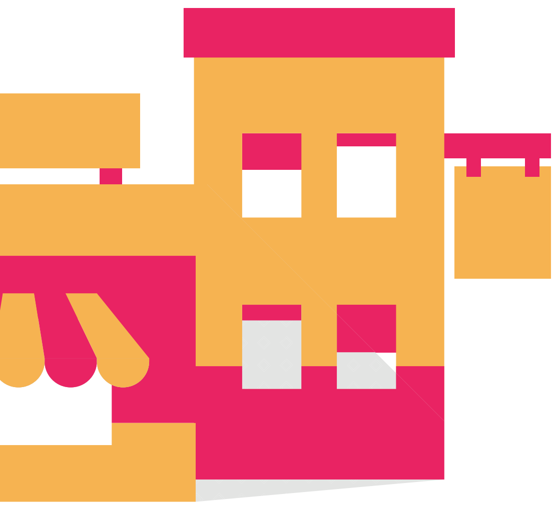
Mali

KEY CHALLENGES FOR THE 'MISSING MIDDLE'



#ClosingTheGap

Assessment of the
entrepreneurial ecosystem
in Mali

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). It was commissioned as part of a series of studies to get a better understanding of the 'missing middle' in francophone West Africa, and this report focuses on the situation in Mali. It describes the main ecosystem factors that hamper growth of SMEs in that country, specifically regarding access to funding, and explores possible actions to address the gaps identified in the ecosystem.

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 six domains are **Culture, Policy, Markets, Finance, Support, and Human Capital**. We conducted a desk study to map these dimensions of the entrepreneurial ecosystem in Mali and identify potential opportunities for improvements, followed by a field visit of one week in May 2017 to interview 28 stakeholders from the various ecosystem domains. The fieldwork was followed by a workshop hosted by the Dutch Embassy, gathering key stakeholders (entrepreneurs and their representative associations, financial institutions, business development support service providers, government and donors) to validate findings and discuss possible solutions to overcome the identified ecosystem gaps.[1]

A Fragile Environment

Since independence in 1960, Mali's democracy has been developing, but has also undergone several setbacks and insurrections. On-going political tensions in the country have created a fragile environment for business, limiting market opportunities and resulting in lower economic growth and low GDP per capita.

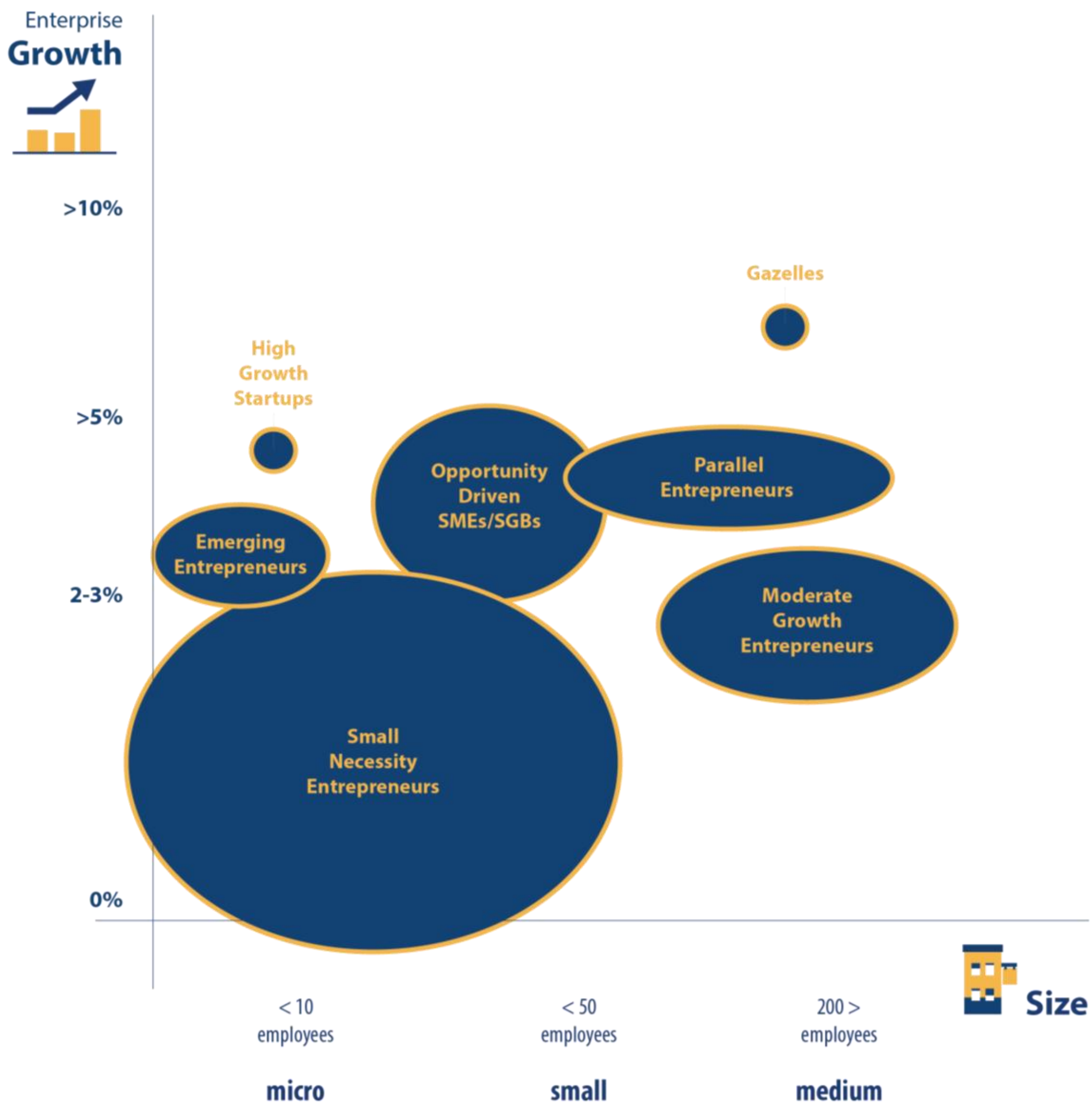
The field research confirmed that the Malian entrepreneurial ecosystem is less developed than in other Sub-Saharan African countries, such as Senegal or Ivory Coast. For example, education levels and the ease of setting-up and maintaining a business in Mali are below regional averages. On the positive side, the Malian government has taken steps to support SMEs. There are for instance exemptions on VAT and a lower corporate tax for investment. It will take time, however, for these improvements to make an impact on SME development.

Dominated by Informal and Small Necessity Entrepreneurs

Overall, the Malian economy is characterised by a low level of diversification and very high degrees of informality. It is estimated that over 90% of its SMEs operate primarily informally, including, for instance, sometimes century-old trading outfits. Current economic growth is driven by agriculture, including cash crops (notably cotton), animal husbandry and gold mining activities lead by a few large enterprises that dominate exports.

1 See http://francais.dggf.nl/file/view/51198992/closingthegap-mali-communique-de-presse-de-levenement.

The local SME sector can be segmented according to the growth and size trajectories of local enterprises. In terms of growth-oriented enterprises, the sector includes a limited number of small, high-growth enterprises, including some tech-focused start-ups and "gazelles", versus a majority of moderate growth enterprises. Most local SMEs are actually not growth-oriented, and have little if any history of growth. This includes "**necessity entrepreneurs,"** who are often individuals unable to find work in the formal or public sector and therefore engaged in small trading activities to generate income. These SMEs are almost always informal, sometimes because they lack the administrative knowledge and skills to formalise, or feel that the formalisation and tax systems are too complex for them to navigate. Furthermore, the perceived advantages of formalisation are limited: entrepreneurs assume government contracts are awarded only to insiders, while access to formal funding sources is considered expensive and difficult.

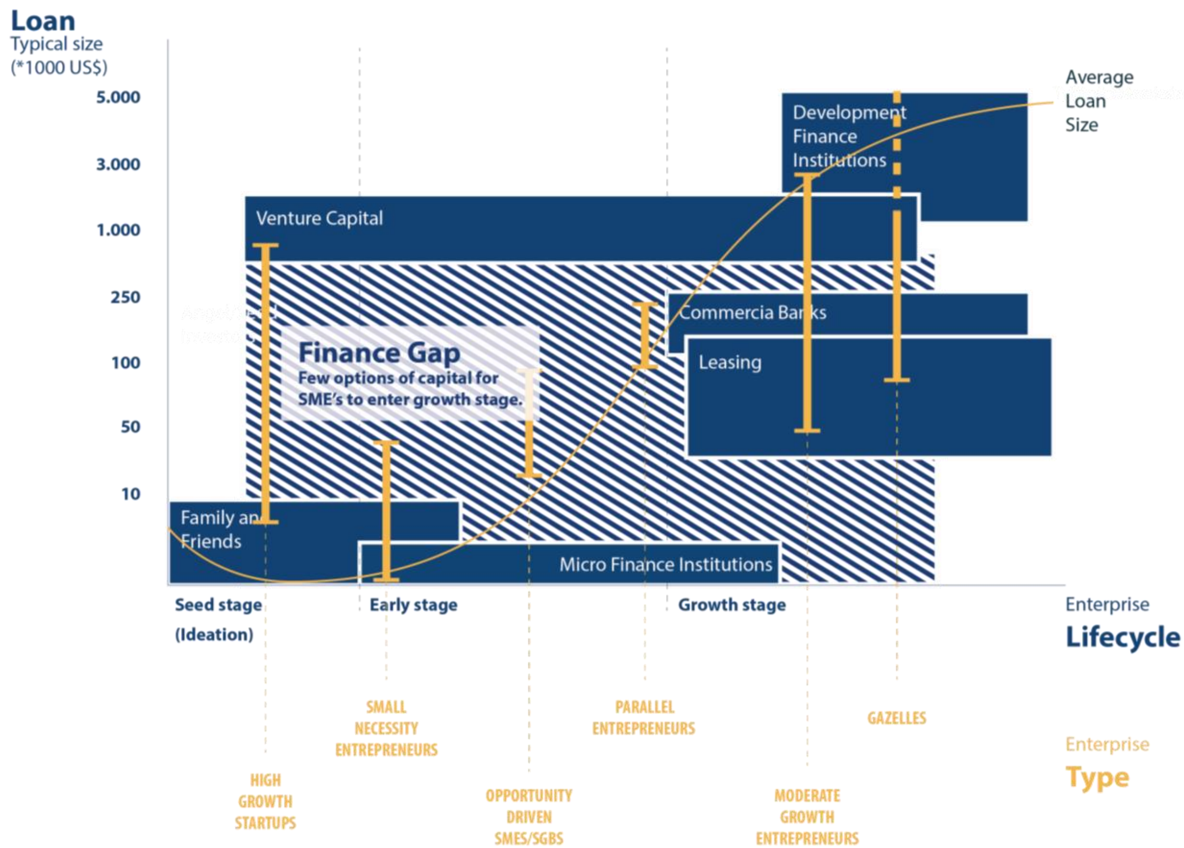


Most SMEs have Limited Access to Finance

Local SMEs generally have limited access to debt (especially longer term debt), and sourcing equity is even more complicated. Friends and family, as well as the slowly returning microfinance sector, are the primary sources of financing for some small and newer businesses (up to <€10k). The most developed high-growth enterprises and gazelles have access to some equity and debt, but most other types of SMEs remain underserved or even unserved by the current financial landscape in Mali.

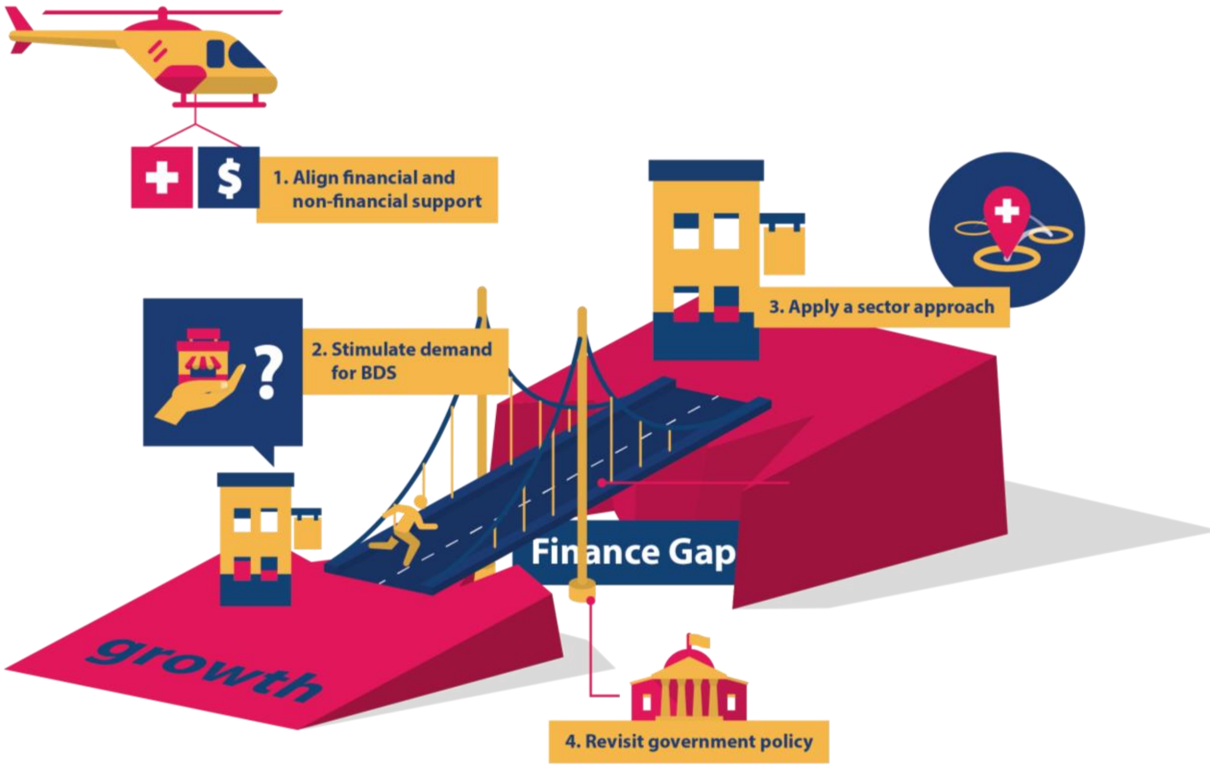
The leading factors contributing to the lack of financing for small and medium businesses are:

- **Fragile state:** Mali is still a fragile country, with on-going political challenges and tensions that negatively affect market opportunities as well as its attractiveness as a partner in trade or for foreign investment. High operational risks diminish the ease and increase the costs of doing business in the country.
- **High degree of informality:** most enterprises (>90%) can be characterised by their lack of proper accounting, insufficient capital to put up as collateral and a lack of professional management skills. Small businesses in Mali lack access to information; business-oriented and trained human capital; useful business services; local demand; and business-friendly government services.
- **Enterprise development support is in its infancy:** SME support structures have emerged, such as a one stop shop for business registration, a credit bureau, incubators, and guarantee funds. However efforts are not well coordinated, and they remain small scale due to the limited demand for them (which might be explained by the limited awareness of potential users this of service offering).
- **Limited SME finance offer:** some of the emerging and recovering MFIs try to serve the missing middle with short-term loans, but cannot supply rapid-growth oriented SMEs with the higher risk, longer-term debt that they demand. As in the rest of the African continent, banks perceive funding of SMEs to be higher risk and more work than serving the state or the few large companies that operate in the country.



Looking forward, the most promising pathways for reducing the financing gap for SMEs are to help enterprises transition out of informality and grow into fundable businesses. Secondly, funders could be helped to better understand informal SMEs and provide more SME-focused financial services. **Several actions to diminish the financing gap** were suggested by the research team and local stakeholders:

- Align financial and non-financial support;
- Stimulate demand for business development services (BDS);
- Improve the ecosystem at sector level; and
- Revisit government policy


1. Align financial and non-financial support
2. Stimulate demand for BDS
3. Apply a sector approach
Finance Gap
growth
4. Revisit government policy

1.Introduction

1.1. Objective of the study

This study has been conducted on behalf of the Dutch Good Growth Fund (DGGF). The Dutch Good Growth Fund is a "fund of funds" investment initiative of the Dutch Ministry of Foreign Affairs that aims to improve access to financing for missing middle entrepreneurs that have outgrown microfinance, 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 funds and local SMEs. In addition, the programme incorporates a knowledge development and sharing component that supports research, tests assumptions and shares insights on financing SMEs in developing countries to foster industry-wide knowledge exchange.

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

This study was commissioned to get a better understanding of the 'missing middle' in francophone West Africa, of which Mali is one of the research countries. The report describes the main factors that hamper SMEs' growth and limit their access to finance, and suggests possible actions to increase 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, we have customised the methodology for the purpose of this study. As shown in the figure, the research follows the Babson entrepreneurial ecosystem model, one of the leading models in the current entrepreneurial ecosystem thinking, which determines six different ecosystem domains. A more detailed description of the methodology can be found in Annex 6.

The six ecosystem domains studied were:

- **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?

To map these domains and identify solutions and opportunities for improvement in Mali, we started with a desk study that analysed how the ecosystem in Mali scores on the various domains in comparison to other countries in the region. To develop scores, we looked at indicators from the World Bank Enterprise Survey (WB-ES), World Economic Forum's Global Competitiveness Index (WEF-GCI) and the World Bank's Doing Business Index (WB-DBI). In addition, information was collected from other research reports and publications, and some interviews were conducted by telephone. This provided an initial overview of the key elements of the entrepreneurial ecosystem in Mali.

After the desk study, the team conducted a **field visit** of one week in May 2017. Representatives from various ecosystem domains were interviewed, including: eight entrepreneurs; 12 SME support organizations (including semi-public and private structures and BDS providers); and seven financial players (banks, MFIs and venture capitalists). For the full list of interviewees see Annex 1. The discussions with these experts enriched the information from the desk study, and uncovered root causes explaining the difficulties of the 'missing middle' in Mali. In addition, the discussions helped to identify some of the key stakeholders in the Malian ecosystem that may act as frontrunners in the development of a more SME-friendly ecosystem. The stakeholders met at a **workshop** hosted by the Embassy of the Netherlands in Mali (May 2017) to validate findings and discuss possible solutions. The list of participants can be found in Annex 5.

2. The Business Landscape in Mali

2.1. Mali in a nutshell

Box 1: Mali key facts

Area:	1.2m km^2
Population:	About 18 million
Capital:	Bamako
Other economic hubs:	Sikasso, Segou, Mopti, Koutiala
Official language:	French
Other languages:	Bambara, Bobo, Bozo, Dogon, Peul and Soninke
Religion:	Muslim (90%)
Currency:	FCFA
GDP per capita	About USD 730 (2015 WB)

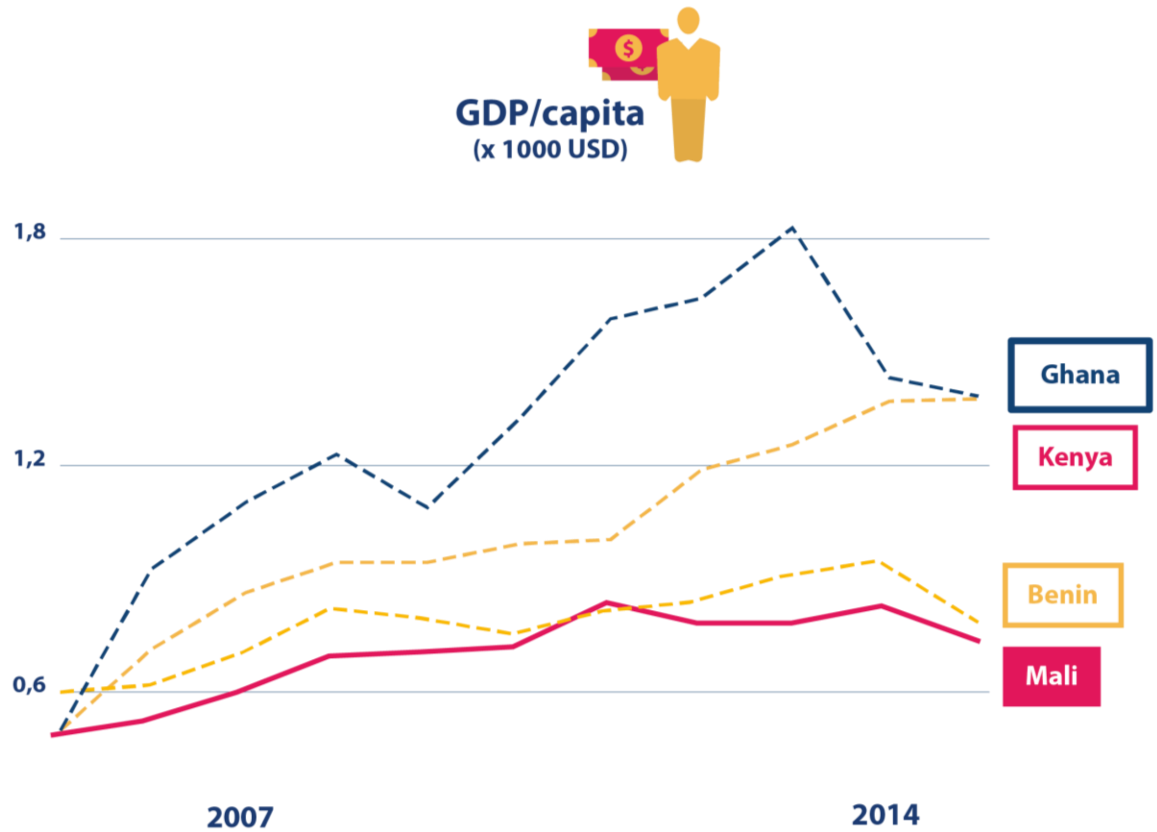
Landlocked, Mali shares borders with Senegal, Mauritania, Algeria, Niger, Burkina Faso, Ivory Coast and Guinea. Mali is part of the ECOWAS regional economic and monetary union, and the historical peg to the French currency (now Euro) ensures stability of the FCFA.

Mali became independent from France in 1960. After a long period of one-party socialist rule, a coup in 1991 led to a new constitution and the establishment of Mali as a multi-party state. In 2012, an armed conflict broke out in northern Mali, in which Tuareg rebels declared a new state. The conflict was complicated by a military coup that took place in the same year and by fighting between Tuareg and Islamist rebels. In response, the French and other forces were asked to intervene in 2013. They recaptured most of the territory lost to the insurgents. Some fighting is still going on, but the Malian government is mostly back in control.

2.2. Mali's entrepreneurial ecosystem in a regional context

Based on the World Bank Doing Business ranking, the WEF Global Competitiveness Index and the UN Human Development Index, Mali's ecosystem scores lower than many other West African countries. Furthermore, Mali is a low-income country with an annual GDP per capita of €730 in 2015 according to the World Bank. This is lower than other countries in the region such as Senegal or Benin. The annual growth rate of GDP in Mali is consistent, however, ranking the country among the World Bank group of 'established performers'. The country has a small economic base as income is in large measure derived from only three sectors: agriculture, livestock and mining.

Figure 1: GDP per capita in Mali and selected countries

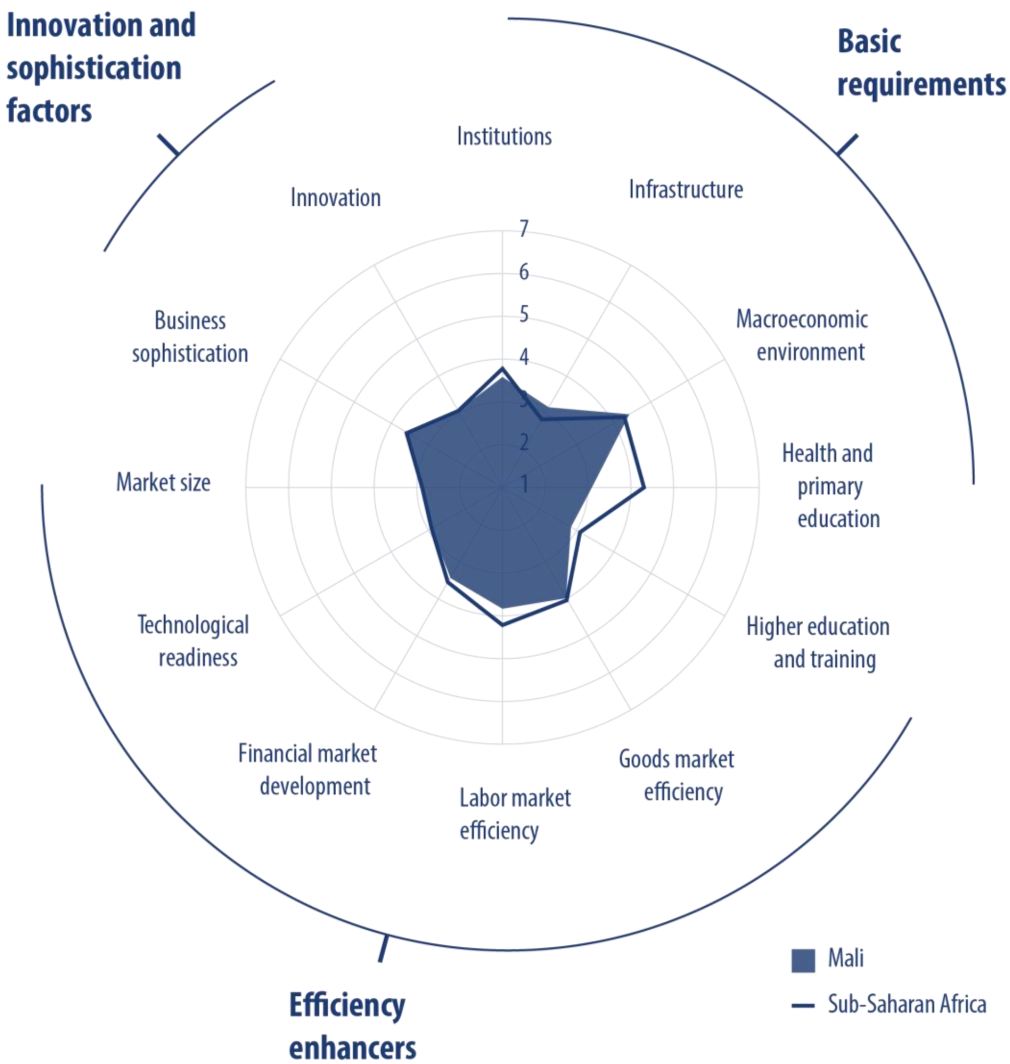


Mali scores poorly on various international indices, even compared with its neighbours. For instance, on the UN Human Development Index Mali ranks 179 out of 188 countries in 2015. In West-Africa only Guinea (183), Burkina Faso (185) and Niger (187) score lower. More of direct relevance for our study are the World Economic Forum's Global Competitiveness Index and the World Bank's Doing Business Index. Mali also ranks low on these indices, although not at the very bottom. For the WEF-GCI 2016 Mali ranks 127 out of 140 countries and in the WB-DBI index 2016, Mali ranks 141 out of 190 countries, slightly better than most neighbours.

The **WEF-GCI** focuses on 12 pillars of competitiveness. As illustrated in the graphic below, Mali's sub-score on some of these was):

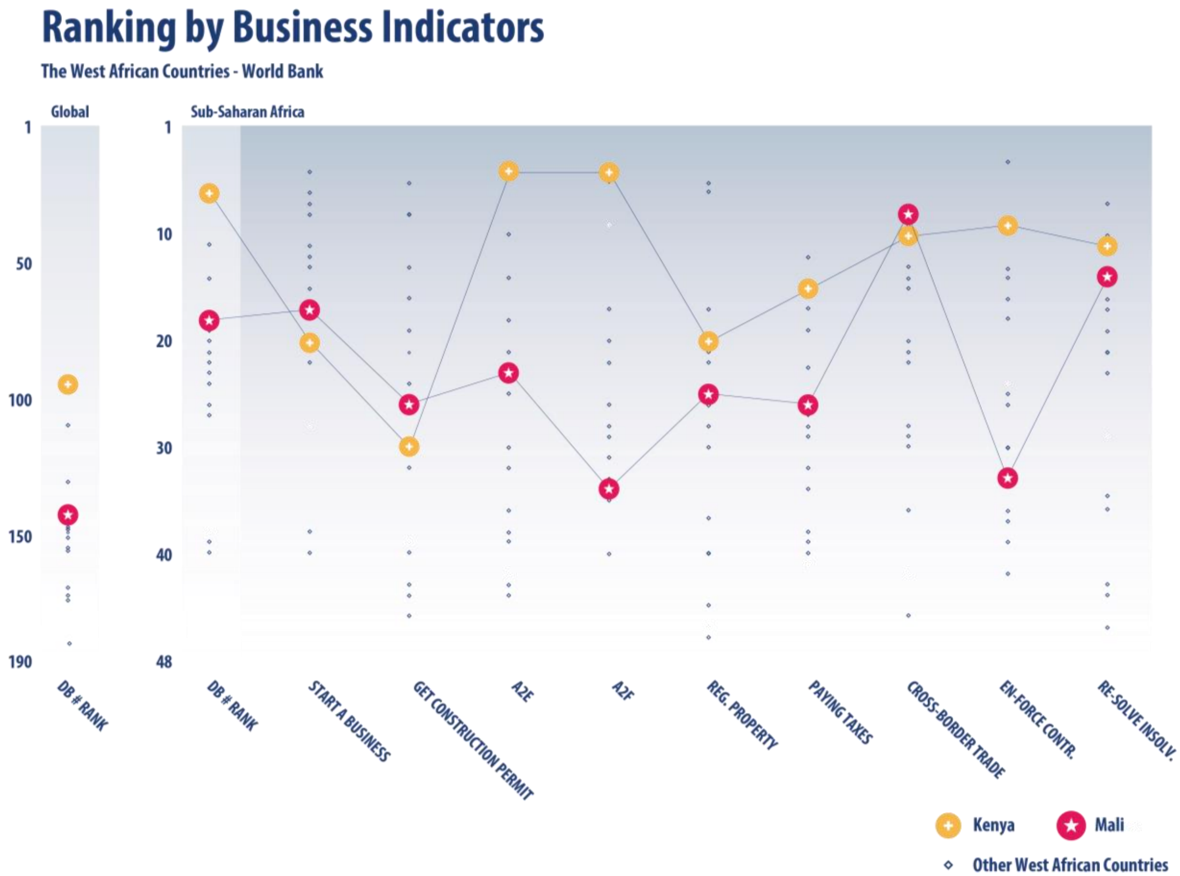
- Institutions (rank- 98 out of 140)
- Infrastructure - (106)
- Higher Education & Training - (127)
- Goods Market Efficiency - (110)
- Financial Market Development - (105)
- Technological Readiness - (114)
- Innovation - (96)

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



The World Bank's Doing Business Index provides an overall ranking of the "**Ease of Doing Business**", which is a weighted average of separate components, some of which are highlighted in this report. Mali's scores on this measure favourably compared to other Francophone West African countries- even better than Cote d'Ivoire and Senegal, which are generally considered to have more developed economies. However, on the "**Ease of Getting Credit**" indicator (A2F), Mali scores worse than these countries, on par with Niger. There is more variation in the ranking for the "Setting up a Business" indicator, where Côte d'Ivoire and Benin score relatively well (rank 50 and 57 respectively), while Mali is ranked 108, better than Uganda (165), not as good as Senegal (90) and close to Tunisia (103). The Doing Business ranking for all West African countries is shown in figure 3 below.

Figure 3: World Bank Doing Business Indicators Ranking for West African countries and Mali



2.3. Malian private sector

A main characteristic of the Malian private sector is the high degree of informality. According to local estimates about 90% of SMEs are informal, as in other francophone West African countries. Local stakeholders had different ideas about what constituted an SME. Some looked at turnover, others at number of staff, and still others at a business' growth potential. Given the lack of data and a common definition, only a generic SME-description has been followed: 'employing or having the potential to grow larger than 10 employees and be eligible for bank funding'.

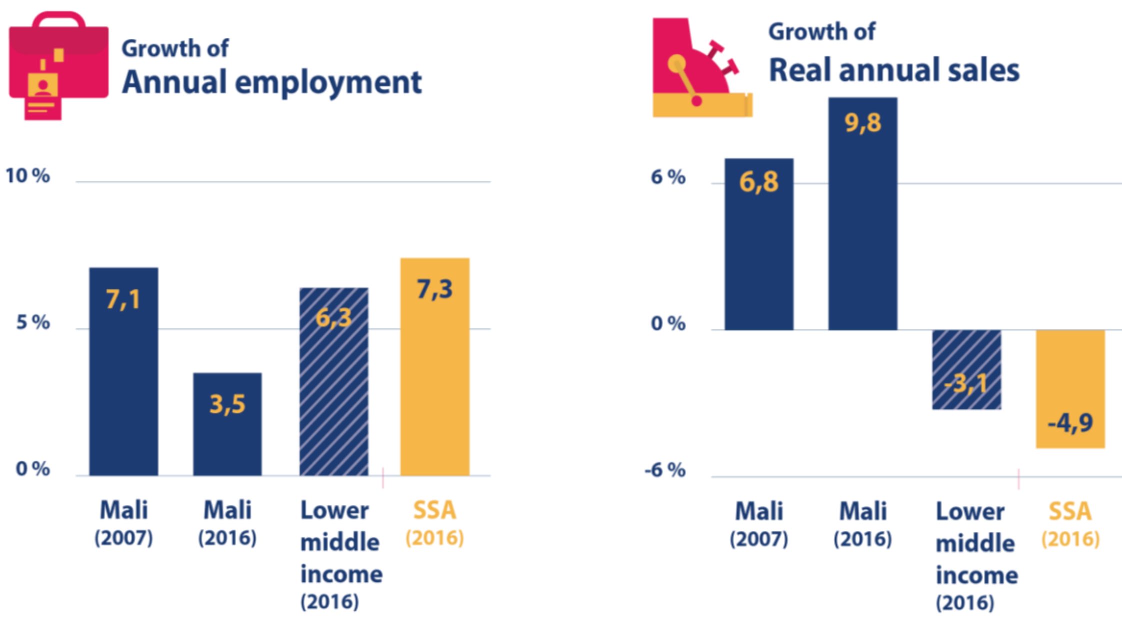
The World Bank performed Enterprises Survey in Mali in 2010 and 2016. In 2010, 45% of formal enterprises indicated that access to finance was the greatest obstacle for their businesses, followed

Box 2: Enterprise Surveys

An important consequence of the high degree of informality in the private sector is the lack of data on the number and characteristics of different kinds of enterprises. This makes it difficult to carry out a representative survey on the sector. For the purpose of this report we have used information from several sources, the main being the World Bank Enterprise Survey 2016, based on 185 formal, more professional SMEs from around Bamako by competition with informal firms and tax administration. The political unrest in the country has changed this picture dramatically, as the 2016 survey shows that political instability has been cited as the main obstacle, especially by large firms (100+ employees)- most likely because they are operating in international markets.

The survey for 2016 also indicates that there was a rapid sales growth in 2016 of approximately 11%, while employment rose by 3-4%, indicating unused capacity at the surveyed firms. Given the instability that happened between 2010 and 2016, and because the survey focuses on somewhat larger, formal SMEs, its data is used indicatively in this report.

Figure 4: Annual Employment and sales growth, formal SMEs



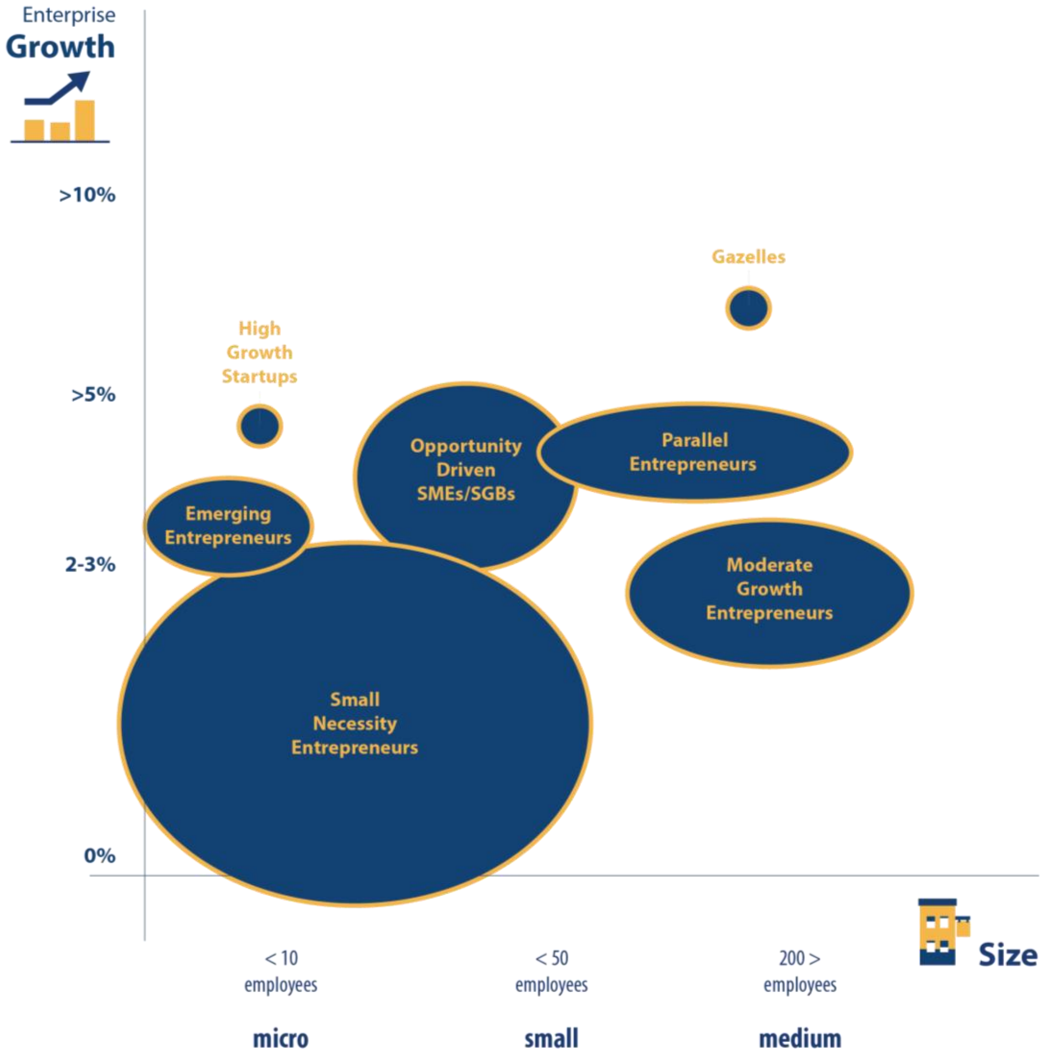
Sub-segments of SMEs

Obviously, SMEs are not a homogenous group. They differ greatly in terms of size, level of formality, experience, market orientation and funding needs. Given the emerging state of many SMEs and the SME-ecosystem, for this research the SME sector is classified according to two criteria: size (combining staff, turn-over, but also indirectly professionalism) and growth opportunities. The segmentation results in six general types of entrepreneurs, each having different funding and support needs:

- **Small necessity entrepreneurs:** the largest SME sub-segment consists of small necessity entrepreneurs, usually operating informally above the micro enterprise level. Some of them, such as regional trading companies, have been around for several generations. Enterprises in this segment are set up to achieve a basic income for the family and often don't grow or develop much beyond this subsistence level of operation. Sometimes these businesses would welcome access to working capital loans, but their financial administration and business planning practices are often insufficient to convince funders to offer much beyond trade finance.

- **Moderate growth entrepreneurs:** these are usually_traditional firms that offer a product or service with a stable demand, but they normally do not offer innovative products or deploy modern production techniques. These firms typically grow at an annual rate of 2-3% in the direction of a mid-sized enterprise. They are often family businesses with a higher rate of formality (around 10-15%) than the small necessity entrepreneurs. They are typically on the verge of having access to short-term bank financing.
- **High growth start-ups:** This group is typically characterized by young entrepreneurs, sometimes starting a business in the technology sector. Mali has a relatively small number of these, in comparison to Senegal, for instance. These new entrepreneurs often struggle for years, which prepares them to handle the basic challenges of doing business in Mali such as bootstrapping, handling authorities and coping with unreliable infrastructure. Local experts thought that there is probably less bank funding or venture capital available for such companies in Mali than in other West African countries.
- **Opportunity driven SMEs:** these companies engage in opportunistic business behaviour, change focus often, and are most common in the services and trade sectors. They are quick to copy others' business approaches, and in turn are often copied, which can creating stifling competition, low profitability and diminish the drive to innovate. Opportunity driven SMEs include entrepreneurs that run several businesses at once (**parallel entrepreneurs**), without much focus, specialisation or quality orientation. Such enterprises tend to lack a long-term business approach and have limited market knowledge and client understanding.
- **Gazelles:** these are the rare**,** successful start-ups that quickly reach SME-size, thanks to high annual growth rates of more than 10%. Gazelles are usually formally registered, often deploy 20-100 skilled staff, achieve a mature financial performance (or have a clear growth path to profitability) and are generally headed by a solid business leader. Gazelles look for multiple larger amounts of long-term financing, both debt and equity, ranging from €25k - €250k. Funding is typically used for investment in assets or technologies.

Figure 5: Sub-Segmentation of SMEs in Mali



Source: Adapted from Intellecap, 2015 and authors' research

SMEs and access to finance

The World Bank enterprise surveys typically reach larger, formal and semi-formal Bamako-based firms. These surveys therefore offer less insight into the performance and specific challenges of smaller, semi-urban/rural and informal SMEs. Although this research catchment area implies a bias towards easier areas to do business with more financial institutions available than elsewhere in Mali, respondents still cite access to finance as the top obstacle to doing business, after political instability.

Over half of the SMEs responding to the World Bank Enterprise Survey in 2016 had tried to access funding from a financial institution, of which an estimated half actually received a loan. Moreover, the 2016 Enterprise Survey data indicates that 75% of fixed assets are financed through retained earnings, which is higher than the average for across sub-Saharan Africa (which is 70%) but lower than the average for Low Income Countries (80%). In 2010, the percentage of fixed assets financed through retained earnings was even higher, at 80%. This may indicate that access to finance has improved over the past six years, at least for formal enterprises. Compared to other countries in the region, Mali's rate is similar to that of Ivory Coast (72%) but much lower than Guinea, where the proportion of investment financed through retained earnings is 92%. If the survey would have included a broader group of SMEs, including those outside Bamako, we assume that the self-financing ratio would be higher.

Because of the lack of access to funding as well as low or intermittent demand, being an entrepreneur in Mali often means looking for new short-term business opportunities to survive the next months, rather than having a consistent focus on building a client- and quality-oriented enterprise over the long term. The difficult business environment probably drives more SMEs to be opportunistic copycats with limited market knowledge and no clear long-term business strategy to survive. This way of operating is a vicious circle for entrepreneurs.

Snapshot: Start-up and high-growth enterprises in Mali

Solar Mali

Director: Abdoulaye Gakou
Location: Bamako
Business: Solar energy solutions
Established 2016
Formal Yes
Staff 2 (+ daily workers)

Financing the business

- Start-up was funded by personal savings and a small investment (€5k) from a family member
- Received an equity offer from an investor, but would have had to hand over control of the company and therefore declined

Challenges

- The entrepreneur used to work in France where he taught business development. He wanted to start an enterprise in his parents' country.
- It is difficult to set-up a business without help or contacts
- Officials in Mali often lack knowledge to help
- Banks are not interested in financing start-ups

General Computech

Directeur: Mohamed DIAWARA
Location: Bamako
Business: ICT
Established: 2004
Formal: Yes
Staff: 20

Financing the business

- Own capital and retained earnings
- Small short term credit
- Buyer credits and advance payments

Challenges

- Access to high quality IT personnel
- Banks ask for too high collateral that we cannot offer
- Interest rate and credit conditions are not in line with business needs;
- Banks prefer to provide working capital instead of investment financing.

Kissima Industries

Directeur: Madame Assitan KEÏTA
Location: Koulikoro
Business: Natural tea, oil and soaps
Established: 1995
Formal: Yes
Staff: 1

Financing the business

- Self-financing
- Bank finance, using guarantee fund
- Advance payments of clients

Challenges

- Banks cannot provide credit to invest in new processing equipment.
- No access to equity, limited investors landscape in Mali.

2.4. *Financing Malian enterprises*

Different SMEs have different financial needs, depending on size, type of business and asset base, but the Malian financial landscape does not serve a wide range of needs and business types. Some reasons for this are a lack of specific market knowledge; crowding out by the government, since many funders prefer buying state-backed bonds rather than engaging in riskier private sector lending; high levels of portfolio at risk; and limited access to long-term funding by the financial institutions themselves. In 2013, portfolio at risk reached a crippling 20% for some banks, though rates are now said to be lower.

Table 1: Financial Need of SME Segments in Mali

Sub-segment	Key characteristics (estimates)	Financial needs
Small necessity entrepreneurs <10 employees	Small size, low growth, many copycats, mostly informal, the entrepreneur runs the enterprise, €20k- €50k annual turnover	Microfinance, short-term working capital, small amounts (<€5k), often trade finance
High growth start-ups 1-10+ employees	High growth potential, usually struggling for the first 3-7 years, sometimes young and/or tech-savvy entrepreneurs, €5k-€100k annual turnover	Mid-term seed capital to initiate activities (operations, staff), short-term working capital and overdrafts (preferably with deferred interest), frequent smaller amounts (<€10k)
Opportunity driven/parallel SMEs 10-20 employees	Driven by market opportunities, many copycats, lack of client and market knowledge, €40k-€120k annual turnover	Duration of financing needs depends on type of business, sometimes mid-term asset finance, frequent access to small amounts (€10k-€25k)
Moderate growth entrepreneurs 10-50 employees	Steady growth, often family businesses, somewhat more formalised (±20%), €120k-€400k annual turnover	Mid-sized working capital, sometimes long term asset finance or leasing/trade finance (<€100k)
High growth entrepreneurs 10-100 employees	High growth, both family and non-family, professional businesses, >€400k (planned) annual turnover	Frequent access to bank finance, private equity (€50k-€250k)
Gazelles 1-100 employees	High growth rates and aspirations, mature financial performance (>€400k annual turnover)	Frequent access to bank financing, high risk venture capital (business angels, €50k-€250k)

Definitions: short term financing < 12 months, medium term 1-3 years and long term > 3 years.

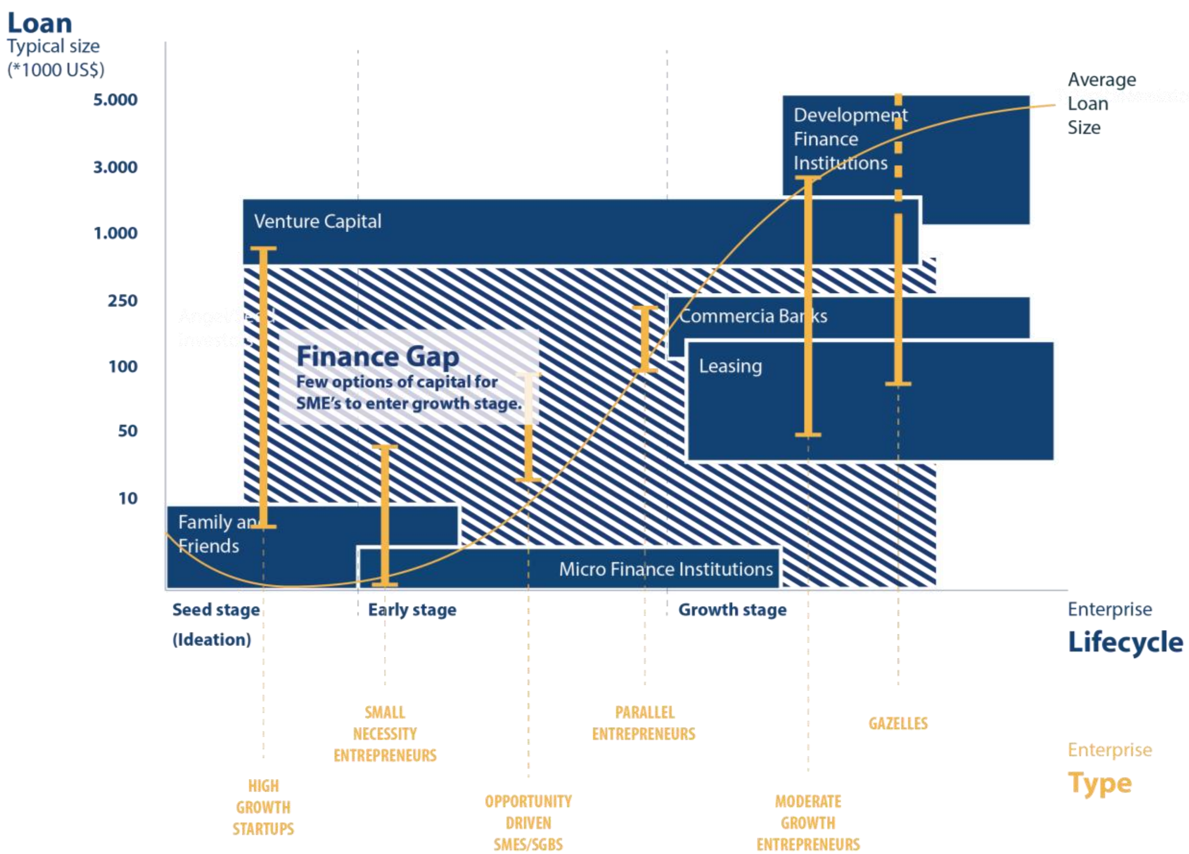
Mali has a fairly developed banking sector, with 12 registered commercial banks and 5-6 viable microfinance institutions, which usually provide amounts up to €5k. There are no private local investment structures in Mali, although there are private individual investors that place money in enterprises owned (with a focus on people they know from the same area). Banks and the remaining MFIs have recently started reopening some of their branches in central and northern Mali, as stability was restored to those areas.

There are several international investors with an interest in Mali, such as AfricInvest, Root Capital, I&P, IFC and Cauris. However, their minimum placement usually exceeds €300k, which is way beyond the absorption capacity of most existing SMEs, let alone start-ups. Secondly, such investors require formal and professional placement opportunities, which are difficult to source in Mali. Such larger investors have invested in large SMEs such as Azalaï hotels, Microcred, Produits du Sud and 'Carrières et Chaux du Mali'. Finally, only one semi-Malian company trades its shares on the regional stock market (Bank of Africa Mali).

Hence, the breadth of the financial ecosystem in Mali is limited: private equity and venture capital is virtually unknown, leasing is still in its infancy (for instance Alios finance has a lone small outlet in Bamako), and bank finance provides only a small part of the funding needs of SMEs. Secondly, banks often work in and around Bamako, with secondary outlets in other main cities. Furthermore, several banks claim to focus on SMEs and have set-up specialised SME-departments (such as Orabank, Bank of Africa and Coris bank). However, some of the interviewed local experts felt that these banks continue to focus on state enterprises and larger companies, which offer lower risk and decent returns.

Finally, there are some guarantee funds in place (e.g. Fonds de Garantie du Secteur Privé and Fonds Renouvelable pour l'Emploi). While these provide some risk sharing, several entrepreneurs considered them inefficient, mentioning delays in the range of 2-6 months. In addition, they added about 2% to credit costs. Furthermore, MFIs cannot use these guarantee funds, even though they might help them to focus more on serving the missing middle.

Figure 6: Schematic representation of the Financing Gap for Malian SMEs



Source: Authors' research

Table 2: Overview of the Financial Landscape in Mali

Finance source	Examples	Products	Usual amount	Costs	Target
Family and friends	-	Informal debt	Unknown	Usually low	Start-ups, micro- and small entrepreneurs
MFI	Microcred, CVECA, Kafo, Nyesigiso	Short-term loans (<12 months), partly group lending	<€2.5k (some MFIs provide higher amounts for low-risk clients)	<24%	Micro-entrepreneurs and small necessity entrepreneurs
Banks	BoA, Ecobank, Orabank, BICIM, BMS and others	Mainly short-term secured loans (<12 months)	€50k - €200k, low-risk	<15%	Moderate growth entrepreneurs, as long as guarantees are available
Leasing	Alios	Asset finance	€25k - €150k, low-risk	<15%	Moderate growth entrepreneurs
DFIs	AfDB, FMO, Proparco, IFC	Equity, grants (for BDS), credit lines	Usually >€1m, medium risk	Variable	High-growth SMEs that have a solid track record
Private and corporate Investors	AfricInvest, E&I, Root Capital, diaspora	Private equity and venture capital	>€300k, high risk (at least €10m for AfricInvest)	IRR: >20%	Gazelles and high-growth SMEs
Donors	AFD, USAID, embassies	Guarantee funds, seed capital, projects	I.e. 50% guarantee, low to medium risk opportunities	Low	Moderate growth entrepreneurs, gazelles, new projects

3. Analysis of the SME Ecosystem

This chapter offers key observations on each dimension of the entrepreneurial ecosystem in Mali, as well as on how markets, policy & institutions, finance, business support, human capital and culture issues affect the development and growth of local enterprises. The reasons behind our observations are described from both an **enterprise and a financier perspective**. Each section concludes with an analysis of the main issues and presents possible solutions to address them.

3.1. Culture: bureaucratic, short-term orientation, few role models

Since independence in 1960, Mali's democracy has been developing, despite several setbacks and insurrections. Reasons for the periodic instability include limited economic prospects, especially outside the few economically well-positioned areas; low education rates, bureaucracy & corruption; and neglect of peripheral areas and tribes by the central government.

The current insurgency has garnered attention from development agencies that aim to transform Mali from a fragile state to a stable economy. The recipients of donor support, such as ministries, government agencies and private development institutions, probably have difficulty absorbing the assistance and have developed a culture of donor-orientation, focusing on donor-requirements rather than internal policy coherency and coordination among agencies. Several local experts also mentioned that there is a lack of a concrete field-oriented economic development strategy. A second donor-orientation issue might be that ministries/government agencies do not know from each other what they focus on, when focusing on donor-requirements rather than internal policy coherency.

Furthermore, many local contacts describe Mali as bureaucratic. One government agency, for instance, is still working on its business plan two years after it was re-established, as decision-makers do not want to commit themselves to changes. It is also considered very difficult to fire government staff, even in cases of poor performance or malfeasance. Lack of accountability has not helped to develop a culture of performance or even any strong incentives for programme execution. For these reasons, change is very slow in coming for SME-related policies, such as the foreseen simplification of the tax-regime.

There have been some actions to build a **more business-oriented society**, for instance the creation of a one-stop-shop for enterprises by API (Government agent to help promoting economic development and investments). Mali has also improved its standing on the Doing Business Index, moving from a ranking of 141 out of 190 to 166 in 2010. However, several local experts thought that much of the reported improvement existed only on paper, and that in reality it was still difficult to set-up and maintain an enterprise without the right contacts or expertise. Local contacts mentioned for instance that entrepreneurs have to visit the tax office on a monthly basis to clarify tax issues, and new business set up takes between 2-4 months of work.

Enterprise Perspective

Most entrepreneurs in Mali are in business out of necessity rather than vocation. They are often involved in small-scale trading activities and practice copycat behaviour. Most of them are informal (±90%), even if informality limits the possibility of attracting government contracts and formal sources of financing.

There are several business associations active in Mali, including for specific sectors such as traders (Synacodem), cotton growers and high-level enterprises. Many associations were not considered very active, but Synacodem, for one, has managed to simplify VAT-returns for traders.

Financier Perspective

Many bankers and funders perceive most Malian SMEs to be disorganised and lack proper financial records. As a result, financial institutions often focus on guarantees rather than on the solidity of the company. This focus is also because of a high portfolio at risk (±20% in 2013 after the resurrection, around half that figure today), which makes it difficult to add more risk to the portfolio.

Analysis and Possible Solutions

A positive culture around entrepreneurship is emerging slowly, but is still far from mainstream. This cultural background affects the propensity to create or work in a business, or to have an interest in investing in SMEs. Lack of cultural support for entrepreneurship does not incentivize financial players to develop the SME market.

Some experts thought that funders would be enticed to finance SMEs in certain sectors if the government would follow a practical development approach that addressed the many basic issues such as reliable access to energy, infrastructure, access to expertise and appropriately skilled human resources, and reducing bureaucracy. An enabling environment for SMEs (also if it regards a certain /sector) could attract funding by local banks, especially if international funders were also present. The cotton sector in Mali has this set-up, with a clear government interest and control (also because cotton can be taxed), export companies and some local handling.

	Description	Actions
Strengths	• A business friendly culture is slowly emerging • Some sectors are reasonably well organised (e.g. mining, cotton), including long-term government attention and interest	Select additional sectors for long-term government mid- to long-term engagement (i.e. processing of agricultural products, services to the mining industry, start-ups). This will promote a more business-friendly culture in the selected sectors.
Weaknesses	• There is no strong entrepreneurial culture • Banks appear to have a culture of disregarding the SME market. If they do lend to SMEs, they tend to focus on guarantees rather than robust business and credit analysis	• Promote entrepreneurial awareness at schools, training centres and universities • Continue to train bankers, both field staff and decision makers, to analyse SMEs from an (informal) business perspective rather than from a (formal) administration point of view that are appropriate to SMEs and less formal businesses

3.2. Human capital: lack of business skills and practical training

Many Malian SMEs think that it is challenging to find well-qualified employees and business-oriented managers. One reason for this are the low levels of literacy (about 30%) and school enrolment in Mali (score of only 1.5 out of 7)[2]. Many local experts also consider that the education currently provided in Mali is not very practical and lacks focus on business related subjects such as basic management or book keeping skills. Also local experts felt that that Mali scored lower in terms of human capital compared to peers in the region.

Enterprise Perspective

Most entrepreneurs in Mali have not received training in business management and entrepreneurship, and many SMEs do not know how to maintain basic financial records or plan business activities. This lack of professional business skills hampers business expansion, not because entrepreneurs are not trying, but because they lack planning and cost/cash flow management skills (one respondent mentioned for instance there were always considerable delays in construction assignments, because of this lack of basic planning skills).

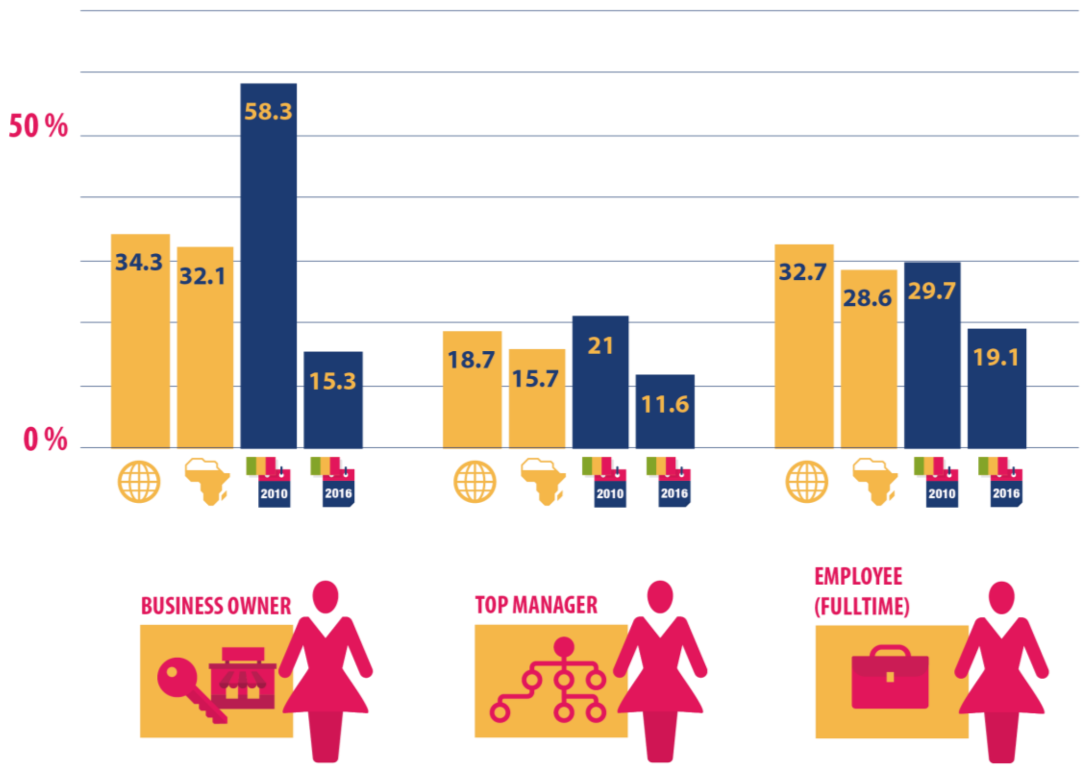
Employees are considered ill-prepared for the workplace as well. Instead of developing critical thinking skills and ability to work with in teams, most education in Mali focused on rote learning. Thus, growth-oriented SMEs must train their employees on-the-job.

[2] World Economic Forum "Global Competitiveness Index 2015"

Women and Youth

The World Bank Enterprise Survey indicates that the involvement of women in enterprises is limited. In 2010, 21% of firms surveyed had a female in top management, but by 2016 this figure was only12%. It was unclear why there was such a significant drop, but it might just be an indication that the research does not provide a full picture of the SME-landscape in Mali since it is not truly representative of the range of SMEs that are more informal and located outside of main urban centres. The rate of women in SME management for 2016 is comparable to the average for all low -income countries, and slightly lower than the average for sub-Saharan Africa, which was 14% in 2016. Some respondents assumed that women entrepreneurs need more determination to succeed in business because of cultural conservatism, especially outside the cities.

Figure 7: Representation of women in formal businesses in Mali



Source: World Bank

Youth also face more difficulties in starting and growing a business, as social relationships are often the key to solving business challenges, and youngsters just starting out have not yet developed a useful network of contacts they can rely on to help them figure out the challenges they face. For youth, every step of the business process is therefore more difficult, from registering a business, to opening a bank account, to understanding and dealing with government regulations, to knowing how to get new business, to finding qualified staff and experts. Yet, roughly half of Mali's population is under the age of 18. Given the abundance of low skilled youth, it is difficult for them to find decent work. The lack of economic opportunities for youth does not appear to be improving. Some initiatives have arisen to support entrepreneurship and business development for youth (see Boxes 2 and 4), but their scale is still limited.

Financier Perspective

Few Malian SMEs have adequate business planning and financial management skills and practices. Banks find many SMEs disorganised and lacking a clear view of their own plans and financial needs. SMEs tend to become better organised as they grow larger and can afford to hire professional managers and accountants. Many smaller SMEs operate informally and have an ad hoc mode of operation, focusing on day-to-day needs, challenges and opportunities without a clear long-term strategy. As a consequence, many financiers consider SMEs to be difficult to assess from a business and financial perspective, and therefore not ready to handle debt.

Box 3: DoniLab – Incubator and Training for Youth

DoniLab was established in Bamako in 2015 as a co-working space and support centre specifically targeting youth, both with and without well a degree. Since its creation, over 600 young people have been trained on business planning, business modelling and marketing, and 7 start-ups are being supported. DoniLab is planning to expand activities to other regions of Mali.

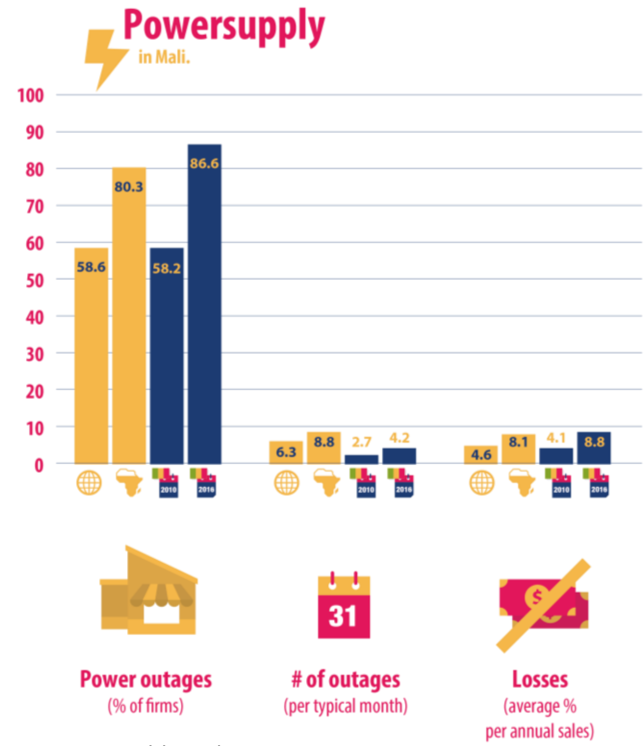
Analysis and Possible Solutions

	Description	Actions
Strengths	Many SMEs have become masters in flexibility, providing different sorts of products and services	Introduce practical business courses at low costs, consider using entrepreneurs/BDS-providers as trainers (i.e. ImpactHub/Jokkolabs, as long as education centres are interested and funding is available). Trainings would be useful even at a very basic level, helping young entrepreneurs to establish their first businesses and setting priorities.
Weaknesses	SMEs lack the required (basic) professional business knowledge and skills	Improve access to business knowledge for SMEs, probably through a Technical Assistance fund for SMEs to stimulate the use of expertise. The fund could probably be managed by API, in collaboration with funders and incubators to generate referrals and source expertise. The first step could be an education campaign among SMEs, explaining the use and benefits of BDS and improving their business knowledge. The fund would thus increase demand for BDS, which might attract solid BDS-providers. Partners could include existing incubators and government agents (Impact Hub, CRETEAM, Jokkolabs, API).

3.3. *Markets – Limited Local Demand*

Malian enterprises have suffered from the political instability that has affected market access and demand. However, GDP growth has rebounded to about 5% per annum, and the 2016 World Bank Enterprise Survey in indicated an annual sales growth of 11% among formal small businesses.

Figure 8: Access to power of formal SMEs in Mali



Source: World Bank

Inadequate infrastructure means frequent power cuts, congestion in the cities and a lack of proper roads in the countryside. According to the Enterprise Survey, power cuts alone cost businesses 8.8% of sales. Furthermore, widespread informality in the economy raises the costs of doing business, as nearly every business activity and transaction requires time-consuming negotiation, rather than following established procedures.

This even applies to tax collection. According the Enterprise Survey, senior managers spend 27.5% of their time on tax and government issues, much higher than the 8% recorded in other developing countries. In addition, exporting within the regional economic union (UEMOA), which is supposed to be streamlined, takes much additional time and cost because of informal taxes. Finally, using World Bank statistics, the official inflation rate difference between Mali and the EU between 1994 (when the currency was re-fixed against the Franc/Euro) and 2016 was 60%. Hence, importing from Mali by countries not similarly pegged to the Euro has become less attractive.

Enterprise Perspective

Bamako is clearly the country's economic hub, with probably 2/3[rds] of Malian SMEs located in its greater area. Mali's infrastructure is patchy, making transport costly. Some new areas around Bamako are being developed, although access to electricity and water in these areas can also be intermittent. Furthermore, Mali is landlocked and in the middle of seven countries. A positive effect being that this position has made the country a centuries-old trade hub.

Financier Perspective

High transaction costs, low consumer and business confidence, and lack of business information about SMEs make funding them a risky business from the perspective of potential financiers. The small size of Mali's economy and the limited number of formal SMEs are also considered disadvantages for investors. However, some of the interviewed local contacts and government agents consider Mali a virgin territory, ripe for investment and development. In particular, underdeveloped business areas are viewed as unused arable lands, for instance in the relatively safe southern area, while mining is thought to be underdeveloped. Only gold and some phosphates are currently being extracted. Although mining is clearly not SME-territory, services to mining companies are mostly provided by foreign companies at present, which is expensive. This work could also be done by local providers, if they were able to meet required service levels.

Analysis and Possible Solutions

Mali's nascent stage of economic development poses many challenges to SMEs and funders operating in the country. High value-added products and services are difficult to produce and sell in Mali, both because of a lack of demand and a lack of suitable suppliers. Many small enterprises get stuck in a low-growth mode, without enough profits to reinvest, innovate and grow. Many smaller enterprises even struggle to stay afloat and are therefore perennially prone to moving on to other opportunities. For instance, one technology start-up that we heard of which had been able to attract funding but was later dissolved when its management were offered positions at a bank.

Respondents in our interviews felt that many SMEs should first target the local market, as they will be less competitive at the regional level (except in the case of livestock). This is because transport and hidden export costs such as informal taxes can be high, and Malian products are not always of high quality. For neighbouring Senegal, for instance, it can be cheaper to import chicken meat from Europe. Similarly, taking advantage of opportunities in the mining sector, which can also generate new business in construction and logistics, depends on the ability of Malian firms to meet quality standards in service delivery.

	Description	Actions
Strengths	• Virgin territory for investors • Strong mining sector, which offers many opportunities in the supply chain	• Monthly round table meetings with representatives of the business community to discuss practical solutions to developing the mining sector and attracting funders. Institutions such as API or APEP (government agents to promote entrepreneurship) may be well positioned to organise such meetings. • Build the capacity of SMEs to act as subcontractors to mining companies in the areas of construction, transport and extraction
Weaknesses	• The quality of SMEs in the services sector is not in line with the required standards (i.e. for the mining sector) • Seemingly overvalued currency, which makes it more expensive to export outside the FCFA-zone	• The government should engage on a long-term basis to improve the enabling environment for the services sector—for example by issuing regulations, standards, and business and economic information

3.4. *Policy & institutions: steps have been made, but still a long road lies ahead regarding proper execution*

Mali's government aims to promote a more functional and inclusive market economy and to attract foreign investors. However, local experts fear that some policies are only introduced on paper, without adequate follow-up because of a lack of implementation capacity. A second fear mentioned by some contacts was that there is **no coherent policy strategy** among donors or government agencies. This also applies on a more practical level. For instance, several incubators have been set-up with the help of soft funding (such as Impact Hub and CREATEAM), but successful participants still have difficulty accessing funding. One partial solution would be to **let the existing guarantee facilities become more market oriented** and include MFIs, Incubators and start-ups as partners. Another potential solution could be too simply and streamline application and approval processes for guarantee facilities, mitigating their degree of administrative bureaucracy and risk-averse approach.

Enterprise Perspective

The Malian government has major influence on the economy, although less than by the end of the previous century. Most micro-enterprises and small SMEs handle their own affairs without much government involvement (and without much of an enabling environment). Yet larger enterprises in the main export industries, such as gold, cotton and phosphates, often remain partly under the control of government.

The government makes efforts to improve the ease of doing business in Mali, but improvements are considered to exist more on paper than in reality, probably because of a lack of implementation capacity and lack of people with business acumen in the government. Some respondents thought that the reason for failures in implementation is that political functions were rotated among a few connected circles that had mainly experience in top-down governance, but lacked practical business or industry experience.

The high rate of **informality** creates an uneven competitive playing field for SMEs that operate formally. According to the World Bank Enterprise Survey 2016, 79% of SMEs consider that their growth is hampered by informal enterprises, because these pay no taxes that lower their income base. This situation may be a disincentive for SMEs to formalize, a vicious circle. The tax regime, the length and cost of procedures for business registration, and the frequent meetings with tax officials to clarify issues are considered major deterrents to formalisation. According to the Enterprise Survey, it takes 32 days to obtain an import license, 60 days for a construction permit and 44 days for a business operating license. Among all low income countries these averages are much lower at 13, 48 and 12 days respectively.

Some SMEs mention that they lack understanding of the advantages of formalisation, which suggests that better communication about the benefits may help. In general, SMEs in Mali are not well informed about issues ranging from market opportunities, financing options, and government programs and services, to the availability and benefit of professional BDS-providers for financial advice, developing business plans, and business start-up.

A major difficulty in Mali is that land titles, which are the preferred form of collateral guarantee, are often dubious. In some areas, multiple titles exist for the same plot, or land has unknown claims against it. A major difficulty is that most start-ups have difficulty providing the required guarantees, unless they are well-connected or from wealthy families. Secondly, even well-developed SMEs do not always have land titles, as it can make more sense for them to invest in productive assets such as machinery, technology or high-level staff, rather than in real estate.

Box 4: Agence pour la Promotion des Investissement (API)

Coming from a low level, Mali's policy and regulatory environment is becoming more SME-friendly. API helps SMEs to set-up businesses, through initiatives like the one-stop-shop, tax deductions and attract-ting foreign investors. The agency also connects investors and capital-seekers to relevant support organisations and presents attractive investment opportunities to relevant parties.

Financier Perspective

The Malian financial sector is not SME-oriented, and an important reason for that is the safe option of buying treasury bills with decent yields and low risk. Since these are far less risky investments, they crowd out the supply of financing to the private sector. Reducing public spending would diminish the demand for credit from the government to cover the budget deficit. This would have an **immediate effect on access to finance for SMEs** as funds would be liberated that otherwise would have been used by the state. Secondly, diminishing demand for credit by the government might reduce the interest rate for other borrowers. Obviously, reducing the demand for credit by the government would be a formidable step. It would also decrease local demand for the products and services of SMEs if the state spends less, putting less money in the pockets of government contractors, civil servants and consumers[3].

While an estimated 90% of Malian SMEs are informal, larger SMEs are sometimes semi-formal and pay some taxes to avoid scrutiny by government officials. Since smaller SMEs are often not registered and do not pay taxes, the **tax burden falls disproportionately on the limited number of formal or semi-formal enterprises.** Simplifying and lowering the tax burden, and encouraging or incentivizing enterprises to formalise, could expand the tax base and increase Mali's tax revenue.

Financial institutions are not blocked from lending to informal SMEs, but they prefer formalised clients that tend to be more professionalized and have better accounting, financial management and business planning. Moreover, many SMEs struggle to navigate the business registration process and lack management skills among their owners and staff. Often operating on a shoestring budget, there is limited funding available at most SMEs to invest in management and information systems or the human capital to operate them. In other cases, SMEs lack regular cash flows allowing for consistent and stable operations and revenues, which are achieved only after

[3] However, government spending might not have to be decreased even if taxes would be lowered, as long as the tax base is sufficiently expanded (see below).

long-term investment of time and cash. Finally some SMEs practice parallel bookkeeping and prefer to remain opaque to tax officials and competitors. Without reliable business and financial records, it is difficult for banks to assess the riskiness and repayment capacity of SMEs.

Staff at some local financial institutions mentioned that they have a tendency to focus on reported results and therefore deploy an analysis approach that is focused on the business administration. Respondents at banks such as Ecobank, Coris Bank or Bank of Africa felt they had started to apply more flexible and SME-specific credit analysis techniques, including methods from microfinance techniques such as frequent client visits, data triangulation, and visual analysis. Respondents outside of banks, however, were not sure if banks were really adapting to the needs of SMEs.

Analysis and Possible Solutions

Although the Malian state is becoming more SME-friendly on paper, in practice there are still many operational constraints for SMEs. An important issue appears to be that the government is not yet reaching SMEs and their business support systems with practical, accessible information about how to set-up a company, how to ledge complaints with government agencies, and what taxes should be paid by what types of entities. Recent reforms are therefore assumed not to have created a significant impact.

	Description	Actions
Strengths	• Guarantee facilities are available • Some banks have an increased SME orientation	• Make guarantee facilities more practical by including MFIs and start-ups as partners. Also simplify their processes, reduce administrative burdens, and shift risk-averse approach
Weaknesses	• The business knowledge and focus of the government is limited • Businesses lack information on government services, taxes, proper BDS • Lack of solid land-titles as guarantees • Complicated government procedures, for instance in taxation and employee contracts	• Government officials have limited business experience and are heavily influenced by donor priorities. To counter both, it might help to have monthly round table meetings with representatives of the business community to discuss practical solutions to widespread business challenges • Simplify information gathering for SMEs, for example via easy access to regulatory updates through a portal or radio shows • Overhaul land title administration. Simplify procedures to register companies, access government contracts and file business complaints.

3.5. Finance: not much incentive for banks to finance SMEs

Reliable data on what percentage of SMEs have access to bank financing is hard to come by in Mali, but the Enterprise Survey estimates that 55% of SMEs try to get bank credit, while only 26% of SMEs received it in 2016 (versus 17% in 2010). This roughly translates to a conversion rate of almost 50% (26% / 55%), which is not bad. Reasons cited by SMEs for not being able to access bank funding are centred around a lack of collateral or guarantees.

It is important to note that this 26% bank access ratio for SMEs is based on a sample of SMEs mainly based around Bamako (72%), and of which 32% were larger SMEs given the Malian context (>60 employees). In addition, manufacturing enterprises, which are typically easier to fund, were overrepresented at 54% of survey respondent compared to only about 8% of the economy. By way of comparison, according to the Enterprise Survey, 9% of Sub-Saharan Africa SMEs and 8% of low-income country SMEs across all sectors had access to finance. Mali is unlikely to have better figures.

As for MFIs, their loans tend to be small and short-term (<€5k and <12 months, with some exceptions). Overall, four key observations regarding access to finance for SMEs were made that require further analysis:

- Interest rates are perceived to be high by SMEs, up to the legal maximum of 15% for banks and 24% for MFIs, excluding some costs, such as notary fees
- Banks demand high level of collateral--upward of 200% of the mortgage value
- Very little equity finance or risk capital is available to SMEs

3.5.1. Interest rates

Interest rates in Mali were perceived as high by the SMEs we interviewed, both at banks (up to the legal maximum of 15% per annum) and MFIs (<24%). The interest rate is comparable, for example, to Kenya, where it is 14.5% but lower than in Guinea, where the base rate is 18% p.a.[4]. Interest rates for SME borrowers in Africa are generally 5-6 percentage points higher than elsewhere in the developing world. Banks in Africa charge on average close to 15.6% for loans to their best small firm borrowers, compared with 11% in other developing countries[5]. The higher rate can be explained by the following;

1. The yield on treasury bills is 4-7%, which sets a minimum threshold at which banks are willing to lend to the private sector.
2. Operational costs for financial institutions are high as it is difficult to find qualified staff (banks estimate these costs to be 8-10% of a mid-sized loan).
3. Borrowing funds by financial institutions for on-lending is costly; short-term money at the central banks costs 4.5-6% per annum. The cost of funds from commercial funders is higher, while that of using deposits is lower.
4. Finally, provisioning for and costs of non-repayment add to the cost base.

[4] https://tradingeconomics.com
[5] CFC and KIT, 2014 Balancing risk and striving for impact – Providing finance to SMEs in developing countries

Based on these figures, banks would need to charge at least 12.5% to low risk clients, and above the legal maximum interest rate of 15% for higher risk and more time consuming clients, just to break even.[6] This rough calculation readily explains why banks are less interested in serving higher risk, more time consuming SMEs.

Enterprise Perspective

SMEs find banks expensive and their lending terms unattractive. SMEs prefer long-term loans, with more flexible payment regimes and low guarantee requirements, while banks usually offer short-term loans, with fixed repayment plans at higher costs and with high guarantee requirements. The banks' offer structure is challenging for enterprises with a longer-term planning horizon, such as production companies. One SME proprietor said banks were nothing more than traditional MFIs with more money and shinier offices, while SMEs are nothing more than micro-enterprises with shinier offices.

Financier Perspective

The main issue for banks is the difficulty they have in accurately assessing SMEs' risks. Entrepreneurs often lack data-based insight into their activities, sometimes because of neglect or lack of knowledge, but other times to conceal the company's profits or financial condition. Secondly, although several banks report being interested in serving SMEs and some have even set up dedicated SME departments, their focus often remains on government debt and lending to a handful of larger companies in industries such as mining and cotton. Finally, the central bank's provisioning regime is unfavourable towards lending to SMEs that lack solid collateral (such as clearly registered land, see below). Most SMEs, and especially younger ones which are focused on growing their businesses, cannot meet collateral requirements. One recent development is that some banks (i.e. Bank of Africa, Ecobank, Coris) are starting to issue SMEs small loans for up to one year. None of the contacted banks knew how much was outstanding to SMEs, but they all thought that it would be a small portion of their total portfolio.

3.5.2. Collateral requirements are high, lack of legal environment capacity

Collateral requirements for SME loans are high in Mali, especially since banks experience high rates of portfolio at risk in 2013 – generally around 20%. This was during a period of political instability and PAR levels have probably halved since then, according to respondents. However, even at around 10%, PAR is still high and could jeopardise banks' reserves if the implied levels of default come to pass.

To reduce portfolio risk, banks need to increase the proportion of solid loans in their portfolios, or reduce the number of more risky loans. It is partly for these obvious reasons that banks continue to limit lending to SMEs, given that they perceive such clients as higher risk. Furthermore, the central bank requires much faster full provisioning for unsecured loans when they are in arrears (after 6 months) than for loans secured by solid guarantees (after two years)—thereby tying up bank equity, reducing lending and providing another strong incentive against unsecured lending to small businesses.

[6] Respectively 4.5% + 8% = 12.5% and 10% + 6% = 16%.

Box 5: Guarantee Funds in Mali

Fonds de Garantie du Secteur Privé and Fonds Renouvelable pour l'Emploi both provide some risk-sharing, but several experts we interviewed considered them inefficient, mentioning delays were in the range of 2-6 months, and costly, since they added about 2% to loan costs. Furthermore, MFIs are not eligible to use these guarantee funds, even though they might help them focus more on the missing middle.

Although no recent figures are available, the result of this collateral focus by banks is that loans are usually secured by more than 200% of the credit value. This implies that younger SMEs that are still in their asset-building phase are practically excluded from receiving useful amounts of credit, which limits their growth opportunities. The collateral requirement is lower when using a guarantee fund, such as "Fonds de Garantie du Secteur Privé" and "Fonds Renouvelable pour l'Emploi". However, using these mechanisms adds about 1% to the costs of the lender and 1% to the costs of the borrower, and it can take months before a decision is made by the guarantee fund due to their cumbersome administrative processes.

A credit reference bureau has recently been established for banks, but MFIs and utilities are not yet included. It is expected that this bureau will start being useful around 2019 when sufficient client and credit data has been accumulated. Even with a functioning credit bureau, however, the actual credit status of many SMEs will not be clear, as they often have informal debts from suppliers or family members.

Enterprise Perspective

For many SMEs, collateral requirements represent an insurmountable obstacle to obtaining long term debt. Pledged assets need to be immovable, as no register for movable assets is in place in Mali. This results in a situation where only a small number of SMEs is able to provide enough collateral to meet funders' requirements, and much of the collateral consists of the owners' personal belongings, rather than business assets.

Financier Perspective

Many SMEs lack clear financial records, organized management systems or even a long-term business approach. This makes it challenging for banks to assess their repayment capacity. Furthermore, Malian courts lack knowledge on handling economic disputes that do not involve mortgaged securities. Even with collateral, court cases can take more than two years to resolve. For banks, such a lengthy dispute settlement procedure locks up scarce capital. Thus, in order to minimise the probability of default, banks aim for wealthier SME owners with "skin in the game", or with good family connections. Due to the slow and derail-sensitive court system, banks prefer to resort to the less formal process of "*recouvrement de créances à l'amiable*[7]", which refers to informal debt recovery based on a personal relationship.

7 Informal debt recovery based on a personal relationship

3.5.3. *Limited offer equity or risk capital for SMEs*

Private equity is a nascent market in Africa[8]. In 2015, there were $600bn worth of equity investments in the US, $125bn in Asia-Pacific and $47bn in Europe, whereas the total for Africa was only $2.5bn, mainly in the financial sector (24%), consumer goods (16%) and industry (14%). The countries in Africa most often receiving equity investment were South Africa (39% of the total), Egypt (11%), Nigeria (10%) and Kenya (10%). The total for West Africa was only about $600m, of which Nigeria had the lion's share at 43%, followed by Ghana (25%) and Côte d'Ivoire (8%). Hence, there is not much left for countries such as Mali, where private equity and venture capital in a structured form is practically non-existent.

Interview respondents mentioned that even wealthy families hardly invest in enterprises, with the exception of a handful of families, geographical areas, or returning diaspora that invest in sectors they know such as trade and agriculture. This is said to be rare, however, since most wealthy Malians prefer to invest in bonds or real estate.

Semi-commercial investors such as AfricInvest, Root Capital and I&P are looking for SMEs, but find it difficult to find good investment opportunities. Their minimum placement (>€300k) is also much higher than required by many SMEs (who probably need multiple placements of €10k-€100k). The main issue, however, is finding SMEs that are well organised, have good growth prospects and are willing to share company control.

Development Finance Institutions appear to have a great deal of interest in assisting Mali, not least to diminish the risk of continuing instability. For instance IFC made two placements in Mali about ten yours ago, but only in large companies (Ecobank and Graphique Industry, the latter having 2400 employees). FMO recently announced its interest in funding a Malian company called Akua Kita Solar to the tune of €7m - €18m, which is well beyond the range of SME financing.

Enterprise Perspective

Respondents in Mali thought that hardly any local SMEs had experience of working with investors, and that only a minority of them had a clear understanding of investors' financial and operational requirements. SMEs that have been in contact with funders, for instance through incubators, perceive the engagement with potential investors as a slow process. Some SMEs fear that investors want to grow their businesses too quickly, with high return expectations exceeding 20% per year. Moreover, the size of the investments that private equity companies are looking for tends to be much higher than what most SMEs can absorb. Last but not least, accepting external investors implies being open to sharing business control, which many entrepreneurs probably find difficult. One start-up entrepreneur we interviewed thought that a potential investor wanted to take over his company.

[8] AfricInvest & Grant Thornton, Le capital-investissement une solution de financement des entreprises, presentation at launch of AfricInvest , January 2017.

Financier Perspective

Mali is not an easy sell for private investors, who find it very challenging to build a pipeline of investment options with decent returns that are not overly risky. An important limitation is Mali's small market size, which makes it difficult for SMEs to expand. Given the risk and cost involved in investing in SMEs, normally only the high growth SMEs would be considered. Hence, even under ideal circumstances, private investors would only be able cover a small percentage of Malian SMEs' financing needs.

Secondly, doing business in Mali is considered to be expensive, difficult and slow. The Doing Business Indicator shows an overall rank of the country of 141 out of 190 countries. The costs of investing are increased due to the lack of well-structured SMEs with proper financial accounting systems, and due diligence of potential investee companies therefore takes longer and is more costly than in more developed markets. Investors also need to be more patient and spend more time in process-management in Mali than elsewhere. Finding investment opportunities can easily takes 9-12 months, and then disbursement processes and project start up can be slow and cumbersome as well. The longer-than-usual ramping up period for business investments also makes it difficult to create a positive cash flow during the initial start-up period for the investor. A similar difficulty was observed in other countries of the UEMOA.

Investors also need local banks to provide working capital to investees in order for them to achieve reasonable growth and profitability. As described above, banks are reluctant to do so, and this is yet another reason why Mali is less interesting for investors. Investors usually only provide part of the funding needs of their investees--the long-term capital with higher return potential. Working capital and trade finance from local banks are needed to provide additional, profit-boosting leverage. Such funding is difficult to obtain, which is yet another reason why Mali is less interesting for investors. Finally, exiting from an investment is difficult, as there are limited sales options. Many investors plan their exit strategies when first engaging with an investee, especially when they have a predetermined investment horizon), thus a lack of exit options makes it less attractive to invest in the first place (a third vicious circle). On the other hand, impact investors may consider Mali as uncharted territory where opportunities may be plentiful in a much less crowded space compared to "the usual investment suspects" in East Africa. Several local stakeholder therefore consider Mali a frontier market.

Analysis and Possible Solutions

SME funding costs are high in Mali, due to the high processing costs of SME loans and relatively high cost of funds, not to mention the perceived riskiness of SME loans. The high collateral requirements are partly due to central bank regulations regarding loan loss provisioning, and partly due to the difficulty of loan collections given the challenging legal environment. If banks such as Bank of Africa or Orabank would be able to reach profitably large numbers of SMEs through customized approaches, other banks may be incentivized to focus more on the SME segment. The establishment of the credit bureau may hasten this process.

	Description	Actions
Strengths	• Several guarantee funds are in place, but they are considered slow and costly • Some banks have started paying attention to funding SMEs	• Simplify guarantee process to get decisions more quickly, reducing the current 2-3 month turnaround time • Allow MFIs and start-ups to use the guarantee funds to broaden the appeal and scope of the instruments (mid-term intervention)
Weaknesses	• SMEs perceive lending costs to be high • Banks demand more than 200% of the mortgage value in collateral • Banks' product offer mainly limited to short-term • Equity is virtually un available	• Funders lack knowledge about how to analyse the risk in less formalised SMEs; practical staff training over the long-term would remedy this situation • More experience and training on how to successfully finance SMEs might reduce banks' operational costs, thereby lowering interest rates for SMEs • Better understanding by banks of SME-clients and their risks might reduce banks' focus on collateral and improve their product offer to SMEs (longer-term, less guarantee focused)

3.6. *Support –Dots to be Connected*

In recent years there has been an increase in SME support initiatives in Mali, some of them by the government and donor community, and others by the private sector.

There are now for instance several incubators programmes in Mali (Impact Hub, Createam, Jokkolabs) to help start-ups or existing enterprises reach the next level of development. As in other countries, the contacted incubators mentioned that it takes a great deal of one-on-one contact with entrepreneurs to get results, as has different needs and is at a different stage of development. As a result, it is difficult for incubators to adequately serve more than 5-10 per year. A second issue mentioned by Malian incubators is that even well-prepared enterprises find it difficult to source funding, well-trained staff, and good business support services (such as accountancy services and practical help from government services (such as export agents). Overall, there is a lack of cohesion between different interventions that targeted at Mali's entrepreneurial ecosystem, and there remains a huge need for capacity development among SMEs.

Enterprise Perspective

SMEs are often unaware of the importance of professional business skills and therefore rarely value capacity building. For starters, SMEs are often unaware of the BDS options available to them. It can also be difficult for entrepreneurs to see tangible results of business training in the short term, making it hard to justify the investment of time or money. To get SMEs' buy-in, it is important to link BDS to the possibility of getting financing, or else more effectively demonstrate other benefits to business performance. To start, SMEs are often unaware of the BDS options available to them; let alone their added value. Local contacts highlighted the need to enhance the supply of BDS by creating an open access market place, and even suggested certifying or ranking BDS providers. This would help entrepreneurs make informed choices about the quality and usefulness of BDS-providers.

Box 6: Incubators in Mali

Several incubators operate in Mali, such as Impact Hub, Createam and Jokkolabs. They are frequented by a younger generation that wants to set up dynamic new business approaches. Although local stakeholders recognize that establishing and growing businesses remains difficult in Mali, they consider incubators useful. The incubators' services could be upgraded to include more financial management skills for SMEs, and increased awareness of firms' financial needs at different stages of development. Intensifying the linkage with funders (e.g. investment funds) could also benefit the survival rate and success of incubatees.

Financier Perspective

A major drawback of SMEs for funders is that they often lack business management knowledge. BDS providers can help reduce that deficit, for instance regarding market knowledge, product development, business planning or financial management. One challenge to driving better uptake of BDS is that some providers overcharge for very generic, copy-paste type services. Some funders, such as Orabank, direct their clients to more solid BDS-providers, like business plan developers. However, the costs of these services have to be borne by the entrepreneur, who often does not want to spend to required €500-€2k to develop a business plan. What would help is if such costs could be partly covered by soft funders. Another option would be to lower the interest rate for clients that have received services, as they are likely to be better prepared and thus present a lower credit risk. The contacted banks had not yet considered that option.

Table 3: Overview of business support in Mali

Type of support	Target group	Examples	Challenges and difficulties
Incubators and accelerators	• High growth start-ups/gazelles	• ImpactHub • Createam • Jokkolabs • DoniLab	• Relatively high cost, requires subsidies • Small number of beneficiaries • Not much scope for long term support sustainability (as incubators often lack sustainability)
Commercial BDS	• High growth start-ups • Gazelles • Other SMEs	• BDS to SMEs is mainly provided by individuals and small outlets, which are occasionally sideline businesses • Some notaries provide BDS, for instance regarding business set-up	• There is a lack of demand for BDS due to a lack of demand, (perceived) high costs & low usefulness, limited quality on the supply side
Joint ventures (with foreign partners)	• High growth SME • Gazelles	• None identified	• This is an option which is hardly explored by Malian SMEs, though there would be good prospects in the area of services to large mining companies
Business networks	• High growth start-ups • Other SMEs	• API, Patronat, Chambre de Commerce	• This kind of support is underdeveloped in Mali and has potential for expansion
BDS combined with private investment, venture capital/angel investors	• High growth SME • Gazelles	• None identified	• This kind of support is underdeveloped in Mali and might have potential for expansion

Analysis and Possible Solutions

Business supporters exist in Mali, however most support structures are still in their early stages of development and have limited scale. The market for professional business support services is probably nascent, but needs to be nurtured and expanded significantly before it can reach a substantial number of SMEs.

	Description	Actions
Strengths	• Nascent business support ecosystem • Some banks direct clients towards BDS-providers	• Some BDS-providers simply overcharge for copy-paste assistance. BDS-providers could be (i) certified/rated, (ii) shared among SMEs (joint service usage, which makes the market more interesting for BDS-providers) and/or (iii) subsidised to stimulate SMEs using these services (although that can be challenging to control)
Weaknesses	• SMEs often lack basic business management knowledge • SMEs perceive costs of BDS are too high	• Set up matching grants and/or voucher systems to subsidize access to BDS for SMEs • Consider applying lower interest rates for bank clients that use BDS-providers (as such clients have a lower credit risk and therefore a lower risk mark-up)

4. Summary and outlook

This study indicates that Mali's SME ecosystem is in an early phase of development, and is less developed than in other Sub Saharan economies. Mali is a low income country, and political instability suppressed economic growth and GDP. However, the country is recovering and the Malian government is increasing its focus on SMEs as a way to accelerate job and income growth.

The Malian SME landscape can be separated into two general types of SMEs:

1. A small number of high-growth or high-potential SMEs that need access to high quality BDS and patient, long-term risk capital; and
2. A large majority of Malian SMEs that are low-growth necessity-driven, and require basic BDS and smaller, low-cost, shorter term credits.

The most developed high-growth enterprises and gazelles have access to some equity and debt, but most other types of SMEs remain underserved or completely unserved by the current financial landscape in Mali.

4.1. Key observations

The purpose of this study has been to get an in-depth understanding of **why it is difficult for SMEs to access financing** for growth in Mali. This study indicates that the main reasons for this are rooted in several interlinked ecosystem domains. We can summarize the main reasons for the lack of access to finance of SMEs in Mali as follows:

- **Fragile state:** Mali is still a fragile country, with on-going political challenges and tensions that are negatively affecting market opportunities and attractiveness of the market to businesses and investors. High levels of operational risk make it more difficult and more expensive to do business in the country. Only a nascent entrepreneurial ecosystem exists, and in addition to deficits in the national energy and transport infrastructures, there is also limited local demand for products and services.
- **Few policy supports:** Some SME support structures have emerged, such as a one stop shop, credit bureau, incubators, and guarantee funds. However, efforts to boost SME growth and professionalism are hardly coordinated, as there is no coherent policy strategy and little implementation of those policies that do exist on paper.
- **High degree of informality:** More than 90% of enterprises are informal, which contributes to a lack of proper financial accounting practices, insufficient guarantees and capital for use as collateral and a lack of professional management skills and market knowledge.
- **SME finance offer:** Some MFIs that are re-emerging after the period of political crisis do try to serve the missing middle with short-term loans. They are not able, however, to supply rapid-growth oriented SMEs with (higher risk) longer-term debt that they demand, partially due to the interest rate caps on microfinance. Unfortunately, MFIs cannot make use of the existing guarantee funds, something that could help them to develop their offer to SMEs.

4.2. *Way forward*

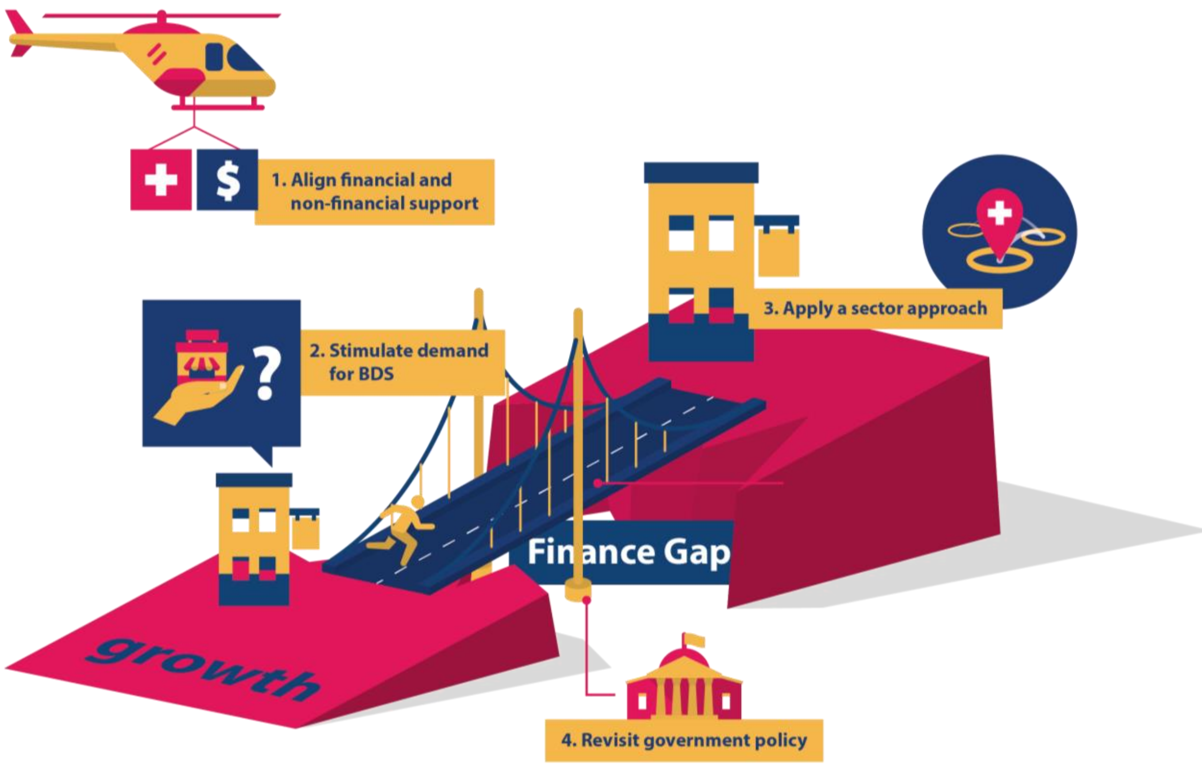
Based on the desktop analysis, the fieldwork and the stakeholder workshop, one conclusion of the research is that improving access to finance for Malian SMEs probably requires improvements in all 6 domains of the entrepreneurial ecosystem. Not only the supply of finance, but all six ecosystem domains require long-term improvements efforts and investment in order to professionalise existing SMEs and support structures, and expand access to finance for SMEs.

Several actions to diminish the financing gap were suggested by the research team and local stakeholders during interviews and the workshop. The most critical are the following:

- **Align financial and non-financial support.** There are quite a few incubators operating in Mali, but their trainee-entrepreneurs continue to lack access to funding. Besides expanding the incubator scene in Mali, a useful intervention would be to deepen the current set-up, and to support businesses at different stages of development and build the capacity of the entrepreneurs to understand their own financial needs. In addition, a more effective linking of incubators to long-term, patient risk capital, including investment funds and crowdfunding, would be helpful. Since it is believed that **successful SMEs help shaping entrepreneurial ecosystems** as they set examples for other entrepreneurs, driving demand for quality BDS and small business-friendly government initiatives could be mutually reinforcing.
- **Stimulate demand for BDS**. In general, SMEs in Mali are not well informed about issues such as market opportunities, access to professional BDS-providers, financing options, or government resources or regulations. Increasing SMEs' knowledge of BDS options could stimulate demand and willingness to pay for BDS, which should in turn increase the professionalism and bankability of SMEs.
- **Sector approach**. Focusing on developing the entrepreneurial ecosystem around specific business sectors was considered more actionable in the short term than tackling the countrywide entrepreneurial ecosystem for all sectors. If government agencies, sector associations and development practitioners focus on solving specific, practical issues within sectors, such as VAT or poor quality of roads in certain areas, then other ecosystem supporters, such as DFIs or BDS providers, may be enticed by expected demand to make investments in improving BDS and increasing funding to SMEs in targeted sectors. This is already happening in the cotton sector and could be replicated in other sectors.
- **Revisit government policy.** This report highlights several policy issues that hamper lending to SMEs in Mali. Some straightforward solutions could strengthen Mali's ecosystem over the long term:
    - Keep supporting market institutions such as the recently-launched credit bureau (already started)
    - Stimulate lenders to focus on SMEs by ensuring that guarantee funds are market-oriented and accessible to MFIs (including linking MFIs to the SME-guarantee fund)

- Coordinate government and donor interventions, even at the basic level of having regular stakeholder meetings to discuss practical solutions, and be sure to include proprietors of SMEs and representatives of the sector in those discussions
- Simplify tax and regulations, which could stimulate company formalisation (e.g. with the Malian Investment Promotion Agency (API))
- Review educational policies to introduce entrepreneurship and business skills training in schools and education centres, possibly in cooperation with existing incubators.

Figure 9: Actionable solutions to close the finance gap in Mali



Annex 1: Interviewees

Name	Function	Organisation	Type of business
A. Entrepreneurs			
Mohamed Keita	Founder	7 SMEs	Sets-up companies, runs ImpactHub
Djenebou Toure	Client relations	ACI	Sales of apartments and land
Kalilou Sissoko	Commercial director		
Alain Nkurikiye	Business accelerator	Hiil	Business innovator
Emmanuel Bama	Director	ESCT	Business school
Abdoulaye Gakou	Entrepreneur	Solar Mali	Provide solar energy to households and MSMEs
B. SME Support Structures			
Aminata Niono	Project manager	AfD	Provides assistance on a broad range of development projects
Seydou Sy	Lead	Jokkolabs	Social change hub
Baidy Diakite	Director	APEP	Association to promote private entrepreneurship
Koko Dembele	Training manager	Ministry of investments	To promote the private sector
Ahmadou Cisse	Senior manager		
Paul Tholen	First counsellor	Dutch embassy	Provides assistance on a broad range of development projects
Mamadou Landoure	Economic development advisor		
Binta Diakite	Promotion officer	API	Government agent to promote investments in Mali
Moussa Toure	Director		
Mamadou Traore	Enterprise support	Chamber of commerce	Assist MSMEs
Philippe Delers	Programme manager	EU	Provides assistance on a broad range of development projects
Makhan Sacko	Project manager	Impact Hub	Incubator
Ousmane Cisse	Director	APEJ	Agent to promote youth employment
Matthew Ault	Associate	Chemonics	Consultants
Takashi Sakoda	Assistant director	JICS	Provides assistance on a broad range of development projects

Sale Sissoko	BDS-specialist	Createam	Incubator
Tidiane Ball	Founder	DoniLabs	Incubator
C. Financial Players			
Fatouma Afagnibo	Client control	Microcred	Provides funding to MSMEs
Francois-Xavier Poste	CEO		
Amadoun Barry	Head of SME-department	Bank of Africa	Provides funding to SMEs
Mohamed Sacko	SME-funding	Orabank	Provides funding to SMEs
Seydou Bocar Traoré	Client relations	Coris Bank	Provides funding to SMEs

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Annex 3: Glossary

A2F	Access to Finance
AFD	Agence France Développement
AfDB	African Development Bank
APEJ	Agence pour la Promotion de l'Emploi des Jeunes
API	Agence de Promotion des Investissements
BDS	Business Development Services
BOA	Bank of Africa
CSP	Centre du secteur privé
DBI	Doing Business Index
DFI	Development Finance Institution
FCFA	656 Franc CFA = €1
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
I&P	Investisseurs & Partenaires
IFC	International Finance Corporation, World Bank Group
MFI	Microfinance Institution
SME	Small and Medium sized Enterprise
SSA	Sub-Saharan Africa
UEMOA	West African Economic and Monetary Union
UN	United Nations
WB	World Bank
WEF	World Economic Forum

Annex 4: Doing Business Indicators

Doing Business Indicators / West African countries	*Global DB # rank*	SSA DB # rank	Start a business	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 Sub-Saharan Africa											
(-) 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 5: Workshop participants

#	Name	Organisation
1	Bama Emmanuel	JokkoLabs, Bamako / Directeur Technique
2	Bouare Moussa	API / Responsable de start-up
3	Delers Philippe	VE / Chargé de programme
4	Coulibaly Abdoulaye	MICROCRED
5	Florence Afagnibo	MICROCRED
6	Cisse Ousmane	APEJ
7	Diakife Baïoly	CSP
8	Gacrou Abdoulaye	SolarMali
9	Keïta Mohamed	Impact HUB
10	Mamadou Landoure	Ambassade des Pays-Bas
11	Julia Brethenoux	DGGF/Triple Jump
12	Lukas Wellen	Enclude

Annex 6: 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[9] 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[10].
- **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[11]. 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[12].
- **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).

9 published by the Aspen Network of Development Entrepreneurs
10 http://www.enterprisesurveys.org/
11 Developed by Enclude for InfoDev
12 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	Phase 2	Phase 3
Basic ecosystem scoring (desk study)	In-country data collection (interviews)	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[13] 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.

[13] 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[13], 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.

#ClosingTheGap

Mali

KEY CHALLENGES FOR THE 'MISSING MIDDLE'

Assessment of the entrepreneurial ecosystem in Mali

Market | Finance | Culture | Human Capital | Support | Policy