprises are not very attractive for long-term funders as they are oriented almost exclusively towards short-term activity, rather than long-term business development. There are, however, success stories like that of CDPA, which started small, moved in a different direction and eventually became a major employer.

Box 4 Box: Illustration of the growth path of an enterprise: CDPA

CDPA (Comptoir de Distribution de Produits Agro-alimentaires) started in 1988 as a small family business for import and export of frozen poultry and fish, and added other activities such as brewing (which they are discontinuing) and egg production (since 2005). The company is now one of the largest egg producers in the region with about 200,000 laying hens and access to national and international funding. The number of employees has increased from 120 in 2013 to 202 in 2016, a growth of 68% in the 4 year period.

Source: Belgian Investment Company (BIO)

QUALITY CORPORATE

Director: Joël Maforikan
Location: Cotonou
Business: Importing IT and security systems
Established 2012
Staff 22
Formal: Yes

Financing the business

- Difficult start: I used my savings, acquired through my salaried employment, for the first investments in my company
- Orabank, Diamond Bank and Band of Africa are three of my main clients. These contacts allowed me to have access to their networks. Usefully, my contact a bank provided me access to funding without a strong guarantee, such as a property title
- Recently, I received two bank credits. I had access to this financing because I had been granted a solid guarantee (from the National Guarantee Fund)

Challenges

- Access to finance, especially when they focus on guarantees
- I was fortunate to know the right person at a bank and to have the trust of my suppliers. *"Without that, I would not have survived as a company"*

BENIN GOLD

Director: Dominique Sounlin
Location: Cotonou
Business: Producer and exporter of cashew nuts (raw & processed)
Established 1985, consortium since 2012
Staff 25 fixed, 300 seasonal
Formal: Yes

Financing the business

- The Band of Africa has helped to finance my business, but their repayment plans are not adapted to the seasonality of our business
- Fortunately, several social investors helped us.
  Their financing costs are similar to banks but their knowledge of the sector and our needs is significantly higher. So it was easier to deal with them.

Challenges

- Banks lack understanding of the agro-industrial sector
- Their financial offer is not adapted to our needs

2.4. *Financing Beninese enterprises*

The current Beninese financial landscape does not serve each of the SME segments, for various reasons. The main characteristics and corresponding financial needs of SME segments are shown in the table below.

Table 1: Beninese SME segments and their financial needs

Sub-segment	Key characteristics	Financial needs*
Small necessity entrepreneurs (<10 staff)	Small size, low growth, many copycats and mostly informal. The entrepreneur runs the enterprise (<€50k annual turnover).	Microfinance, short-term[8] working capital, small amounts, often trade related.
High growth start-ups (10+ staff)	High growth potential, usually struggling for the first 3-7 years. Can be young (tech-savvy) entrepreneurs that (plan for) >€50k annual turnover.	Mid-term seed capital to initiate activities (operations, staff). Short-term working capital and overdrafts. Frequent need of smaller amounts (€5k-€25k).
Opportunity driven SMEs (10-20 staff)	Driven by market opportunities, copycats. Often lacking client and market knowledge (<€150k annual turnover)	Funding duration depends on type of business. Can be mid-term asset finance, small/mid-sized amounts (<€50k).
Moderate growth entrepreneurs (20-50 employees)	Steady growth, often family businesses, more formalised (around 20%) and annual turnover of €200k-€500k.	Mid-sized amounts of working capital/trade finance. Long term finance to invest in assets, probably leasing (€25k - €100k).
High growth entrepreneurs (10-100 employees)	High growth, family and non-family, professional businesses, often formalised and with > €500k (planned) annual turnover.	Long-term higher risk equity (>€100k), combined with periodic bank financing.
Gazelles (1-100 employees)	High growth rates. (Planned) mature financial performance > €500k annual turnover.	Long-term, higher risk angel and equity investment (>€100k), combined with regular bank financing.

*Financing term: Short term < 12 months, medium term 1-3 years, long term > 3 years. Financing size: small <25K, mid-size 25-200K, large >150K

Existing financial offer

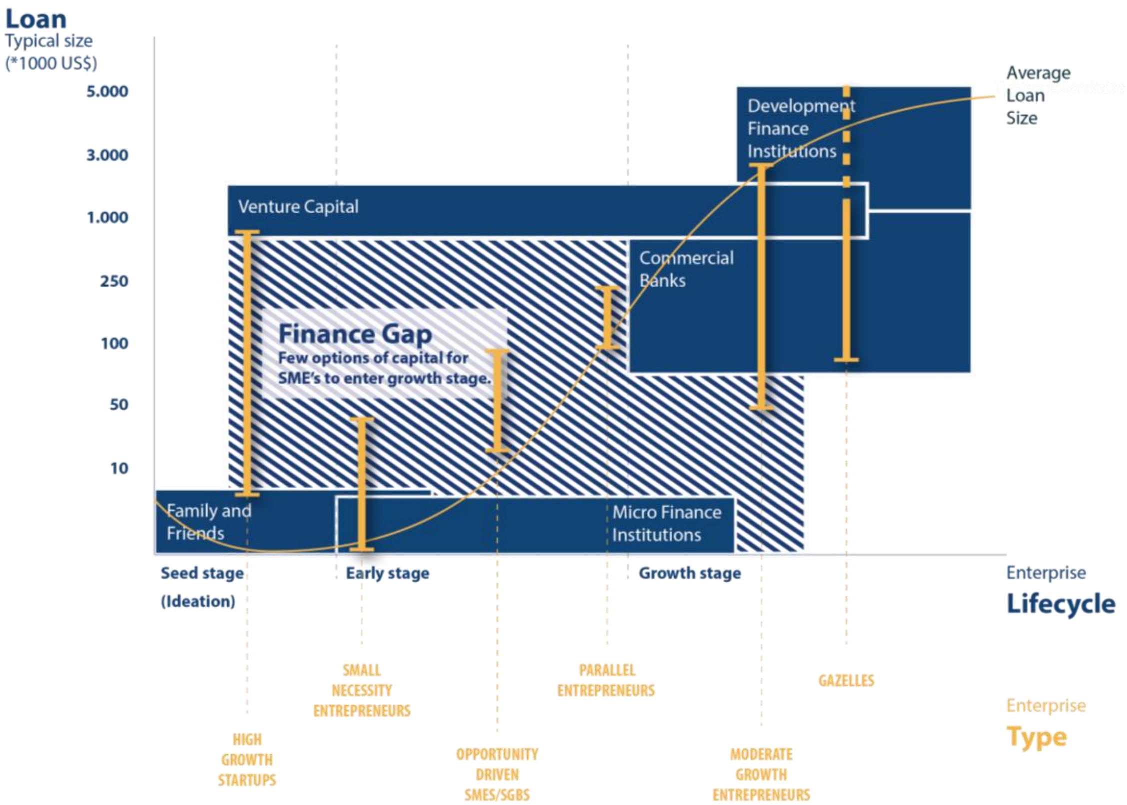
Benin has a fairly large banking sector, with 13 banks. Of these, BIBE is in receivership, while a new bank, Coris, is being established. Apart from that, however, the diversity of the financial ecosystem in Benin is very limited: the regional stock exchange serves just one Beninese enterprise, there are no specialised leasing companies (Bank of Africa just closed its leasing arm) and there is no formal local or international investment community. Furthermore, MFIs hardly focus on SMEs at all--although Finadev has a small SME-portfolio. Finally, there are some

[8] For this study short term loans are up to 12 months, medium term 1-3 years and long term loans are more than 3 years.

international investors such as I&P that invested in Benin, but they focus on large companies. In summary:

- Banks only cover a small part of the investment needed by SMEs and only some banks have any focus on SMEs
- The microfinance sector is less developed and provides smaller amounts (<€5k)
- Leasing operations were closed due to a lack of active demand
- Private equity and venture capital is virtually unknown, except among some large SMEs

Figure 5: Schematic representation of the financing gap for Beninese SMEs



The chart illustrates that in Benin, only larger enterprises (upper-right side, with a turnover above FCFA 100m-FCFA 250m) have access to short-term bank funding. For other enterprises access to funding is limited (lower-left side). The standard growth path for smaller enterprises is to get some funding from family and friends, focus on cash-strapping, and then obtaining small amounts from MFIs after a few years. However, most of the funding for small enterprises must come from retained earnings. It is only after several years of operation that most SMEs are large enough to access short-term bank funding.

Table 2: Key Actors in the Financial Landscape in Benin

Sources of finance	Examples	Products	Amount	Costs	Targeted sub-segment
Family and friends	Most SMEs in Benin	Informal debt	<€5k	Low, sometimes interest is demanded	Start-ups, micro- and small entrepreneurs
MFIs	FNM, Vital, Alide, CPEC	Short-term loans, small amounts via group lending	<€5k, low-risk	<25%	Micro- and small necessity entrepreneurs, sometimes small SMEs
Banks	BGFI, Coris, Diamond, Ecobank, Orabank, SGBG	Mainly short-term loans/trade finance	€50k - €500k, low risk	<15%	Moderate growth entrepreneurs, larger SMEs
Leasing	Not available (since Bank of Africa closed its leasing activities)	Asset finance	-	-	-
DFIs	AfDB, FMO, Proparco, IFC, BIO	Private equity, grants (for BDS), credit lines	Usually >€1m, medium risk	Variable	High-growth SMEs that have passed the start-up phase and have a solid track record
Private/corporate investors	AfricInvest, I&P	Private equity and venture capital	>€300k, medium/high risk (>€ 10 million for AfricInvest)	IRR: >20%	Gazelles and high-growth SMEs
Donors	AFD, USAID, UNDP, embassies	Guarantee funds, seed capital, TA	Various amounts (estimated <€100k), low to medium risk	Various	Moderate growth entrepreneurs, gazelles

Authors' estimates

3. The Beninese Entrepreneurial Ecosystem

In this chapter key **observations** are presented for each dimension of the entrepreneurial ecosystem in Benin. We explore the issues affecting access to finance for local enterprises in the realms of *policy & institutions, finance, business support, human capital and culture*. Each section concludes with an analysis of the main issues and presents possible solutions, including a summary of the main strengths and weaknesses of the ecosystem on the given measure, and a few possible actions to address them.

3.1. Culture: state-focused past, limited role models, no focus on entrepreneurship

Several local interviewees mentioned that being an entrepreneur in Benin means constantly casting about for short-term business opportunities to survive the next months, rather than long-term focus on building a client- and quality-oriented enterprise. The result is a culture of copycat SMEs, which the respondents thought to be unstable because of their lack of market knowledge, quality orientation and understanding of client needs.

Furthermore, most respondents thought that the entrepreneurial culture in Benin was limited. Those with the most resources and opportunities were thought to move abroad, or to focus on reaping state advantages. A widely heard concern about SMEs in Benin is that they appear to have a culture of being disorganised, and that they often use a top-down management style. Another aspect of the culture, according to several respondents, is that entrepreneurship in Benin is more a necessity than a vocation, given the lack of other income-generating options. The most desirable career path for many Beninese is to receive a stable salary at a government agency. In addition, some SME owners thought that enterprise success could lead to jealousy and demands from others to share the rewards.

On the positive side, there is a slow cultural shift towards a more entrepreneurial outlook. In addition, the recently installed government consists partly of business people, and the population seems ready to adapt to the economic reality that there are not sufficient job opportunities with the government and the formal private sector. This realization pushes an increasing number of Beninese to consider entrepreneurship. The incubator scene has yet to take off, although there are some structures that help entrepreneurs. One example is Songhaï, which offers agricultural-sector start-ups assistance in business planning, financial management and access to networks:

Box 2 : Centre Songhaï

Songhaï is an organisation that combines training to agri-entrepreneurs and links to funding. This structure can help about 250 people per year (some of which become SMEs), of which they estimate that 60% is still operational after three years.

Enterprise clubs can be a useful way to organise industries and create a unified voice for lobbying government for a better enabling environment. None of the contacted partners considered that SMEs were well represented in Benin, in contrast to larger enterprises that are able to make their needs known to the government, through trade organizations as well as personal contacts.

Cultural reasons for the low visibility and influence of SMEs in policy making were numerous, but it was often mentioned that enterprises either preferred to be independent or wanted the government to take the initiative in organising business groups. Given the expected reduction in government spending, discussion partners mentioned that they were interested in building more business representation. The goal would be to provide the government with practical field-level input on business-friendly policies.

Analysis and possible solutions

Out of economic necessity, there is a slowly emerging culture of entrepreneurship in Benin. Nonetheless, most Beninese would prefer to find a stable government job. Also funders lack entrepreneurship in the way they handle SME-placement opportunities.

	Description	Actions
Strengths	• Entrepreneurship is developing out of necessity, albeit slowly • The state is becoming more entrepreneurship-minded	• Expand support for entrepreneurs by strengthening incubators and enterprise clubs, especially for youth
Weaknesses	• Lack of entrepreneurial tradition • Copy-cat entrepreneurs abound • Lack of business representation in public policy discussion	• Stimulate new and existing business associations to advocate on practical business-issues to policy makers (i.e. regarding tax and regulatory requirements)

3.2. Human capital: limited use of current education set-up

Almost all respondents mentioned that Benin's current education approach is still focused on creating government administrators, even though the government has been shrinking for many years and can no longer employ many of the graduates produced by the system. Stories abound of people with degrees that are still waiting to be placed somewhere. According to the University of Abomey-Calavi, each year 22,000 students get a degree, of which only an estimated 2,000 find a job within one year.

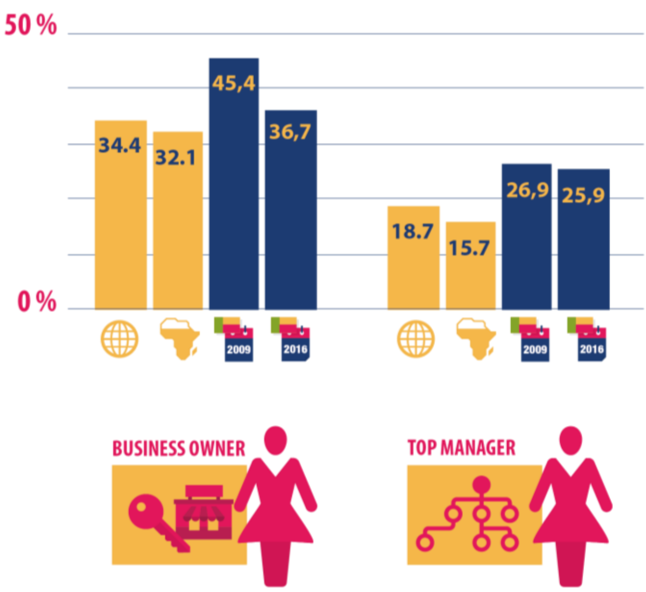
Respondents thought that education focused on theory and was of diminishing quality, with little to no practical business orientation. One result is that it is difficult to find even reasonably well-educated, business-oriented staff. Two contacted SME owners explained that they need to double-check the work of their officially qualified bookkeepers. While it will be difficult to achieve and will only deliver results in the long-term, including more business-orientation in the curriculum is considered critical to professionalising SMEs. This will help young people develop a basic entrepreneurial mind-set from an early age.

SME proprietors in Benin generally lack any formal or even informal business management training. Funders therefore considered that SMEs were generally bound to remain informal since their management lacked the skills to maintain sound financial management or handle standard business operations such as planning. Obviously, these deficiencies are an important impediment to funding them. According to the Enterprise Survey, 42% of SMEs provide on-the-job training to their staff, which is similar to rates in other low-income countries.

Women and youth entrepreneurs

The Enterprise Survey 2016 suggests that the rates of women in management and ownership of SMEs in Benin are significantly higher than average among Sub-Saharan countries. Twenty-six percent of firms have a female top manager in Benin, which is considerably higher than the 12% estimated in other low-income countries (see figure below). It should be noted, however, the Enterprise Survey sample is somewhat limited in that it excludes informal, agricultural and health/education related firms.

Figure 6: Female SME management and ownership



Source: World Bank

A significant number of Beninese women are employed in the small business sector overall. However, this does not necessarily translate into fair recognition of their work or in fair pay[9]. In addition, females often experience relatively more challenges in obtaining employment and in accessing credit, when they are managers of their own enterprises.[10]. Furthermore, informal workers face a multitude of challenges and vulnerabilities, including long working hours, no social security coverage, substandard working conditions and exposure to occupational risks[11].

Benin's population is generally quite young, with 45% of residents being under the age of 15. As a result, the country will be facing a massive entry of young people onto the job market by 2025[12].The proportion of youth that are not in employment, education or training was estimated at 25% in 2012.[13] [14]. Nearly 75% of Beninese youth under 35 are unemployed. Many of them would like to start a business but face constraints including dealing with the registration process, acquiring the right licenses, and gaining access to credit. Moreover, they lack the necessary skills to create a business and to manage it successfully[15]. The 2014 ILO report on youth in eight Sub-Saharan African countries reveals that 50% or more of young entrepreneurs in Benin, Liberia, Malawi and Togo stated that limited access to finance is their principal obstacle to doing business.

Analysis and possible solutions

Education in Benin is not adapted to business's needs. There are currently insufficient business education options that target entrepreneurs and SMEs, and business people have difficulties attracting appropriately skilled staff. It appears that the orientation of Benin's educational system towards training government workers is still reflected in the curriculum. This is not the case in neighbouring countries such as Nigeria and Ghana. Overall, the lack of business training hampers professionalization of SMEs, which in turn hinders their access to bank financing.

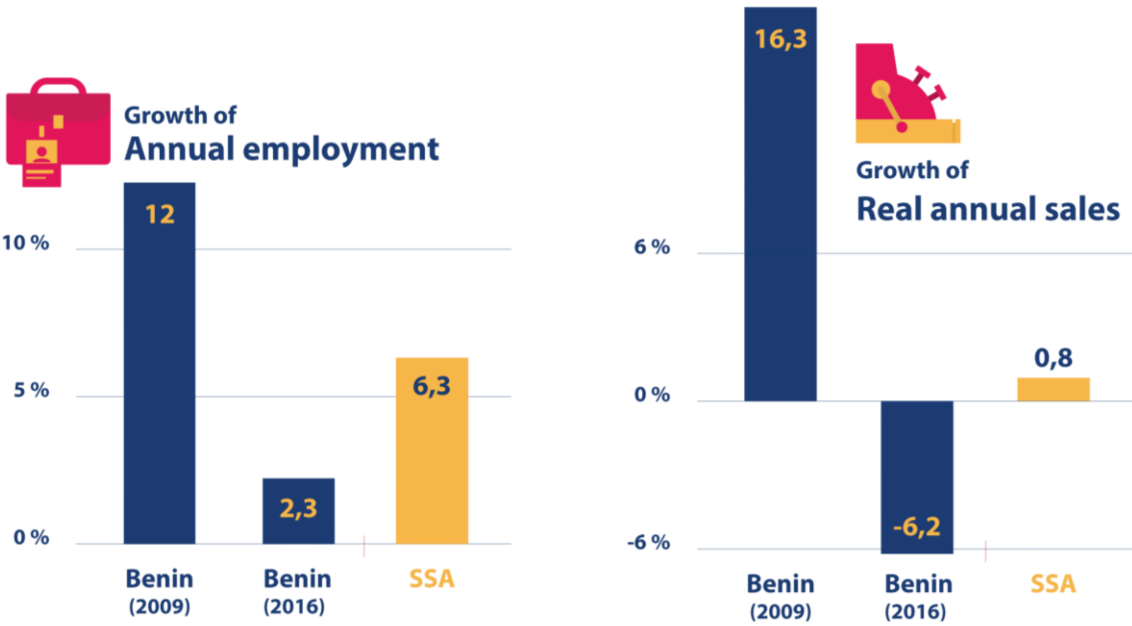
[9] https://www.oxfam.org/en/countries/benin
[10] Benin Country Reports on Human Rights Practices , 2012. United States Department of State, Bureau of Democracy, Human Rights and Labor.
[11] idem
[12] https://www.oxfam.org/en/countries/benin
[13] ILO, Key indicators of the Labour market, Edition 8
[14] This figure is known as the NEET rate and is used as an indicator of the untapped potential of youth in a country
15 https://www.oxfam.org/en/countries/benin

	Description	Actions
Strengths	• Young, low-cost labour force • There are several initiatives that help young people acquire business skills (i.e. Songhaï, University of Abomey)	• Continue to support initiatives that target youth (business skill trainers, practical incubators)
Weaknesses	• Benin has low education levels in general, and particularly in areas related to business and entrepreneurship • Many SMEs seem to focus on short-term opportunities, rather than long-term business development—which would include in investing in staff training and professional development	• Focus on practical business skill education, taking into account demand from the private sector • Strengthen the offer of business trainings for existing entrepreneurs (this might be easier for younger, more flexible entrepreneurs)

3.3. Markets: informality reigns, dependency on Nigeria

The currency of Nigeria was devalued in June 2016 by 50%, making it expensive to export to Benin's largest and most important neighbouring market. This clearly has affected the performance of the formal Beninese entrepreneurs, as reflected in the annual employment and sales growth rates for formal enterprises. These have significantly decreased from 2009 to 2016, resulting in growth rates that are far lower than the average for Sub Saharan Africa.

Figure 7: Annual employment and sales growth, formal SMEs in Benin



Source: WB Enterprise Survey

All discussion partners mentioned that the market in Benin is dominated by the informal sector, estimating that 85% of SMEs are informal along with virtually all micro-enterprises. Even many larger enterprises were thought to be at least partly informal (with not all business activities fully registered or declared).

High taxes and the complicated tax regime were often mentioned as primary drivers of widespread informality in the private sector. Informality shields companies from tax officers that push for additional payments. Another often-mentioned incentive for informality was cumbersome regulations, such as the difficulty of obtaining licenses in areas like construction, trade and tourism. Finally, some firms probably don't feel a sense of urgency to formalise, figuring they can always do it later if the rationale becomes more compelling.

Advantages of formalisation: discussion partners thought that SMEs did not see many advantages of formalisation. The advantages that were mentioned most often were better access to government contracts and possibly better access to funding. However, it was assumed that to get government contracts one needed to have government contacts in any event. Therefore, one would only choose to formalise a business if one would get closer to such contacts.

Moreover, the government was not always considered to be a trustworthy business partner because of delays in government payments.

In 2014, the World Bank implemented a project to provide practical help for SMEs to formalise such as in-person visits by experts, help to select and access appropriate training programmes and assistance in handling taxes. These measures helped in increasing the number of formalised enterprises at a direct handling cost of €1k-€2k per SME.

Regarding funding, the discussion partners thought that access to funding was limited more by the low levels of professionalism of SMEs than by informality. Being able to produce clear business plans and financial statements was expected to improve chances of obtaining funding more than formalisation.

Vicious circle: especially the larger and more urban enterprises are usually (partly) formalised, which implies that they have several formal employees, declare (part of) their benefits and pay (some of) their taxes due. Nevertheless, the high degree of informality means that a tax burden falls on the relatively limited number of such (semi-) formal enterprises. This increases their cost of doing business, which further decreases the incentives for enterprise formalisation.

Analysis and possible solutions

The Beninese government has at times been working on tax-system improvements (for instance by the Chambre de Commerce since 2014) and regulatory simplifications, such as the broad Programme d'Actions du Gouvernement since 2016, or the more specific one-stop-shop for business registration managed by APIEX. Changes included provision of some trainings and workshops, a new website to give SMEs more information, and lip service statements that were not followed-up by concrete improvements. Respondents had the impression that such activities were not part of a long-term strategy to actually reform the business environment of Benin. Another difficulty was the lack of implementation capacity to roll out improvements.

Local stakeholders stressed the importance to upgrade the basic levels of business knowledge at SMEs. Unfortunately, given Benin's state of development and the current economic and political standstill, none of the discussion partners thought that there were quick wins to be going after.

	Description	Actions
Strengths	• Fairly developed trade sector • Opportunities to develop parts of labour-intensive agribusinesses (i.e. cotton, nuts, aviculture)	• Focus on sub-sectors first (e.g. value addition in agricultural processing) • Simplify regulations and taxes; might help to formalise more businesses (for which also better equipped entrepreneurs and funders are needed)
Weaknesses	• High degree of informality and lack of professionalism of SMEs	• Promote formalisation and professionalism of SMEs through direct assistance over the long-term

3.4. *Policy & institutions: activities launched, but lack of cohesion among interventions*

Benin is considered to be a reasonably stable country, with peaceful and fairly orderly transitions of government power over the last 27 years as Benin's socialist orientation has been reduced. However, the current government had a difficult start, with empty state coffers and partial suspension of trade with Nigeria, which devalued its currency by 50%. Nigeria is an especially important partner in terms of its role in transit trade through Benin. Furthermore, the government appears to work on reducing corruption, which creates friction with special interest groups. Hence, political uncertainty might be mounting.

Policy: interviewees mentioned that the government has always been very present in the Beninese economy, including directly operating many state owned enterprises. The current government is more business-oriented and the president has a business background. However, results of new policies have yet to be seen. A major issue is that the new government inherited empty state coffers; government agencies (such as APME and ANPE) mentioned that their budgets were reduced by about 30%.

Direct government interventions: the government of Benin has a long history of activities to improve access to finance for SMEs. During a previous downturn in 1993, the state reduced the number of staff in government owned enterprises. To help create jobs, it created structures such as PAPME - which is now an MFI, but had previously been SME oriented. Several guarantee funds and other assistance programmes were created (such as FONAGA and APIEX) were create as well. Apart from the continuing existence of the agencies themselves, which were generally considered to be inefficient, none of the respondents thought that these interventions amounted to much. One guarantee fund, for instance, had only been able to guarantee 9 out of 120 proposals since 2008.

The tax regime was mentioned by almost all interviewees as a major hindrance for SMEs. Taxes were considered too high and too complicated from a compliance perspective. Research indicates that a mid-sized SME needs to make 57 tax payments per year, which is very time-consuming. Furthermore, SMEs often found the base for taxation unclear, and corruption by tax officials was certainly not unheard of. Hence, although informal companies often pay some tax (based on estimated profits), the tax regime is considered a major barrier for SMEs to formalise.

In contrast to those in more developed countries in the region such as Senegal or Ivory Coast, funders in Benin did not consider the level of formalisation to be their main reason for their reluctance to fund SMEs. The main issue in funders' eyes was the low levels of professionalization among SMEs. At the same time, they thought that more professional SMEs are also more likely to see the benefits of being formal (i.e. better access to finance by the larger banks, better access to state contracts, lower risk of additional demands by government officials and a clearer financial picture).

The legal system was considered underdeveloped by almost all discussion partners. The courts were said to have little understanding of how enterprises operate and how to handle economic disputes and guarantees. Some thought that the legal system was in serious disarray and that courts functioned for friends only. Others thought that applying enough patience and exhausting the legal adversary eventually led to results. It was also mentioned that courts may make politically motivated rulings, since defaulters are also voters and appear to be more often protected by the courts than their creditors.

Central bank regulations encourage funders to focus on solid collateral. Loans in dispute without a solid guarantee, such as a property title or similar, must be fully provisioned for after six months in arrears. Well-collateralized loans, on the other hand, only have to be provisioned for after two years (for banks) or one year (for MFIs). Hence, uncollateralized loans in arrears are a drain on the already scarce capital of banks, and an important reason they continue to focus on obtaining solid security.

The respondents indicated that there were problems in many aspects of the legal system, including administration of land titles, the professionalism of lawyers and notaries, and misunderstanding by judges of cases. Even when a verdict is finally reached, expropriating property to repay the debt in arrears is very difficult, even with all proper documentation in order. Patience and flexibility was required in each of these steps, and sometimes legal proceedings had to be started all over again when files disappeared. Obviously, this situation is costly and time-consuming for claimants.

Courts cases often take at least two years to resolve, but can also take much longer. One result is that formal funders prefer to rely on solid guarantees, defined as pledges of uncontested land titles or guarantees by stable business partners. Both are considered difficult for SMEs to obtain when they are still building their capital base. They may not have property, or it may not be registered due to the high costs (including notary fees) of property registration.

Discussion partners found it difficult to point to specific potential improvements for the legal system. Some mentioned that a complete upgrade would be needed. A practical follow-up of the current research could be to assess with funders, government agencies and SMEs what specific long-term improvements of the legal system would be needed. This could be part of the broad Programme d'Actions du Gouvernement, in which the Beninese government describes its policies till the year 2021.

Credit bureau: useful for banks when assessing the non-repayment risk of clients. The contacted banks (SG, Diamond Bank, Eco Bank, BGFI) mentioned that there is some exchange of credit information through the central bank. However, there is a backlog on information of 2-3 months and this approach therefore only works for large enterprises. The central bank plans to set-up a broad credit bureau to be used by banks, MFIs and utilities (same as in Senegal). The proposal has to be approved by parliament, which wants to get more clarity on client data protection first. Assistance to establish this bureau well might be useful. It is noted that formal business have a specific business identification number (IFU, identifiant Fiscal Unique introduced in 2007 and re-introduced end 2014), this is not the case for informal enterprises. Also most citizens lack a personal identification number (this has been re-introduced recently, but is not yet widely available). Unfortunately, because of this limited availability of unique business/person identification numbers, the actual use of a credit bureau will be limited in increasing access to finance for SMEs with such a number.

Government interventions: Beninese government agencies have been active in building business support interventions, often with the help of donors such as the French, Dutch, German and American embassies. The result is that there are several guarantee funds, SME training facilities, trainings for banks, business contests and similar initiatives under way. Discussion partners, however, were not sure how useful these interventions were. The main issues noted were a lack of a comprehensive development strategy, lack of professionalism in execution and the small and temporary nature of some of these efforts. In some cases, programmes might be driven by a ministry or agency to establish a certain competency or to compete with other government agencies for funding. Some local experts even thought that many interventions were not helpful as SMEs are not professional enough to receive funding in the first place. They referred to this colloquially as "dry ground harvesting", meaning that nothing could possibly come of it.

Analysis and possible solutions

When the Beninese economy was dominated by the state, economic disputes were resolved between state administrators. Although the government has been receding from the economy in the last decades, it seems that its legal system has not yet been updated. Many respondents thought that the legal system of Benin was a serious obstacle to the expansion of SME lending, as banks need clarity on the chances of getting their money back if clients are in arrears. Given the situation, it is understandable that banks focus on maximising guarantees to cover their loans.

	Description	Actions
Strengths	• More business-oriented government • Several interventions exist to strengthen the private sector • A credit bureau is in development	• Coordinate the actions of the different ministries and interventions • Consider the practical needs of the target SMEs by involving their representatives in policy design and oversight
Weaknesses	• High degree of informality of SMEs • Legal system that is not well equipped to handle economic disputes • Complicated tax rules and business regulations	• Simplification of tax policies and business regulations • Train commercial courts in handling economic disputes

3.5. *Finance: weak supply and demand, legal impediments*

Supply and demand for different types of finance will be discussed in the following paragraphs, starting with discussing issues around debt provisioning by banks, followed by microfinance, leasing and venture capital. This section will be closed with a presentation of how the government affects the supply and demand for finance.

3.5.1 Funding through banks

Funding through banks is limited in Benin. An important reason is that there are high levels of non-performing loans at Beninese banks. On average, 22% of portfolios are 90 days or more in arrears. The banks we interviewed cited rates as high as 12-14% of outstanding loans. Reasons for the high portfolio at risk cited by banks included the current difficulties in the transit trade sector, the lack of a proper repayment culture, and long delays in government payments; as long as 3-12 months. This does not only affect direct debt repayments by state agencies, but also indirectly, as businesses are awaiting government payments to repay their own loans. The high portfolio at risk decreases the banks' willingness and ability to expand their lending base.

Some respondents, however, thought that **banks lacked relevant products for SMEs** because they do not understand SMEs and don't particularly want to. Most do not have market research departments and lack sector knowledge. Banks therefore do not consider credit proposals from a business perspective, but primarily from an administrative and risk point of view. Furthermore, banks were generally considered to be inefficient and not well organised. All respondents agreed that banks focus on guarantees, which usually have to be worth much more than the credit amount. The exception is for (politically) well-connected families, which can get credit without formal guarantees.

Although no full product analysis has been made, field experts mentioned that credit is usually short-term: less than 4 months for newer and smaller clients, less than 6 month roll-over credits for larger and better-known clients. These types of credit can be useful for traders, but are not necessarily adapted to the needs of producers or other activities that take longer to yield results. These firms require longer-term credit (2-5 years) and grace periods.

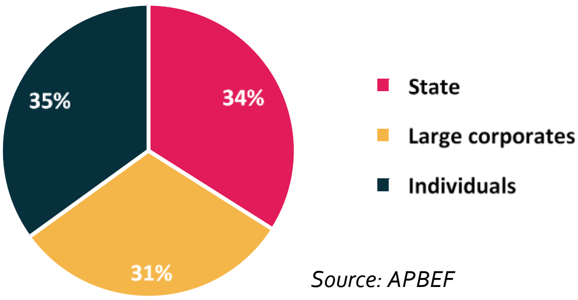
A reason for the short-term focus by banks is the lack of access to long-term funding for financial institutions. In addition, bank staff are widely thought to lack basic business understanding. AfD, for instance, has delivered some training for staff of Société Générale, Orabank and Bank of Africa, and at the time of our conversation, was awaiting the review to assess the results. (Similar efforts in Senegal were thought to have yielded some results, albeit only after much effort).

Other respondents thought that banks lacked interest in funding SMEs because there were so many unrealistic and unfounded credit demands from SMEs. It was considered easier to focus on funding solid SMEs that have already built their capital base or whose owners are well connected. Some funders wondered why people thought that banks should take on so much risk by financing unclear business projects. Their view was that banks should not gamble with clients' savings. Making risky investment was thought to be the role of professional investors.

Not only does a lack of financial detail and a disorganised business approach make it difficult to assess the risk of default, but also the financial authorities were not seen as keen to risk another banking crisis. The one that took place in 1988-1992 affected 78% of loans and cost Benin an estimated 17% of GDP. Hence, banks have to be able to show that they operate prudently. This implies that for larger loans, minimum solvency levels of the funded enterprises have to be taken into account.

Finally, banks are said to be rather liquid (although no liquidity analysis could be performed for this report). Focusing on fee-services such as credit cards directly help the bottom-line, as do secure credits to large companies. According to the June 2016 figures of the Benin banking association (APBEF), 34% of banks' portfolios are with the state—and this is down from a high of 45%, which is even more likely to crowd out lending to the private sector. Thirty-one percent of bank portfolios consist of credit to large corporates, while 35% consists of loans to individuals.

Figure 8: Banks outstanding loan portfolio, 2016



Source: APBEF

In all, bank finance provides only an estimated 4% of the funding needed by SMEs, less than in other West African countries (where it is estimated to be between 5-15%). A reason for this low percentage is that banks have high collateral requirements. The coverage ratio was said to--average 230% of the credit amount in 2009, and this percentage was said to have risen since then. As a result, most SMEs growth is funded through retained earnings.

3.5.2 Funding through microfinance

Apart from banks, microfinance institutions could provide more funding to smaller SMEs. Formal MFIs were introduced in Benin in 1993 by the state to finance business activities of former government employees. The sector went through a crisis of confidence in the early years of the millennium when major players were found to be massively corrupt (i.e. PAPME). Perhaps because of the resulting setback, the microfinance sector is considered underdeveloped in terms of range and sophistication of services offered, limited management capacity in the sector, lack of access to funding and underdeveloped oversight. However, some MFIs are able to fund also smaller SMEs. One example is Finadev, which could provide credit up to FCFA 100m. Given the economic uncertainties however, Finadev has recently reduced its lending limit to FCFA 10-20m. In general, MFIs are currently not expected to be able to play a large role in closing the financing gap for SMEs. Only with the help of a massive capacity building programme and access to long-term funding could MFIs start funding larger sized SMEs, as for instance is happening in Senegal.

3.5.3 Leasing

Leasing is currently not offered in Benin. Bank of Africa closed its leasing activities in 2016 because of a lack of results. In our interview, a BCEAO representative noted that the regional central bank is in the process of trying to make leasing more attractive, and currently exploring successful approaches in other regions.

The main reasons for the lack of a leasing market are:

- In many countries, the VAT received on assets sold by lessors can be deducted from the VAT that had been paid on purchased assets. Although this is legally also the case in Benin, this rule is in reality often ignored by tax officials, making leasing more expensive than it is elsewhere.
- Leasing might work for vehicles, but is less viable for other asset types because the market is small and as a result, there is hardly any secondary market for assets.
- Financial authorities treat leasing companies almost like banks when it comes to reporting requirements. This means that leasing companies need an expensive compliance team. In areas such as East Africa, leasing companies follow a lighter reporting regime since they cannot perform money transfers or attract savings and therefore present a lower systemic risk.
- Leasing is unknown by SMEs and Benin only has a limited number of SMEs large enough to make good use of leasing. Leasing works well for long-term machinery but Beninese SMEs appear more focused on short-term results and therefore investments, partly because long-term funding is not widely available.

3.5.4 Investors

The **international investors** we spoke with did not consider Benin to be a very interesting market at this moment. The economy is relatively small and less developed and less reliable compared to for example East Africa. An exception is made for certain industries such as nuts production/processing; this sector has received several one-off investments. Furthermore, there are also some large scale investments, or placements by social funders, but this is not considered to be part of an active investor community. Such placements regard for instance an investment in a large shopping centre.

There is a small group of outside international investors that sometimes eye Benin, but they lack the required local base to provide the needed oversight for smaller placements. I&P, Proparco and BIO have a few placements in Benin with larger companies (investment €0.3-€1.5m), and respondents mentioned unnamed Dutch and American investors that both went beyond that upper limit.

One difficulty is that investors prefer to provide only part of the required funding needs of their investee, usually long-term capital with high return potential. Local banks need to provide cheaper working capital and trade finance to keep the enterprise going. As discussed in this report, such bank funding is difficult to obtain, which makes Benin less interesting for investors.

Another important disadvantage of investing in Benin is that tax has to be paid when buying and selling holdings, without the possibility to offset these against each other, as is possible in other countries.

Attracting more international investors may not be the right strategy at this stage. As argued in this report, it appears more useful to focus first on building the business capacity of SMEs, followed by the SME-handling capacity of banks. Furthermore, mezzanine forms of funding, (such as debt that can be converted into equity if certain conditions are met), are not considered to help SMEs since the market is not yet practising standard funding practices.

Overall, there appears to be no formal or informal SME-focused investment community in Benin. Several discussion partners mentioned that wealthy Beninese prefer to place their money outside the country, especially when the source of their wealth was unclear. Alternatively, they invest in property. As a result, respondents were not aware of many investments in SMEs by wealthy Beninese and diaspora. I may be that private investors do not know *how* to invest in local SMEs. Hence, it might be useful to organise local investment seminars. Issues to cover could include sourcing investment options, how to perform an investment analysis, follow-up after investments have been made, funding plans for SMEs and handling co-investments to share risks.

3.5.5 State interference

Government interventions/donors: Benin is targeted by donors, probably because of its development status. Their confidence in collaborating with the state was diminished when a €4m government fraud involving Dutch development assistance money was discovered in 2015. Although the issue will probably ebb away, donors are said to have re-oriented their efforts to the business community instead of government activities. Some funders thought that it was difficult to achieve results in Benin -- not because there is a lack of need, but because is perceived as difficult to find well-run projects. The enabling environment (legal support, funding options, regulatory clarity) is considered weak, and weaker than in other countries.

Legal system/financial authorities: Respondents expressed different opinions about the legal system and the financial authorities. Some thought that they could be dishonest and hardly up to the task, while others thought that the outcome of their work was reasonably predictable if one is well-prepared, patient and determined. There was more agreement on the slowness of courts and the difficulty of getting cases moving. Years of delays were not unheard of. There was some understanding that the BCEAO needs to follow the rules, especially given the absence of other clear economic regulators. The central bank therefore sometimes has to make, implement and enforce the rules—as opposed to the more ideal situation where you have different branches of government performing each function.

There was also some agreement that the main goal of the central bank was to avoid costly bank crises, as happened in 1988-1992. This lead to a focus on secured lending in order to minimize the amounts of provisioning required for loans in arrears. However, discussants thought that a better understanding of business realities would enable lenders to move away from only doing loans that look good on paper, and open up more credit to less formalised SMEs.

Furthermore, the central bank plans to introduce the Basel III regulations in 2018. These rules change the risk-weighted provisioning regime for banks. The central bank started to explain the implications of these rules to the banks, although they will have to estimate themselves how this would affect their capital requirements. It is expected that the banks will need to increase their capital base, reduce their credit portfolio, or shift placements to lower risk categories. The latter two approaches would likely shift lending away from SMEs.

Finally, Benin shares a bank supervision approach with seven other West-African countries. A disadvantage is that changes in the rules have to be approved by all members, which takes time. However, member-states have the flexibility to interpret the rules. Hence, the Beninese financial authorities have some latitude to be more market-focused.

3.5.6 SME stumbling blocks

In all, although funders were considered to be lacking, many respondents thought **that SMEs themselves were the greatest stumbling block in obtaining finance**. The problem is not so much their mostly informal status, but rather their lack of transparent accounts or even a clear business approach. Even senior managers of some larger enterprises were said to find it difficult to differentiate between company accounts and their household expenses. Many SMEs practice parallel bookkeeping, sometimes in up to three versions, and have a tendency and incentive to remain opaque in order to diminish taxes. This makes it difficult for banks to assess the risk and repayment capacity of such SMEs. In some cases it is even difficult to assess what activity is to be funded, as companies have different activities in parallel. Furthermore, some funding requests are based on a mere idea, without market knowledge or business plan. These were considered the main reasons that banks prefer basic short-term, guarantee-based working capital credits, rather than the more frequently needed long-term credit to cover investment needs.

As a result of the weak demand for and supply of funding, most respondents said that **enterprises typically have to fund their first 5-7 years mainly with their own money**, sometimes supplemented with limited amounts from family and friends. Later in their development, SMEs continue to use retained earnings as the main source of funds for investment, sometimes with the addition of small amounts available from MFIs. The option to receive bank financing is only available once an enterprise is well-established and able to provide substantial guarantees. This level of stability usually takes years to achieve. Banks also want to establish a relationship with SMEs for 1-2 years before they take their credit requests seriously. Therefore, young/start-up entrepreneurs need not apply.

Analysis and possible solutions

In all, banks were not considered very useful business partners by SMEs. Because of their focus on secured lending, it appears they do not even attempt to evaluate the underlying value or cash flows of potential borrowers. They also lack sector knowledge and function as regulation-focused administrators, not as businesspeople. For agri-businesses, the situation was considered even more difficult, as banks generally lacked agribusiness knowledge and therefore did not focus on that part of the market.

Interestingly, credit costs were not considered to be an important issue in Benin. Even access to funding was considered a secondary issue by our respondents (although the Doing Business Index research regards access to finance as the main issue). Discussion partners considered access to a well-trained and active human resources base to be the most important aspect for having access to funding. Obviously, skilled employees are key to running a business, but they are equally important to help funders understand the business set-up and how the funding will be repaid.

A key issue regarding funding for SMEs appears to be that enterprises are generally disorganised, lack a business plan, and don't have even a basic understanding of accounting and financing needs. Even large SMEs with a turnover of over FCFA 500m were sometimes considered bloated micro-enterprise in terms of business management skills. Many SMEs were thought to focus almost entirely on day-to-day survival rather than having a long-term business vision. Although there are exceptions, these limitations make it generally difficult to fund SMEs.

Finally, given the state of development of the business community and risk and cost involved in SME investing, normally only high growth SMEs would be considered by investors. These SMEs are usually a minority. Hence, even under ideal circumstances, foreign investors can only cover a small percentage of the economy. In the case of Benin, with its limited internal market, it is complicated for SMEs to follow a rapid growth path unless they are export oriented. In all, the potential market for investors in Benin appears limited.

	Description	Actions
Strengths	• With the right contacts and partners there are many business opportunities in Benin • There is a basic funding infrastructure available • Overall understanding of the weaknesses among market participants	• Help setting-up a local investors charter to stimulate local investments • Strengthen MFIs to handle small SMEs • Help the BCEAO to restart leasing (simplify administration and tax difficulties)
Weaknesses	• High PAR at banks • Lack of adequate and efficient courts to handle economic disputes • Lack of interest from foreign investors due to (perceived) risks • Lack of professional staff (especially at SMEs)	• Provide business training to SMEs (long-term task) • Diminish payment delays by state entities (to diminish PAR) • Help overhauling (commercial) courts

3.6. *Business Support: at starting levels*

3.6.1 Formalisation

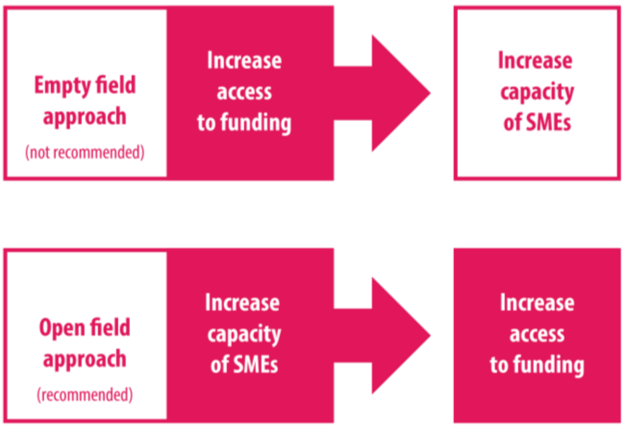
The level of formalisation in Benin is low, but this appears to be less of an issue than in for instance Senegal. The reason is that not many funders appear interested (and have the capacity) to fund SMEs in the first place and that they focus on providing credit based on solid guarantees, without much interest in the level of formality of their clients. The exceptions are the few globally operating banks such as Société Générale that are scrutinised by Western financial authorities; these can therefore only work with clients that reached at least a reasonable level of formality.

Nevertheless, there are some activities to help SMEs to formalise such as GUFE (Guichet Unique pour la Formalisation des Entreprises, linked to APIEX). They focus on providing generic solutions and are estimated to handle 10-50 cases per month. There are also private structures that help enterprises to formalise/professionalise. This regards for instance Songhaï, an organisation that combines training to agri-entrepreneurs and links to funding. This structure can help about 250 people per year (some of which become SMEs), of which they estimate that 60% is still operational after three years.

Also some of the funders (including for instance Finadev and Orabank) can be considered as assistance to enterprise professionalization. The reason is pragmatic; the business skills of many entrepreneurs are limited; helping them to gain basic business skills diminishes the non-repayment risk of these clients.

3.6.2 Expertise

With professionalization a key issue, access by SMEs to experts that can help professionalise is also important. Unfortunately, respondents mentioned that it is already fairly difficult for SMEs in and around Cotonou to find reasonably solid expertise, such as legal, IT and accounting services and marketing firms. Outside the capital, it becomes complicated to find such expertise. The issue is said to be a lack of people that are well trained in practical skills to provide such services and that enterprises prefer keeping activities in their own hands. This is likely related to a cash strapping survival strategy by many (necessity) entrepreneurs, especially in their early years.



Several discussion partners mentioned that it is not worth trying to increase access to funding if SMEs are not better prepared for receiving it. This preparation could also be in the form of funders providing add-on (business development) services to the SMEs they fund. For instance, Songhaï or the University of Abomey use this method. Some people called the preparedness of SMEs to receive funding the *open-field* versus the *empty-field* approach.

3.6.3 Business support providers

Incubators help start-ups or existing enterprises to reach the next level of development. Incubators are hardly developed in Benin. Two options were mentioned, Songhaï (paid by donors, but also by trainees and by profits from its business activities) and a new incubator at the University of Abomey-Calavi, the largest university in the country. The first one seems quite successful, with about 250 (micro-) business developed per year. The second has had seven success stories so far. Government agencies such as APME were interested to know more about the use of incubators.[16] It is noted that incubators need much time per enterprise as they need considerable one-on-one input. Hence, like in other countries, it is difficult for incubators to reach scale and become sustainable. Another mentioned issue was that it was estimated that 60-80% of enterprises do not survive their first years. The mentioned reasons were a lack of business acumen & business skills, no access to funding, but also that people found a job elsewhere.

Although the contacted business enablers (such as Songhaï) were enthusiastic about their goals, they also thought it difficult to achieve high-scale outreach. This is also the experience in other countries. It was also mentioned that investors need much on the ground knowledge and remote investing by foreign funders was not deemed to work, as SMEs are considered to need much business skill input.

Finally, there is some access to commercial support-services such as accountants and marketing firms in Cotonou, but less in other areas of the country. The issue, however, appears that not many SMEs want to use such services. The mentioned reason was that businesses seem not to see value in paying for professional services. Although for cash-strapped enterprises this might be understandable, even larger SMEs seem not to want to pay for long-yielding improvements in business management (i.e. accounting, planning, market research, IT). One respondent called enterprises in Benin to be short-term extraction oriented, instead of long-term value creators

3.6.4 Donors

Donors such as AfD, USAID and the Dutch embassy have a clear interest in diminishing the funding gap for SMEs. Several activities have been undertaken in this field. Some banks, for instance, received assistance in setting-up SME-departments (product development, client assessment tools, improving reporting, risk analysis) and training how to handle clients from AfD and the EU. Donors also provided assistance to SMEs through institutions such as the Chambre de Commerce, with a focus on enterprise formalisation. The involved partners were not yet sure about the results but thought that at least something has to be tried.

The respondents considered that there is a great need to build the capacity of entrepreneurs. This regarded the interest to become one, but specifically their basic business skills. Secondly, the respondents thought that bank staff need much more knowledge on how enterprises operate. This should not only lead to an understanding of business risks, but also in an understanding of

[16] ← explain the use and limitations of incubators to government agencies.

non-financial needs, such as building business plans. Some respondents thought it irresponsible to lend to people with low business skills without also providing practical business trainings.

Finally, several credit guarantee facilities have been set-up, for instance by USAID and BCEAO (for large SMEs). These facilities might lead to additional lending as it diminished the risk profile of clients. However, respondents also thought that banks should first know how to analyse clients before setting-up guarantee funds lest the guarantee fund would be wasted on weak lending (or to lending to solid SMEs that do not need a guarantee). Secondly, respondents thought that it would be more worthwhile to diminish the actual business risk of clients by providing basic business skill trainings to SMEs as discussed throughout this report.

Analysis and possible solutions

Benin appears to be *before* the starting phase of improving access to finance for SMEs. A main reason is that the important transit-trade part of the economy is currently stranded. This has resulted in a turnover squeeze for other sectors. Another issue is that the government has slashed its budget by about 30%, aggravating the squeeze. Because of this situation financial institutions mentioned that they are more restrictive in providing funding, which further aggravates the situation. The new government attempts to diminish corruption and is more business focused (some contacts thought that this regarded their own business interests). Some discussion partners mentioned that one probably has to wait till end 2017 to see more stability.

	Description	Actions
Strengths	• There are some BDS-related interventions • There is awareness among donors, the government and funders that SMEs should be supported	• Develop a BDS-provider database, including certification • Strengthen existing incubators to expand their scale • Involve SMEs in such activities, to ensure that their practical needs are taken into account
Weaknesses	• SMEs are often unaware of their capacity building needs, nor the available BDS-offer • There are insufficient BDS providers, and hardly any funds to stimulate BDS-provisioning	• Set up an information campaign to inform SMEs about the importance of professionalizing their companies (through BDS) • Set up matching grant / voucher system projects to subsidize access to BDS for SMEs • Help setting-up the credit bureau

Table 3: overview of business support in Benin

Type of business support	Target group	Examples	Challenges and difficulties
Incubators and Accelerators	• High growth start-ups • Moderate growth entrepreneurs	• Centre Songhaï • University of Abomey-Calavi	• High costs per beneficiary • Small number of beneficiaries. • Long term sustainability is difficult
Commercial BDS	• High growth start-ups • Moderate growth SMEs • Opportunity-driven SMEs • Gazelles • Large SMEs	Fragmented offer, some BDS is linked to bank finance (i.e. to develop business plans and a basic administration)	Several BDS providers active in the main economic centres, but fragmented and not well known. Many SMEs have difficulties understanding the use of BDS and consider the costs too high. Demand is therefore limited.
Business networks	• High growth start-ups • Moderate growth SMEs	Chambre de Commerce, Labour unions	Not much developed
BDS combined with private investment	• High growth SMEs • Gazelles	Not identified	Investment funds as Acumen or Grassroots Business Fund are not active in Benin, neither are Angel investors

Authors' research

4. Summary and Outlook

There is a clear mismatch between the needs and availability of funding for SMEs, in respect to both the types and amounts. Whereas banks focus on basic, highly collateralised short-term credits, SMEs want longer-term funding to invest in growth and new business prospects. There are not many funding options available in Benin: the investor market is hardly developed; the state, which was previously an important source of funding, is retracting because of a lack of means; and alternative funding vehicles such as leasing are virtually non-existent. This leaves banks and donors as the only funding options.

Some respondents blame the banks for this situation, and the banks in fact have not made much of an effort to capture the SME market. However, banks are also limited by regulations, need to keep a low risk-profile, lack access to long-term funding and in some cases lack capital; all of which contribute to their reluctance to fund enterprises. Moreover, banks have to be prudent with the savings they use; high risk lending might lead to serious losses. Actually, the current portion of bank portfolios that are classified as non-performing is already very high at 22%.

Furthermore, the entrepreneurial support ecosystem of Benin is described by most respondents as consisting of disconnected activities and structures that have been set-up without much cohesion. UNDP, for instance, is considering setting up a guarantee fund and a one-stop-shop, not knowing that already several such structures exist. A coordinated effort is needed to focus on solving structural issues.

4.1. Main observations

The government of Benin has been considering how to accelerate its shift towards a more business-friendly orientation. Previous governments have already taken actions to improve the business environment, such as establishing credit guarantee funds, creating one-stop-shops for business registration, and setting up MFIs, but discussion partners thought these activities were often donor driven, lacked a comprehensive business orientation, or were not set-up or executed in a market oriented approach. The following are the main issues blocking lending to SMEs, as mentioned by the contacted experts, and in order of their perceived importance:

- The lack of professionalism at SMEs much decreases the risk-appetite of funders to finance them
- Banks are not well equipped to finance SMEs (capacity to analyse and understand the financial needs of informal and less well organised companies)
- The legal system is not well-equipped to handle economic disputes
- The current local and regional economic uncertainty does not provide a stable business environment
- The policy environment is complicated, characterized by a multitude of regulations and sometimes undue state meddling

Hence, it is felt that the lack of business acumen among SMEs is their main hindrance to accessing funding. Some funders thought that they would be able to grow their portfolio if they would receive better funding proposals from SMEs, with clear company background information and transparent financials. The frequent legal, economic and policy difficulties were considered to be a fact of business life that could be handled, even if not beneficial for enterprise development. Obviously, increasing the business knowledge of SMEs is a massive undertaking and requires much long-term coordinated effort.

Apart from the generic issues described in this report (tax, legal system, SME-formalisation), there are also specific financial ecosystem issues that contribute to the gap between supply and demand in SME finance:

- **SMEs are not 'bankable':** A main challenge for SMEs in accessing funding is their high degree of informality, which also implies lack of professionalism, organized business management systems and processes, openness and a stable, long-term business approach. This makes it challenging for funders to assess their repayment capacity. It is easier for banks to focus on secured lending, especially because the courts lack knowledge on handling economic disputes, especially if there is no solid collateral. If SMEs could produce clear business plans and financial data for funders, it would go a long way towards increasing their chances of obtaining funding. Most banks already have a high proportion of non-performing loans in their portfolios – on average, 22% of loans are 90 days or more in arrears. This is partly due to a lack of capacity to follow-up on late reimbursements at the banks, but also because the state is late in its payments to suppliers and because the courts take a very long time to process economic disputes. Taken altogether, this is a high-risk situation and in a worst-case scenario, could wipe out the banking sector if, for example, half of the arrears had to be written-off. Therefore, banks are not inclined to consider riskier or unsecured lending to SMEs.
- **Bank reticence:** Banks generally lack access to reasonably priced long-term funding. This makes it difficult for them to provide long-term loans to businesses. Instead, they focus on fee-generating services such as credit cards, which have an immediate positive impact on the bottom-line, and secured lending to large companies. According to the June 2016 figures of the Benin banking association, 34% of bank credit portfolios consist of loans to the state (down from an even higher 45% in 2014), 31% are loans to larger corporates, and 35% are to individuals.
- **Limited investor appetite:** Benin is hardly targeted by international investors, because of its small market-size and the perception that doing business in Benin is difficult, expensive and slow. Moreover, investors need local banks to provide working capital to investees, in order for them to grow and prosper to the extent that they would be good equity investment candidates.

4.2. Looking forward

The main issue limited access to finance for SMEs in Benin is the fact that there are very few solid enterprises that are considered bankable or investable. As long as the root causes of this issue are not addressed, it will be hard to achieve progress no matter how many guarantee funds, credit lines or other interventions are initiated. Some factors that make the situation more difficult to tackle in the short term are Benin's stage of economic development and the low number of sufficiently skilled workers Other challenges that might be tackled in the near term with less difficulty include tax reform. **Hence, although access to finance is listed as the main constraint by many SMEs, the actual challenge for Benin is to support the development of solid, credit-worthy enterprises that can be funded.**

Possible solutions

The two most promising pathways for closing the financing gap for SMEs seem to be (i) helping missing middle enterprises transition out of informality and grow into bankable, investable businesses, while (ii) stimulating more tailored and widespread delivery of financial services to missing middle enterprises. These approaches **require change in more than one ecosystem-domain at a time** to have a chance of success.

Several actions to close the financing gap were advised by the research team and local stakeholders. Looking forward, the suggested solution to improve access to financing for SMEs in Benin is to:

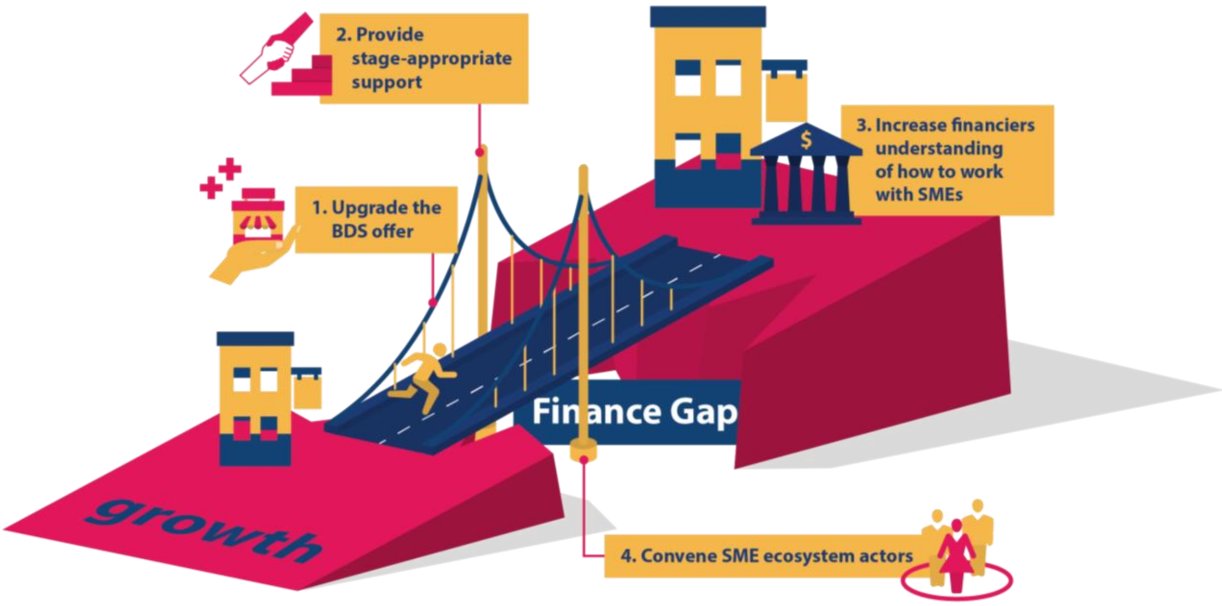
- **Upgrade the quantity and quality of the BDS offer** in Benin. This could start with raising awareness of entrepreneurs on BDS and its benefits, as well as the development of a system to enable access for SMEs to information about good value for money providers.

- **Meet entrepreneurs where they are, with stage-appropriate support**. Local business providers exist but need to be further strengthened in order to effectively accompany entrepreneurs at different stages of development. Aspiring entrepreneurs need to be sensitized and informed about the entrepreneurial journey and possible risks. Existing entrepreneurs should be assisted to professionalise, involving their training, mentoring and coaching on basic business, finance, administration and transparency skills. Without such skills it remains hard for banks to assess the repayment risk of prospective clients.

- **Increase financiers understanding of how to work with SMEs.** It is essential that banks have the capacity to evaluate financial plans of smaller-sized and more informally operating entrepreneurs. One way to achieve this would be to offer practical training in credit analysis and cash-flow based lending to the SME-departments of banks, in order to increase their understanding of how SMEs operate, the market realities they face, and their funding and non-funding business needs.

- **Convene SME ecosystem actors.** While these approaches are initiated, it is recommended to start an 'SME ecosystem working group' with different stakeholders from the field. The goal would be to identify practical needs of SMEs and funders alike, to help determine what steps are needed to improve access to funding for SMEs, and coordinate the activities of different stakeholders. Such steps could include solving important ecosystem issues such as improving the availability of trade finance, re-introducing leasing, and simplifying the tax and regulatory requirements. A dedicated SME working group could pressure the government to play a more pro-active role in defining and working towards the kinds of regulatory changes that would be most helpful to SMEs.

Figure 9: Proposed actionable solutions to close the finance gap in Benin



Annex 1: List of Interviewees

A. Entrepreneurs

Name	Function	Organisation
Jules DJossou	Directeur	Agrotech
Marc Edey	Directeur Marketing	ATC
Adam Adam	Directeur Général	AYA Services
Dominique Sounlin	Administrateur	Benin Gold
Edie Agossa	Responsible Technique	Competence Interim Plus
Godonou Godefroy Dotou	President du conseil d'Administration	Cooperative du Meuble
Léonce Houessinon	Directeur Général	Faith Negoce Trading
Roland Riboux	Directeur	Fludor Benin
Gilles Adamon	Directeur	Natura
Joël Maforikan	Directeur	Quality Corporate

B. SME support structures

Name	Function	Organisation
Nolwenn Bodo	Chargée de Mission Secteur Privé	AFD
Ayinde Soule-Kohndou	Responsable commerce	Ambassade des Pays-Bas
David Quenum	Expert	
Simplice TOGBE	Chef d'Antenne	ANPE
Urbain Amegbedji	Directeur	
Claude Kpêyéton Houansodji	Directeur du Réseau des Structures Formelles d'Appui aux PME	ANPME
Gaëtan Koukponou	Deputy MD	APIEX
Coffi Oura	Chef du service credit	BCEAO
Fabrice Amoussou	Expert finance	BPC
Godfrey Nzamujo	Directeur	Centre Songhaï
Victor Boko Segnihoude	Responsable de la Production	
Dorothé Gounon	Directeur Général Secrétaire Permanent	CePEPE FONAGA

Sahadou Akibou	Audier Financer	CePEPE
Razack Yessoufou	Chef du departement	Chambre de Commerce
Benoît Dandjinou	Chargé de Mission	CIPB
Irene Cocovi Mensah	Chargée de Programme, Croissance Inclusive	PNUD / UNDP
André Engelbertink	Répresentant Pays	SNV / Agriculture Business Center
Bonaventure Agboton	Spécialiste Agriculture et Croissance Economique	USAID
Ricardo Missihoun	Spécialiste en Logistique des Produits de Santé	
Serge Abihona	Directeur Exécutif	UAC Startup Valley

C. Financial players

Name	Function	Organisation
Angelo Erick da Silva	Chef D'Agence	BGFI Bank
Brice Adiffon	Chef Département Réseau des Agences	
Jean Golou	Directeur	Coris bank
Alice Daizo	Head financial institutions	Diamond Bank
Alphonse Sewanou	Charge secteur public	
Narcisse Elegbede	Analyst	Ecobank
Denise Atioukpe	Directrice Générale	Fonds National de la Microfinance
Nicaise Tossou	Directeur National Benin	Oikocredit
Jean De Souza	Expert	Orabank
Germain Tigo	Chef mesofinance	
Luc Morio	Adjunct	Societe Generale
Julien Yanve	Chef service de crédit et engagements	Vital Finance
Thierry Dan	Chef Service Financier et Comptable	

Annex 2: Workshop Participants

The workshop was held at 9 February 2017 at *Chant d'Oiseau* in Cotonou

#	Last name	First name	Organisation
1	Aboe	Aurélie	Etrilabs
2	Adjovi	Vicentia	Young Beninese Leaders Association (YBLA)
3	Agassoussi	Fidele	PADME
4	Agbazagan	Jeanne	Fondation de l'Université d'Abomey Calavi
5	Agossa	D. Edie	Competences Interim Plus
6	Ahomlanto	Jonas Victorien	Canal-Eau
7	Aimavo	Vincent	PAPME
8	Amegbedji	Urbain	ANPE
9	Asso GBA Cherif	Cherif	Finandev SA
10	Atchamou	Wilfrid	Consultant PME
11	Batcho	Barnabé	Fondation UAC
12	Boko	Carmélie	Etrilabs
13	Bootsma	Sandra	MDF -WA
14	Brethenoux	Julia	Triple Jump/DGGF
15	Dadjo	C. Michael	Oikocredit Project Officer
16	Djossou	Jules	Agribenin Tech
17	Edey	Marc	ATC-IB JMC
18	Elegbede	Narcisse	Administrateur / Ecobank
19	Engelbertink	André	SNV-ABC
20	Favi	Jean Bernard	DGC/MICA
21	Gandaho	Eugène	Fruit d' Or
22	Gnamou	N'Tcha	SNV/ABC
23	Gouthon	Louis	Chantiersd'Afrique et equipements
24	Hijazi	Jaad	ATC
25	Honfo	Fernande	VAC
26	Houdjoclounon	Alexandre	ANPME
27	Houndonougbo	Servais	Power Africa
28	Houndonougbo	Sidonie	CCIB
29	Kokou	Bienvenu	SNCI/MICA
30	Koukponou	Gaëtan	APIEX
31	Morio	Luc	Société Générale
32	Patinvou	Pascal	CIPB
33	Pliya	Richard	Africarice
34	Quemum	David	Amb. de Pays-Bas
35	Radji	Anzize	Cepepe
36	Raurell Carulla	Maria	Enclude BV
37	Soule	Ayinde	Amb.de Pays-Bas
38	Tchezounme	Théodore	Young Beninese Leaders Association (YBLA)
39	van Dijk	Harry	Ambassadeur Pays-Bas
40	Vidjannagni Charles	Olusegun	GEN Network
41	Wellen	Lukas	Enclude BV
42	Zoffoun	Richard	PADME

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Annex 4: Glossary

A2E	Access to Electricity
A2F	Access to Finance
AFD	Agence France Développement
AfDB	African Development Bank
APBEF	Benin Banking Association
BDS	Business Development Services
DBI	Doing Business Index
DFI	Development Finance Institutions, e.g. DEG, FMO or Proparco
ECOWAS	Economic Community of West African States (CEDEAO in French)
EIB	European Investment Bank
FCFA	656 Franc CFA = 1 EUR
GCI	Global Competitiveness Index
HDI	Human Development Index
I&P	Investisseurs & Partenaires
IFC	International Finance Corporation
MFI	Microfinance Institution
SG	Société Générale
SME	Small and Medium sized Enterprise
SSA	Sub-Saharan Africa
UEMOA	West African Economic and Monetary Union
WB	World Bank
WEF	World Economic Forum

Annex 5: Methodological Note

#CTG francophone West Africa | Country studies

Overall methodology design

The methodology used for this study builds on existing entrepreneurial ecosystem tools notably the **Babson entrepreneurial ecosystem model** and the associated **ANDE[17] Entrepreneurial Ecosystem Diagnostic Toolkit**, published by the Aspen Network of Development Entrepreneurs (ANDE). The first study for the DGGF #ClosingTheGap series has been piloted in Kenya and has applied a contextualised version of the **ANDE Diagnostic Toolkit**. Based on the lessons learned from this pilot, and by taking into account the specific context of francophone West Africa, the methodology has been customised for the purpose of this study. The key methodological principles are as follows:

- **Intense qualitative data gathering:** The purpose of the ANDE methodology is to provide a diagnostic tool that can be applied in rapid assessment of entrepreneurial ecosystems. However, one of the biggest limitations of this research is the access to up-to-date, reliable and representative data on local enterprise performance and perception of the ecosystem. Primary research and interviews with key stakeholders or a stakeholder workshop are therefore critical to get relevant information and to complement analysis based on existing data sets such as World Bank Enterprise Survey Data[18].

- **Including financier and enterprise perspective**: The ANDE toolkit is designed to perform an overall analysis of potential bottlenecks for local entrepreneurs, and identifies key constraints which merit deeper analysis. As the focus of this research is on access to finance as one of the major bottlenecks to enterprise growth, it has been relevant to also analyse the dynamic behind the mismatch between financiers and entrepreneurs, in particular owners of SMEs. Therefore the analysis includes the perspective of both financiers and entrepreneurs on the different ecosystem domains. This enables to get an in-depth understanding on how the wider ecosystem facilitates or constrains access to finance for the different type of SMEs that operate in the ecosystem.

- **Ecosystem scoring based on multiple indicators from different indexes:** The Kenya pilot utilized the World Bank Enterprise Survey data to conduct an ecosystem analysis based on a total of 30 indicators. Given the fact that statistics for the selected West African countries are often unreliable and there is a wide difference between the various indicators used by indexes, we have used multiple indicators from different indexes (including the World Bank Enterprise Surveys) to analyse the entrepreneurial ecosystem in each target country, through a ready-made tool that uses over 200 different indicators across the ecosystem domains[19]. See also box 1. The tool could be applied to 4 out of the 6 countries that are part of this series; for Guinea and Mali the availability of data was insufficient. For those countries, we have instead considered individual selected indicators such as WB doing business and WEF GCI[20].

- **Six ecosystem domains**: For this study we have followed the Babson entrepreneurial ecosystem model, one of the leading models in the current entrepreneurial ecosystem thinking, which uses six domains). The ANDE Entrepreneurial Ecosystem Diagnostic Toolkit uses eight domains (including separate domains on infrastructure and R&D), however this was considered not to be functional for this study because of (i) Lack of detailed data for the separate domains, (ii) distinctive character of the domains (because of the regional character of this study, domains were included that can show a difference between the six countries).

[17] published by the Aspen Network of Development Entrepreneurs
[18] http://www.enterprisesurveys.org/
[19] Developed by Enclude for InfoDev
[20] World Economic Forum Global Competitiveness Index

The six ecosystem domains and key indicators are presented in the table below

Culture; *is the culture enabling entrepreneurship?*

- Entrepreneurial spirit
- Women and youth entrepreneurship
- Ethical behaviour of firms

Finance; *can the entrepreneur gain access to debt, equity and other products?*

- Availability and accessibility of debt finance for SMEs
- Availability and demand for equity for SMEs
- Availability of financial support instruments and structures (guarantee funds, credit bureau etc.)

Human capital; *are the required human resources accessible for entrepreneurs?*

- Enrolments at primary, secondary and tertiary levels, quality of education
- Extent to which entrepreneurship is included in education
- Availability of on-the-job training, workers offered formal training
- Availability of (informal) training and mentoring (e.g. business angels, role-model entrepreneurs)

Policy; *are policies enabling and facilitating entrepreneurship?*

- Political and economic stability of the country
- Regulatory framework (ease of doing business, formalisation of SMEs, bribery)
- Government interventions to support SME development

Markets; *do entrepreneurs have sufficient business opportunities*?

- Access to national, regional and international markets
- Infrastructure (electricity, transport, ICT)
- Real annual sales growth, annual employment growth

Support; *do entrepreneurs have access to SME support services?*

- Availability, accessibility and quality of incubators/ accelerator programmes
- Availability, accessibility and quality of commercial BDS providers
- Networks, platforms and associations.

Research steps

The country studies have been implemented in 3 phases:

PHASE 1: BASIC ECOSYSTEM SCORING (DESK STUDY)

In order to map these domains and identify solutions and opportunities for improvement in the entrepreneurial ecosystem, first a **desk study** was undertaken. The desk study had different components; firstly we have analysed how the country scores compared to other countries in Africa (using the tool, or by looking into specific reliable sources notably the WB doing business indicator, WEF Global Competitiveness Index and UN Human Development Index.

In addition, secondary information was collected from research reports and publications including the WB Enterprise Survey[21] and other available enterprises surveys. Finally some pre-mission interviews were held with several key stakeholders such as donor representatives, financial service providers and entrepreneurs. This provided a good first overview of the key elements of the entrepreneurial ecosystem in the country. Intermediate findings were shared

PHASE 2: IN-COUNTRY DATA COLLECTION

After the desk study, a **field visit** of one week took place where representatives from various ecosystem domains were interviewed (included in Annex 1 of the report).

These discussions enriched the information from the desk study, and uncovered the root causes explaining the existence of a 'missing middle'. In addition, it has helped to identify some of the key important stakeholders (organisations and individuals) in the ecosystem that act as frontrunners in the development towards more conducive ecosystem.

PHASE 3: WORKSHOP, CONCLUSIONS AND REPORTING

These and other relevant stakeholders were gathered at a **workshop**, to validate the findings from the study, and come up with concrete solutions that are 'owned' by local stakeholders. An interactive format was used whereby participants work in small groups to start prototyping potential interventions and to come up with concrete intervention outlines.

The results from the research and workshop are presented in a report that is highlighting the financier and SME perspective of the six ecosystem domains, in order to reveal the reasons behind the reasons. Focus of the conclusions is on deriving possible action points to overcome certain barriers that are identified by the research team and raised during the workshops.

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[21] DGGF is partnering with the Enterprise Survey Unit of the World Bank to undertake enterprise surveys in the countries covered by the current assignment. The findings from this survey are being used in this report[21], acknowledging the bias of these data towards formal, and therefore larger and more professional firms

Box 1: Ecosystem scoring grid

Rationale for developing an ecosystem scoring grid

- Entrepreneurships **ecosystem scorings** differ in their results, especially when developing countries are concerned. E.g. Uganda scores as the best entrepreneurship ecosystem according to GEM, while scoring as one of the lowest according to GEDI's list.
- **GDP/capita levels** do not necessarily reflect the extent to which a country has suitable conditions for entrepreneurship. Especially under $20,000 (=developing countries)

	FINANCE	MARKETS	SUPPORT	HUMAN CAPITAL	POLICY	CULTURE	Average 6 domains
FRANCOPHONE WEST AFRICA							
Senegal	3,59	5,00	5,35	5,49	5,67	6,16	**5,21**
Cote d'Ivoire	2,93	4,64	5,51	5,24	4,66	4,14	**4,52**
Cameroon	3,50	4,62	4,90	4,77	3,61	3,92	**4,22**
Togo	3,21	3,81	3,94	4,59	5,04	4,60	**4,20**
Benin	2,62	3,99	2,82	4,19	3,04	5,33	**3,66**
Burkina Faso	2,61	3,33	3,35	2,50	4,28	5,46	**3,59**
ANGLOPHONE WEST AFRICA							
Nigeria	3,64	5,35	2,59	4,43	4,21	4,25	**4,08**
Ghana	4,22	5,25	4,02	5,98	5,08	5,81	**5,06**
EAST AFRICA							
Rwanda	5,05	5,23	5,99	6,05	7,99	7,74	**6,34**
Kenya	5,96	6,64	6,09	6,46	4,93	5,38	**5,91**
Ethiopia	2,96	3,34	4,33	4,26	5,20	6,46	**4,43**
Uganda	3,89	4,12	4,21	4,09	4,63	5,23	**4,36**
Madagascar	2,86	3,82	3,87	3,87	4,17	6,31	**4,15**
Tanzania	3,10	4,19	4,03	3,50	4,34	4,24	**3,90**
SOUTHERN AFRICA							
South Africa	6,90	7,68	7,25	6,52	7,85	6,25	**7,08**
Botswana	6,16	4,74	5,14	5,42	7,23	6,50	**5,86**
Namibia	5,36	4,94	5,59	4,81	6,91	6,50	**5,68**
Zambia	3,31	5,24	4,84	6,23	6,05	6,31	**5,33**
Mozambique	2,57	4,10	4,81	3,78	5,17	4,59	**4,17**
Malawi	3,43	3,09	4,06	3,97	4,71	4,83	**4,02**

- **Poor numbers** problem: data collected for entrepreneurship surveys not always reliable (small sample size, biased selection), combining different datasets can level out the unreliability.

Our approach

- Using **multiple indicators** from different indexes and combining these along the lines of the 6 domains of entrepreneurial ecosystems (Babson model).
- In order to make scores comparable, they have been **normalised** them: re-calculated the scores on a 0-10 scale.
- Also, the ecosystems were scored **relative to each other** within the sample of SSA countries
- For each of the 6 domains identify a set of indicators to determine the advancement of the specific ecosystem feature. Sources used:
  - Global Competitiveness Index (GCI), World Economic Forum
  - Global Entrepreneurship and Development Index (GEDI), George Mason University
  - Enterprise Survey (ES), World Bank
  - Doing Business (DB), World Bank
  - Global Innovation Index
  - Legatum Prosperity Index

Countries

The ecosystem scoring tool could be applied to 4 out of the 6 countries that are part of the #CTG francophone West Africa country studies. The scoring was done for Senegal, Ivory Coast, Togo and Benin. Data were insufficient to do a reliable scoring for Guinea and Mali.

Annex 6: World Bank Doing Business Indicators

Ranking of West African Countries

Doing Business Indicators / West African countries	Global DB # rank	SSA DB # rank	Start a busi-ness	Get constr. permit	A2E	A2F	Reg. property	Paying taxes	Cross-border trade	En-force contr.	Re-solve insolv.
Total number	*190*	*48*	*48*	*48*	*48*	*48*	*48*	*48*	*48*	*48*	*48*
1. Ghana	108	10	17	15	9	4	5	16	29	17	35
2. Cabo Verde	129	13	14	12	17	21	4	11	13	2	46
3. Mali	141	17	16	25	22	33	24	25	7	32	13
4. Côte d'Ivoire	142	18	5	45	13	25	16	38	27	13	6
5. Gambia	145	19	37	18	24	19	20	33	12	15	22
6. Burkina Faso	146	20	7	4	42	28	25	27	8	35	18
7. Senegal	147	21	12	23	29	32	27	39	19	24	15
8. Sierra Leone	148	22	10	20	37	39	35	21	35	12	33
9. Niger	150	23	11	42	31	34	21	28	20	29	16
10. Togo	154	25	21	43	20	36	47	31	14	25	9
11. Benin	155	26	6	7	35	27	39	37	21	38	20
12. Guinea	163	32	23	34	27	29	26	43	32	18	19
13. Nigeria	169	37	27	38	41	8	46	40	41	23	28
14. Guinea Bissau	172	38	39	31	43	30	29	26	28	36	42
15. Liberia	174	39	3	39	38	16	44	18	45	41	43
Top 5 in SSA											
Mauritius	49	1	4	2	4	7	10	1	4	1	1
Rwanda	56	2	8	32	7	1	1	5	6	10	7
Botswana	71	3	32	3	11	11	3	6	3	21	4
South Africa	74	4	22	11	5	10	12	2	25	16	2
Kenya	92	5	19	29	3	3	19	14	9	8	10

Annex 7: WEF Global Competitiveness Index

Benin 124th / 138

Global Competitiveness Index
2016-2017 edition

Key Indicators, 2015

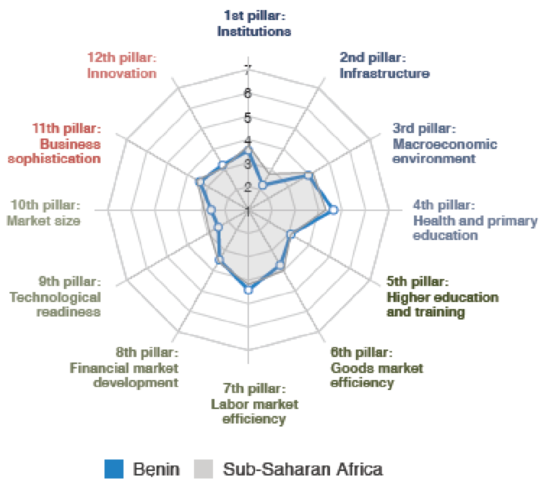
Source: International Monetary Fund; World Economic Outlook Database (April 2016)

Population (millions)	10.9	**GDP per capita** (US$)	780.1
GDP (US$ billions)	8.5	**GDP (PPP)** % world GDP	0.02

Performance overview

	Rank / 138	Score (1-7)	Trend	Distance from best
Global Competitiveness Index	124	3.5		
Subindex A: Basic requirements	122	3.6		
1st pillar: Institutions	95	3.5		
2nd pillar: Infrastructure	128	2.2		
3rd pillar: Macroeconomic environment	111	4.0		
4th pillar: Health and primary education	116	4.6		
Subindex B: Efficiency enhancers	125	3.3		
5th pillar: Higher education and training	117	3.1		
6th pillar: Goods market efficiency	126	3.7		
7th pillar: Labor market efficiency	50	4.4		
8th pillar: Financial market development	106	3.5		
9th pillar: Technological readiness	129	2.5		
10th pillar: Market size	123	2.6		
Subindex C: Innovation and sophistication factors	107	3.3		
11th pillar: Business sophistication	116	3.4		
12th pillar: Innovation	86	3.2		

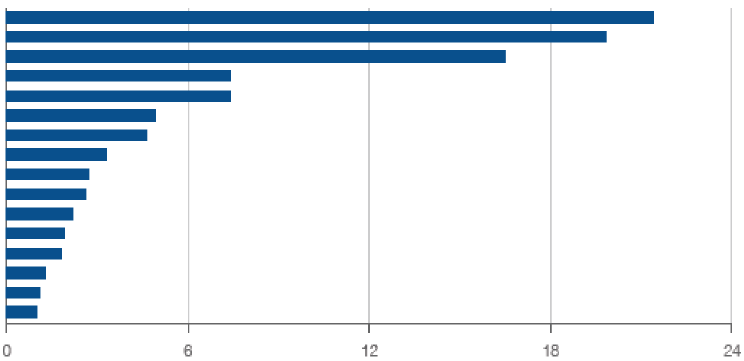
Edition	2012-13	2013-14	2015-16	2016-17
Rank	119 / 144	130 / 148	122 / 140	124 / 138
Score	3.6	3.4	3.5	3.5



Most problematic factors for doing business

Source: World Economic Forum, Executive Opinion Survey 2016

Access to financing	21.4
Corruption	19.8
Tax rates	16.5
Tax regulations	7.4
Inefficient government bureaucracy	7.4
Restrictive labor regulations	4.9
Poor work ethic in national labor force	4.6
Inadequate supply of infrastructure	3.3
Insufficient capacity to innovate	2.7
Policy instability	2.6
Inflation	2.2
Crime and theft	1.9
Foreign currency regulations	1.8
Inadequately educated workforce	1.3
Government instability	1.1
Poor public health	1.0



Note: From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.

Benin

#ClosingTheGap

KEY CHALLENGES FOR THE 'MISSING MIDDLE'

Assessment of the entrepreneurial ecosystem in Benin

Market

Finance

Culture

Human Capital

Support

Policy