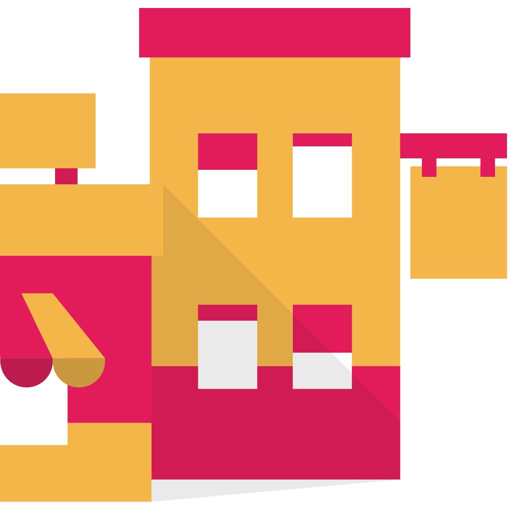
Francophone West Africa

KEY CHALLENGES FOR THE 'MISSING MIDDLE'

IN BENIN, GUINEA, IVORY COAST, MALI, SENEGAL AND TOGO



#ClosingTheGap

Assessment of the
entrepreneurial ecosystem
in Francophone West Africa

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Disclaimer:
#ClosingTheGap francophone West Africa has been commissioned on behalf of DGGF as part of the ClosingTheGap series of entrepreneurial ecosystem assessments. The findings and recommendations are at the discretion of the consultants -Enclude - and do not necessarily reflect the opinion of DGGF and/or its partners.

Contents

1. Introduction

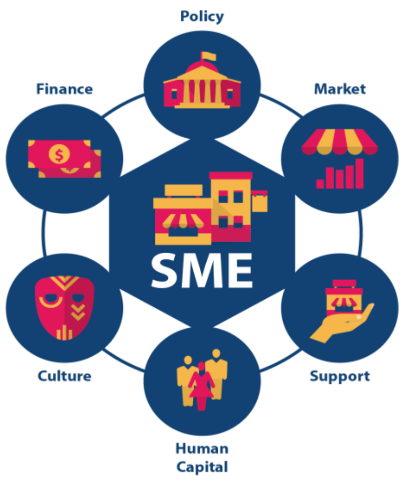
1.1. *Objective of the Study*

This study has been conducted on behalf of the Dutch Good Growth Fund (DGGF)[1], an initiative of the Dutch Ministry of Foreign Affairs. This study was commissioned to get a better understanding of the 'missing middle' in the francophone West African region - that is, of those entrepreneurs that have outgrown microfinancing but do not yet have access to conventional financial services. In-depth country studies were undertaken in Benin, Guinea, Ivory Coast, Mali, Senegal and Togo.

This report provides a regional overview derived from the key findings and conclusions of the country studies. It presents practical insights and critical analysis of the trends and findings in terms of success factors and gaps in each country's entrepreneurial ecosystem related to SME growth and access to finance.

1.2. *Entrepreneurial Ecosystems*

An entrepreneurial ecosystem includes physical, intellectual, and financial capital, formal and informal networks, and cultural norms which collectively create the environment in which entrepreneurs act. Gathering a good understanding of the ecosystem(s) in which entrepreneurs operate is essential to be able to better understand the constraints of missing middle entrepreneurs and push for possible actions that can stimulate their growth.



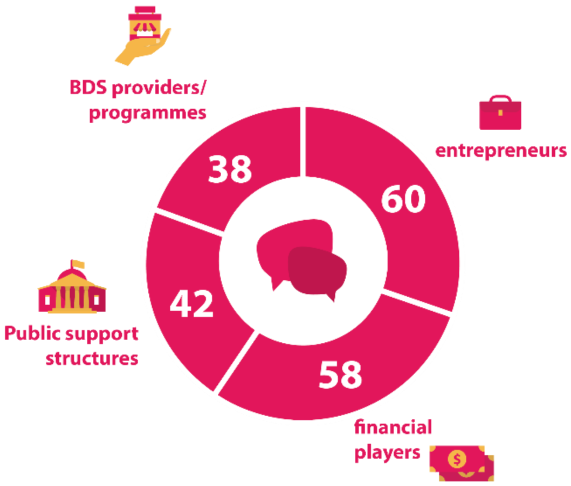
The ecosystems of the six countries have been analysed following six different ecosystem domains.

The **six ecosystem domains** studied are:

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

[1] http://english.dggf.nl/investment-funds-local-smes

Figure 1: Number of local stakeholders interviewed

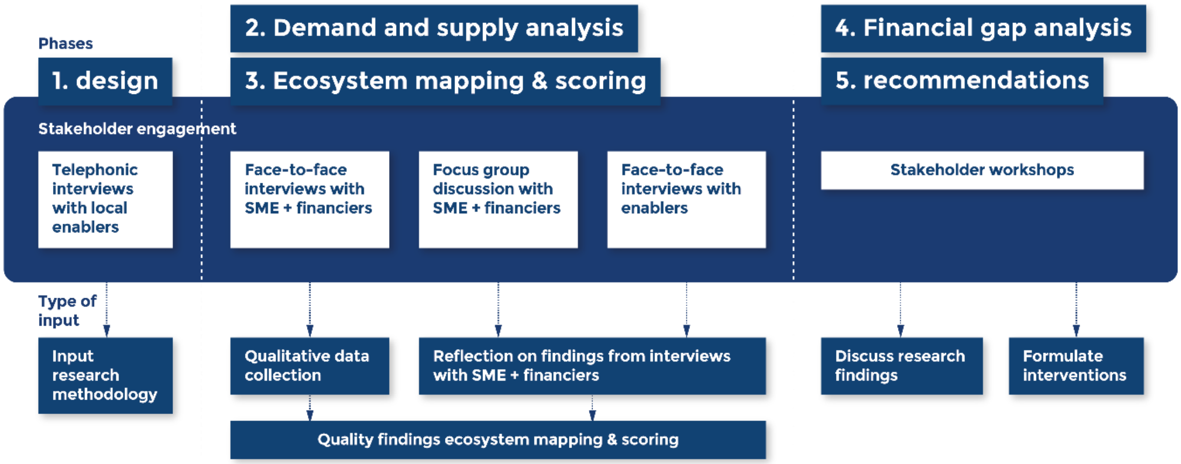


Desk studies were completed and in total 198 local stakeholders were interviewed (see figure 1).

In each country, a group of 30-60 entrepreneurs, financial institutions, international organizations, business associations and business development service providers – both from the public and the private sector – were gathered in local workshops. During these workshops, opportunities and challenges in each country ecosystem, and possible solutions to close the financing gap were discussed.

Figure 2 depicts how we have engaged with local stakeholders throughout the implementation of the assignment and what type of input has been generated during our interactions with the stakeholders mentioned above. More information about the methodology can be found in Annex 1.

Figure 2: Overview of research method



2. Overview of Francophone West African Entrepreneurial Ecosystems

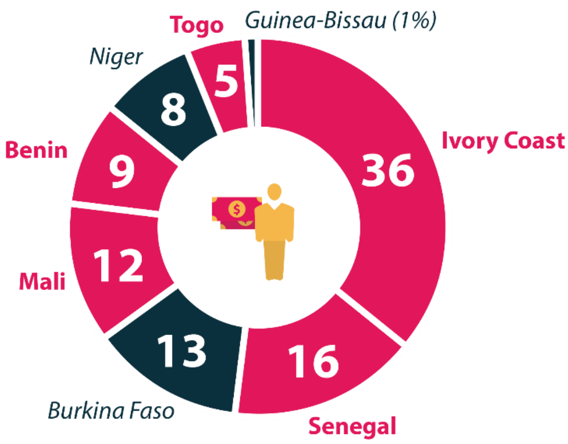
2.1. Overview of the Region

The West African region consists of 15 nations, 8 of which are former French colonies[2]. With a population of around 370 million[3], West Africa is home to 5% of the world's population and **the fastest growing region in the world**. About 130 million people live in the Francophone countries of West Africa. The region depends heavily on imports of fuel, industrial raw materials, capital goods, consumer goods and food products.

The countries selected for this study are Benin, Guinea, Ivory Coast, Mali, Senegal and Togo. The francophone heritage and the period of colonial rule have had a strong impact on the political structures, public policies and the cultural development in these countries.

All countries in this study, except for Guinea, are part of the West African Economic and Monetary Union (UEMOA), which was established to promote economic integration among countries that share the CFA franc (FCFA) as a **common currency**, which is pegged to the Euro.

Figure 3: GDP and trade flows UEMOA



The countries are classified as low income (Benin, Guinea, Mali and Togo) or lower middle-income countries[4]. **Ivory Coast and Senegal dominate the UEMOA and account for over half of the GDP and trade flows** (see figure 3).

Some countries are still considered fragile due to recent insurrections or political tensions (Mali, Ivory Coast) or the Ebola crisis in 2014/2015 (Guinea). These events impact the activities, development and growth of the local private sector.

[2] West Africa is defined as all members of ECOWAS. Mauritania was a founding member, but left in 2002.
[3] http://www.worldometers.info/world-population/western-africa-population
[4] As of 1 July 2016, low-income economies are defined as those with a GNI per capita, calculated using the World Bank Atlas method, of $1,025 or less in 2015; lower middle-income economies are those with a GNI per capita between $1,026 and $4,035

Most governments have an increasing attention towards a market driven development strategy and some public agencies dedicated to SME development are operational. Also, new and more adequate services that are attached to already existing entities, such as the establishment of one-stop shops, are increasingly available for entrepreneurs.

Another recent development is the growing amount of Public Private Partnerships dedicated to support SME development, which has proven to be successful in several cases. A new direction like this takes time to implement, and impact on the ground is only partial at this point, in terms of progress toward widespread professionalization and growth of SMEs.

Table 1: Key facts on economic performance and business environment

Country	Population (million) (2016)	GDP per capita (USD) (2016)	GDP growth (2015-2016)	Ease of doing business ranking (1(best) -190) (2017)	Top 3 constraints for formal businesses (2016)
Benin	11	789	1.1 %	151	• Access to Finance • Electricity • Informal competition
Ivory Coast	24	1,526	6.1 %	139	• Access to Finance • Political Instability • Informal competition
Guinea	12	508	2.6 %	163	• Political instability • Customs and Trade • Tax rates
Mali	16	780	2.3 %	143	• Political instability • Access to Finance • Electricity
Senegal	15	958	3.6 %	140	• Access to Finance • Informal competition • Electricity
Togo	8	579	2.3 %	156	• Tax rates • Access to finance • Political instability

Source: World Bank

In Word Bank's Doing Business Index[5], which is based on a weighted average of several factors, all selected countries can be found at the lower end of the rankings, and in the middle segment of the Sub-Saharan region (positions 17-32 out of 48). However, there is variation in specific indicators. For instance, Ivory Coast and Benin score relatively well in the global ranking of 'setting up a business' (both countries have one-stop-shops to facilitate access to relevant information notably the creation of an enterprise as a legal entity), in particular when compared to Guinea and Togo. Likewise, Benin scores well in 'getting a construction permit', whereas Ivory Coast and Togo score poorly[6]. Table 1 shows the ranking and key facts on the economic performance and ease of doing business for each country.

[5] This is not an 'ecosystem index', but looks at key factors supporting or hindering doing business
[6] Scores based on screening on-paper and not based on qualitative assessments in the field

2.2. The SME landscape in Francophone West Africa

The definition of SME differs per country, but the most broadly used definition by the countries included in this study, is firms with 5-100 employees and annual turnover of between 5,000-500,000 EUR[7]. According to this definition, these firms are typically looking for financing of 30,000 – 300,000 EUR.

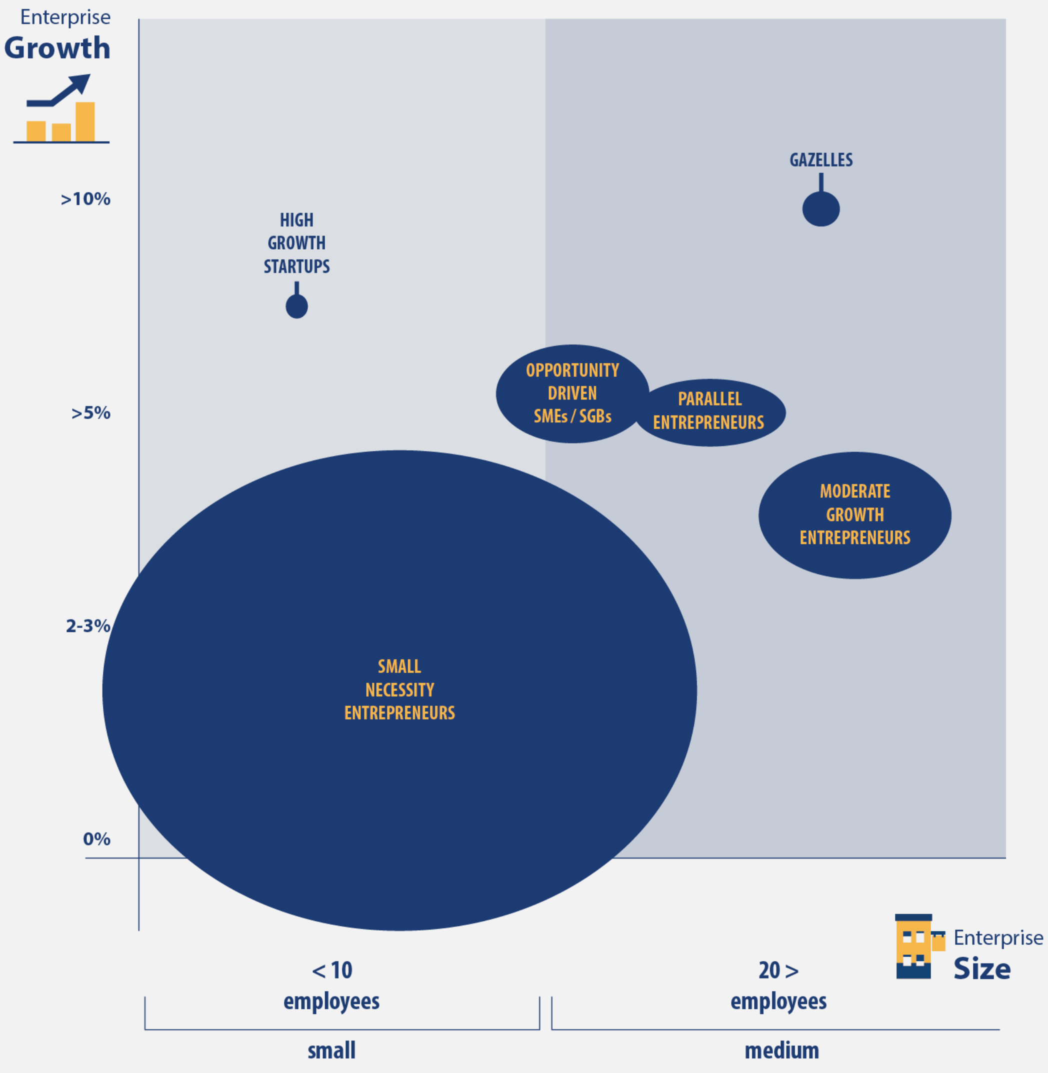
Relatively little is known about the size and composition of the SME sector in the studied countries. This is largely the consequence of the wide-spread informality of small enterprises, which means that they are unlikely to report business results to any official channels. The degree of informality differs per country, but overall between 70-90% of SMEs in francophone West Africa are estimated to be operating informally. Informality often goes hand in hand with weak accounting practices, lack of written contracts and is thus a major constraint for firms that need financing. At the same time, it is difficult for formal enterprises to compete with informal firms that operate at lower costs as a result of tax avoidance and savings associated with much lower expenditures on recordkeeping and compliance.[8]

SMEs are not a homogeneous group. They differ greatly in terms of degree of formality, size, experience, market orientation and related funding needs. Sub-segmentation of SMEs according to enterprise size and growth highlighted five types of entrepreneurs in francophone West Africa[9]. All sub-segments are present in each of the six countries, but differences exist in terms of their size (in terms of turnover and number of employees) and prevalence. Each SME segment has a distinctive funding need and thus would benefit from customised support.

[7] Turnover figures are significantly lower than in the definitions used internationally, which includes firms of up to €1 million at least.
[8] Source: World Bank Enterprise Surveys
[9] Segmentation based on Intellecap analysis of World bank enterprise survey data, 2015 ClosingTheGap Kenya

The lion's share of the SMEs in francophone West Africa consists of smaller low-growth enterprises – followed by traditional, often family-owned, businesses with moderate growth prospects.

- **Small necessity entrepreneurs**
  Barely larger than a micro enterprise, these firms are established to provide a livelihood for the owners' family. They are mostly informal, characterized by slow growth rates, and since their purpose is subsistence-driven, they often have limited business management skills and lack strong entrepreneurial drive for growth.
- **Moderate growth entrepreneurs**
  These are traditional firms offering a product or service with a stable demand, but usually not deploying innovative products or production techniques. They are also typically not targeting new markets. They are often family businesses with a higher rate of formality.
- **High growth start-ups**
  This group is typically dominated by young entrepreneurs, often starting a business in the technology sector. They typically have very few employees. In Senegal and Ivory Coast this segment seems to be relatively larger than in the other 4 countries.
- **Opportunity driven SME's**
  This segment is made up of entrepreneurs engaging in opportunistic business behaviour, copying successful business models observed elsewhere and regularly switching or adding new activities. This group includes entrepreneurs that run several businesses at once (known as **parallel entrepreneurs**) and who will often own small businesses in a variety of sectors and industries.
- **Gazelles**
  Gazelles are successful start-ups that have made the move from small to mid-size firms in a very short time, thanks to high annual growth rates around 10%. Usually formally registered, they typically have 20-100 employees, have achieved a mature financial performance, and are headed by a strong business leader.



Source: Adapted from Intellecap, 2015 and authors' research

3. Financing Gap

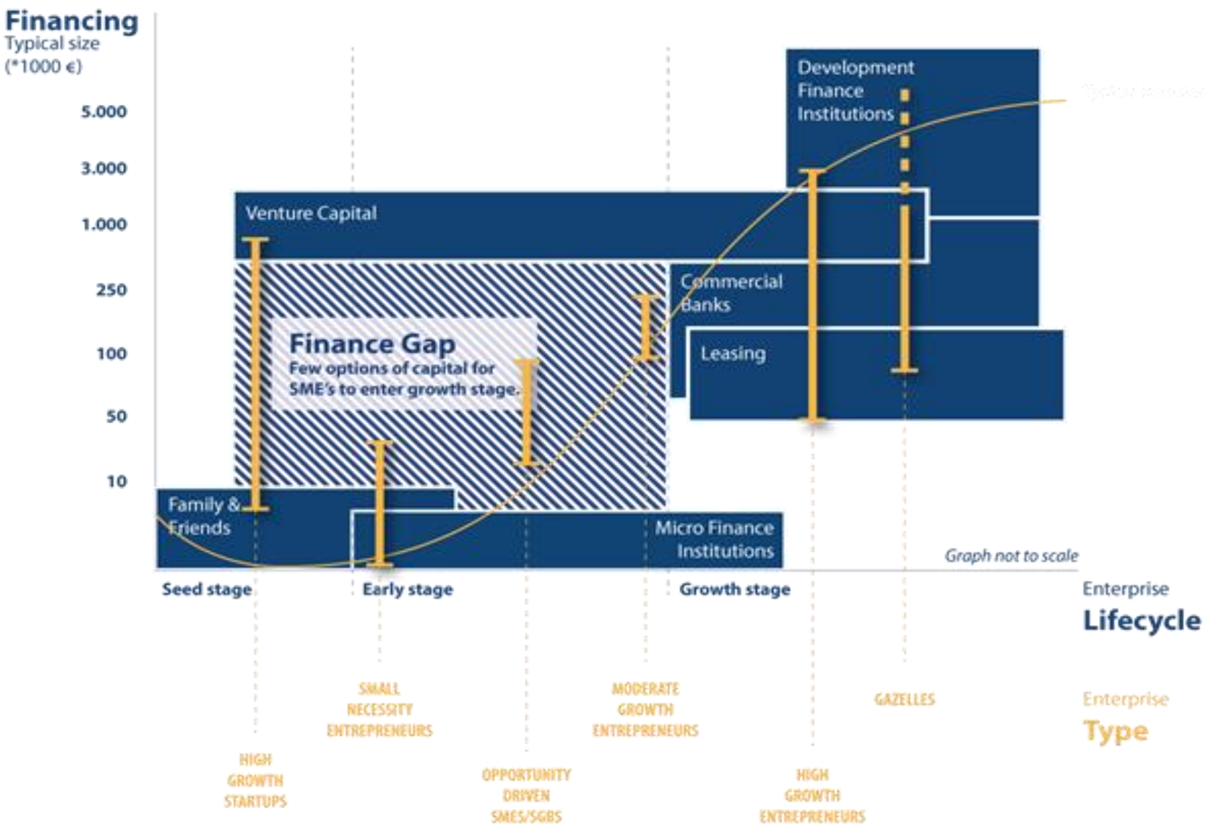
The breadth of the financial ecosystem differs by country but is quite limited when comparing francophone West Africa to Anglophone countries in the region, or other African regions.

Box 1: Financial landscape in francophone West African countries:

- **Banks** are quite well represented with between 10 and 25 commercial banks in each country. The major banks are similar across all countries (e.g. Ecobank, Societe Generale and Orabank). Few banks operate outside the capital cities. Banks can cover only a small part of the investment needed by SMEs. In some countries (e.g. Senegal, Ivory Coast) banks have set up SME departments to focus on SMEs (e.g. Ecobank and Orabank) however they mainly focus on small loans of short tenor. The SME share usually does not exceed 10% of total bank loan portfolios.
- **SME Banks**, i.e. banks focused on SME lending, exist in Senegal, Ivory Coast and recently in Mali, but they tend to focus on narrow segments of the market, such as high growth SMEs in commodity markets, or they have a limited offering that does not address the bulk of SMEs' particular needs.
- **Microfinance institutions** are usually well represented in the market, with 15-25 institutions in each country, but their small loans do not provide the growth finance needed for SMEs to take off. At the same time, these loans are available only for short periods - up to 12 months. MFIs are increasingly moving into individual loans and higher amounts, and have in some very rare occasions gone as high as €50K (however with limited uptake).
- **Leasing** is in its infancy in most countries (e.g. Guinea, Togo, and Mali) and practically non-existent in Benin. In Senegal and Ivory Coast, there is a growing presence of leasing firms; there is, however, still a strong focus on vehicles and individual consumption rather than providing support to manufacturing SMEs.
- **Private equity and venture capital** are becoming more and more relevant for larger formal, SMEs in Ivory Coast (a dozen of firms) and Senegal (a handful of firms). In the other countries these products are virtually unknown.
- **Angel investors** and other sources of private financing are only nascent and taking root very slowly, mostly in Ivory Coast. Public entities like the Chamber of Commerce have started implementing investment clubs to attract and organize individual investors (e.g. in Ivory Coast).

Across all countries studied, there is clearly a **gap in financing** when comparing the few financial products available given the needs of the different SME segments. Micro-finance and family and friends are the main financial sources for smaller and newer business, but only up to a certain point which is relatively small-scale. Local SMEs have limited access to debt funding – especially long term debt – which is the product they feel they need. Some high growth enterprises and gazelles have access to both equity and debt, but most other SMEs remain underserved or unserved by the current financial providers. In all countries there is a huge gap in start-up and early stage funding, partly due to the very limited presence of angel investor networks, start-up funds and crowd-funding mechanisms.

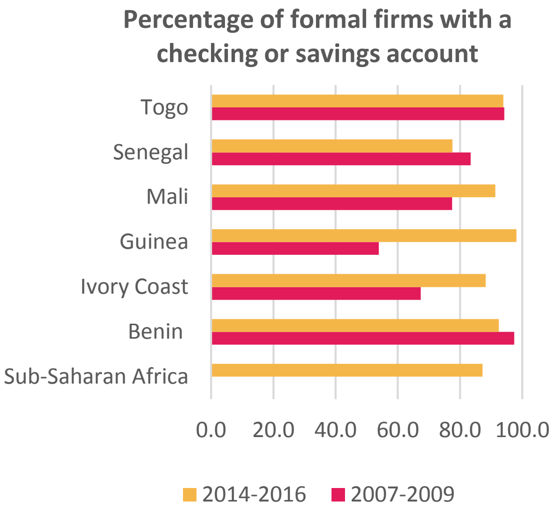
Figure 4: Schematic representation of the financing gap for SMEs

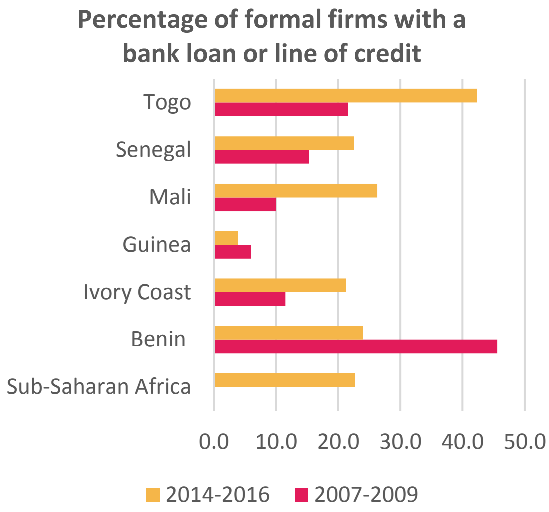


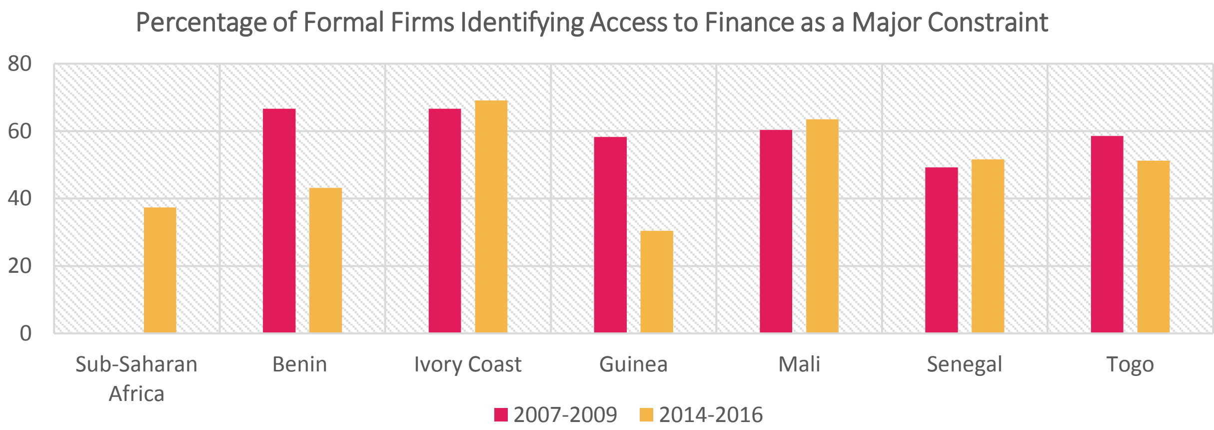
Source: Authors' research

The World Bank Enterprise Survey, which only includes formal businesses, shows that access to a bank loan has improved considerably in all countries except Benin and Guinea over the past 5-7 years. This sample is not representative of the whole SME sector, as it does not include rural and informal enterprises, but even so it reveals that between 30 and 70% of larger and more formal SME firms still consider access to finance a major constraint. See figure 5 for more details.

Figure 5: Key facts on access to finance for formal enterprises







Source: World Bank

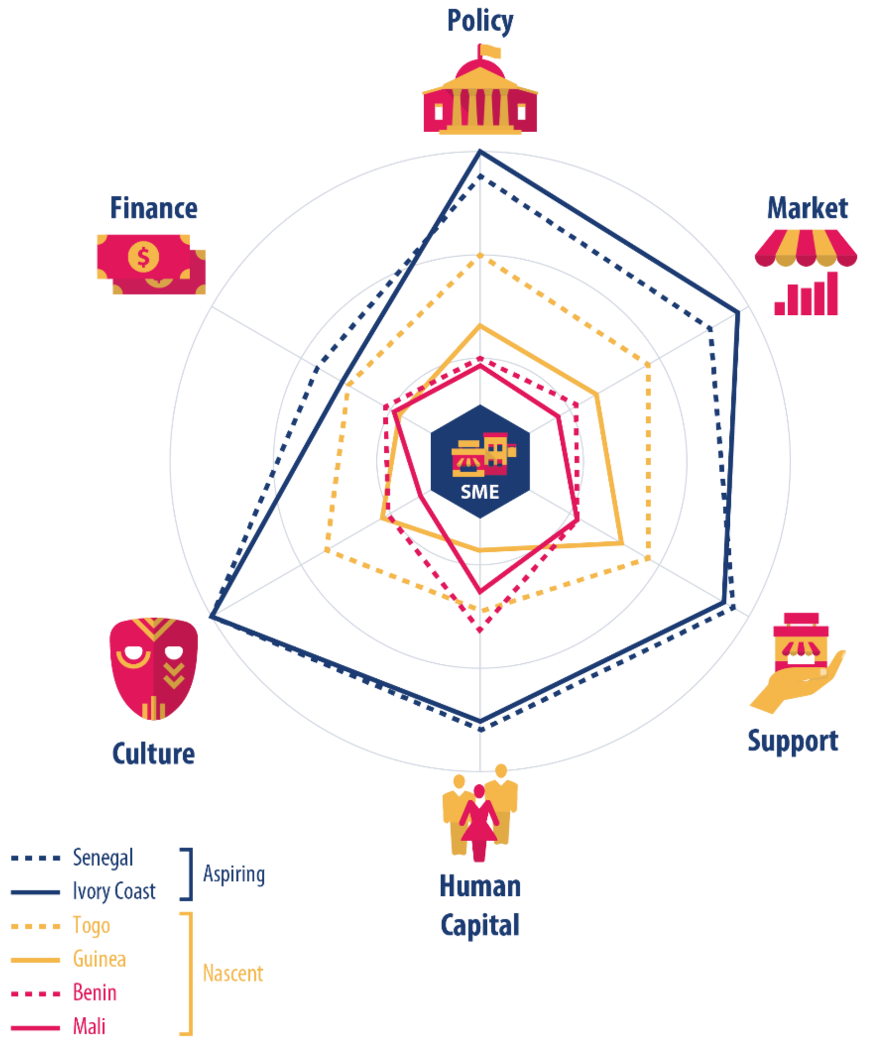
3.1. Key factors explaining the financing gap

In order to explain the financing gap, the entrepreneurial ecosystems in the six countries have been mapped, and the ecosystem domains scored by using quantitative data (multiple indicators from different indexes[10]) and validation through qualitative information in the field. As can be seen from figure 6, the 'finance' domain is scoring particularly low for all countries, underlining the challenges in the financial ecosystem.

When comparing the strengths and weaknesses across the 6 ecosystem domains in the countries studied[11], two ecosystems consistently score better on all domains, namely Ivory Coast and Senegal. These countries have a more mature or **'aspiring'** ecosystem. The other four countries can be characterized as having a **'nascent'** entrepreneurial ecosystem**.**

[10] For more information, see methodological note in Annex 1
[11] For more details, please check the country reports that are available on http://english.dggf.nl/

Figure 6: Ecosystem domains scoring



This study has researched the root factors that explain the scoring of the ecosystem domains and thus are influencing access to financing for SMEs. Some of these key factors are **systemic issues,** others are more operational issues that can be solved on a shorter term. Although differences exist in the six countries, overall leading factors were found in the **cultural, support, policy and finance domains**.

Culture and Support

- **Weak entrepreneurial culture:** The development of the private sector and an associated entrepreneurial culture are emerging slowly. But a strong entrepreneurial vision and mind-set is not yet embedded in the local cultures. And although successful entrepreneurs exist in each country, their stories are not conveyed to aspiring young entrepreneurs.
  Business incubators and accelerators exist, more in some countries than others, but they fall short of meeting the need for business support from the local enterprises.

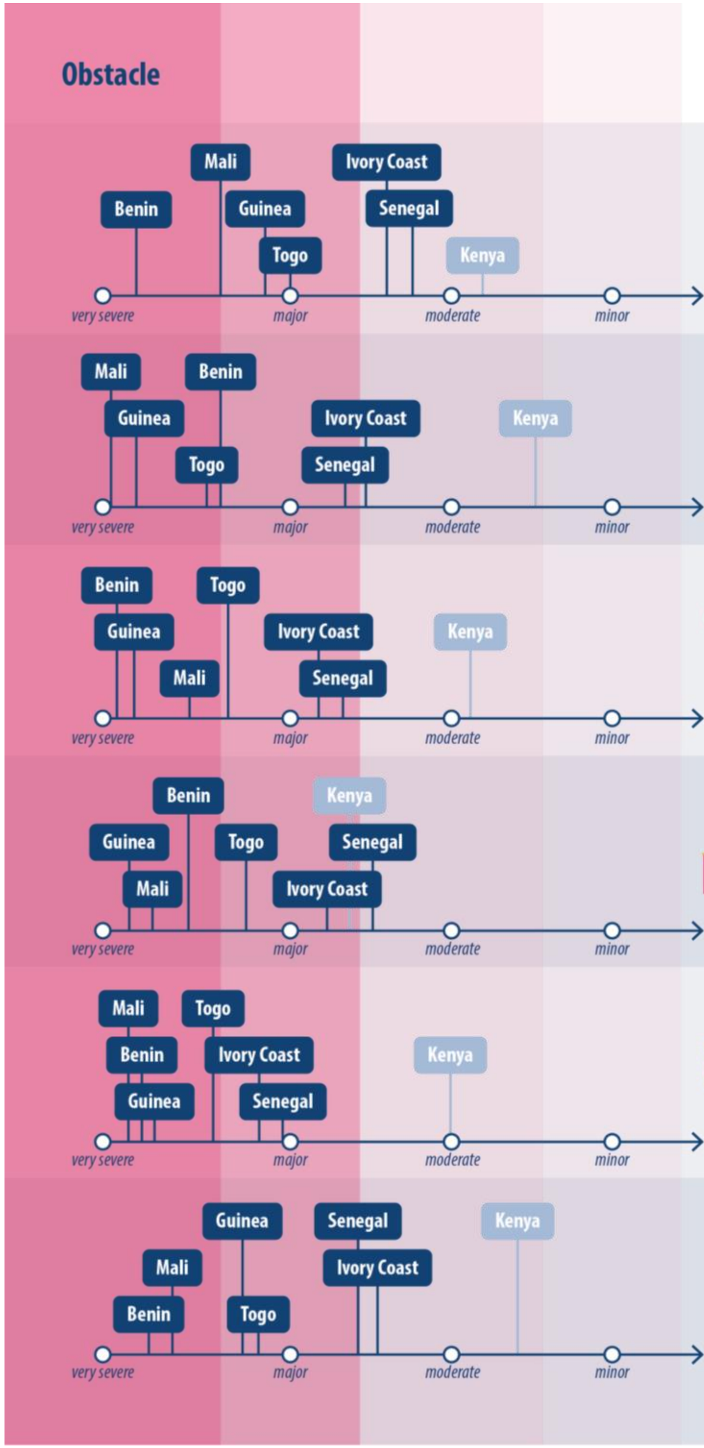
Policy

- **Informality:** The high degree of informality of enterprises in West Africa translates into lack of proper financial accounting, lack of professional management skills and insufficient assets to pledge as collateral. These are all crucial factors that limit SMEs' access to financing.
- **Lack of legal assurances for banks:** Banks are not sure that they will be able to recover their money if the entrepreneur defaults, even when they have taken collateral, because the legal system is cumbersome and does not provide reliable enforcement for debt collection or collateral seizure and sale.
- **Limited capacity of public agencies:** Most countries studied have an SME focused policy, and public agencies dedicated to enterprise development have increasingly become operational. However these agencies are usually staffed with public servants for whom it is difficult to relate to the entrepreneurial journey, and as a consequence are not adequately equipped to advise entrepreneurs.

Finance

- **Lack of SME focus in banks:** Banks do not have incentives to take risk by lending to SMEs, as they can get high returns on government lending, which is practically risk-free: banks are unaware that SME finance can be profitable if managed well, guided by a well-developed strategy, and executed by appropriately trained staff. Because of banks' insistence on secured lending and the failure of guarantee funds to overcome this risk aversion (guarantee funds are mainly used to finance SMEs that banks would be willing to finance anyway), only short- and mid-term bank loans are available. SME loans of tenor longer than 12 months are hardly available in the markets studied.
- **Nascent investment community:** Despite steady growth rates and a stable currency in the francophone region, investors continue to focus on Anglophone commodity-driven economies, such as Nigeria and Ghana, as they have always done. A few investors have entered the francophone West African market; but they tend to focus on larger enterprises. Smaller enterprises require more support to become investment-ready than venture capitalists are able to offer.

Across the six ecosystems, we have noted different strong points and challenges, which served as cross-country learnings on possible solutions to close the financing gap for SMEs. Some of the key challenges and success factors for each ecosystem domain are presented in the image below.



Key challenges and success factors

Culture

- In countries like Benin and Mali, a salaried job (notably civil servant) is considered more valuable than being entrepreneur

+ A positive entrepreneurial culture is slowly emerging in the region
+ Celebration of successful entrepreneurs increasingly happening in Senegal and Ivory Coast (e.g. through business plan competitions such as GREAT, Jambar Awards)

Human Capital

- Women are underrepresented, because of lower education and male oriented (business) culture. Entrepreneurial success comes with age and experience, making it hard for young aspiring entrepreneurs to start a business

+ Some countries show enhancement of entrepreneurship and start integrating in the overall education system entrepreneurship skills training (e.g. Ivory Coast and Senegal)
+ Some diaspora effects - educated people coming back to set up their own business (e.g. Mali)

Market

- Limited local demand from middle class segment (albeit significantly growing in some countries like Ivory Coast)
- Improved but still weak infrastructure hinders doing business. Access to energy /electricity remains unreliable, especially outside main cities

+ Ivory Coast and Senegal are regional trade hubs; potential to grasp significant trade opportunities

Policy

- High tax rates and corruption by public officials is a major burden for doing business in the region

+ Public Private Partnerships are emerging (e.g. CTIC in Senegal)
+ More and more one- top-shops are being established to enhance the ease of doing business (e.g. one-stop-shop set up by APIP in Guinea)

Finance

- Collateral is a common requirement (usually >100% of loan). In some countries, only real estate title is considered as strong guarantee

+ Risk-sharing mechanisms are in place (mainly guarantee funds), but limited usage and additionality
+ Some SME finance providers are active, providing also non-financial support to SMEs (e.g. Cofina in Senegal)

Support

- In addition to public agencies, service providers like hubs, incubators and accelerators are increasingly being set up, that offer a more targeted and adequate service offering. These SME support programs still nascent, and operate in a fragmented way

+ The awareness of SMEs on existing support programmes can be raised by creating an online platform where financial services and products are presented, such as the one being designed by CEPICI in Ivory Coast
+ Several financiers provide TA support as parallel service to finance (e.g. Teranga Capital, Cofina in Senegal)

4. Way forward

In sum, the key factor constraining access to finance for SMEs in francophone West Africa is not only the limited offering of appropriate financial products, but also the lack of sufficient numbers of formal, solid, credit-worthy enterprises that can stimulate the delivery of more adequate financial products. As long as the root causes of this issue are not tackled, it will be difficult to achieve significant progress, even when additional guarantee funds, credit lines or investment funds are established.

Success of any of the financing mechanisms noted above requires changes in more than one domain of the ecosystem, and usually involves a combination of solving systemic and operational issues. The strength of any entrepreneurial ecosystem is determined by the quality of its individual components and how effectively these components link to each other.

However, as this study indicated, the 'missing middle' is composed of different sub-segments with different features and needs. Even small steps that only affect a small portion of these segments, can achieve a significant impact in terms of growth, employment and income generation. Some actionable approaches were suggested by local stakeholders and the research team, that are not directly aimed at solving the systemic root causes, but can 'move the needle' in francophone West Africa.

❶ Promote an entrepreneurial culture

Entrepreneurial culture is the lifeblood of the entrepreneurial ecosystem, and 'success breeds success'. As found in the study, the entrepreneurial culture differs by country, but is generally weaker in francophone West African region than in other regions of the world. The introduction of Entrepreneurship Education and Training, in particular in technical schools, is an important first step towards promoting an entrepreneurial culture. Some schools and universities are already introducing this in their curriculum. Networking events and award ceremonies hosted by incubator and accelerator programmes and aimed at setting up new businesses, have become popular as well. Even though few businesses are actually created following these ad hoc events, it is an effective instrument to stimulate and promote entrepreneurship. Last but not least, role models are important to promote entrepreneurship. In all countries role models exist, whose successful entrepreneurship experiences should be celebrated and shared with starting entrepreneurs. Activities to spread success stories through media, events and other channels will stimulate broad-based entrepreneurship.

❷ Upgrade the offer of non-financial support

Non-financial business development services are crucial for the success of SMEs as well as for financial service providers; SMEs need to be equipped with reliable accounting, business planning and management capacity, and a better awareness and understanding of their financial needs and available financing options. To some extent, the availability of high-quality non-financial support for SMEs can mitigate the risk for financial service providers.

The availability of commercial business development services is growing, but efforts are still very fragmented and mainly focused on capital cities. The quality of the services is inconsistent and services are not always appropriate for the growth stage of the SME. Only a few examples of adequate traditional BDS providers were identified in the six countries.

Increasingly other channels to provide non-financial support have emerged, such as hubs, incubators and accelerators. These organisations are a key tool to celebrate entrepreneurship, as new ventures are attracted, selected and rewarded in high-profile events. They create a bigger inflow of new entrants, breeding the future "gazelles".

Also, the public sector is being involved more and more through Public Private Partnerships (PPPs) that support business development and acceleration. These developments are nascent in the studied countries and the scale and offer of services is still limited. Suggestions made by local stakeholders to upgrade the non-financial support included:

i. Setting up of a registry and certification system for BDS providers, which would enable SMEs to make an informed choice;
ii. Setting up a system for financiers to provide embedded BDS (e.g. on accounting skills) for a small fee with potentially partial subsidy of extra costs involved; and
iii. Supporting accelerators in scaling up and expanding the services they offer.

❸ SME finance

Financing options for SMEs are limited to small and short term loans from friends and family, MFIs and banks. Entrepreneurs in francophone West Africa are generally less informed about other financial products that are available in the market, such as equity and leasing. In some countries, MFIs have increased the maximum loan size (e.g. Ivory Coast), while in others banks have made an effort to focus more on the SME segment (e.g. in Togo and Guinea).

In order to stimulate the offer of long term loans, banks could benefit from technical assistance on setting up an SME unit and capacity building on how to assess credit-worthiness of new SME clients. Although the study shows there are many reasons banks prefer not to serve SMEs, small changes to increase the attention of regional players like Ecobank to SME finance can have a significant impact on the whole region. Some existing SME finance providers, such as Cofina, can help to demonstrate the viability of SME finance when successful serving this segment.

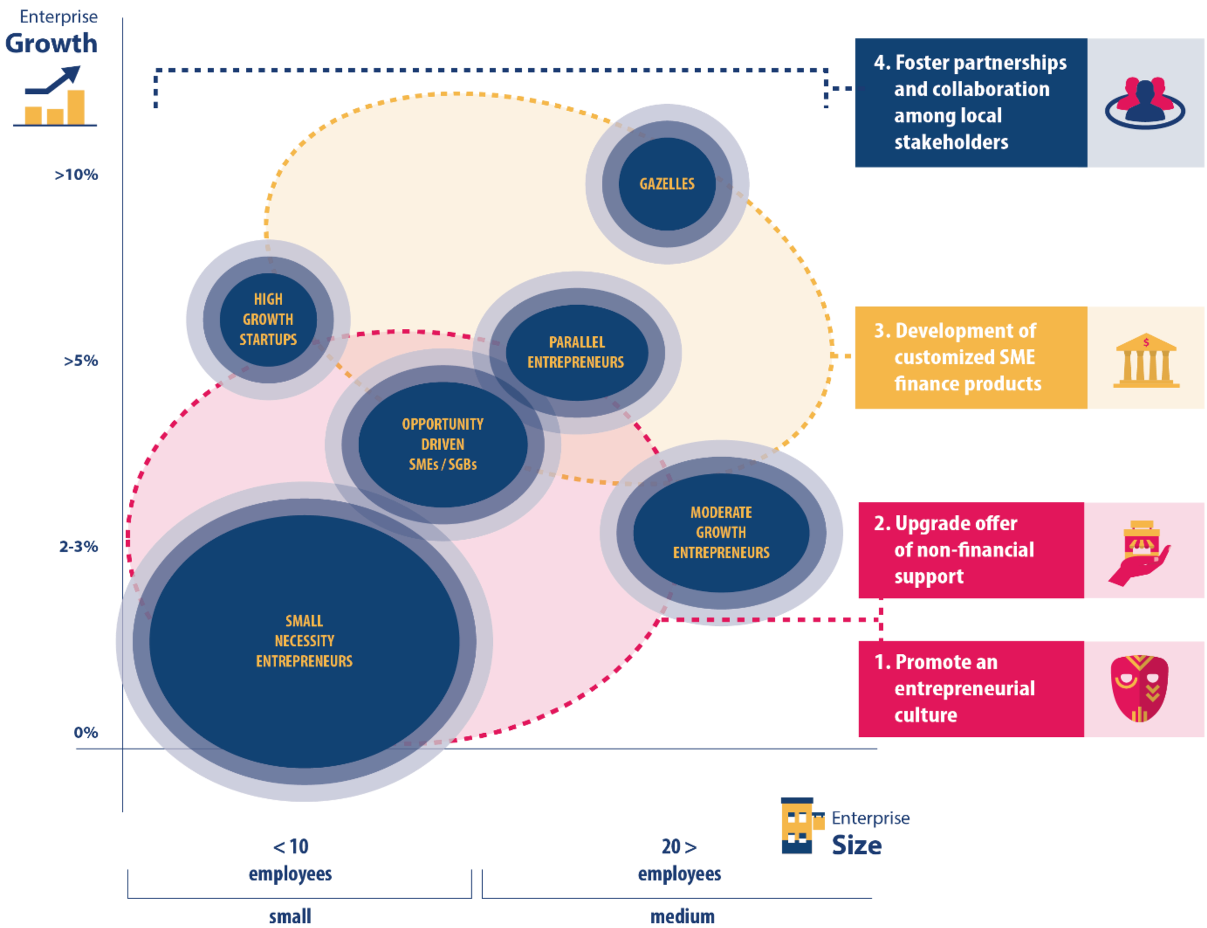
As many potential bank clients lack account usage and credit history at the bank, opening a bank account should be promoted in order to ease payment options. Next, an adequately functioning credit bureau in all countries may also give the market a boost. Such an institution already exists in some countries, but is not yet fully operational.

Early stage capital is essential for high potential start-ups, as well as growth capital for future and existing gazelles. The more mature entrepreneurial ecosystems in Senegal and Ivory Coast have succeeded in attracting some equity investors too. However, these markets are still underdeveloped. The venture capital (sub-)ecosystem has to be further developed by attracting new regional players into the market and supporting the few equity players to solidify and expand their service provision.. Moreover, the entrepreneurs do not necessarily understand what equity is and how it works, raising the need to inform entrepreneurs about available financial instruments.

Finally, for the moderate and high-growth segments, it is recommended that non-traditional financial instruments beyond debt and equity are further developed and promoted, such as mezzanine and variable (cash-flow based) financing schemes.

❹ Foster partnerships and collaboration among local stakeholders

As explained above, closing the financing gap requires solving a combination of operational and systemic issues. At a country level, it is therefore important that stakeholders should convene and take joint action. This will lead to more harmonised and targeted interventions, but will also foster the linkages among stakeholders (e.g. between non-financial service providers and financiers). The local stakeholders that have been gathered during the workshops in all countries, have acknowledged the value of talking to each other and their willingness to do it more regularly. In theory, there is no single driver of an entrepreneurial ecosystem because by definition an ecosystem is a dynamic, self-regulating network of many different types of actors. However, in francophone West Africa, the public sectors' role should expand towards convening and supporting the stakeholders in this process, as institutional and cultural changes are usually driven by the public sector and less frequently initiated by private sector actors in the region.



Annex 1: 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[12] 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[13].
- **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[14]. 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 the WB Doing Business Index and WEF GCI[15].
- **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).

[12] published by the Aspen Network of Development Entrepreneurs
[13] http://www.enterprisesurveys.org/
[14] Developed by Enclude for InfoDev
[15] 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)
- **Phase 2** – In-country data collection (interviews)
- **Phase 3** – Workshop, conclusions and reporting

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[16] 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 which 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.

[16] 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[16], 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 USD 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.

#ClosingTheGap

Francophone West Africa

KEY CHALLENGES FOR THE 'MISSING MIDDLE' IN BENIN, GUINEA, IVORY COAST, MALI, SENEGAL AND TOGO

Assessment of the entrepreneurial ecosystem in Francophone West Africa

Market

Finance

Culture

Human Capital

Support

Policy