



## **SMALL MEDIUM ENTERPRISE GROWTH AND PERFORMANCE: EVIDENCE FROM COTE D'IVOIRE**

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### **Abstract**

*The small and medium-sized enterprise (SME) sector is a major driver of employment growth and wealth creation in Côte d'Ivoire. SMEs constitute a very important part of the Ivorian economy and participate in the development of the country. They are found in almost all sectors and drive economic life and contribute significantly to the GDP of Côte d'Ivoire. The sector has developed rapidly over these years and has become the main supplier of employment in Cote d'Ivoire. This article examines the growth and the performance of*



*SMEs. Based on the empirical findings, it suggests guidelines to enable SMEs to achieve sustainable performance. It contributes to the promotion and active growth of SMEs in Côte d'Ivoire.*

*Keywords: SME, Growth, Performance, Cote d'Ivoire*

## **INTRODUCTION**

The performance and growth of small and medium-sized enterprises (SMEs) is a major driver of the development and the creation of remunerative employment in Cote d'Ivoire. The SME sector is recognized globally as an important driver of economic growth and job creation in developing and developed countries (Bonito & Pais, 2018; OECD, 2017; W.T.O, 2016). SMEs are the largest business sector in the global economy and today almost all governments around the world are increasingly supporting the growth of SMEs as part of their overall strategy (MENPPMEA, 2018; MESI, 2017). In Côte d'Ivoire, in addition to the Ministry of Entrepreneurship and the Promotion of SMEs and Crafts (MENPPMEA), the government has created several structures for the growth and development of SMEs. We will quote some and their roles in the rest of this article. In all developed and developing countries, SMEs are involved in economic development, poverty reduction, employment growth and innovation. They have tremendous potential for sustainable development and it is through their growth that employees dismissed by large companies are reintegrated into the workforce (Herman, 2012). The growth of small businesses immediately means growth of jobs that provide income at the national level and especially in local level, which stimulates local economic activities and generates wealth and new jobs in this locality (SEDAN, 2013).

SMEs around the world, ensure the equitable distribution of income, well-being, per capita income and quality of life of citizens, and contribute to employment growth at a higher rate than large firms (Herman, 2012; Woldie & Adebimpe, 2004), such is the case for Côte d'Ivoire. The performance of Ivorian SMEs is justified by: profitability, growth, productivity, sales revenue rate, market share, product quality, return on investment and value added of the product. These indices allow us to evaluate the performance of a company based on sales. Barney (1991) and Porter (1985) also argued that in management, a firm's performance is viewed in financial and non-financial and the main elements of which consist of "sales-based and firm-based." What remains to be improved in terms of performance are: employee well-being, customer satisfaction, quality of service and internal organizational efficiency. Because according to Begonja, Čiček, Balboni, and Gerbin (2016) these elements are also used to

measure the performance of a company. To be more effective, efficient, and competitive and to sustain their success, SMEs must not only be effective in the financial aspect but also in the non-financial aspect. They must be prepared and ready to face any competition and dilemmas that plague the SME sector. Talking about dilemmas, they are multiple: most of them face sudden deaths, crises of lack of funding, fierce competition, mismanagement of cash flow, and so on.

The new creation, the growth and the performance of SMEs are really appreciated in Cote d'Ivoire, because SMEs are said to be the main economic drivers and economic activities providers. This study proposes a clearer understanding of the characteristics of SMEs in Côte d'Ivoire, highlighting their growing importance and suggesting solutions to enable them to achieve sustainable performance and also to bring them to overcome the different problems they meet. In this paper, we shall look at following: definition of SME, growth and gender involvement in SME firms in Cote d'Ivoire, SME firm performance and impact in the Ivorian economic.

### **DEFINITION OF SMEs BY IVORIAN INSTITUTIONS**

The SME definition is quite complex and varies from one country to another, and from one institution to another. The most common of definitions is that which is based on the number of employees and the annual turnover. Some countries focus on the number of employees as a distinguishing criterion for defining SMEs. Others use the capital invested; while others combine the number of employees and the capital invested to determine an SME (Hoffmann, 2017; Liu, 2008; SEDAN, 2013; Zhang, 2009). The Organization for Economic Co-operation and Development (OECD) states that SMEs determine the economic and socio-cultural atmosphere of a country.

In Côte d'Ivoire, the government's SME charter qualifies an SME as a natural or legal person providing market goods or services, having full-time employees under a labor contract and registered with the National Social Security Fund (CNPS) (D. Ardjouman, 2014; Billon, 2013; Katua, 2014). Since January 2012, the Ivorian government defines SMEs as any company with less than 200 employees with a turnover of less than or equal to 1 billion CFA francs (approximately 1.8 million US dollars). Law n- 2014-140 of March 24, 2014 gave further details and defines the SME according to the following criteria: turnover excluding taxes, number of employees, legal recognition and payment of Taxation or Accounting (ESP & ADB, 2018) (See Table 1). The Ivorian government has also classified them into three categories: micro-enterprises, small and medium-sized enterprises (see table 1) and operating in the following sectors: primary, secondary and tertiary (Billon, 2013; MENPPMEA, 2018). SMEs are

also classified according to the industries they operate. They all operate in the construction, wholesale, retail, transport, postal, hotel and restaurant sectors (Hoffmann, 2017). Indeed, there are two groups of SMEs in Côte d'Ivoire: the first group is the Informal SMEs; they are those businesses that are not yet registered by the government or the institution in charge. The Second one is formal SMEs; they are those that are already registered with the government.

Table 1: Definition of SME by Ivorian institutions

Type of Enterprise	Number of employee	Turnover-USD	Turnover-FCFA
Micro	< 10	54.100	3.000.000
Small	< 50	270.900	150.000.000
Medium	< 200	1.800.000	1.000.000.000

*Source: National Institute of Statistics (INS-Cote d'Ivoire)*

The definition principle is almost the same everywhere in the world; but SMEs differ in the number of employees and the income from one country to another and from one institution to another. In China, for example, SMEs are defined by the number of employees, the annual turnover and the annual balance sheet. The Chinese Law on the Promotion of SMEs, published in 2003 by the Central People's Government of the People's Republic of China, has changed the classification of Chinese SMEs. These classifications focus on the payroll, the number of employees, the revenues and the total assets of the companies (Alqahtani, 2017; Essays, 2018).

## **SMEs GROWTH AND GENDER INVOLVEMENT IN SME FIRMS IN COTE D'IVOIRE**

### **SMEs Growth**

In 2000, before the coup d'état and the post-election crisis, the Directorate General of Taxes (DGI) identified 44,560 SMEs including 25,340 micro-enterprises, about 98% of the national enterprises. This quota decreased during the crisis period, from 44,560 SMEs in 2000, to about 26,000 SMEs between 2004 to 2013. After the crisis, the number of SMEs rose to 30,000 (Billon, 2013). From 2011 to 2013, the Directorate General (DGI) of Taxes registered 46 groups of associations of SMEs. In addition, in the same period, the Ministry of Agriculture (MINAGRI) has identified more than 2800 agricultural cooperatives all of the private sector. The main and major professional organizations of SMEs are: Ivorian Federation of SMEs (FIPME), the SME Movement (MPME) and the General Confederation of Small and Medium Enterprises (CGPME).

In addition, the FIPME Report 2018 based on the 2002 National Institute of Statistics and Economic Studies (INSEE) Report and the AFRISAT Report states that at the national level, SMEs account for 27% of processing units, 40% of trade, and 31.5% of Service. Recently in 2017, the DGI has identified 46,000 Micro Enterprises (TPE) (Lolo, 2018).

- Classification of SMEs by category: Micro, Small, Medium (See figure.1)
- Distribution of SMEs throughout the Ivorian territory (See figure.2)
- Sectorial distribution of Ivorian SMEs (See figure.3)

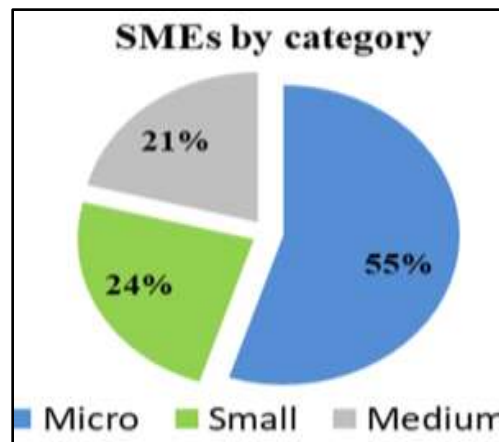


Figure 1: Classification of SMEs by category

Source: Report EPS 2017/DGI 2012 Report

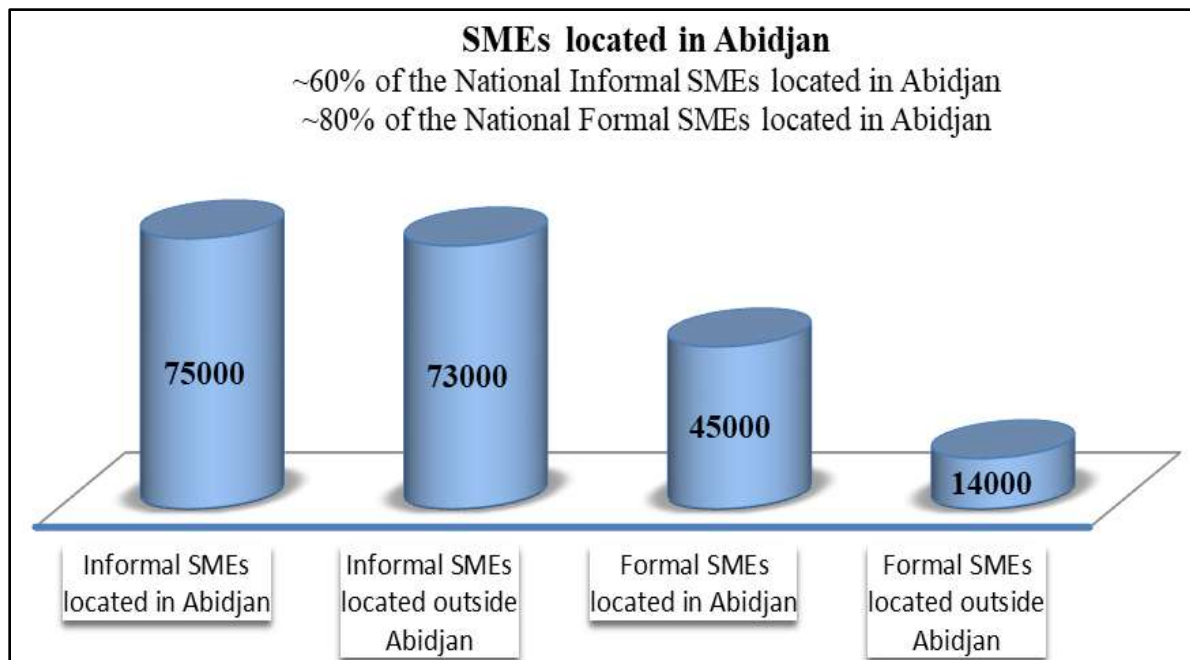


Figure 2: SMEs throughout the Ivorian territory

Source: Report PADSPI CI 2017. Entretiens Okan/Dalberg

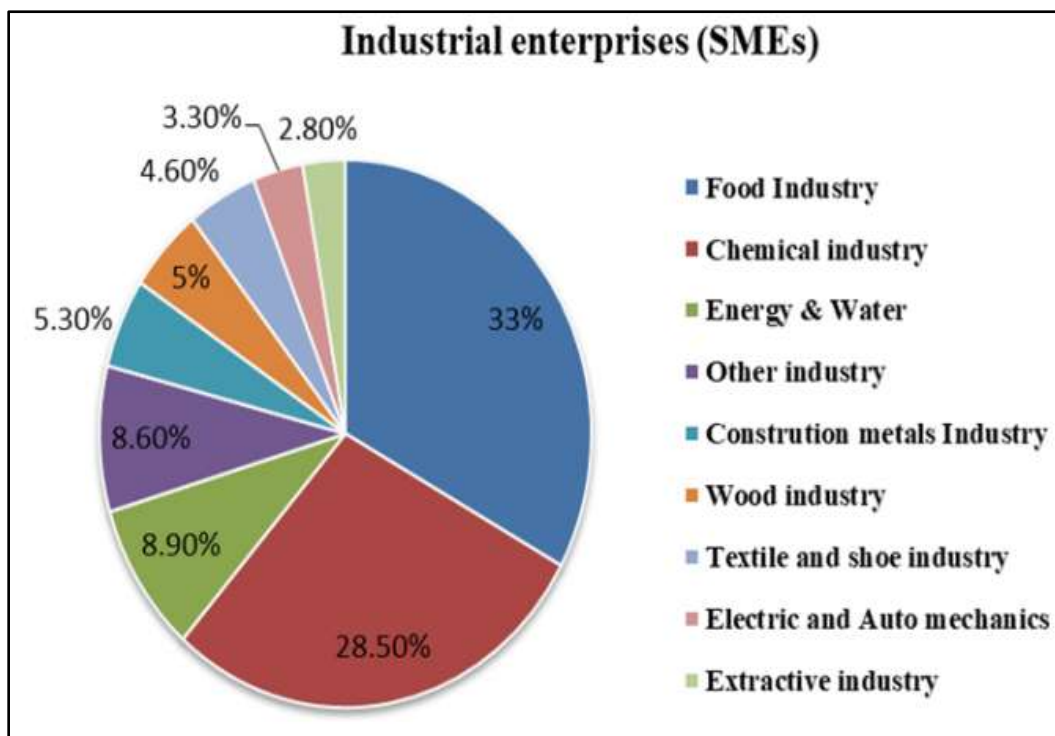


Figure 3: Sectorial distribution: industrial enterprise  
Source: Report PADSPI CI 2017. Entretien Okan/Dalberg

According to the DGI, in Côte d'Ivoire SMEs are strongly dominated by micro-enterprises, more than 55% of SMEs (See fig.1). Most of them are located in Abidjan the economic capital; about 80% of the total number of formal SMEs (See fig.2) (MENPPMEA, 2018). The private sector, for its part, remains largely dominated by food industries with 33% of the National SMEs industries.

#### **Distribution of Gender involved in SME Firms in Cote d'Ivoire**

A survey conducted in 2018 by the AfDB and Entrepreneurial Solutions Partners (ESP) among Ivorian companies reveals that: Women are slightly more present at the head of Micro Enterprises: 73% against 60% and other size of enterprise such as: Small, Medium and Large are dominated by men (see fig.4). Women are more present than men in commercial enterprises: 42% against 35% and also Services: 48% against 44% and the other sectors of activity are slightly dominated by men (see fig.5). Men lead the formal sector: 42% of women's presence versus 34% of men's presence in informal firm and the formal firms are dominated by men: 65% versus 58% (see fig.6).

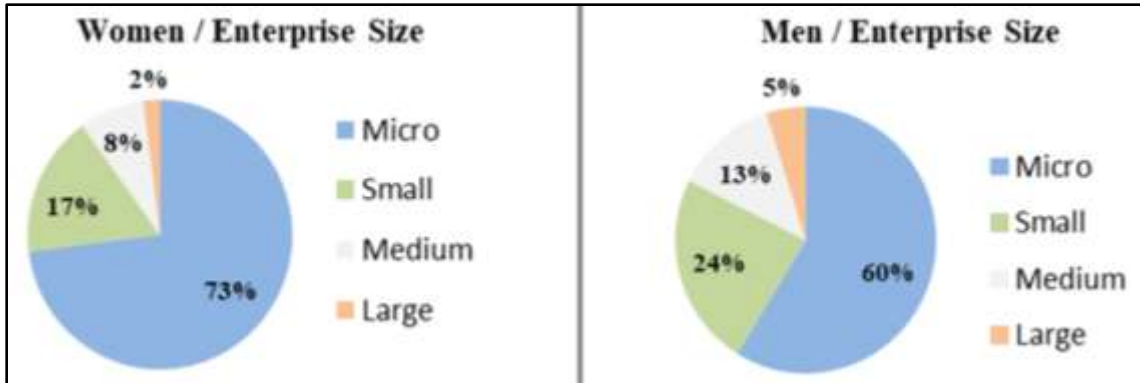


Figure 4: distribution of Men and Women in Enterprise Size  
 Source: AfDB Survey and Analysis, ESPartners, 2018, n = 4920

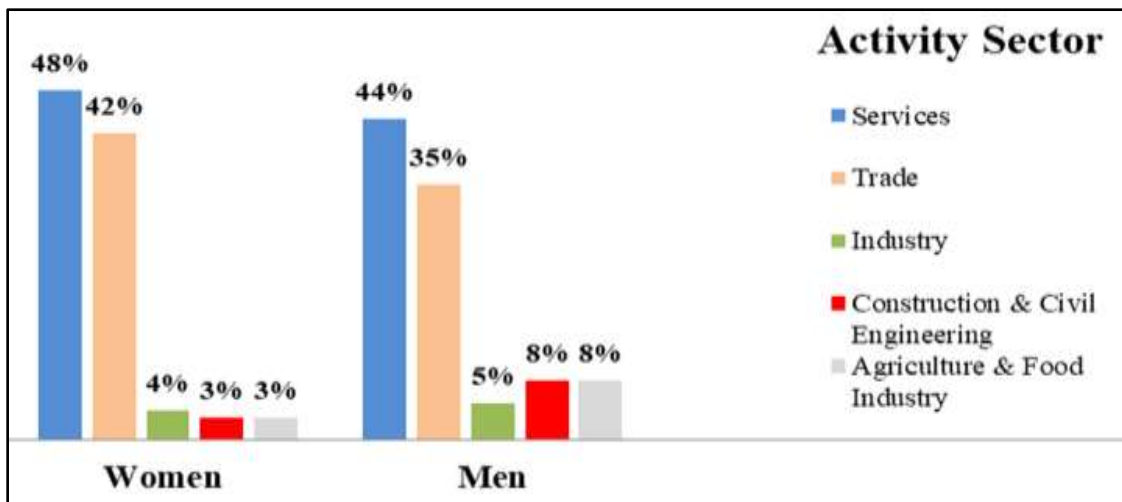


Figure 5: distribution of Men and Women in Activity Sector  
 Source: AfDB Survey and Analysis, ESPartners, 2018, n = 4920



Figure 6: distribution of Men and Women in Firm Status  
 Source: AfDB Survey and Analysis, ESPartners, 2018, n = 4920

## SME FIRM PERFORMANCE AND IMPACT IN THE IVORIAN ECONOMIC

### SME firm performance

The performance and growth of SMEs is a main driver and indices for the level of industrialization; modernization; urbanization, gainful and meaningful employment for all those who are able and willing to work, equitable distribution of income, the welfare, income per capital and quality of life enjoyed by the citizenry (Eniola & Ektebang, 2014).

Performance is the main interest of every SME owner or manager, so managers must ensure that the three levels of management function properly. Performance is the main interest of every SME owner or manager, so managers must ensure that the three levels of management function properly. The overall performance of the SME will depend on management effectiveness apply to the three Levels of Management, namely: Top Management, Middle Management and Lower Management (see Fig 7). Once the three levels of Management are effectively controlled then this will positively influence the three levels of performance namely: business performance, organization performance and financial performance. Performance of SMEs has to do with both behaviour and results when the behaviour of management is right, then the anticipated levels of output would be achieved and vice versa for failure. When behaviours of management towards marketing strategies are geared on a right direction, then this positively affect the performance of SMEs (Ardjouman & Asma, 2015).



Figure 7: three levels of Management



### **The Impact of SMEs Performance on the Ivorian economy**

Since the 1980s, SMEs collectively have become the number one contributor to economic development and job creation of economies. According to most recent scholars and international organisations, SMEs happen to be the engine for growth of economies. Throughout the world, as in the Côte d'Ivoire, SMEs outnumber large enterprises and employ many more people, and are also the main drivers of economic growth (Ndiaye, Razak, Nagayev, & A., 2018; OECD, 2017; W.T.O, 2016).

Cote d'Ivoire occupies a historic place in the economic dynamism of the West African sub region. She is the economic engine of the West African Economic and Monetary Union (UEMOA). Côte d'Ivoire enjoys a significant regional stature. Her population is estimated of 23.7 million with a GDP of USD 35.9 billion at the end of 2016. She is today a regional power in West Africa. At the end of 2016, Côte d'Ivoire's economy represented 35% of UEMOA's GDP and 60% of agricultural exports in zone 1. Cote d'Ivoire owes this feat thanks to the performance and contribution of the private sector which greatly contributes to job creation and economic development (ESP & ADB, 2018). In Côte d'Ivoire, the SMEs sector is one of the most important drivers of economic growth and the eradication of poverty. According to the report of the National Development Plan (PND), in 2011, SMEs represented 98% of national enterprises and contributed about 18% of total GDP and offered nearly 20% of modern employment (Abo, 2013; PND, 2011).

Billon (2013) the former minister in charge of SMEs from 2012 to 2017 asserted that SMEs represent 98% formal economy, 20% of national wealth (GDP), 12% of investment and 23% of the active population. He added that SMEs achieved 17-18% of the total value added and accounted for 20-23% of payroll. He also recognized that the development of Côte d'Ivoire necessarily goes through this sector (Okan, 2013).

### **The Phoenix Plan and Government Support to SMEs**

The Phoenix Plan is a project of the Ivorian government to enhance, energize and create the conditions for an environment conducive to the development of SMEs. Phoenix Plan is based on 50 initiatives articulated around 4 pillars, within a framework of execution in three axes (see table 2). The estimated total budget for the implementation of the plan is 86.02 billion FCFA around 147,323,054 USD (129,768,659USD for the 50 initiatives and 17,554,820 USD for the three axes)(ESP & ADB, 2018). The phoenix plan has already been used for the creation and effective implementation of the CI-PME Agency (A.CIPME), the creation of finance Agency. The Phoenix plan is the initiator of the national Business Plan competition as well as programs to

promote entrepreneurial culture in schools. It organises meetings of national and international public and private partners likely to support the SME strategy.

Table 2: The Government's Phoenix Plan

4 Pillars		3 axes	
1	To improve access to finance and market share	1	Creation of a National Institution (Agence Cote d'Ivoire PME – A.CI PME) to manage SMEs Affaire.
2	To reinforce Technical and management capacities	2	Strengthening SMEs' professional organizations and federations
3	To Improve business environment for SMEs	3	Partnership with public and private donors and actors.
4	To develop entrepreneurial and innovation culture		

Indeed, Phoenix was designed to achieve by 2020 the following objectives: creation of more than 200,000 formal SMEs, 600,000 new jobs created by the SME sector and a contribution of 7,500 billion CFA francs about 12, 874,106 USD to the GDP (ESP & ADB, 2018). Furthermore the government has therefore pledged to reserve a quota of 20% of public procurement allocations to SMEs; it has also reduced the administrative procedures and costs for creating SMEs (BANK, 2013).

## CONCLUSION

From the study, it appears a high percentage of micro, small and medium enterprises, thereby we can confirm that SMEs are the dominant enterprises in Côte d'Ivoire. They also dominate the industrial sector. However, it emerges from this study that the distribution of SMEs across the Ivorian territory is not fair. Most formal and informal enterprises are located in Abidjan the economic capital. Based on the support of the government through the Phoenix Plan, our study can safely say that the future days will be excellent for Ivorian SMEs. The performance of Ivorian SMEs play an important role in economic growth and development, as illustrated by the few examples mentioned above. SMEs are the biggest employers and the greatest creators of wealth. SME growth and performance are both the engine drive Cote d'Ivoire economy. The growth and performance of SMEs are both the engine driver of Cote d'Ivoire economy.

Future studies can look at what we thought were important factors and also be the basis for the performance and growth of Ivorian SMEs:

In Cote d'Ivoire, the unemployment rate is high; it leads people to create their own business. Thus, it becomes a means of growth for SMEs.

Most sub-Saharan Africans have agriculture and trade as their main activity. This observation is dominant among Ivoirians where the majority of the population is planters and traders; this favors the growth of SMEs in the agro-food industries and trade 'sector.

The adoption of the three dimensions of entrepreneurial orientation (innovation, risk-taking and proactivity) has a positive factor in the performance of SMEs (DeepaBabu & Manale, 2016).

## RECOMMENDATIONS

The success of the private sector will enable Cote d'Ivoire to achieve her objectives for SMEs by 2020. However, to achieve these objectives, there are measures to be taken and applied to enable firms to be more efficient in addressing internal and external challenges. First, due to the importance and the role of SMEs in the economic development of Cote d'Ivoire, the government should provide more financial support and create conducive atmosphere for SMEs growth and development. They should also consider allocating more shares of public markets to SMEs.

To be more efficient, Ivorian SMEs should, like most of the SMEs in developed or developing countries, be an entrepreneurial enterprise: adopt the three dimensions of Entrepreneurial Orientation (innovation, risk taking and proactivity). Ivorian SMEs should constantly update their existing competencies and seek new competencies in order to have a sustained competitive advantage as well as profitability and growth. They should learn and adopt the use of new technologies and e-commerce, such as Sale and purchase online.

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