

CULTIVATING SMALL AND MEDIUM-SIZED FIRMS: ENTREPRENEURSHIP DEVELOPMENT, GENDER, AND TECHNOLOGY IN BANGLADESH, CAMBODIA, ETHIOPIA AND SENEGAL

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DEVELOPED COUNTRIES



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Cultivating Small and Medium-Sized Firms:

Entrepreneurship Development, Gender, and Technology in
Bangladesh, Cambodia, Ethiopia and Senegal



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Research for Innovation and Equity

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Front cover: Women in Bangladesh acquire new skills in the training center.

Photo: UN Women Asia and the Pacific

Below: Women entrepreneurs and owners of the local bakery,

which produce Senegalese products at the local bakery. *Photo: UN Women Africa*



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EXECUTIVE SUMMARY

As in most countries in the world, there is a growing dialogue in the least developed countries (LDCs) on the importance of three specific interlinked areas of policy emphasis. The first of these is promoting the development of small and medium-sized enterprises (SMEs) as a means of stimulating economic growth, increasing employment opportunities, and encouraging more inclusive development. The second is bolstering information and communication technologies and integrating a focus on digitalisation within economic policies. The third is emphasising the empowerment of women to contribute to economic gains and greater equity in societies. It is a challenge for LDCs to promote developments simultaneously on these three fronts, but the benefits can be substantial.

This report examines and compares the strategies that four LDCs have adopted on these three fronts. It is based on data collected as part of a collaborative research project between the United Nations Technology Bank for the Least Developed Countries and Small Globe Inc., supported by the International Development Research Centre in Ottawa. It includes case studies on SME development in Bangladesh, Cambodia, Ethiopia and Senegal. The project examined policies to promote SME development in general in these countries, in addition to analysing their emphasis on promoting women entrepreneurs and technology-based firms. The case studies involved carrying out in-depth online interviews with 67 entrepreneurs and other experts, and analysing various documents and other online resources bearing on these themes. The findings in this report are based heavily on qualitative interviews with representatives of firms and different organisations from the countries, that explored the interviewees' perspectives of SME development.

The motivations for these countries to stimulate development on these fronts is to propel their economies forward and create employment opportunities for their young populations. The countries aspire to enhance their economic standing and evolve into middle- and high-income countries. They all had considerable economic growth in the pre-COVID years. They also have large populations of young people who need to be absorbed by their labour markets and who can be a force for innovation.

The report summarises the main government policies in the four case study countries that have promoted development on the three fronts. It also details efforts by governments, donors/multilaterals, and other public and private sector organisations in each country to build entrepreneurship ecosystems. The report argues that all countries have expended considerable efforts to build entrepreneurship ecosystems that other LDCs could learn from. Still, more efforts are required to strengthen SME development in these countries. There is limited access to finance; the business environments are not well aligned to the needs of SMEs and start-ups; there is a lack of skilled human resources; and there is limited coordination and integration in these entrepreneurship ecosystems, impeding efforts to promote SME development.

It is clear that there is a need for creative approaches to promoting sustainable SME development that harness the possibilities of technology and emphasise inclusiveness. Ultimately, what is called for is more research on the strategies and contexts that best promote evolution on these three fronts. Future research can, for example, investigate innovative financial models; how business processes can be shaped to align better with the capacities and needs of SMEs; how training in entrepreneurship can be more effective; how to strengthen internationalisation of SMEs; and how different organisations within entrepreneurship ecosystems can work better together. This report can speak to a wide audience. Policy makers in

LDCs that are early on in their SME development, can learn from the case study countries about policies and programs the countries have pursued; policy makers can also form an overview of which donors are active in supporting SME development, women entrepreneurs and technology-based firms in the LDCs; researchers interested in LDCs can identify potential research problems to pursue; and public and private sector actors in the LDCs can identify potential partners they can explore future cooperation with.

Based on the analysis in this report, next steps can include the formation of an international program that support further research and capacity-building on SME development in the LDCs; establishing an international network of LDC representatives and donors that works on planning innovative financing models for SME development; and planning a program for LDCs to work

together to promote internationalisation of SMEs through novel models, such as soft-landing programs.

Effective networks of LDCs, donors and others combined with targeted research, well-aligned to the needs of these countries, can open up new vistas and present innovative solutions. Such work can also enhance learning, so more LDCs can create their own paths towards more sustainable and inclusive SME development and harness new opportunities afforded by emerging technologies.

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Women learn about communication, negotiation, and industrial relations during the workshop at one of the training centers in Cambodia. *Photo: Marcel Crozet / ILO*

LIST OF ACRONYMS

ADB	Asian Development Bank	IAN	Impact Angel Network, Ethiopia
ADEPME	Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises, Senegal	ICT	Information and Communication Technology
AFD	Agence Française de Développement	IDRC	International Development Research Centre
AfDB	African Development Bank	IFC	International Finance Corporation
APIX	Agence pour la Promotion des Investissements et des Grandes Travaux, Senegal	ILO	International Labour Organization
BFWE	Federation of Women Entrepreneurs, Bangladesh	ITC	International Trade Centre
BIDA	Bangladesh Investment Development Authority	JCC	Job Creation Commission, Ethiopia
BIO	Beyond Investment Opportunities, Cambodia	JICA	Japan International Cooperation Agency
BMN	Bureau de Mise à Niveau, Senegal	KOICA	Korea International Cooperation Agency
BSCIC	Bangladesh Small and Cottage Industries Corporation	LDCs	Least Developed Countries
CED	Centre for Entrepreneurship Development, BRAC University, Bangladesh	MSE	Micro and Small Enterprises
CiC	Cambodia Investor Club	MSME	Micro-, Small and Medium-Sized Enterprise
CJCC	The Cambodian-Japan Cooperation Center	NASCIB	National Association of Small and Cottage Industries of Bangladesh
CWEA	Cambodia Women Entrepreneurs Association	NIPTIC	National Institute of Posts, Telecoms & ICT, Cambodia
DER	Délégation Générale à l'Entreprenariat Rapide des Femmes et des Jeunes, Senegal	NUM	The National University of Management, Cambodia
DFAT	Department of Foreign Affairs and Trade, Australia	SADIF	Smart Axiata Digital Innovation Fund
DFID	Department for International Development, UK	SDC	Swiss Development Cooperation
DOT	Digital Opportunity Trust	SIDA	Swedish International Development Cooperation Agency
EDC	Entrepreneurship Development Centre, Ethiopia	SMEDP2	Second SME Development Project
EDF	Entrepreneurship Development Fund, Cambodia	SMEs	Small and Medium-Sized Enterprises
ESCAP	United Nations Economic Commission for Asia and the Pacific	SDGs	Sustainable Development Goals
FeMSEDA	Federal Micro and Small Enterprise Development Agency, Ethiopia	UNCDF	United Nations Capital Development Fund
FNPEF	Fonds National de Promotion de l'Entreprenariat Féminin	UNDP	United Nations Development Programme
FSMMIPA	Federal Small and Medium Manufacturing Industry Promotion Authority	UNIDO	United Nations Industrial Development Organization
GAC	Global Affairs Canada	USAID	United States Agency for International Development
GIIN	Global Impact Investing Network	WEAB	Women Entrepreneur Association of Bangladesh
GIZ	German Corporation for International Cooperation	WEDP	Women Entrepreneurship Development Project
		WEE Index	Women's Economic Empowerment Index
		We-Fi	Women Entrepreneurs Finance Initiative
		WIC	Women's Investment Club, Senegal
		YEAC	Young Entrepreneurs Association of Cambodia

1. INTRODUCTION

In recent decades, three interwoven developments have taken place all over the world that have shaped social and economic development. Firstly, there has been a growing emphasis placed on the development of small and medium-sized enterprises (SMEs) as a tool to promote economic growth, increase employment, and stimulate more inclusive development. SMEs represent 90% of firms globally and are estimated to contribute up to 60% of employment.¹ Both formal and informal SMEs contribute tremendously to GDP and economic output.

Secondly, technologies, particularly information and communication technologies, have become ubiquitous. Countries around the world are rushing to enhance their digital capacity and reap the transformative effects of these technologies. The term Fourth Industrial Revolution, or Industry 4.0, has been coined to reflect a heightened emphasis on digitising and integrating digital technologies into industrial production.² For SMEs digitisation can be key in terms of reaching markets but digitisation often requires infrastructure and skills beyond their means.³ As a result, strategies to stimulate the economic productivity of SMEs rely increasingly on promoting their digitisation, and countries are placing a growing focus on forming and strengthening technology-based firms.

Thirdly, there is an increased emphasis on the economic empowerment of women, both to harness expanded economic benefits and to encourage more equal societies.

Gender issues are increasingly part of the dialogue about enhancing the economic standing of nations. To promote sustainable development, it is crucial that women benefit from scientific and technological advances and have opportunities to be direct participants. Strengthening women's entrepreneurship has, therefore, become a widespread objective included in economic policies. There are different pathways to do this, but promoting the development of SMEs is a promising and inclusive option.⁴

The potentially transformative impact of simultaneous developments on these three fronts is massive. The threefold goals of enhancing development in these areas are shared by countries in the North and the South. Developing countries are, increasingly, paying policy attention to SME development, digitalisation and promoting the economic empowerment of women. In this report, the goal is to examine and compare the strategies that select Least Developed Countries (LDCs) have adopted on these three fronts. These countries experience acute development challenges, and severe need to create employment opportunities for their expanding populations. They also often have ambitious aspirations to enhance their development status.

This report presents results from case studies on entrepreneurship development in four LDCs: Bangladesh, Cambodia, Ethiopia and Senegal. The case studies were a part of a collaborative research project between the

¹ WPG (2020). Small and Medium Enterprise Finance. The World Bank Group, Policy Brief. <https://www.worldbank.org/en/topic/sme/finance>, OECD (2019). OECD SME and Entrepreneurship Outlook 2019. OECD Publishing, Paris.

² UNIDO (2017). Accelerating Clean Energy Through Industry 4.0: Manufacturing the Next Revolution, United Nations Industrial Development Organization. <https://www.unclearn.org/resources/library/accelerating-clean-energy-through-industry-4-0-manufacturing-the-next-revolution/>

³ Lukonga, I. (2020). Harnessing Digital Technologies to Promote SMEs and Inclusive Growth in the Middle East, North Africa, Afghanistan and Pakistan (MENAP) Region. IMF Working Paper, International Monetary Fund WP/20/135. <https://www.imf.org/en/Publications/WP/Issues/2020/07/24/Harnessing-Digital-Technologies-to-Promote-SMEs-in-the-MENAP-Region-49595>

⁴ See e.g. UNCTAD (2019). The Least Developed Countries Report. Chapter 4: Entrepreneurship in the least developed countries: Major constraints and current policy framework. https://unctad.org/system/files/official-document/ldcr2018_ch4_en.pdf

United Nations Technology Bank for the Least Developed Countries (the UN Tech Bank) and Small Globe Inc., supported by the International Development Research Centre (IDRC) in Ottawa (see **Appendix A** for details of the methodology). The objective of the case studies was to explore SME development in these four countries, with a special focus on examining technology-based entrepreneurship and women entrepreneurs. The case studies involved carrying out in-depth online interviews with 67 entrepreneurs and other experts, and analysing various documents and other online resources bearing on these themes. The research relied heavily on views

and perceptions of the expert interviewed. These experts have extensive experience supporting, in diverse ways, SME development in the case study countries, or operating SMEs in these countries. When possible, the research provides quantitative support to the statements presented by the interviewees. In many cases such data are not readily available, and it was considered outside the scope of this research to engage in detailed quantitative data collection and analyses.

2.DRIVERS FOR SME DEVELOPMENT

All four countries have, in the pre-COVID years, experienced considerable economic growth, with their GDP growth rates substantially above the average rates for developing countries (**Table 1**). As a result of this high economic growth, Bangladesh, Cambodia and Senegal are now classified by the World Bank as lower-middle income countries, while Ethiopia is classified as a low-income country. They all aspire to enhance their income classification. Promoting SME development is increasingly recognised as a tool to meet these aspirations. As one Cambodian policy maker stated: *"Our enterprises are quite important for the country's economic growth, especially our SMEs."*

The interviewees in all four countries emphasised that creating employment was a particularly important driver for promoting SME development in their countries. They maintained that high population growth meant that their median age was low, and a large number of young people was entering the workforce each year (**Table 1**). It was a serious challenge for their labour market to absorb these large numbers of young people, which could only be dealt with by increasing employment opportunities.

Not dealing with this challenge would not only have economic repercussions, but also would lead to increased poverty and other social problems. As one policy maker in Ethiopia said, *"Since we have two million youth entering the labour market, it is the bomb of tomorrow, a social bomb."* In a similar vein, an academic from Bangladesh said: *"We felt entrepreneurship is a key tool to reach out to the youth, to help them develop economically, and also culturally and socially."* Some voices also emphasised the gender aspect of creating employment through SME development. A public sector employee from Bangladesh said, for example, that women, *"they don't get any jobs. Yeah, they must become entrepreneurs. So definitely we strongly feel that women have no alternative other than being entrepreneurs."*

The importance of promoting SME development to reach the Sustainable Development Goals (SDGs) was also pointed out by some of our interviewees. It was clear that promoting SME development was an important part of many countries' approaches to meeting the SDGs. This was partly because of the contributions by SMEs to economic growth, but also because of their role in creating

employment and reducing poverty. Promoting SME development was seen as a pathway to more inclusive development.⁵ With at least one-third of all formal SMEs being women-owned, promoting SMEs could also contribute to achieving gender equality and empowering women.⁶

Not all interviewees felt that creating entrepreneurship opportunities for their young populations was a burden. Rather, some saw it as a source of potential for the nation. One Ethiopian policy-maker stressed the importance of young people for the country's development and said:

"Students are so ambitious and courageous. That is the energy that we are using."

The challenge, then, is to give the youth of these countries the right environment so their creativity can blossom, and they can create companies that develop innovative solutions for their countries. Governments play a role in building that environment; in the next section, we will review the main government policies used to promote SME development in these countries.

Table 1. Basic statistics for the case study countries

Countries/ Regions	Populations 2019 (millions)*	GDP Growth 2019 (annual %)**	HDI Rank 2019*	Median Age 2020 (years)*	Skilled labour force 2010-2019 (% labour force) *	Internet use 2018 (% pop) *
Bangladesh	163.0	8.2	133	27.6	25.8	15.0
Cambodia	16.5	7.0	144	25.6	14.3	40.0
Ethiopia	109.2	9.0	173	19.5	6.9	18.6
Senegal	15.9	5.3	168	18.5	10.8	46.0
Developing economies	6417.9	3.7		29.3	33.9	43.4
World	7681.3	2.8		31.4	47.3	49.4

*UNDP (2020) Human Development Report, United Nations Development Programme. HDI Rank refers to Human Development Index ranking.
<http://hdr.undp.org/en/data>

** IMF (2020) International Monetary Fund. https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD

⁵ UNDESA (2010) Micro-, Small and Medium-sized Enterprises (MSMEs) and their role in achieving the Sustainable Development Goals, United Nations Department of Economic and Social Affairs. https://sdgs.un.org/sites/default/files/2020-07/MSMEs_and_SDGs.pdf

⁶ IFC estimated that 34% of all formal SMEs were women owned. By including informal SMEs, the percentage of women-owned SMEs is likely to be higher. IFC (2014). Women-Owned SMEs: A Business Opportunity for Financial Institutions. International Finance Corporation. <https://www.ifc.org/wps/connect/44b004b2-ed46-48fc-8ade-aa0f485069a1/WomenOwnedSMes+Report-Final.pdf?MOD=AJPERES&CVID=kiiZZDZ>

3. GOVERNMENT POLICIES PROMOTING SME DEVELOPMENT

There are many types of government policies that can shape SME development. In **Table 2** we present some of the main policies that include references to promoting SMEs as well as digital development in the four case study countries.

All four case study countries have prepared development plans in which they present their visions for their social

and economic development. In these, they articulate intentions to advance their economic standing, and identify particular years when they will graduate to higher-income categories. They have made strides in fulfilling these plans, and as mentioned above, Bangladesh, Cambodia and Senegal have all reached lower-middle income status in recent years.⁷

Table 2. Main Policies with a Focus on SME Development*

Country	Main Policies	Leading Government Organisations
Bangladesh	Perspective Plan of Bangladesh 2010-2021	General Economic Division, Planning Commission, Ministry of Planning
	Industrial Policy 2016	Ministry of Industries
	The SME Policy 2019	Ministry of Industries
	Making Vision 2041 a Reality: Perspective Plan of Bangladesh 2021-2041	General Economic Division, Planning Commission, Ministry of Planning
	National Information and Communication Technology Policy 2018	Information and Communication Technology Division, Ministry of Posts, Telecommunications and Information Technology
Cambodia	The Rectangular Strategy for Growth, Employment, Equity and Efficiency - Phase IV -2018 – 2023	Royal Government of Cambodia
	The National Strategic Development Plan 2019-2023	Royal Government of Cambodia
	Industrial Development Policy 2015-2025	Royal Government of Cambodia
	SME Development Policy (in progress)	Ministry of Industry, Science, Technology and Innovation
	E-Commerce Strategy, 2020	Ministry of Commerce
	Start-up Policy (in progress)	Ministry of Post and Telecommunications

⁷ The World Bank (2020). Historical classification by income. <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

Table 2. Main Policies with a Focus on SME Development*

Country	Main Policies	Leading Government Organisations
Ethiopia	Ethiopia: An African Beacon of Prosperity Ten-Year Development Plan 2020 - 2030	Planning and Development Commission
	2019 Homegrown Economic Reform Agenda	Office of the Prime Minister
	Industrial Development Strategic Plan and Roadmap 2013 - 2025	Ministry of Industry
	National Entrepreneurship Strategy 2020 – 2025	Ministry of Trade and Industry
	Digital Ethiopia 2025: A Digital Strategy for Ethiopia Inclusive Prosperity	Office of the Prime Minister
	Start-Up Proclamation (in progress)	Job Creation Commission
Senegal	Emerging Senegal Plan (PSE) 2014-2035	Presidency of the Republic of Senegal
	Priority Action Plan 2014-2018	Ministry of Economy, Finance and Planning
	Priority Action Plan 2019-2023	Ministry of Economy, Finance and Planning
	Digital Senegal 2016-2025	Ministry of Economy, Finance and Planning
	Start-Up Act (Bill 17-2019)	Presidency of the Republic of Senegal

* These are examples of the main policies that include a focus on promoting SME development in the case study countries. This is not a comprehensive list. The table leaves out, for example, important macro-economic policies that shape SME performance.

In these development plans, the countries make reference to strengthening SMEs as a part of their economic and social policies. While SMEs are mentioned in these plans, they typically don't take central stage. Some countries have a longer history than others of promoting their SME sectors. For example, the government of Senegal adopted a private sector development policy in 1999.⁸

As a part of the policy, the government set out to build up organisational infrastructure to support SME development, as will be discussed in the next chapter. SMEs were also identified as a priority sector and a driving force in the industrialisation process in Bangladesh's industrial policy as early as 2005.⁹ Ethiopia has emphasised SME development for some time, and first formulated a specific

Micro and Small Enterprises (MSE) Development strategy in 1997, revised in 2011. In Cambodia, promoting SMEs has been a part of its Rectangular Strategy for Growth, Employment, Equity and Efficiency since 2005 as one of its four main strategic missions.

Although there has been an emphasis on SME development in these countries, it is not clear what this has entailed. One of the challenges is that SMEs are very diverse. The majority, or around 77% of firms in developing countries, are estimated to be informal and therefore not registered in the formal economy.¹⁰ Many SMEs are set up by what have been called necessity-driven entrepreneurs. These are often family-based businesses set up by people with

⁸ Cisse, F., Choi, J.E., and Maurel, M. (2016). Industrial Policy in Senegal: Then and Now. In Newan, C et al (eds) Manufacturing Transformation: Comparative Studies of Industrial Development in Africa and Emerging Asia, Oxford

⁹ Ministry of Industries, Government of the People's Republic of Bangladesh, Industrial Policy 2005, Dhaka. https://moind.gov.bd/sites/default/files/files/moind.portal.gov.bd/policies/92beabe3_5f4d_4d6d_840a_23e06daf5062/Industrial_policy2005.pdf

¹⁰ Stein, P; Ardic, O.P; Hommes, M. (2013.) Closing the Credit Gap for Formal and Informal Micro, Small, and Medium Enterprises. International Finance Corporation, Washington, DC.

low incomes and very limited education.¹¹ In contrast, opportunity-driven entrepreneurial firms are typically established by people with more education, and higher income. Many of the necessity-driven SMEs have limited growth potential and supporting them can reflect more of an emphasis on social policies, rather than on economic growth. Opportunity-driven businesses frequently have more clearly articulated goals for economic growth.

Some interviewees felt that their governments had paid lip service to SME development. For instance, even though Cambodia mentions SMEs in many of its policies, its programming has historically focused more strongly on supporting the development of larger firms and its garment and construction sectors. In recent years, there seems to have been a reinvigorated emphasis on SME development in several of these countries. A SME policy was adopted in Bangladesh in 2019, and Cambodia is currently in the process of creating a SME policy. Similarly, an Entrepreneurship Strategy, with a core emphasis on SMEs, was adopted in Ethiopia in 2019. There are also specific measures being developed to support start-ups, such as, for example, the Start-up Act in Senegal (see **Box E**). As will be discussed in the next section, there has also been a growing emphasis on building the organisational infrastructure to support SME development. This reflects a serious intention to promote SME development.

All four case study countries have included an emphasis on gender equity in their development policies. The Perspective Plan in Bangladesh states that ensuring gender balance is a fundamental principle of state policy. Despite an emphasis on women's participation in the labour force, there is no mention of women entrepreneurs

in the original plan. This has changed in subsequent policy documents, and an emphasis on women entrepreneurs is included in both Bangladesh's Industrial Policy from 2019 and the SME Policy from the same year. The latter announced one of its 11 strategies to be "*Expanding women entrepreneurship development programs and providing specialised services.*" It, therefore, incorporates a core emphasis on women entrepreneurship. In Cambodia's National Policy Development Plan, and in the Emerging Senegal Plan there are discussions of gender issues, but almost no mention of women entrepreneurs.^{12,13} In general, there appears to be a limited attention to gender in policy documents in Cambodia. Similarly, in Ethiopia previous development policies and the National Action Plan for Gender Equality emphasised women entrepreneurs, while this gender focus was absent from entrepreneurship-related policies. This mismatch is discussed in Ethiopia's recent Entrepreneurship Strategy.¹⁴ The Entrepreneurship Strategy presents women entrepreneurship as a cross-sectional thematic area and proposes policy measures to enhance it.

Throughout the 2000s, all four case study countries emphasised information and communication technologies. A focus on these technologies is echoed in development policies from early on, and the countries have been building the necessary infrastructure to push this front. From **Table 2**, it is clear that there is an increasing emphasis on policy making to promote digital technologies and all countries either have recently developed policies on digitalisation or, in the case of Cambodia, are currently developing such policies. Bangladesh was one of the earliest to emphasise digital policies and deliberated on its 'Bangladesh Vision 2021'

¹¹ See e.g. Williams, C.C. and Gurtoo, A. (2016). Chapter 1, Introduction and Overview. In Routledge Handbook of Entrepreneurship in Developing Countries, Williams, C.C. and Gurtoo, A. (eds). Routledge, Taylor and Francis Group.

¹² Royal Government of Cambodia (2019) National Strategic Development Plan.

¹³ Republique du Senegal (2014). Plan Senegal Emergent. https://www.sec.gouv.sn/sites/default/files/Plan%20Senegal%20Emergent_0.pdf

¹⁴ Ministry of Trade and Industry, Ethiopia (2019) National Entrepreneurship Strategy of Ethiopia, 2020-2025.

in its 2009 National Information and Communication Technology (ICT) policy. This vision has been developed further since then and includes four pillars: Digital government, human resource development, ICT industry promotion, and connecting citizens. In general, there is a stronger focus on the use of digital technologies in these policies than on the development of technology-based industries. The policies aim to stimulate the integration of digital technologies by both the public and private sectors, to encourage the coverage and quality of their services and the enhancement of products. To strengthen SME development through digitisation is a common theme in these policies. For instance, supporting SMEs in digital marketing and e-commerce is a priority in many of these policies. Some of these policies also include a special focus on supporting women entrepreneurs to strengthen women-owned businesses. The policies, therefore, simultaneously promote development on all three fronts, SME development, digitalisation, and women entrepreneurship.

Three of the case study countries have focused on promoting technology development by creating policy instruments to promote start-ups in their countries. Senegal has, for example, developed a Start-Up Act (**Box E**) to facilitate the development of new enterprises in the country. Cambodia is currently developing a start-up policy, and Ethiopia is developing a policy that it calls a Start-up Proclamation. The start-up scene in these countries typically has a strong technology focus. The development of these policy instruments tends to be a reaction to a push from technology-based firms. The development of

the start-up policy tools is therefore closely aligned with technology development.

It is clear that diverse policies have been at play in promoting SME development in the four countries, and it is impressive how their governments have attempted to simultaneously push these three fronts. Some interviewees felt that even though there are policies and some funding sources for SME development in place, more thought has to be put into the development of the whole system. *“So, while there are a lot of initiatives and financial assistance going on from the government, the overall structure and the overall policy frameworks are not very conducive for entrepreneurship.”* The integration of these different policies and how they work together in realising the developmental goals is of utmost importance and will need to be fine-tuned based on input from research. The development of policies is an important step in SME development in these countries, but more is needed for SMEs to thrive and blossom. The next section will look at the main tools developed by governments and other ecosystem actors in the four case study countries to promote SME development that incorporates digitalisation and empowers women entrepreneurs.

4. ENTREPRENEURSHIP ECOSYSTEMS

Diverse organisations have contributed to promoting SME development in the four case study countries, and have become part of their entrepreneurship ecosystems. In all four countries, governments have been active in setting up organisational infrastructures, and many donor organisations have supported SME development. All countries have a range of different incubators, accelerators and investors supporting firm development. Some of these are private entities, whereas others are set up by donors or governments. Below we will discuss the contributions of the different types of ecosystem actors in the four case study countries.

4.1 Bangladesh

4.1.1 Main public sector initiatives in Bangladesh

In Bangladesh, the government has been active in creating public sector infrastructure to support SME development. Through the Ministry of Industry, they created the Small and Medium Enterprise Foundation in 2007, to implement the government's strategies to promote SMEs in the country.¹⁵ The SME Foundation is a not-for-profit apex institution. It does not provide direct funding to firms, but facilitates their access to financial institutions through its Access to Finance department. The foundation is heavily involved in training activities aimed at increasing entrepreneurship capacity and in policy advocacy. Half of all the entrepreneurs the Foundation works with are women, and it has a special wing dedicated to supporting women entrepreneurs. It also focuses on

technology development and supports firms' adoption of technologies. A part of this involves supporting firms in adopting ICT in their processes, including e-commerce and e-marketing. The foundation also carries out studies that inform their programming.

The Bangladesh Bank is the central bank of the country. In addition to implementing core policies, such as monetary policies and foreign exchange operations, it has a substantial operation promoting SME development. Its SME & Special Programmes Department formulates and implements policies related to SME financing in Bangladesh. It organises fairs and other promotional activities to raise awareness of SME financing, with a special focus on women entrepreneurs.¹⁶ The bank's Financial Inclusion Department is also involved in SME development in a different capacity. The Bangladesh Bank runs specific refinancing schemes aimed at new entrepreneurs, women entrepreneurs or agro-based industries amongst other foci. The Bank also works with a number of donor agencies in refinancing schemes. An example of this is a project in which the Bangladesh Bank works with the Asian Development Bank (ADB) in facilitating access to financing by SMEs with a special focus on women entrepreneurs (**Box A**). The Bangladesh Bank emphasises women entrepreneurship and its branches have special units to monitor their performance in supporting women-owned businesses.

a2i is a government initiative driven by the Prime Minister's Office, meant to contribute to implementing Bangladesh's digital development vision.¹⁷ It started operation in 2007 and facilitates access to information

¹⁵ Government of the People's Republic of Bangladesh. Small & Medium Enterprise Foundation. <http://www.smef.gov.bd/>

¹⁶ Bangladesh Bank, Central Bank of Bangladesh. https://www.bb.org.bd/en/index.php/about/dept_and_offices

¹⁷ a2i, <https://a2i.gov.bd/about/>

BOX A - FUNDING WOMEN ENTREPRENEURS

Most banks and non-banking financial institutions demand collateral, guarantor, and credit history before tendering loans. For women borrowers in LDCs, this can be a major barrier, as, more often than not, they are not property owners and have little or no formal credit history. There is a growing number of innovative initiatives designed to address the specific challenges faced by women entrepreneurs.

In 2015, a group of Senegalese professional women came together to create the Women's Investment Club (WIC) Senegal. The WIC's objectives are to create innovative financial mechanisms for women, to promote leadership and entrepreneurship among women, and to empower women to participate fully in the economy. As a first step, the WIC began by setting up WIC Capital, an investment vehicle focused on early-stage SMEs. The investment vehicle was structured as a hybrid of a syndicate fund, i.e. a fund formed by a temporary alliance of investors, combined with a traditional venture capital fund. WIC Senegal has also assisted in creating other Women's Investment Clubs in the region, including in Cote d'Ivoire.

Having started with four investors, WIC now has 89 investors and a portfolio of US \$215,000. They have also founded WIC Academy, offering advisory services, coaching, and networking events, as well as a shared service centre for accounting, legal, and human resources support.

In Bangladesh, the UNCDF seeks to increase women's economic empowerment by developing and testing prototypes of catalytic finance models. If proven successful, they aim to leverage public and private resources for countrywide replication and scale-up. For example, for two years the UNCDF operated a credit guarantee scheme targeting women entrepreneurs facing challenges in accessing bank credit. After successful results, it provided technical assistance for scale-up of this scheme to the Bangladesh Bank, and offered a one-time grant of US \$200,000 to the bank. Now, the Bangladesh Bank has converted this prototype into an ongoing credit guarantee unit and plans to establish a Credit

Guarantee Corporation as a stand-alone institution to support MSMEs.

Also, in Bangladesh, the ADB is working together with the Bangladesh Ministry of Finance and the Financial Inclusion Department of the Bangladesh Bank on a project aimed at accelerating the development of SMEs. This project focuses especially on SMEs in non-urban areas by improving their access to medium and long-term credit. It includes a credit facility of US \$200 million for enhancing access for eligible SMEs to financing through financial institutions located outside the metropolitan areas of Dhaka and Chittagong.

This project has a clearly stated focus on supporting women entrepreneurs as they typically have less access to finance, than men. To support these women, private financial institutions participating in the project, must allocate at least US \$20 million to women entrepreneurs. The interest rates offered, which are already lower than the market rate, include positive discrimination for women, with an approximately 2% lower rate for women than men.

In addition, the project stipulates that the financial institutions cannot ask for collateral from women entrepreneurs if the loan amounts are relatively small (under US \$3,000). Even for larger amounts, there are restrictions on what conditions—such as guarantors, income tax certificates, and collateral—the lending institutions can impose.

Both Senegal and Bangladesh, although very different in many ways, face similar challenges in empowering women entrepreneurs and increasing their contribution to the economy. No single solution is sufficient to the problem, but mechanisms such as the Women's Investment Club, the UNCDF's catalytic finance models, and the ADB's work with private financial institutions to offer women preferential interest rates hold promise and provide models which can be replicated and adapted for use in other countries.

and government services utilising digital technologies. a2i's mandate is wide, but includes a focus on supporting SMEs, and to connecting the public and private sectors to catalyse services and encourage innovation. a2i promotes necessary skill development for private sector organisations, particularly for social enterprises. One of its units is called iLab which supports start up development by young entrepreneurs. iLab incubates and accelerates innovations aimed at addressing large problems of society by relying on technology. a2i is co-supported by the Government of Bangladesh and the United Nations Development Programme (UNDP).

Startup Bangladesh was established in 2017 through the Ministry of Posts, Telecommunications and Information Technology.¹⁸ It also is meant to implement the vision of Digital Bangladesh, but it is specifically aimed at supporting the development of start-up firms (see **Box B**). It was the first government-run accelerator in the country. Startup Bangladesh provides seed funding for forming new companies, mentoring, networking opportunities with global investors and other enablers, as well as co-working spaces. In 2020 a Venture Capital fund, Startup Bangladesh Limited, run by Startup Bangladesh was launched.¹⁹ It is fully funded by the Bangladesh government, its first and only venture capital fund, and started by providing US \$2 million to seven start-up firms.

There are several other agencies supporting SMEs and start-ups in Bangladesh. The Bangladesh Investment Development Authority (BIDA) was established in 2016 to attract foreign investment to the country. Its mandate is wide, but it includes a focus on SMEs. To influence SME development in the country BIDA has representatives in

the National SME Development Council and the National SME Task Force set up to implement Bangladesh's SME Policy 2019. The Bangladesh Small and Cottage Industries Corporation (BSCIC) has been active for several decades in the country, and provides support services to small, rural, and cottage industry firms in Bangladesh. Its focus seems to emphasise micro firms rather than SMEs.

While the Government of Bangladesh has actively supported SMEs using different types of approaches, it is not the only player supporting the development of SMEs in the country. Other organisations such as multilateral agencies and donors have also actively promoted entrepreneurship in Bangladesh.

¹⁸ Startup Bangladesh, <https://www.startupbangladesh.gov.bd/>

¹⁹ Startup Bangladesh Limited, <https://www.startupbangladesh.vc/about/about-who-we-are/>

BOX B - STARTING UP BANGLADESH

Startup Bangladesh is one of the flagship initiatives of the Government of Bangladesh. It was established in 2017 under the aegis of the Information and Communication Technology Division (ICT Division) of the Ministry of Posts, Telecommunications and Information Technology. Its objective is to transform Bangladesh into a technology- and innovation-driven economy by creating new opportunities, developing technical skills, and helping to realise the vision of the Digital Bangladesh policy.

Startup Bangladesh provides an entrepreneurship platform to create an enabling environment for a robust technological start-up ecosystem in the country. Its primary goals are to:

"Create an accelerator and its accompanying ecosystem of entrepreneurs, investors, mentors, and advisors to promote Bangladesh as a global hub for tech entrepreneurship.

Actively collaborate with entrepreneurs, industry, academia, financial institutions, and the government to stimulate innovation.

Create appropriate business, operational and regulatory frameworks to support bold dreams."
(<http://startupbangladesh.gov.bd/about>)

It established Startup Bangladesh iDEA (Innovation, Design and Entrepreneurship Academy) to create the first ever government-run accelerator in the country. iDEA offers mentoring, funding, co-working spaces, marketing solutions, showcasing to global investors, networking with other platforms – locally and globally, and legal support to select start-up entrepreneurs. It also facilitates partnerships among the government, industry and academia to stimulate innovation and sustain transformation.

Startup Bangladesh iDEA has a fund to support pre-seed stage start-ups, disbursing up to US \$12,000 to individual entrepreneurs. Entrepreneurs are invited, through open competition, to submit their ideas in the areas of education, agriculture, health, tech-based financial services, e-commerce, e-governance, environment, transport, and infrastructure. Applications are then assessed based on potential

impact, execution strategy, and public benefit.

Many of those funded have been successful in moving their enterprises from pre-seed to seed and growth stages, while some did not manage to do so. While the average success rate of start-ups in general is typically 10%, in the case of enterprises funded by iDEA, the success rate is around 20%.

In early 2020, Startup Bangladesh expanded its operation with the creation of Startup Bangladesh Limited, the first venture capital company funded entirely by the Government of Bangladesh. The Government has committed close to US \$60 million to the company. It will focus on seed and growth stage equity funding, with fund sizes between US \$60,000 to 600,000. It will also have the option to co-invest and raise funds from the domestic and international markets.

Startup Bangladesh Limited will select and curate start-ups from various accelerator programmes in the country. A multi-layer review procedure has been put in place and the Investment Board of the company will make the final approval. In March 2021 Startup Bangladesh announced seven investments in a range of areas including health-tech, ed-tech, ride-share, e-commerce, and data management. They are in different stages of growth – two in the growth stage and the rest in early to mid-seed stages. The quantum of total equity funding will be around US \$2 million. Out of the seven enterprises selected for investment, two are led by women.

Startup Bangladesh reflects the government's commitment to support the Digital Vision 2021 and its experimentation in using innovative funding arrangements. With time it could contribute to sustainable technology development in the country.

4.1.2 Main multilaterals and donors promoting SME development in Bangladesh

The main multilaterals and donors that interviewees mentioned as active in promoting SME development are presented in **Figure 1**. The United Nations Capital Development Fund (UNCDF) is a small UN organisation but has been involved in important entrepreneurship development projects in Bangladesh. It prioritises digital financial services in the country. Because of its small size, its emphasis is on developing innovative models and pilot testing them. If a model is proven successful, UNCDF transfers it to the private sector or to a government agency for scaling up. UNCDF at times uses a Challenge Fund model where it invites private sector players or other organisations to come up with solutions to a specific challenge. For example, in 2019, UNCDF together with United Nations Economic Commission for Asia and the Pacific (ESCAP), launched the Women MSME (Micro, Small and Medium-Sized Enterprise) FinTech Innovation

Fund to encourage women entrepreneurs to develop new ventures using technology. iFarmer, a technology-based investment company, received support from the fund to support rural women to start their ventures in livestock rearing and other home-based businesses in rural areas. UNCDF also developed and tested a refinancing scheme to facilitate access to finance by women which the ADB together with the Bangladesh Bank, has adopted (**Box A**).

ABD's Second SME Development Project (SMEDP2) supporting entrepreneurs is one of the largest SME development projects in the country. ADB provides US \$200 million to the Government of Bangladesh as long-term credit for SMEs. The funding is distributed by the Bangladesh Bank to over 33 commercial banks and non-banking financial institutions. These financial institutions provide SMEs, mostly in rural areas, with loans at a reasonable interest rate. They also provide funds to support capacity building at the implementing banks and to women entrepreneurs.

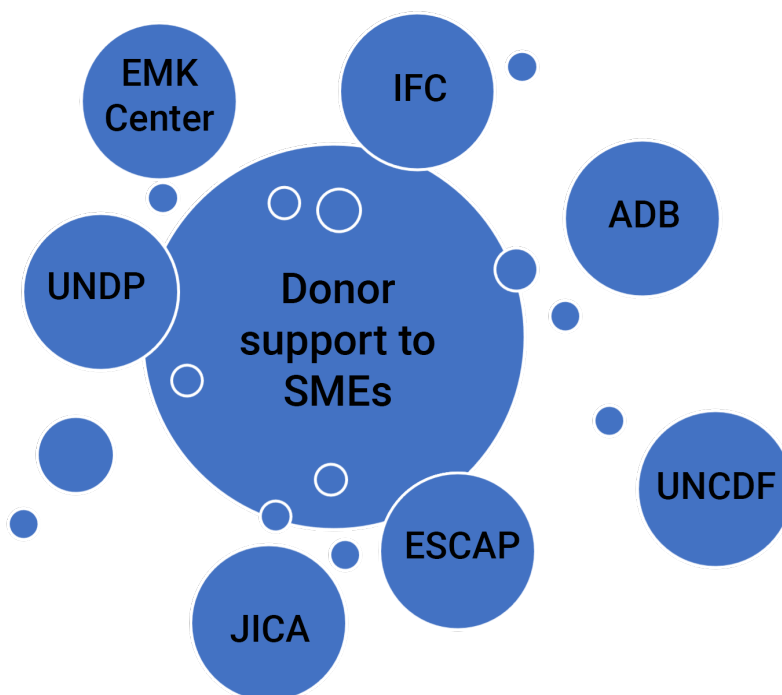


Figure 1. Main Donors Supporting SME Development in Bangladesh

The UNDP has, together with the Citi Foundation, set up Youth Co:Lab, which is a regional initiative in the Asia-Pacific region to empower youth.²⁰ It includes a focus on start-up ecosystems, youth leadership and innovation. It involves collaboration of private sector and public sector agencies in supporting youth and encouraging them to come up with sustainable solutions to the SDGs relying on entrepreneurship and innovation.

There are a number of other donors also supporting SME development in Bangladesh, including the World Bank, the International Finance Corporation (IFC), Japan International Cooperation Agency (JICA), the Department for International Development, UK (DFID), Global Affairs Canada (GAC), the EMK Center, the German Corporation for International Cooperation (GIZ), the Swedish International Development Cooperation Agency (SIDA), Swiss Development Cooperation (SDC), and the United States Agency for International Development (USAID).

4.1.3 Incubators, accelerators and other actors active in Bangladesh

Across Bangladesh, there are around 20 incubators and accelerators.²¹ Considering the size of the population, this is a modest number. They include public sector entities such as Startup Bangladesh and the Youth Co:Lab discussed above, private sector entities such as Startup Dhaka, Team Engine, Smart Cap, the newly established Impact Hub Dhaka, and GP Accelerator, and incubators hosted by non-governmental organisations, such as SIL (Social Innovation Lab) hosted by BRAC (**Figure 2**).

Startup Bangladesh works directly with incubators and accelerators across the country and provides a bridge between the government machinery and the private sector platforms that work with new ventures. There is a large emphasis by the incubators/accelerators on capacity-building, to help new ventures to get investment-ready and to introduce them to potential investors. Start-up competitions, trade fairs and networking events are becoming common endeavours.

Some of the incubators have a social mission and are geared towards supporting social enterprises. YY Goshti, for example, was established in 2016, and was the first independent social business incubator in Bangladesh.²² Other incubators promoting social missions are SIL, Team Engine, and the Toru Institute of Inclusive Innovation.

There are also some university-based incubators in Bangladesh. They include CED (Centre for Entrepreneurship Development) at BRAC University, which was the first university business incubator centre in the country, established in 2016. Other incubators/accelerators at universities in Bangladesh include ULAB at the University of Liberal Arts Bangladesh, Startups Next at North-South University and the Bangladesh University Startup Accelerator. In general, the universities in Bangladesh have, according to our interviews, placed a limited emphasis on entrepreneurship education. Some have started to increase their offerings in entrepreneurship education and the University of Dhaka and Daffodil University are amongst them.

²⁰ UNDP and Citi Foundation. Youth Co:Lab <https://www.youthcolab.org/>

²¹ LightCastle (2020) Bangladesh Startup Ecosystem: The Untapped Digital Goldmine of Asia. <https://www.lightcastlebd.com/insights/2020/09/bangladesh-startup-ecosystem-the-untapped-digital-goldmine-of-asia>

²² YY GOSHTI, <https://ygoshti.com/about/>

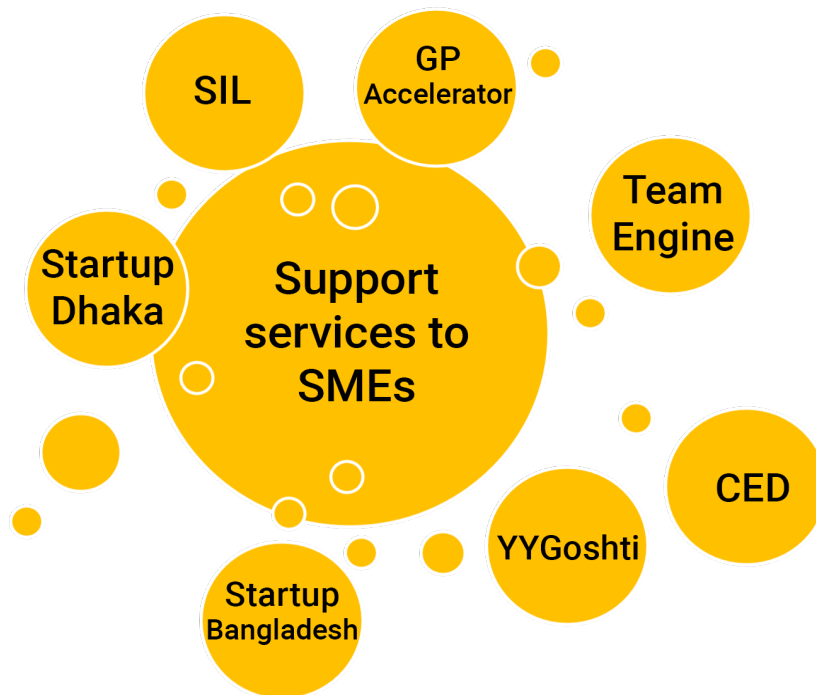


Figure 2. Examples of Incubators/Acccelerators Active in Bangladesh

The establishment of incubators and accelerators is rather recent in Bangladesh, and almost all of them were founded within the last five years. As a result, the start-up ecosystem in Bangladesh is only five years old, as one of our interviewees put it. The whole start-up ecosystem has expanded in short time and is estimated to have generated over 1000 start-ups and employed almost 1.5 million people.²³ One interviewee stated that *"Bangladesh is a frontier market as far as start-ups are concerned. The investors look at us as a frontier market and make investment when times come, but they are looking at it, are scoping us."*

There are some membership associations active in promoting SME development in Bangladesh. They include the National Association of Small and Cottage Industries of Bangladesh (NASCIB);²⁴ the Women Entrepreneur Association of Bangladesh (WEAB);²⁵ and the Bangladesh

Federation of Women Entrepreneurs (BFWE).²⁶ They provide services to strengthen entrepreneurship to their members and play an advocacy role by influencing government.

A report from 2015 by the Global Impact Investing Network (GIIN) estimated that there were at least 15 impact investors in Bangladesh. Considering the frontier market feature of Bangladesh, their number is likely to have increased in recent years. The report defines impact investment to be: *"investments made in companies, organisations and funds with the intention to generate social and environmental impact alongside financial returns."* They include the fund managers Venture Investment Partners Bangladesh and Inlucvest, and institutional investors, such as the City Bank and IPDC Finance. One new impact investor in the country is SBK Tech Ventures. It focuses on start-ups that support the digital development of rural

²³ LightCastle (2020) Bangladesh Startup Ecosystem: The Untapped Digital Goldmine of Asia. <https://www.lightcastlebd.com/insights/2020/09/bangladesh-startup-ecosystem-the-untapped-digital-goldmine-of-asia>

²⁴ National Association of Small and Cottage Industries of Bangladesh. <http://nascib.org.bd/about-nascib/>

²⁵ Women Entrepreneur Association of Bangladesh <http://weabbd.com/>

²⁶ Bangladesh Federation of Women Entrepreneurs. <http://www.bfwe.net/>

areas in various fields, ranging from fintech, legaltech to agritech and e-commerce. Its associated foundation, the SBK Foundation, a non-profit organisation, emphasises empowering women entrepreneurs in rural areas. It has set up hubs in all 64 districts of Bangladesh, providing women access to computers and other information and communication technologies. The Foundation also provides digital training to the women and tries to connect them with firms that need services that the women can provide.

In addition to these impact investors, some networks of angel investors have been established in Bangladesh, including Bangladesh Angels with over 200 active angels in the country.²⁸ In general, the main growth sectors in the Bangladesh start-up scene are logistics, fintech and mobility. Some examples of start-ups are Pathao (logistics), Chaldal (e-commerce); Sheba.xyz (home services); Moner Bondhu (health services); ShopUp (fintech); Shohoz (logistics); and bKash (fintech).

Clearly, then, there is quite a bit of activity going on in the Bangladesh entrepreneurship ecosystem. It has been taking off for the last few years, and benefited from contributions from a wide range of local and international actors. There has been a strong focus on women entrepreneurs and on realizing the vision of Digital Bangladesh by emphasising the use and development of digital technologies.

4.2 Cambodia

4.2.1 Main public sector initiatives in Cambodia

In recent years, the Cambodian government has begun developing infrastructure to promote SME development in the country. In 2019, the government established the Entrepreneurship Development Fund (EDF), a policy instrument under the Ministry of Economy and Finance, to promote economic diversification, innovation and decent job creation.²⁹ Its mission is to provide synergistic supports and build a vibrant entrepreneurial ecosystem. EDF includes four programming areas: capacity building, focused on upgrading SMEs; networking and mentoring; promotion of entrepreneurial culture; and seed funding. One interviewee emphasised the importance of promoting entrepreneurship culture in the country, commenting: *“There is a lot of opportunities [for people in Cambodia] but they don’t have the risk-taking behaviour... you know we are afraid of being failures... We want the population to have the attitude of growth mindset.”* The Government allocates US \$5 million annually to the Fund. It promotes entrepreneurship in priority areas, namely in ICT (including fintech); agro-processing for exports; services such as tourism; and manufacturing.³⁰ Establishing the EDF seems to have been a response to a World Bank analysis that argued that Cambodia lacks a clear and coordinated strategy for entrepreneurship development.³¹ One government representative underscored the importance of governments building an infrastructure to support entrepreneurship in the country, commenting: *“So if we don’t have this, the VCs won’t come.”*

The Ministry of Economy and Finance created an autonomous entity called Khmer Enterprise to deliver EDF’s programming, which started its operation in 2020 (**Box C**). Its vision is to become the national platform for promoting entrepreneurial activities.³² Khmer Enterprise is

²⁸ LightCastle (2020) Bangladesh Startup Ecosystem: The Untapped Digital Goldmine of Asia. <https://www.lightcastlebd.com/insights/2020/09/bangladesh-startup-ecosystem-the-untapped-digital-goldmine-of-asia/>

²⁹ Entrepreneurship Development Fund. <https://www.edf-cambodia.com/>

³⁰ Ministry of Economic and Finance. Entrepreneurship Development Fund at a Quick Glance. A PowerPoint presentation. https://6317c1bc-f84e-4eff-99cb-379e2d44c4ce.filesusr.com/ugd/6d4f70_b0d48b1ec721440da391f064cf8b1f9f.pdf

³¹ The World Bank (2018). Entrepreneurial Cambodia. Cambodia Policy Note. <https://openknowledge.worldbank.org/bitstream/handle/10986/30924/128265-REVISED-Nota-Entrepreneurship-web.pdf?sequence=1&isAllowed=y>

³² Khmer Enterprise. <https://www.khmerenterprise.info/home>

BOX C - KHMER ENTERPRISE: PUBLIC INVESTMENT WITH A PRIVATE SECTOR FLAIR

To spur the growth of SMEs, the Government of Cambodia's Ministry of Economy and Finance established the Entrepreneurship Development Fund in 2019. In the third quarter of the same year, it also founded Khmer Enterprise as an administratively autonomous, market-oriented implementation unit of the Fund. The official operation of Khmer Enterprise began in January 2020, when its board approved its annual budget and proposed activities.

Although part of the government, Khmer Enterprise works like a private corporation by investing in firms and taking equity shares in the firms. It has an independent, bi-partisan board, comprised of government officials and members drawn from the private sector. The Board meets every three months, giving Khmer Enterprise the flexibility to change and adapt its activities based on what is viable, with the Board's approval. The Chief Executive Officer of Khmer Enterprise was recruited from the private sector and has a strong academic and business background.

Khmer Enterprise has a vision to become the national platform for promoting entrepreneurial activities. Its mission is to provide synergistic supports and build a vibrant entrepreneurial ecosystem by supporting economic diversification and innovation, stimulating productivity and jobs creation in Cambodia.

The key activities of Khmer Enterprise are: (1) entrepreneurial culture promotion; (2) capacity upgrading; (3) networking; and (4) seed funding. Governance and programme implementation of these activities are stipulated in the Operational Manual of Khmer Enterprise.

Khmer enterprise aims to create an entrepreneurial culture in the country through various face-to-face and digital events and portals, including presenting national awards to promising entrepreneurs, organising annual summits, and hosting an entrepreneurship portal.

For capacity upgrading of start-ups and SMEs, they provide hands-on soft-skills and management training to entrepreneurs, and also mentor them

through incubators, accelerators, boot camps, and business advisory functions. In addition, they support entrepreneurs by helping them with market readiness, productivity solutions and legal and policy issues such as ownership structuring, legal compliance in both local and regional contexts, and tax compliance.

Khmer Enterprise facilitates networking among start-ups, communities and networking groups, mature SMEs and large enterprises, venture capitalists, and angel investors. They further plan to develop a platform to attract venture capital funds, talent and mentors. Events are also in the works such as entrepreneurship days, demo days, pitching events, and hackathons, as well as efforts to establish links with the international community.

One of the most important activities of Khmer Enterprise is to provide seed funding to start-ups and SMEs, from the idea stage through to the business maturity stage. They provide funds for conceptualization, and offer one-off matching grants to pull an idea from the ground and develop a pitch deck. For validating start-up ideas, they co-invest in scalable solutions, and are also open for equity investment options. They also provide funding for scaling up. To increase potential start-ups' scalability, they assist the enterprises to exit either through direct investment, mergers and acquisitions, or initial public offerings (IPO). Any money that is generated through equity investments is put back in the Fund for a new generation of start-ups and SMEs that will be fostered by Khmer Enterprise.

By relying on private sector practices, Khmer Enterprise is introducing more innovative and flexible approaches to support firms that can lead to strengthening start-up formation in the country.

fully funded by the Cambodian government, but operates like a private sector investment company by investing in select firms and taking equity in the firms. As such, Khmer Enterprise will be one key stakeholder that can work within the ecosystem by providing consultations and services directly to the private sector. Khmer Enterprise will be able to make investments in the ecosystem alongside venture capitalists and others. As one interviewee said, *"It is not like another government initiative. No. It is not just about events and talking about things, and policy change and all this kind of stuff... They are investing money that actually is making things happen."* Khmer Enterprise works directly with start-ups, providing them with training, networks and seed funding.

The Ministry of Posts and Telecommunications set up the Capacity Building Research and Development (CBRD) Fund in 2017.³³ It supports skills development in the ICT sector, including entrepreneurship development of technology-based start-ups and digitisation initiatives. The CBRD Fund consists of contributions by telecommunication firms in Cambodia who contribute 1% of their gross revenues per year to the fund.

The Cambodian government also launched the SME Bank, a state-owned entity to provide access to finance for SMEs in priority sectors in 2020. It has allocated US \$100 million for the bank to invest. The SME Bank will provide different types of loans to SMEs, including an SME Co-Financing Scheme, and plans to provide specific loans for women entrepreneurs and for digital and automation development.³⁴

The government is placing an emphasis on transforming informal SMEs into more skill-based entities. SMEs in Cambodia are typically very small and family-based entities. An economic consensus in 2011 estimated only about 3.5% of all Cambodian firms to be fully registered.³⁵ To encourage registration, the government has simplified the process of registering firms, and in 2020 made it possible to do so online. To help SMEs become more skill-based, the government set up, in 2018, the Skill Development Fund with US a 60-million-dollar loan from the ADB.³⁶ While the Skill Development Fund has a broad mandate, supporting SME skill-building is a core aspect of its work.

There are some ongoing projects the government of Cambodia is engaged in to promote SME development. Together with the WorldBridge Group, a private venture, the Government is developing a SME cluster where companies can learn from each other and work together. The Ministry of Posts and Telecommunications is also engaged in developing a start-up policy to promote technology-intensive SMEs, but the elements of this policy are still unknown.

SME development has been on the agenda of the Cambodian government for some time; for instance, they set up a SME sub-committee in 2004 to organise strategies to promote SME development.³⁷ Still, it is only in recent years that the Cambodian government established dedicated organisational infrastructure to promote SMEs. Donors have also been working in this space in Cambodia; in the next sub-section we will discuss the main donor activities in supporting SME development in the country.

³³ Chan S. (2018). ICT Funds Collects \$13.5 million. 30 November 2018. <https://www.khmertimeskh.com/554676/ict-funds-collect-13-5-million/>

³⁴ Chan, S. (2020). SME bank of Cambodia open for business. 5. November 2020. <https://www.khmertimeskh.com/50780008/sme-bank-of-cambodia-open-for-business/>

³⁵ The World Bank and the Asian Development Bank (2015). Cambodia: The Investment Climate Assessment 2014. <https://openknowledge.worldbank.org/handle/10986/21529>

³⁶ ADB (2019). ADB to Improve Skills, Competitiveness of Cambodia's Labor Force. News Release. <https://www.adb.org/news/adb-improve-skills-competitiveness-cambodias-labor-force>

³⁷ Bailey, P. (2008). Cambodia small and medium enterprises: Constraints, policies and proposal for their development. In Lim, H. (ed.), SME in Asia and Globalization, ERIA Research Project Report 2007-5, pp.1-36.

4.2.2 Main multilaterals and donors promoting SME development in Cambodia

Figure 3 presents the main multilaterals and donors that interviewees listed as active in promoting SME development. The UNDP was frequently mentioned as particularly strong in supporting SME development in Cambodia. They support Cambodian entrepreneurship in a variety of ways. They have actively supported entrepreneurship training by several incubators. Recently, UNDP signed an agreement with Khmer Enterprise to support efforts in training youth in entrepreneurship and in providing youth with seed funding through a UNDP Cambodia business incubation program called Bluetribe, launched in March 2020. It has also, in partnership with the Ministry of Commerce, allocated funding towards training in e-commerce.³⁸ A proportion of the funding is dedicated to women entrepreneurs. Together with United Nations Industrial Development Organization (UNIDO), UNDP also supports the SME Cluster project involving the WorldBridge Group.

USAID was also often mentioned by interviewees as active in promoting SME development in Cambodia. In particular, interviewees discussed USAID's role in supporting women entrepreneurship. Typically, support from multilaterals and donors involves promoting incubator and accelerator development in the country. JICA and Department of Foreign Affairs and Trade (DFAT) in Australia are other examples of organisations supporting such development. Several of these are focused on supporting women entrepreneurs, resulting in a relatively strong donor presence in supporting women-owned businesses in the country.

Other examples of donor activities to support SME development in Cambodia are JICA's support for policy making for SME development, and GIZ's work to enhance SMEs' access to critical information that can strengthen their business processes and facilitate their internationalisation.

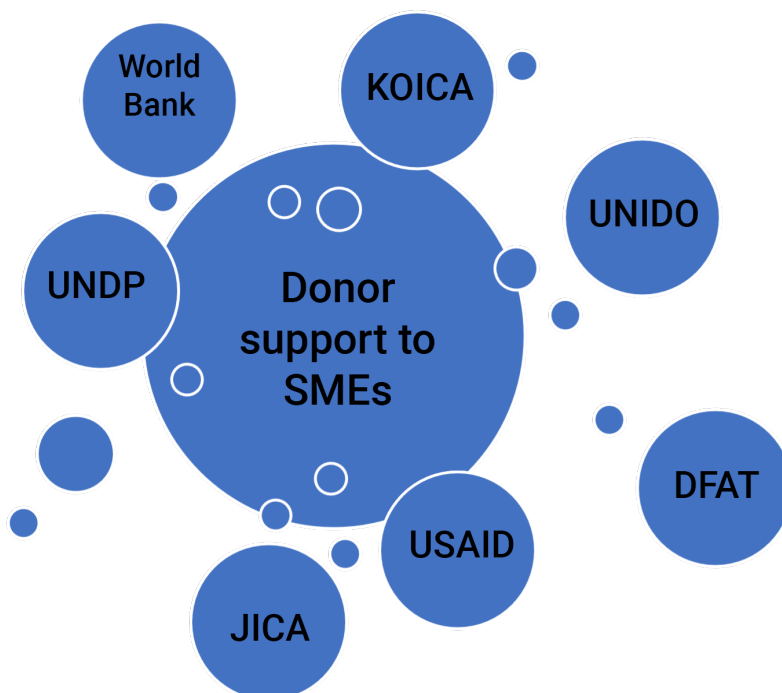


Figure 3. Main Donors Supporting SME Development in Cambodia

³⁸ Vireak, T (2020). Joint \$500,000 fund to 'fuel SME incubation'. The Phnom Penh Post, 29 December 2020; <https://www.phnompenhpost.com/business/joint-500000-fund-fuel-sme-incubation>

There are a number of other donors also supporting SME development in Cambodia, including the International Labour Organization (ILO), Korea International Cooperation Agency (KOICA), ADB, and the World Bank. In the next subsection, we will discuss further the work that is promoted by donors and multilaterals in the country by discussing some of the main incubators and accelerators promoting SME development in Cambodia.

4.2.3 Incubators, accelerators and other actors active in Cambodia

There are a number of incubators/accelerators that provide services to SMEs and start-ups in Cambodia (**Figure 4**). The existence of incubators is relatively recent in Cambodia with SmallWorld Ventures being the oldest incubator in the country, established in 2011.⁴⁰ Most of the incubators/accelerators in the country are based in Phnom Penh, but recently new hubs are emerging in some provinces, including Battambang and Siem Reap.

Some of the incubators, such as the SmallWorld Ventures and the Impact Hub Phnom Penh (IHPP), started as providers of co-working spaces, but they are now generally active in providing training, mentorship, and networking opportunities in addition to activities such as hackathons and start-up competitions. Several incubators also provide seed funding, typically from US\$ 1,000 to US\$ 10,000. In general, the incubators don't own equity in the start-up firms. Most of the incubators are focused on early-stage start-ups. As more start-ups mature, incubators such as the Energy Lab and IHPP, have started to adapt and provide support to growth-stage start-ups as well.

The incubators work in different areas. For example, EnergyLab and PFAN Cambodia focus on green businesses; Agile promotes social enterprises that create economic opportunities and independent lifestyles for people living with disabilities; the Techno Startup Center (TSC), an entity under the Ministry of Economy and Finance, promotes entrepreneurship in emerging technologies and digital platforms; IHPP supports start-ups that solve social or environmental problems; and SHE Investments provides incubator and accelerator programs aimed at women entrepreneurs in Cambodia.^{41,42,43,44,45}

The non-governmental organisation PACT Cambodia supports women entrepreneurship in the country under the WE Act initiative, a five-year project funded solely by USAID.⁴⁶ Instead of duplicating efforts, the WE Act project takes a systems approach, and supports incubators and other organisations that already support women entrepreneurs. They have, for example, partnered with and financed activities aimed at promoting women entrepreneurs carried out by SHE Investment and IHPP.

As there are a number of incubators in Cambodia with similar missions and operations, we asked their representatives if there was a lot of overlap in their work and competition among the incubators. None of them felt that these were issues. They mentioned that the incubators sought out opportunities to work together, but because they focused on different target groups this was not always possible. As one said, *"We work with all of them. They know their niche. And they know what their capacity is. And there's so much need out there that they are not competing."*

⁴⁰ Kem, B., Sou, J et al (2019). Startup Kingdom: Cambodia's Vibrant Tech Startup Ecosystem in 2018. <https://responsiblefinanceforum.org/wp-content/uploads/2019/11/Cambodias-Vibrant-Tech-Startup-Ecosystem-2019.pdf>

⁴¹ EnergyLab, <https://energylab.asia/about>

⁴² PFAN, <https://pfan.net/about-pfan/>

⁴³ Techo Startup Center, <https://www.techostartup.center/about-us>

⁴⁴ SHE Investments, <https://www.sheinvestments.com/#our-vision>

⁴⁵ Impact Hub Phnom Penh, <https://phnompenh.impacthub.net/about-us/>

⁴⁶ WE Act Empowering Young Women Entrepreneurs in Cambodia, <https://www.pactworld.org/we%20act%20brochure>

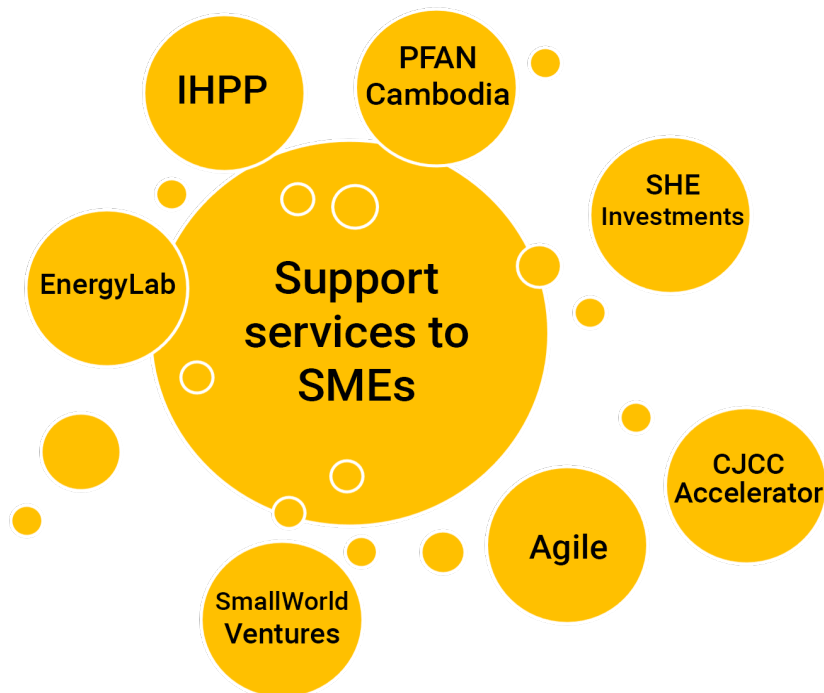


Figure 4. Examples of Incubators/Accelerators Active in Cambodia

The Cambodian-Japan Cooperation Center (CJCC) is one of the oldest accelerators in the country, established over ten years ago.⁴⁷ It provides a center for business services and networking. It is strongly focused on developing high-quality human resources for Cambodia, but at the same time encouraging collaboration and mutual understanding between Cambodia and Japan. It also provides firms with exposure to Japanese crowdfunding platforms. CJCC is jointly funded by the Cambodian government, JICA and the Japan Foundation. Another accelerator active in the country is called the BIO (Beyond Investment Opportunities) program, founded by the Cambodia Investor Club (CiC) in 2018. The accelerators focus more on mid-stage SMEs than do the incubators.

A few incubator programs have involved larger firms, such as the telecommunication firm Smart Axiata. It has partnered with IHPP to deliver the SmartStart program

aimed at supporting start-ups that contribute towards solving specific SDGs.⁴⁸ Smart Axiata has also partnered with Seedstars Phnom Penh to accelerate select start-up firms.⁴⁹

University-based entrepreneurship competitions have existed for around 15 years in Cambodia. The National University of Management (NUM) launched, in 2006, the Mekong Challenge in partnership with McKinsey & Company.⁵⁰ It started out as a national competition in Cambodia, but has since then expanded to include five other countries in the Mekong Region (Bhutan, Laos, Myanmar, Thailand, and Vietnam). NUM also started, in 2010, a yearly lean start-up competition, the National Business Model Competition, in partnership with the Japanese NGO CIESF and Waseda University Japan. For well over a decade, the National Business Plan Competition, hosted by the Ministry of Education, Youth

⁴⁷ Cambodian-Japan Cooperation Center. <https://cjap.info/about-us/>

⁴⁸ SmartStart <https://www.smart.com.kh/smartspace-a-new-entrepreneurship-program/>

⁴⁹ <https://www.seedstars.com/content-hub/newsroom/seedstars-powers-smartscale-new-acceleration-program-phnom-penh-cambodia/>

⁵⁰ Mekong Business Challenge. <https://mekongchallenge.com/about/>

and Sports, has been held, with active participation by universities. Still, a World Bank analysis of SME development in Cambodia argues that universities have played a limited role in supporting entrepreneurship in the country.⁵¹ Universities in Cambodia are just starting to provide direct entrepreneurship support to start-ups, in addition to providing entrepreneurship training using a more traditional lecture format and business idea competitions.

Some universities are now running incubator/accelerator programs to provide hands-on support for the development of new firms by students. NUM, for example, has the Social Innovation Lab which also provides training and support to start-ups. It was created four years ago, with a grant from the European Union and also receives additional private sector support from the firm Smart Axiata. The National Institute of Posts, Telecoms & ICT (NIPTIC) is also starting to provide such services for the creation of technology-based start-ups. Some interviewees feel that universities in the country are in a better position to provide sustainable support to start-up firms than the donor-supported incubators/accelerators. One interviewee said, for example: *"I always think that a lot of these programs should be based at the university for sustainability. Yeah, you know, a lot of big projects come in, and then they rent office space and they are multi million dollars but then they die as soon as the funding ends."*

In addition to the organisations discussed so far, associations play a significant role in supporting entrepreneurship in the country. The Young Entrepreneurs Association of Cambodia (YEAC), established in 2009, has been actively supporting entrepreneurship, as has the

Cambodia Women Entrepreneurs Association (CWEA), launched in 2011, and the Junior Chamber International Cambodia established in 2010. These organisations have hundreds of members and provide training, develop information products and provide fora for members to voice their concerns and influence government policies.

Impact investment is rather nascent in Cambodia.⁵² It has been channeled toward microfinance and is likely to have had more influence on the funding of micro enterprises in the country than on the development of SME start-ups. There are a few established venture capital funds in the country. They include the Smart Axiata Digital Innovation Fund (SADIF), OOCTANE, and 500 Startups.⁵³ In addition, there are angel investors in the country and in 2013 the first Cambodian investment association was established, the Cambodian Investment Club.

In Cambodia the number of start-ups has been increasing steadily in the last few years. In 2018 it was estimated that Cambodia had around 300 active technology-based start-ups, and they were expected to double over the next two to three years. The start-ups are in a wide range of fields including fintech (e.g. Pi Pay and BanhJi); e-commerce/logistics (e.g. NHAM24 and La Rue); digital market places (e.g. BookMeBus and CamboTicket); and education technologies (e.g. Sala and Tesdopi).

There are various actors promoting SME development in Cambodia. There is a significant technology focus reflecting the Government's aim to become a destination for technology-based start-ups. A focus on women entrepreneurship appears to be more strongly pushed by donor organisations than by the Government, and there

⁵¹ The World Bank (2018). Entrepreneurial Cambodia. Cambodia Policy Note. <https://openknowledge.worldbank.org/bitstream/handle/10986/30924/128265-REVISED-Nota-Entrepreneurship-web.pdf?sequence=1&isAllowed=y>

⁵² GIIN(2018). The Landscape for Impact Investing in Southeast Asia. Global Impact Investing Network. https://thegiin.org/assets/GIIN_SEAL_full_digital_webfile.pdf

⁵³ Kem, B., Sou, J et al (2019). Startup Kingdom: Cambodia's Vibrant Tech Startup Ecosystem in 2018. <https://responsiblefinanceforum.org/wp-content/uploads/2019/11/Cambodias-Vibrant-Tech-Startup-Ecosystem-2019.pdf>

appears to be relatively low involvement of women in technology-based firms. In general, the focus on start-up development in Cambodia is a recent phenomenon, and has been expanding in the last few years. The infrastructure is therefore relatively new. One interviewee summarised this and said: *"From the broader picture – entrepreneurship spirit came to Cambodia over the last five to ten years."* The strengthening of infrastructure for SME development in Cambodia should be able to enhance the possibility that the spirit of entrepreneurship will remain and flourish in the country.

4.3 Ethiopia

4.3.1 Main public sector initiatives in Ethiopia

In 1997, and again in 2011, the government of Ethiopia developed Micro and Small Enterprises Development Strategies to promote MSME development in the country.⁵⁴ Despite this long-standing emphasis on entrepreneurship development, the government has, until recently, placed a limited effort into setting up organisations that promote SMEs. Still, it did set up the Federal Micro and Small Enterprise Development Agency (FeMSEDA) which has been involved in promoting enterprise development in the country, but there appears to have been greater emphasis by the Government on micro enterprises. Now this organisation is called the Federal Small and Medium Manufacturing Promotion Authority (FSMMIPA). In general, there has been limited focus on supporting technology-based start-ups.

Another effort of the Ethiopian government has been to support industrial park formation. These parks tend to

cater to larger and more established firms rather than innovative start-up enterprises. As one interviewee stated about the government in Ethiopia: *"They were not able to really bring the domestic industry into these value chains [the industrial parks]. They are islands unto themselves, these parks... So, in that sense it's like the industrial policy and the innovation policy related to it was totally separate from any thinking of SMEs. Totally silos."* There has, therefore, been a lack of infrastructure that support SMEs, particularly technology-based firms.

To develop tools to create jobs and promote private sector development, the government set up the Job Creation Commission (JCC) in 2018.⁵⁵ The JCC reports directly to the Prime Minister's Office. Its mandate is wider than SME development, and includes leading the country's job creation agenda, coordinating stakeholders, and monitoring and evaluating performance. JCC places a strong emphasis on promoting high-growth, innovative SMEs.

The Entrepreneurship Development Centre (EDC) is a quasi-governmental entity also working to strengthen SME development in the country.⁵⁶ It was launched in partnership with the UNDP in 2013 to promote entrepreneurship development. The Centre caters to budding entrepreneurs, and provides them with training in entrepreneurial skills. It has provided training to over 90,000 people in Ethiopia. EDC has a strong focus on women entrepreneurs in its work. EDC also provides incubation of firms and facilitates access to finance by women entrepreneurs through a partnership with the Enant Bank.

More recently, policy developments have suggested a stronger focus on SMEs. The Ethiopian Government

⁵⁵ JCC, Jobs Creation Commission Ethiopia, <https://jobscommission.gov.et/>

⁵⁶ Entrepreneurship Development Centre (EDC), <https://www.edcethiopia.org/index.php/en/about-us/overview>

adopted the Entrepreneurship Strategy in 2019, developed jointly by the Ethiopian Ministry of Trade and Industry, UNIDO and UNCTAD.⁵⁷ It aims to transform the economy and to establish an ecosystem fostering sustainable SME development. Another initiative was the launch, in 2020, of the Digital Ethiopia 2025 strategy, designed to implement projects to unlock the digital potential of Ethiopia.⁵⁸

A third strategy was the Plan of Action for Job Creation 2020-2025, with a strong focus on the development of the private sector and an emphasis on high-growth enterprises.⁵⁹ As a part of the implementation of these policies, the government has tasked the JCC to develop a start-up proclamation with specific tools to promote the development of SMEs with high growth potential. This emphasis on entrepreneurship and private sector development is a major priority by the government that took over in Ethiopia in 2018. On the horizon, it seems that the infrastructure for SME development will be strengthened considerably in Ethiopia.

4.3.2 Main multilaterals and donors promoting SME development in Ethiopia

There are various donors/multilaterals active in promoting SME development in Ethiopia (Figure 5). As mentioned above, the UNDP has been active in supporting entrepreneurship training in Ethiopia, particularly through EDC. There is a strong focus on capacity-building by young entrepreneurs in this work. UNIDO is also active in this space and supports entrepreneurship in different

ways in Ethiopia. It has been supporting women and youth entrepreneurship development in strategic sectors, with a particular emphasis on the leather sector.⁶⁰ This is done in cooperation with the Italian Agency for Development Cooperation and the Austrian Development Cooperation. Part of the work involves supporting entrepreneurship education at Ethiopian universities, with help from universities in Italy and Austria. UNIDO, together with UNCTAD, also actively supported the Entrepreneurship Strategy in Ethiopia discussed above.

The World Bank also supports women entrepreneurship in Ethiopia. It runs the Women Entrepreneurship Development Project (WEDP) which has helped over 38,000 MSMEs owned by women with business training, project management and access to finance.⁶¹ As many of the businesses are in retail or services, the pandemic has been a particular challenge, and the World Bank has supported MSMEs by facilitating the firms' digital development. The Bank developed an app that helps small firms analyse their business transactions and optimise their sales and operations, as well as connect to their clients and business networks remotely.⁶² It is in line with the Digital Ethiopia 2025 strategy to increase digitisation of businesses.

Global Affairs Canada (GAC) has been a co-funder of projects supporting SME development in Ethiopia, including the EDC center and the World Bank's WEDP project. It also has an ongoing project, the Digital

⁵⁷ Ministry of Trade and Industry, Ethiopia (2019). National Entrepreneurship Strategy of Ethiopia, 2020-2025.

⁵⁸ Federal Democratic Republic of Ethiopia (2020). Digital Ethiopia 2025: A Digital Strategy for Ethiopia Inclusive Prosperity. <https://tapethiopia.com/wp-content/uploads/Ethiopia-Digital-Strategy-2020.pdf>

⁵⁹ Federal Democratic Republic of Ethiopia. Plan of Action for Job Creation 2020-2025, Jobs Creation Commission Ethiopia. <https://jobscommission.gov.et/wp-content/uploads/2019/11/National-Plan-for-Job-Creation-Brief.pdf> em, B., Sou, J et al (2019). Startup Kingdom: Cambodia's Vibrant Tech Startup Ecosystem in 2018. <https://responsiblefinanceforum.org/wp-content/uploads/2019/11/Cambodias-Vibrant-Tech-Startup-Ecosystem-2019.pdf>

⁶⁰ KOffice of the United Nations Secretary-General (2016). New UNIDO project supports employment and entrepreneurship for Ethiopia's women and youth. <https://www.un.org/youthenvoy/2016/10/unido-employment-initiatives-youth-women-entrepreneurs-ethiopia/>

⁶¹ The World Bank, Women Entrepreneurship Development Project. <http://www.wedpet.org/>

⁶² Akwo, F.N., Alibhai, S., Appaya, S. Coleman, R. (2020). In Ethiopia, prototyping a mobile app to support women entrepreneurs facing the pandemic. World Bank Blogs, 23 Oct 2020. <https://blogs.worldbank.org/digital-development/ethiopia-prototyping-mobile-app-support-women-entrepreneurs-facing-pandemic>

Opportunity Trust (DOT).⁶³ DOT trains youth to develop their leadership and entrepreneurial skills; promotes the integration of digital technologies; and provides business development services. It has a strong focus on women entrepreneurs and on addressing community challenges.

GIZ, in its Sustainable Training and Education Programme in Ethiopia, enhances skill development and strengthens vocational and higher education training to make young people's education more relevant to private sector development.⁶⁴ The program involves cooperation with the Ministry of Science and Higher Education, and involves co-funding from the Norwegian Agency for International Cooperation. GIZ also supports the development of industrial parks in Ethiopia, as does DFID.

More recent supporters of entrepreneurship development in Ethiopia are the Mastercard Foundation and the Tony

Blair Institute for Global Change, which both support the JCC.⁶⁵ The work is aimed at strengthening policy-making in the country, and is fuelled by an emphasis on youth and employment as discussed above.

Quite a few donors and multilaterals, thus, support SME development and entrepreneurship in Ethiopia. There is a relatively strong focus on supporting women entrepreneurs, particularly in their skill development. There seems, however, to be a more modest emphasis by the donor community in supporting technology development.

4.3.3 Incubators, accelerators and other actors active in Ethiopia

There are relatively few support organisations such as incubators and accelerators in the Ethiopian entrepreneurial ecosystem. A recent survey by Briter Bridges and the

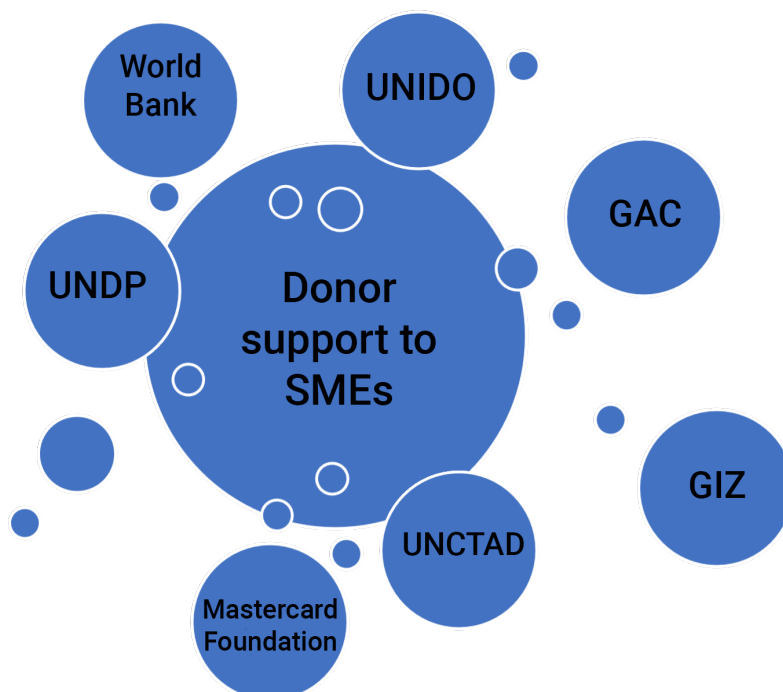


Figure 5. Main Donors Supporting SME Development in Ethiopia

⁶³ Digital Opportunity Trust, dot.Ethiopia, <https://ethiopia.dotrust.org/>

⁶⁴ GIZ (2020). Making Skills Work for Economic Transformation of Ethiopia. German Agency for International Cooperation, <https://www.giz.de/en/worldwide/18871.html>

⁶⁵ Mastercard Foundation. <https://mastercardfdn.org/our-work-in-ethiopia/>

GSMA Ecosystem Accelerator program identified nine tech hubs in Ethiopia, while Nigeria was estimated to have 85 hubs, Kenya 48, and Uganda 10.⁶⁶ **Figure 6** presents the main incubators/accelerators in Ethiopia. The hubs vary in the types of services they provide. Some of them focus only on co-working spaces or training, while others provide more individualised incubation support and seed funding. Gebeya is an example of an incubator which almost solely focuses on training.⁶⁷ The oldest is iceaddis, established in 2011.⁶⁸ Startup Factory Ethiopia is an example of an incubator that works in various areas,

while blueMoon has a strong focus on agribusiness entrepreneurship, and iCog-Labs emphasises technology-based firms and artificial intelligence.^{69,70,71} xHub Addis is an example of an incubator which is aimed at solving a social problem.⁷² Most of the incubators focus on early-stage start-ups but GrowthAfrica, Ethiopia is an example of an accelerator which aims at scaling up promising ventures. Some of these incubators/accelerators are supported by external funders, such as blueMoon, which is funded by the Mastercard Foundation (**Box D**) and GrowthAfrica which is supported by the UNDP and the

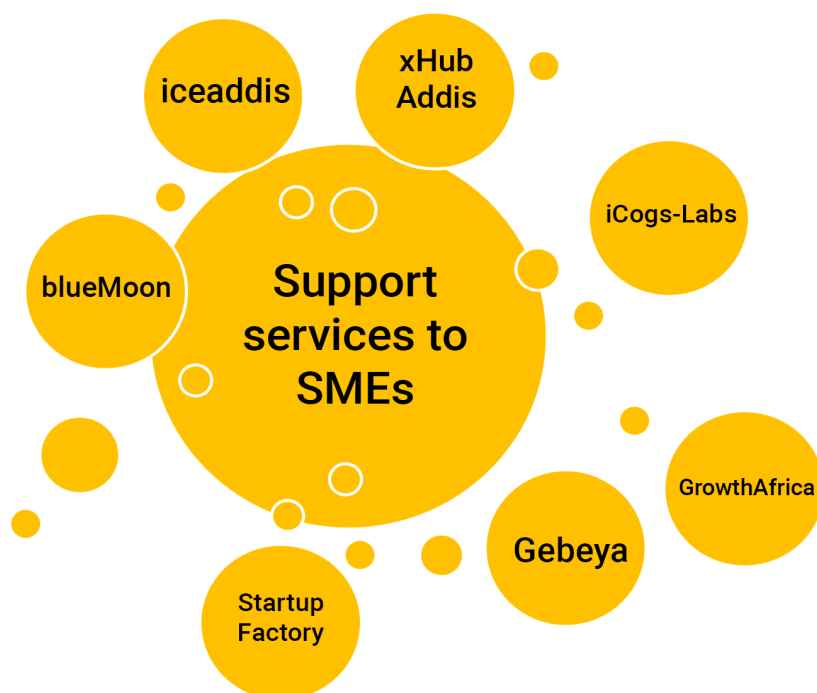


Figure 6. Examples of Incubators/Acccelerators Active in Ethiopia

⁶⁶ Giuliani, D. and Ajadi, S. (2019). 618 active tech hubs: The backbone of Africa's tech ecosystem. Ecosystem Accelerator, 10 July 2019, Briter Bridge & GSMA. <https://www.gsma.com/mobilefordevelopment/blog/618-active-tech-hubs-the-backbone-of-africas-tech-ecosystem/>

⁶⁷ Gebeya, <https://www.gebeya.com/>

⁶⁸ Iceaddis, <http://www.iceaddis.com/about-iceaddis/>

⁶⁹ KStartup Factory Ethiopia, <https://startupfactoryethiopia.com/>

⁷⁰ blueMoon, <https://www.blumoonethiopia.com/>

⁷¹ iCog Labs, <https://icog-labs.com/about-us/>

⁷² AxHub Addis, <http://xhubaddis.com/about/>

BOX D - ONCE IN A BLUE MOON...

Based on the idea that once in a blue moon, an idea comes along that can change the world, blueMoon is an incubator, founded in 2017, for young Ethiopian agribusiness entrepreneurs. Over 70% of Ethiopia's population is employed in the agriculture sector, but many producers use age-old methods of producing and bringing products to market. And while the Ethiopian government has taken steps to promote SMEs, there is less support available for start-ups.

Given the country's substantial—and increasingly tech-savvy—youth population, there are numerous opportunities for innovative and successful ventures to modernize and streamline agribusiness in Ethiopia. blueMoon's emphasis is on discovering and nurturing disruptive innovation in rural areas that is scaleable and commercially viable. While it is a for-profit venture, blueMoon emphasizes impact investing, inspired by India's Aavishkaar Group's ecosystem approach, rather than a strictly commercial model.

To achieve this, blueMoon takes three key approaches: an incubator for promising start-ups; a venture fund for investing in promising ideas; and a curated co-working community open to startups or eco-system players in a variety of sectors.

blueMoon Incubator runs two calls a year for exceptionally promising start-up teams to be part of a four-month intensive incubation program. During these four months, the startup teams—two to three young entrepreneurs with a highly innovative idea—are provided with a holistic suite of supports to launch their idea. This includes dedicated workspace alongside other entrepreneurs; training in both hard and soft business skills; support with setup activities, ranging from building a website to registering the company; coaching in transforming ideas into business plans and readying a pitch; and linking the teams to mentors, support service providers, and top executives. Finally, blueMoon makes an investment of US \$10,000 of seed funding into each startup selected for incubation in return for a 10% equity stake. The selection process for entry into the incubation program is highly competitive and rigorous. The startups are then evaluated on

the basis of various characteristics, including the innovativeness of their idea, the size of the problem being tackled, the feasibility, potential for scale-up, and projected profitability of the solution. Applicants are also judged on the characteristics of the team—how well they work together, how long they have known each other—and of individual members. Are team members truly ambitious and hardworking? Are they humble? Are they mature and people-smart?

Companies that are incubated by blueMoon, once they graduate, often need further access to capital, and blueMoon Ventures aims at addressing this need. At the end of each four-month incubation session, the startups are given the chance to pitch their ideas at a high-profile event called the Lions' Den, at which investors can evaluate each startup, determine an appropriate valuation, and choose to invest on an equity basis. blueMoon Ventures also maintains a network of angel investors. These individuals and members of the business community remain available to startups beyond the length of their incubation, and can serve as a source of necessary capital if appropriate at any time.

Recognizing the need for startup entrepreneurs to have space to work in, blueMoon launched Addis Garage. Open not only to startups in the incubation program, but to entrepreneurs at various stages of building their businesses, members are expected to contribute by mentoring, participating, and being engaged with the co-working community. The space offers high-speed internet, a café and lounge space, and a variety of networking and social events.

Taken together, it's an audacious gamble on the future of Ethiopia's young agribusiness entrepreneurs. By the end of 2020, they have incubated nearly 90 companies, supported 300 entrepreneurs, and raised US \$1m in capital for their startups. blueMoon aims to create an ecosystem which will nurture bold ideas and pave the way for a prosperous future for the country; and they have made a good start.

Norwegian Development Agency.

The incubators have been increasing their networking roles. Together, the main incubators in Ethiopia organised the first Startup Ethiopia event in 2019, involving participation of various types of ecosystem actors and a relatively high number of start-up firms.

Universities in Ethiopia have not been particularly active in the start-up scene. The EDC established centres of excellence for entrepreneurship at five universities across Ethiopia: Adama Science and Technology University; Bahir Dar University; Hawassa University; Mekelle University; and Addis Ababa University. They are intended to provide students with direct support to form start-ups. It seems there were challenges, however, and some of the centres never took off, or had to close. There is now a renewed emphasis on incubation centres at universities in Ethiopia, and GIZ is working with the Ministry of Science and Higher Education to set up such centers at four universities in the country. The Ministry is also working on developing an entrepreneurship course for all university students to encourage an entrepreneurial mindset.

According to the GIIN report from 2015, financing options available to SMEs in Ethiopia are much more limited than in other major East African countries.⁷³ There are, however, positive trends that indicate an increasingly friendly environment, both for impact- and more conventional investment. In Ethiopia, there are two main angel networks that invest in SMEs. They are Addis Ababa Angels Network, which includes members of the Ethiopian diaspora, and RENEW's Impact Angel Network (IAN). RENEW is an impact investor with significant operations supporting SMEs in Ethiopia. Other investors in Ethiopian

SMEs include Helios Investment Partners, 54 Capital and Cepheus Capital.

The Ethiopian start-ups are in a variety of sectors. Some are in fintech areas (such as M-Birr or hellocash); others in transportation and logistics (e.g RIDE and Deliver Addis); or in e-commerce (zembil and Store251) or services (Taskmoby and Wash Addis). Other companies work in agriculture (such as Green Bean and Grohydro) or facilitate access to water, such as Flowius which builds tech-managed, piped water systems. While the start-up scene seems modest in size, the range of challenges they can address is wide.

4.4 Senegal

4.4.1 Main public sector initiatives in Senegal

Senegal has a relatively long history of promoting private sector development, with the country adopting a private sector development strategy in 1999. To implement this strategy, they began building up organisational infrastructure. In 2000, Senegal created APIX (Agence pour la Promotion des Investissements et des Grandes Travaux), an agency to promote investment.⁷⁴ It gives investors information on opportunities in Senegal and helps them establish their companies. The following year, in 2001, the government set up ADEPME (Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises), an agency dedicated to SME development.⁷⁵ Since its creation, it has contributed to the expansion of SMEs in the country by providing firms with direct support, training, and tools to strengthen

⁷³ GIIN (2015) The Landscape for Impact Investing in East Africa. Global Impact Investing Network. [https://thegiin.org/assets/161025_GIIN_EastAfrica_FULL_REPORT%20\(002\).pdf](https://thegiin.org/assets/161025_GIIN_EastAfrica_FULL_REPORT%20(002).pdf)

⁷⁴ Apex S.A. Agence pour la Promotion des Investissements et des Grandes Travaux <https://investinsenegal.com/>

⁷⁵ ADEPME, Agence de Développement et d'Encadrement des Petites et Moyennes Entreprises <https://adepme.sn/>

their competitiveness. The ADEPME does this both by working with firms, and by advocating for changes in the wider business environment. ADEPME focuses more on training, networking and advisory services than on directly supporting firms with funding. According to ADEPME's website, the agency has supported over 8000 SMEs, provided over 5000 with training, and helped mobilise funds from financial institutions. ADEPME works with firms in all sectors of the economy and both in urban and rural areas.

There was an early focus on women entrepreneurship by the government in Senegal with the establishment, in 2004, of the FNPEF (Fonds National de Promotion de l'Entreprenariat Féminin), the National Fund for the Promotion of Women.⁷⁶ It worked on strengthening the managerial capacities of women entrepreneurs; providing technical and logistical support for women's businesses; and creating financing options for promising projects. More recently, in 2018, the Senegalese government launched another agency meant to catalyse entrepreneurship in the country, the DER (the Délégation Générale à l'Entreprenariat Rapide des Femmes et des Jeunes).⁷⁷ The DER is directly under the Office of the President and focuses on supporting entrepreneurship by women 18 years and older and men between 18 and 40 years of age. It set up a fund which provides firms with different types of loans: small financing; incubation funding; equity financing; and low-interest loans. In its first years of operation the DER prioritised agriculture and fisheries; handicrafts; ICT and the digital economy; transportation; and tourism and cultural promotion.

After less than a year of operations, DER had already

invested approximately US \$29 million and reached close to 22,000 beneficiaries.⁷⁸ The DER has been successful in extending its funding envelope substantially by raising co-funding from various donors, including the African Development Bank (AfDB), the Khalifa Fund, and the Bill & Melinda Gates Foundation. The creation of the DER was announced during the last presidential election campaign and some interviewees felt that it represented a political move to strengthen the position for the President to get re-elected. In general, the interviewees felt that the DER has started to play an important role in the Senegalese entrepreneurial ecosystem, as reflected in this statement by an entrepreneur: *"it's definitely a politically driven activity, but at the same time, there's some very competent people. I do think they will be around and relevant and do some good in years to come."* Being directly under the President's Office, some interviewees said that this makes it possible for them to act more rapidly, giving the DER more administrative flexibility than ministerial agencies.

Senegal has also promoted special economic zones as a part of its industrialisation process. It started its economic zone program in 2006, but was delayed because of lack of financing.⁷⁹ The first special economic zone was in Dakar, and the program has since expanded it to other regions. As in the other countries which are a part of this study, these zones don't seem to benefit SMEs to any significant degree, but are more geared towards supporting larger, more established firms.

The government created, in 2007, the BMN (Bureau de Mise à Niveau), the Senegal Upgrade Office.⁸⁰ It is tasked with enhancing skill levels at companies and providing them with business support. The government also set

⁷⁶ République du Senegal (2004). Journal Officiel. <http://www.jo.gouv.sn/spip.php?article6862>

⁷⁷ DER, Délégation Générale à l'Entreprenariat Rapide des Femmes et des Jeunes <https://der.sn/>

⁷⁸ World Bank (2019). Digital Economy for Africa (DE4A): Country Diagnostic of Senegal. Page 74. <http://documents1.worldbank.org/curated/en/814111559645179494/pdf/Country-Diagnostic-of-Senegal.pdf>

⁷⁹ Locus Economia, Senegal, <http://www.locuseconomica.com/senegal>

⁸⁰ BMN, Bureau de Mise à Niveau <https://www.bmn.sn/>

up a specific investment fund, in 2013, FONSI (Fonds Souverain d'Investissements Stratégiques), the Sovereign Strategic Investment Fund.⁸¹ A total of 20% of the fund's investments have to be invested in SMEs.

The Start-up Act is one of the most recent tools that the Senegalese government has created to promote SME development (**Box E**). It was initiated by a group of start-up companies themselves, and developed using a hackathon, an innovative policy process. It is expected to address specific challenges in the entrepreneurship ecosystems encountered by start-ups such as a heavy

tax burden for newly formed firms and a challenging legal system for firm registrations.

4.4.2 Main multilaterals and donors promoting SME development in Senegal

Numerous multilaterals and donors are actively supporting entrepreneurship and SME development in Senegal (**Figure 7**). Sometimes they have independent programs, and at other times they work with other donors or government entities in promoting SMEs.

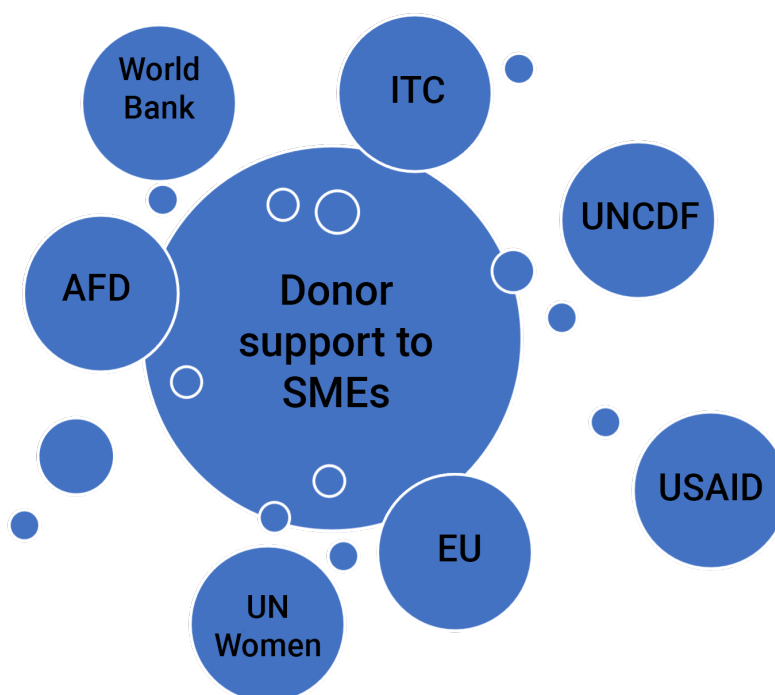


Figure 7. Main Donors Supporting SME Development in Senegal

⁸¹ FONSI, Fonds Souverain d'Investissements Stratégiques <https://www.fonsis.org/en>

BOX E - THE DAKAR HACKATHON AND SENEGAL'S STARTUP ACT

One of the great challenges for start-up companies throughout the world is navigating the complex thicket of financial, legal, and regulatory systems that exist in their countries. These can act as barriers to starting a small or medium enterprise. To address these challenges, in Senegal, a group of young tech entrepreneurs got together for a policy hackathon to create a body of legislation that, a little more than a year later, was introduced into law as the Start-Up Act of 2019. The hackathon was, as one attendee described it, “a breakthrough moment for everybody... we all understood the historic potential of that day.”

Start-Up Acts are described as “an emerging legislative instrument used to bundle strategic incentives and interventions to accelerate the formation and sustained scale of innovative and high-growth firms.” As such, they aim to create favourable conditions for small and innovative firms that might otherwise struggle to get off the ground. In many emerging economies, legal and regulatory frameworks often create barriers to entry for new business ideas.

The first country to adopt a start-up act was Italy, which introduced such a legislative framework in 2012. The goal of the act was to spur growth, enhance productivity, create new employment opportunities—particularly for youth—and spread a culture of innovation across the entrepreneurial ecosystem. Tunisia followed with its own start-up act in 2018 as part of a wider strategy called Digital Tunisia 2020.

In Senegal, a group of over sixty stakeholders gathered together in August 2018 to share perspectives, trade opinions, and brainstorm solutions for improving the business environment. This policy hackathon was a facilitated dialogue intended to include multiple perspectives and design solutions from the ground up, supported by the World Bank, i4policy, Impact Hub Dakar, and others.

The Dakar Hackathon concluded at 4:00am with a draft proposal for legislation to improve the entrepreneurial ecosystem. After the proposal

was refined through broad public consultation, discussions with the tax authority and the ministries of finance and education, and legal review, it was presented to Senegal's President, Macky Sall, in July 2019, and voted into law in December of that year.

The Startup Act creates support and governance framework for startups, legal structures for registration of startups, tax reforms, a resource centre, and a package of incentive measures. While its supports are aimed at all start-ups, the policy targets women and youth as a priority group. Although not specifically part of the Startup Act, amendments to the general tax code were made at the same time that, for example, exempt startups from certain taxes for the first three years of business

These efforts form part of a wider context in Senegal of placing an emphasis on digital technology and encouraging youth entrepreneurship as part of the President's Plan Senegal Emergent (PSE).

The Government of Senegal has, been promoting SME development for some time. It has placed a considerable emphasis on women entrepreneurs, and is increasing its support to youth entrepreneurs and start-up firms. Donor organisations have been involved in this process and formed partnerships with government agencies.

AFD (Agence Française de Développement) has supported SME development in Senegal for over 15 years.⁸² It has, for example, provided high growth-potential local firms with financial support to enhance their employment creation and competitiveness. It has also provided SMEs in Senegal with ARIZ risk sharing guarantees. This is a guarantee that AFD will cover up to 50 to 75% of a financial loss to select financial institutions made by a SME working in AFD's priority areas.⁸³ It, or the financial institution that AFD partly owns, PROPARCO, has also partnered with several Senegalese agencies such as FONSI and ADEPME.^{84,85}

USAID's work in Senegal has a strong focus on agriculture. Entrepreneurship and SME development have been incorporated in its projects. The agency is now increasing its focus on these themes, and is about to start a specific entrepreneurship promotion project.⁸⁶ It plans to provide business services to entrepreneurs across different sectors to facilitate their access to markets and finance. USAID's target audience will be mainly women and youth, as they are typically marginalised.

The International Trade Centre (ITC) is another organisation that has been promoting SME development in Senegal. It engages in a wide range of activities, from working with government in enhancing the business environment, to working directly with incubators stimulating local SME development.⁸⁷ ITC does the incubator work together

with the Netherlands Trust Fund IV. They emphasise that when working with start-ups the training and mentoring is not only important but that exposure to investors and cultivating business opportunities is also needed.

GIZ has also supported SME development in the country in different ways. It has, for example, partnered with ADEPME, had programming that supports the implementation of national policies promoting SMEs, projects that provide advice on starting businesses and has supported some local incubators.^{88,89}

Some donors and multilaterals have emphasised entrepreneurship by women in their work. The UN Women, under its Economic Empowerment portfolio, has, for example, partnered with the World Bank in a project which aims to support SMEs run by women in Senegal and help them gain access to public tenders. It is supported by the World Bank and the AfDB under the We-Fi initiative (Women Entrepreneurs Finance Initiative).⁹⁰ We-Fi is a collaborative partnership between the World Bank Group and development banks from all over the world, aimed at unlocking finance for women-led /owned businesses in developing countries.⁹¹

In another initiative, the UNCDF has, together with UN Women and the UNDP, developed the Women's Economic Empowerment Index (WEE Index) a gender lens that can be used to assess the gender responsiveness of SMEs

⁸² AFD. Senegal, Agence Française de Développement. <https://www.afd.fr/en/page-region-pays/senegal>

⁸³ AFD. Guarantees: An instrument to mobilize local resources. <https://www.afd.fr/en/guarantees-instrument-mobilize-local-instruments>

⁸⁴ FONSI, Fonds Souverain d'Investissements Stratégiques. <https://www.fonsis.org/fr/vous-etes-investisseur/nos-partenaires> ceaddis, <http://www.iceaddis.com/about-iceaddis/>

⁸⁵ PROPARCO, <https://www.proparco.fr/en/actualites/french-minister-economy-and-finance-launches-choose-africa-west-africa>

⁸⁶ USAID (2019). Senegal Entrepreneurship Promotion and Business Investment Program <https://govtribe.com/opportunity/federal-contract-opportunity/senegal-entrepreneurship-promotion-and-business-investment-program-rfi68519sepbip>

⁸⁷ ITC (2020) Supporting Start-Ups: Tech Hubs in Africa. https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/ITC_TechHubs_Africa%20Folder_20200701_web02.pdf

⁸⁸ AGIZ (2014). Private Sector Development Public Private Dialogue for SMEs in Senegal, <http://www.publicprivatedialogue.org/workshop%202014/Public%20Private%20Dialogue%20in%20Senegal.pdf>

⁸⁹ AGIZ, <https://www.giz.de/en/worldwide/339.html>

⁹⁰ We-Fi (2019). Annual Report. Women Entrepreneurs Finance Initiative. <https://we-fi.org/wp-content/uploads/2020/03/We-Fi-Annua-Report-2019.pdf>

⁹¹ We-Fi, Women Entrepreneurs Finance Initiative. We-Fi Secretariat, World Bank, 1818 H Street NW, Washington, DC 20433. <https://we-fi.org>

and strengthen the inclusion of women in economic activities.⁹² The UNCDF has, together with FONSIS, set up the WE! Fund to support projects that empower women economically.⁹³ They use the WEE Index to identify projects to support.

Other organisations providing support to SMEs in Senegal include the EU (working with AFD and LuxDev) providing access to finance as one strategy to discourage migration; and the Dutch Good Growth Fund which works with incubators. There are, thus, numerous donors and multilaterals promoting various forms of entrepreneurship and SME development in Senegal. Several of them work closely with agencies that the Senegalese government has set up to promote SME development in the country, which can lead to enhanced coordination and stronger impacts of these efforts.

4.4.3 Incubators, accelerators and other actors active in Senegal

There is a number of incubators, accelerators and other ecosystem actors supporting SME development in Senegal. Most of these are private entities. A recent report by Briter Bridges and the GSMA Ecosystem Accelerator program identified 15 tech hubs in Senegal. By comparison, Nigeria is estimated to have 85 hubs, Ghana 25 and South

Africa 80 hubs.⁹⁴ JokkoLabs Senegal officially opened the first coworking space in Africa on 10/10/10. Apart from providing co-working options to professionals in the digital economy, Jokkolabs plays an important networking role. It has now expanded its operation to seven other African countries and France. CTIC is one of the oldest incubators and was established in 2011. It offers wide services from pre-incubation, to acceleration.⁹⁵ CTIC has trained over 1300 entrepreneurs and supported over 60 companies.⁹⁶ The Impact Hub Dakar, is a newer hub emphasising individualised services to start-up firms.⁹⁷ It also provides access to a wide international network, with Impact Hubs in over 50 countries. The Jiggen Tech hub is distinct in the sense that it was the first incubator dedicated to women and youth in Senegal. It is focused on science, technology, engineering and mathematics areas and was established in 2012.⁹⁸ The Yeesal Agrihub is an incubator working on sustainable solutions for farmers.⁹⁹ It was the first agribusiness incubator in the country. SÉKOU also provides support to entrepreneurs in rural areas and works closely with donors such as the UNICEF and GIZ.¹⁰⁰ CONCREE has both incubation and acceleration programs and aims at advancing start-ups from the idea phase to the growth phase.¹⁰¹

There are also some incubators at universities in Senegal. They include the UGB Incubator at Gaston Berger

⁹² UNCDF/UN Women/UNDP (2017) Inclusive and Equitable Local Development (IELD) Programme: Women's Economic Empowerment Index (WEEI). [file:///Users/hallatho/Downloads/06.12.2017-technical-workshop-WEEI%20Diagrams%20\(2\).pdf](file:///Users/hallatho/Downloads/06.12.2017-technical-workshop-WEEI%20Diagrams%20(2).pdf)

⁹³ FONSIS/UNCDF. WE! Fund: for projects with an impact on the economic empowerment of women <https://www.fonsis.org/fr/articles/20-03-2020/wefund-pour-des-projets-impact-sur-lautonomisation-economique-des-femmes>

⁹⁴ Giuliani, D. and Ajadi, S. (2019). 618 active tech hubs: The backbone of Africa's tech ecosystem. Ecosystem Accelerator, 10 July 2019, Briter Bridge & GSMA. <https://www.gsma.com/mobilefordevelopment/blog/618-active-tech-hubs-the-backbone-of-africas-tech-ecosystem/>

⁹⁵ PCTIC Dakar, <https://www.cticdakar.com/>

⁹⁶ World Bank (2019). Digital Economy for Africa (DE4A): Country Diagnostic of Senegal. <http://documents1.worldbank.org/curated/en/814111559645179494/pdf/Country-Diagnostic-of-Senegal.pdf>

⁹⁷ Impact Hub Dakar, <https://dakar.impacthub.net/>

⁹⁸ Jiggen Tech, <https://www.jthsenegal.com/>

⁹⁹ Yeesal Agrihub, <http://yeesalhub.org/>

¹⁰⁰ SÉKOU, <https://sekou.org/a-propos/>

¹⁰¹ CONCREE, <http://www.concree.org/>

University.¹⁰² It is in Northern Senegal and provides a wide set of services to the students at the university. In Dakar, the ISM Group of post-graduate education institutes has set up the ISM Incub, focused on digital, agriculture and management sectors, and the IESA Incub with an emphasis on cultural entrepreneurship.¹⁰³ Also, in Dakar, the Cheikh Anta Diop University has, with support from the French Embassy, set up a business incubator.¹⁰⁴ It is housed at the École Supérieure Polytechnique and is open to students from all over the country. While the stand-alone incubators have a stronger presence in the Senegalese ecosystem, some universities are stepping up

and have started to support start-up formation directly. There is an association of start-ups, called Sen Startup.¹⁰⁵ Its mission is to build an environment that is conducive to the emergence of strong start-ups in the country. The association represents the start-ups in Senegal and advocates for their needs. It also promotes the development of a viable entrepreneurship ecosystem, that is favourable to start-ups in the country. Lastly, it provides a forum for transferring skills and expertise between the start-ups. Sen Startup was founded in 2018 and contributed to the creation of the Start-up Act in the country.

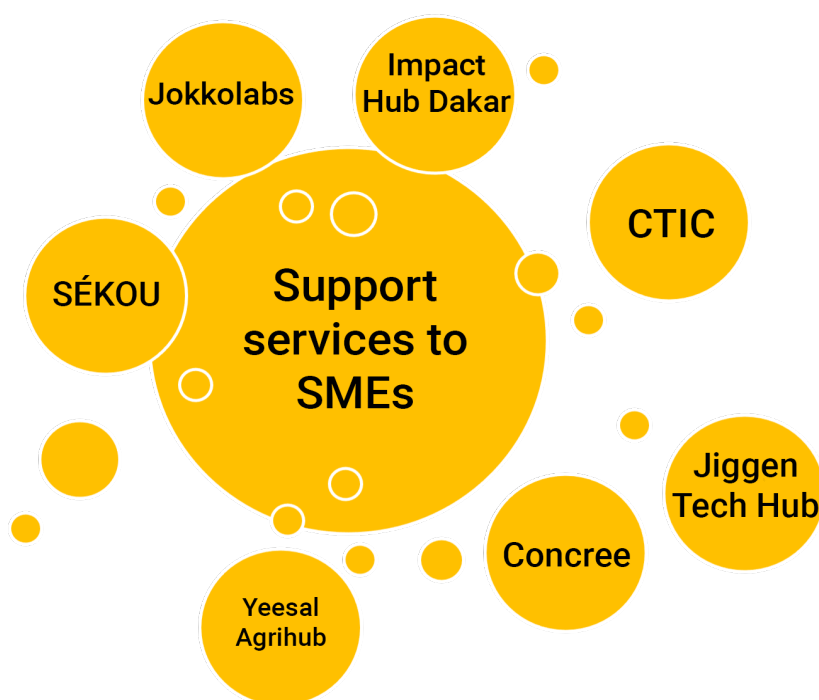


Figure 8. Examples of Incubators/Accelerators Active in Senegal

¹⁰² UGB Incubator, <http://incubation.ugb.sn/>

¹⁰³ ISM Incub/ IESA Incub, <https://www.ismincub.com/>

¹⁰⁴ https://www.sendeveloppementlocal.com/Le-premier-incubateur-d-entreprises-de-l-Afrique-de-l-Ouest-lance_a2496.html

¹⁰⁵ Sen Startup, <http://www.senstartup.com/>

There are relatively few investors focusing on supporting SMEs and start-ups, especially during the early stages, in Senegal. Both the Global Impact Investing Network and the World Bank have reported that obtaining financing for Senegalese start-ups is particularly challenging.^{106,107} Generally, there is limited awareness of impact investment as a potential source of capital, and proclaimed social entrepreneurship is uncommon. A handful of venture capital firms are willing to fund start-ups in the country. Teranga Capital, based in Dakar, is one of them, but typically funds SMEs with high potential in more traditional sectors.¹⁰⁸ Other local investment firms are M&A Ventures, and Brightmore Capital.^{109, 110} While these firms invest in Senegalese start-ups, they also target start-ups in other countries in the region such as Gambia and Côte d'Ivoire. Some international funders such as Orange Digital Ventures also invest in start-ups in Senegal.¹¹¹ The venture capital investors typically take equity shares in the start-up firms. In addition to providing the firms with funding, they train and mentor them to strengthen their performance.

There are some angel investment options in Senegal. The Dakar Network of Angels (DNA), provides investments to firms in the countries of the West African Economic and Monetary Union, with a special focus on early stage and scalable start-ups in Francophone Africa. The Women's Investment Club (WIC) launched WIC Capital in 2019. It

is the first private investment fund in Senegal to support women-led businesses (Box A). It targets all Francophone countries in West Africa.

Start-up firms in Senegal exist in variety of areas. For example, ADNCORP provides digital services and solutions to other firms; EYONE is in e-health; FIREFLY is in marketing; Shopmeaway is in logistics; PAYALL is in fintech; AWALE BIZ is in e-commerce; BaySeddo is in agricultural investment; and MLouma supports farmers with marketing and planning. Many of these strengthen traditional sectors in the country whereas others venture into innovative services.

Clearly, there is substantial activity in the entrepreneurship ecosystem in Senegal. The government has been emphasising SME development for some time, but in recent years it has strengthened these efforts with an injection of extra financing. Many donors and multilaterals are working with government agencies in promoting SME development in the country, and private sector actors are increasingly joining forces. An emphasis on promoting women entrepreneurship has also been going on for quite a few years. While efforts have been made to strengthen the entrepreneurship ecosystem in the country, they are still ongoing, and more is needed to effectively harness the power of SMEs.

¹⁰⁶ UGIIN (2015). The Landscape for Impact Investing in West Africa: Senegal. Global Impact Investing Network. https://thegiin.org/assets/160620_GIIN_WestAfrica_full.pdf

¹⁰⁷ World Bank (2019). Digital Economy for Africa (DE4A): Country Diagnostic of Senegal. <http://documents1.worldbank.org/curated/en/814111559645179494/pdf/Country-Diagnostic-of-Senegal.pdf>

¹⁰⁸ Teranga Capital, <http://www.terangacapital.com/>

¹⁰⁹ M&A Ventures, <http://manda-ventures.com/>

¹¹⁰ Brightmore Capital, <https://brightmorecapital.com/>

¹¹¹ Orange Ventures, <https://ventures.orange.com/about/>

4.5 Main messages

The discussion in this chapter has demonstrated that there have been numerous public and private sector efforts in the four case study countries to promote SME development. Many of these initiatives started in recent years, reflecting a growing emphasis on SME development in these countries. There are many types of organisations involved in these activities, both local entities and donor organisations. In several cases, different types of organisations in the entrepreneurship ecosystem are working together. We also observed emphases on the other two fronts focused on in this report, fostering technology development of SMEs and entrepreneurship by women. In recent years, there has been an increasing emphasis on digital development, and the case study countries have been engaged with national digitisation strategies. Digital training is frequently on the agenda and is aimed at enhancing SMEs' use of digital technologies. Some of the case study countries, particularly Bangladesh and Senegal, have had a long-standing focus on promoting women entrepreneurship. Stimulating women entrepreneurship appears also to be frequently on the donor agenda and donors/multilaterals seem to play a critical role in extending women entrepreneurship to more LDCs.

In the next chapter we will discuss the main challenges that need to be addressed in order for SMEs to flourish and provide employment and social and economic growth to the four case-study countries and point out some topics where further research is needed.

5. CHALLENGES FOR SME DEVELOPMENT

As can be seen from previous chapters, there is substantial organisational infrastructure for SME development in all four case study countries. Governments, donors and multilaterals, private sector entities, and associations have been increasing their emphasis on supporting SME development over the last twenty years. SME development has, however, not been easy or straightforward.

5.1 Access to finance

Access to finance was viewed as the major challenge for SME development in all four case study countries. This is not a surprising message, as the countries are either low-income or lower-middle income and, thus, not likely to have ample financing for private sector development. One Cambodian government representative stressed how inevitable lack of financing is for SMEs and said: *“For stimulating entrepreneurship and SME development, there’s always a lack of financing. So, there will not be enough financing for SMEs.”* Several interviewees emphasised the seriousness of the lack of financing. As one Ethiopian interviewee stated: *“The critical thing is the financing. That is the bottleneck prohibiting some innovators to become entrepreneurs.”* This urgency was echoed by a Senegalese entrepreneur: *“We talk about seed money, but the problem is there aren’t many investors in our region. People are struggling to realise their dreams! It’s a big subject for all of us.”*

It was clear that SMEs fare worse in terms of access to financing than other private sector entities. Banks are more likely to fund larger, more established firms

rather than SMEs. They are generally reluctant to fund SMEs, as they perceive them to be too risky, and many entrepreneurs do not have any collateral against bank loans. Some interviewees suggested that micro firms were actually being better looked after in terms of access to finance than SMEs. There have been several financial institutions set up that lend to micro-enterprises. Several interviewees mentioned the concept of the ‘missing middle’, pointing out that there was access to small amounts of financing for micro enterprises, and funding for larger, more established firms, but funding for SMEs was missing. They argued that it was acutely important for these countries to address the ‘missing middle’, as it was particularly likely to provide jobs and create wealth. Some mentioned that the banking systems in the case study countries were underdeveloped, which made them particularly risk-averse.

Banks were also described as not understanding the potential of technology-based firms and, therefore, reluctant to fund start-ups in tech areas. The banks often lack the expertise to evaluate the ideas and market potential of technology-based firms, and demand collateral from a population that is starting out and doesn’t have many financial assets. As one Ethiopian interviewee said about graduate students wanting to set up start-ups: *“They have novel ideas, very innovative ... But they have ideas, not collateral!”*

The interviewees also emphasised the challenge for women entrepreneurs to gain access to financing (**Box A**). Often women do not have assets that can be used as collateral for bank loans. As one person we spoke with in

Cambodia said: *"The financial sector is extremely sexist. So, women ... find it really difficult to get a formal bank loan for their business. They have to get a personal loan, and then even then, they're required by bank policies to get their husband to sign off on that loan."* As discussed in **Box A**, some financial institutions, such as the ADB, and women's associations are stepping up to provide women with financing for their SMEs. Governments are also starting specific programming aimed at women entrepreneurs such as the DER in Senegal.

Some interviewees talked about challenges to attract financing for SMEs from international sources. One Cambodian interviewee said: *"You need a lot of small start-ups to be successful ... for us to attract foreigners to come in."* Some countries have also set up obstacles to the flow of foreign funding for SMEs. In Ethiopia, the government has set the requirement that a foreign investor invests at minimum US \$200,000 in the country. Such regulations can be highly detrimental to countries, as even a small investment can bring new expertise and access to networks to start-ups. One entrepreneur said about this regulation: *"This is a legacy policy. It's really prohibiting things. This is why Kenya and Nigeria are way ahead – they can attract US \$20,000 or US \$30,000 investors who come in with contacts etc. We're missing out. ... They [the government] don't want frivolous investors, but they don't understand."*

To address the challenge of obtaining financing for SMEs, there is a need for a broader range of resources and innovative financial tools to support SMEs. There is scope for future research to investigate innovative financing models adjusted to the culture in specific LDCs.

5.2 The business environment

In all four case study countries, the wider business environment poses problems for SME development. There was a consensus that government policies, and business systems in general, were better aligned with larger corporations than with SMEs or start-ups. The World Bank's Doing Business initiative evaluates 190 countries on several factors of doing business.¹¹² It develops a score for the different factors which reflects the factor's impact on the ability to do business in a country. These include, for example, ease of registering business, getting electricity, paying taxes etc. A higher score value for a factor means that the country supports doing business more easily. The World Bank initiative then ranks each country on their score value for each factor. The higher the resulting rank, the more difficult it is to do business in the country.

As discussed above, most SMEs in all four countries are informal and not registered. Some interviewees mentioned that registration of firms was cumbersome and expensive in their countries. **Figure 9** shows the World Bank's score and ranking for the factor "starting a business". Among the case study countries, it is easiest to register a business in Senegal and hardest in Cambodia. In Cambodia, the ease of registering a business is only three ranks below Venezuela, which is the hardest for business registration of the 190 countries that are covered in the World Bank exercise. According to the World Bank, it takes six days to register a business in Senegal and requires around 22.6% of income per capita. In comparison, it takes 99 days to register a firm in Cambodia and it requires 53.4% of income per capita. Starting a business takes longer

¹¹² World Bank (2020). Ease of Doing Business: Comparing Business Regulations in 190 Economies. <http://documents1.worldbank.org/curated/en/688761571934946384/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies.pdf>

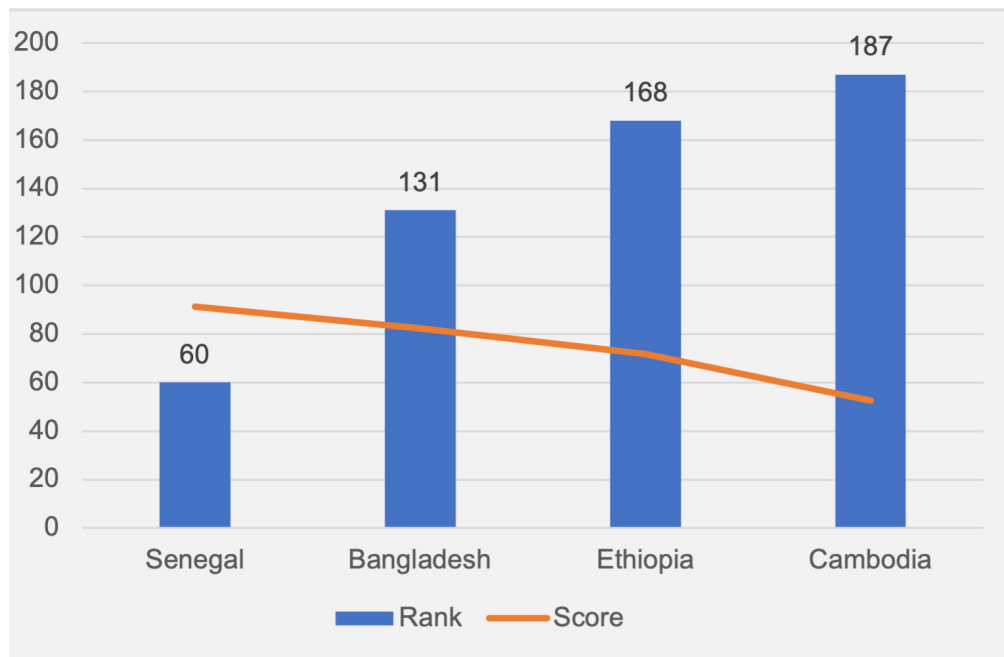


Figure 9. Doing Business Ranking: Starting a Business^{113, 114, 115, 116}

in Bangladesh (19.5 days) than in Senegal, but is less expensive (8.7% of income per capita) and is moderately long in Ethiopia (32 days) but is quite expensive (45.4% of income per capita). Several of the interviewees from Cambodia spoke about how cumbersome the registration of firms is. Some work has, however, recently been carried out to ease the registration in Cambodia, and in summer of 2020 an online platform was launched where data is shared by all the relevant ministries. One interviewee said that: *"It reduced cost, time and corruption."*

In general, the case study countries lacked incentives for SMEs to register formally. When registering, SMEs would have to pay taxes and fulfill other administrative demands. A Cambodian interviewee summarised it: *"You know, as soon as you start registering there will be all sorts of problems, all sort of obligations and so people*

don't trust." Still, without registering, firms don't qualify for government support from programs supporting SME development. The DER in Senegal has, for example, been pushing firms to register so they can benefit from its programming. Also, if firms want to raise equity funding, they need to be registered. Likewise, registration is needed for internationalisation of firms.

Several interviewees said that the tax burden was heavy on SMEs and start-ups, and filing taxes required a lot of work. One of the people we spoke with in Cambodia said, for instance, that a registered firm had to file its taxes every month, but information about how to do this was not clear and major laws, such as tax laws, changed regularly. *"You essentially have to have almost a team of people whose sole purpose is to jump through government hoops to keep you operating."* Similarly, the firms that pushed for a start-

¹¹³ World Bank (2020). Economy Profile Bangladesh: Doing Business 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/b/bangladesh/BGD.pdf>

¹¹⁴ World Bank (2020). Economy Profile Cambodia: Doing Business 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/c/cambodia/KHM.pdf>

¹¹⁵ World Bank (2020). Economy Profile Ethiopia: Doing Business 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/e/ethiopia/ETH.pdf>

¹¹⁶ World Bank (2020). Economy Profile Senegal: Doing Business 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/s/senegal/SEN.pdf>

up act in Senegal lobbied the government for firms to be tax-free for their first three years of operation. This is also being promoted as a part of the start-up proclamation in Ethiopia. An Ethiopian entrepreneur said: *"Most of them [the start-ups] will, realistically fail. And if you're slapping them with 'come and stand in line for three days every month to register at the tax office' – it's just ridiculous. The red tape is horrible."*

The view that paying taxes in the four case study countries is hard on SMEs is supported by the data from the World Bank's Doing Business initiative (**Figure 10**). All four countries ranked high in terms of difficulties in paying

taxes. It is evaluated to be the easiest in Ethiopia (rank 132) and hardest in Senegal (rank 166) of the case study countries.

Some interviewees said that the law on capital investment in their countries was not adjusted to SMEs. In Senegal this is the case, and work is being done to adjust the law. Because of this investment law, investment firms operating in Senegal are typically registered in Mauritius, the United States or in Europe. *"They invest locally, but most of the revenue goes back to where the firms are registered. We're not using the full potential of our economy."*

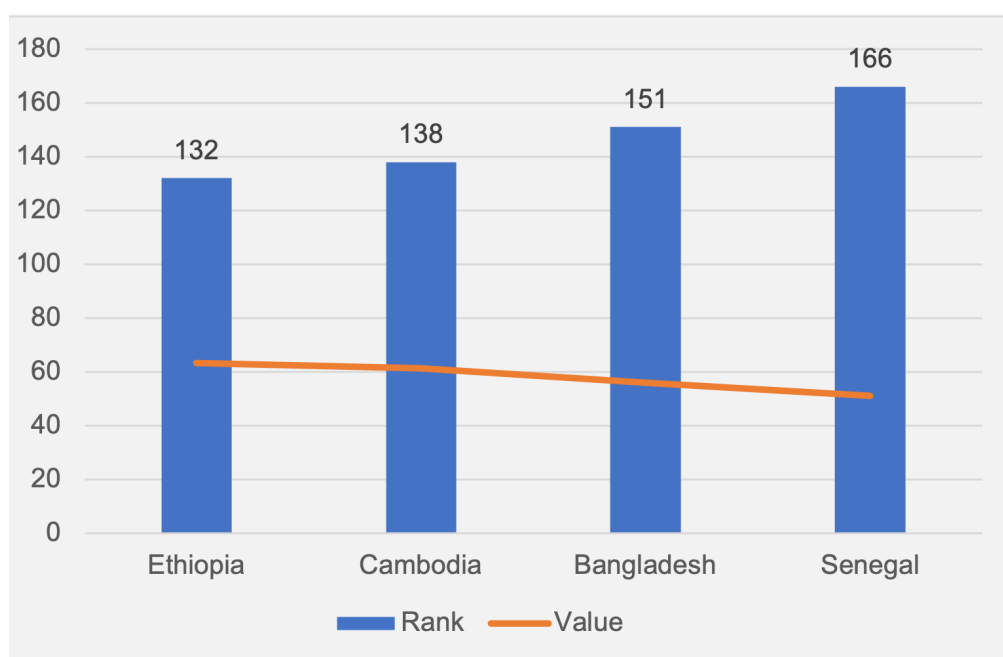


Figure 10. Doing Business Ranking: Paying Taxes^{117,118,119,120}

¹¹⁷ World Bank (2020). Economy Profile Bangladesh: Doing Business 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/b/bangladesh/BGD.pdf>

¹¹⁸ World Bank (2020). Economy Profile Cambodia: Doing Business 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/c/cambodia/KHM.pdf>

¹¹⁹ World Bank (2020). Economy Profile Ethiopia: Doing Business 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/e/ethiopia/ETH.pdf>

¹²⁰ World Bank (2020). Economy Profile Senegal: Doing Business 2020. <https://www.doingbusiness.org/content/dam/doingBusiness/country/s/senegal/SEN.pdf>

The interviewees also discussed the challenges of internationalisation. Many of the firms need to be able to export their products/services to survive. Not surprisingly, interviewees in Cambodia and Senegal discussed this need more than the interviewees in the more populous countries, even though this was also mentioned by interviewees in the larger countries. Sometimes their products and services are highly specialised, so it is important to reach export markets as well as the internal one. One interviewee remarked that “the main challenge is that Cambodian market is small. Which means if people have idea, they have to think abroad, ... so local solution for the global problem. So, if you think like that, an SME, you can have a chance to grow bigger.” Some of the entrepreneurs in Senegal discussed that a large proportion of their business was aimed at buyers outside the country. *“Information technology SMEs in Senegal make 70% of their revenue from customers that are not in Senegal. Seven zero percent. At the beginning we were not at that stage, and last year we entered that space making more revenue from exports than from local customers.”*

While some SMEs in these countries are successfully internationalising their customer base, others are having challenges to do so. *“I mean they do not have the capacity to properly transform and understand the market, how to sell on the market and how to transport. It’s even more obvious now with the COVID-19.”* One interviewee talked about the need to connect the start-ups with organisations beyond their country. *“There are a lot of start-ups emerging but not enough of advanced investable start-ups – for that there is a need for them to be connected to a broader network beyond Cambodia. So that they can learn, get themselves connected, so that they can access more opportunities.”* There are some efforts made to strengthen the business environment in the case study countries. Impact investors said they can help firms internationalise into their region and a government representative talked about building ties to ecosystem builders in other countries. USAID in Senegal also has a project where they have developed a portal with import – export information aimed at firms.

As many LDCs have relatively small populations, the need for SMEs to internationalise to survive is likely to be widespread among these countries.

There is clearly considerable scope to improve the business environment and align it better to the needs and features of SMEs in the case study countries. Entrepreneurs themselves have started to be vocal in expressing their concerns, and work has started to make the environment more conducive for SME development. Research can also play a role in developing ideas on how the business environment can be better adjusted to start-ups and other SMEs.

5.3 Human resources

When the interviewees were asked about the main challenges for SME development, they frequently referred to lack of skills and human resources with capacity in entrepreneurship as being significant stumbling blocks. All four case study countries said that there were skill gaps that impeded SME operations. One interviewee from Senegal emphasised the urgency of addressing the capacity-building issue for SME development. *“There is a lot of need, huge, you know. A taskforce needs to be put in place to do the capacity-building.”*

Sometimes the interviewees felt that the level of general education in the country hindered further SME development. For example, lack of digital skills was an obstacle for many SMEs. This was acutely felt during the COVID pandemic, when businesses needed to engage more in online activities. In general, the interviewees pointed out that the entrepreneurs themselves needed more business knowledge, such as marketing skills and skills in utilising their networks.

Lack of experience in business was also a deterrent to SME development. An Ethiopian interviewee stated: *“We have a shortage of people in the area – of trained entrepreneurs, people with business experience. Currently*

there are people trained in economics, business, because they read books. But we need actual entrepreneurs who have the experience of failure and success. Failure is very important."

A few interviewees from government and incubators pointed out that it was very difficult to find candidates who could be hired for senior positions at their organisations. Hiring for junior positions was straightforward, but people with experience were not available. These gaps certainly could slow down SME development in these countries. Cambodia has started to deal with this by hiring experts from other countries, and Bangladesh has successfully recruited some individuals from its diaspora who have substantial entrepreneurship experience.

As mentioned in Chapter 4, some government agencies, such as ADEPME in Senegal and the SME Foundation in Bangladesh, have, for years, been promoting business training. Incubators and accelerators are increasingly playing a role in training budding entrepreneurs. They typically follow a combined approach of formal training and hands-on advice. Many organisations follow a standard international curriculum for incubators/accelerators in their formal training modules, and it is clear that it needs to be adjusted to local practices and conditions.

The incubators/accelerators also provide individualised mentorship to firms, in which they advise them on strategies and how to deal with challenges. This can involve network-building and connecting the firms with funders or others that can pave their way. The incubators/accelerators often involve experienced entrepreneurs as mentors, frequently on a voluntary basis. Some interviewees mentioned that it was challenging for them to recruit mentors. There was not necessarily much business experience locally in the fields their start-ups were engaging in. Also, the concept of providing mentorship to other firms was foreign to many local entrepreneurs. One entrepreneur said: *"We do not have mentorship culture yet in Bangladesh. The kind of support I get from ... [a foreign organisation] if other people*

get this – there will be more amazing start-ups and more successful ventures."

Some interviewees discussed that the quality of the incubator programs was uneven. An interviewee from Bangladesh said the curriculum was made on an ad hoc basis and needed a quality control mechanism. An interviewee from Cambodia stated that their incubation/accelerator ecosystem had limitations in its mentorship potential. It works at early stages, but as firms evolve, they start to suffer from lack of experience of the incubators/accelerators. *"They [the incubators/accelerators] have certain issues with capacity. For example, they can only provide mentoring support to a certain stage. They may not be able to access high profile mentoring support and investment opportunities, for example. The incubation and acceleration programs themselves have some limitations."* Other interviewees dismissed the seriousness of this problem, saying that enlisting international mentors was relatively easy for them when their expertise was needed. There are several associations of global mentors that can be contacted but also the networks of many incubators and accelerators are very international. There are clear benefits of attracting global mentors for firms that want to internationalise. Through their mentors the entrepreneurs can get advice on the international markets and the preferences of different populations. There can be disadvantages of having international mentors when there are language barriers or cultural misunderstandings between the mentors and the mentees.

Universities also have a clear role in building capacity in entrepreneurship. Thus far, however, they seem to have had an uneven performance in their emphasis on entrepreneurship education. An entrepreneur from Bangladesh said that during his business degree at a reputable university in the country, he was only offered one entrepreneurship course. Furthermore, this course was geared towards preparing the students to be employees of enterprises, rather than to build their own firms. *"It would have been much more effective if I had education*

in entrepreneurship as a student. Ninety percent of my education was useless.” Other interviewees had a more positive experience of university education. Still, university courses on entrepreneurship are often taught using a very academic approach, and the education seems to be out of touch with local industry. *“There is a lot of deficiency in the content. When I read from these universities ‘how to be an entrepreneur’ I laugh, really laugh. A professor is teaching how to be an entrepreneur whereas ... [in the United States] a practicing entrepreneur will be brought in.”*

Some interviewees talked about trying unsuccessfully to involve practicing entrepreneurs in their education efforts at universities. They recognise the limitations of faculty in teaching entrepreneurship, but were unable to enlist private sector representatives. Strengthening entrepreneurship education will require openness and collaboration between both parties. There were some examples of collaboration aimed at strengthening such education at universities. The Impact Hub Phnom Penh in Cambodia has, for example, pilot-tested an online entrepreneurship education module for university students. It places an emphasis on case studies of actual SMEs in Cambodia and involves local entrepreneurs as teachers. Incubators/accelerators can play a role in connecting universities and entrepreneurs and encourage real life entrepreneurship experiences to be shared with students.

As discussed in Chapter 4, universities are also starting to provide direct hands-on support to students wanting to start firms. Some of these, such as NUM in Cambodia, have been doing this for a long time through business idea competitions. But more universities in the four case study countries are setting up various kinds of incubators and accelerators. With a wider range of players starting

to focus on entrepreneurship education, there is hope the skill gap will diminish. Research on effective models for teaching entrepreneurship could strengthen these efforts.

5.4 Cultural attitudes

Entrepreneurship is not new to any of these countries, and they all have a large MSME sector. As discussed above the majority of these firms are not registered in the formal economy.¹²¹ The firms are set up by necessity, often by people with low incomes and very limited education. To trade or provide a service and set up a firm is often the only income generation possibility for a large proportion of the population. For some of the countries discussed in this report, the interviewees made clear that the population is highly entrepreneurial. As one interviewee said, *“The Senegalese people are native entrepreneurs. Even when we have a formal job, we will have something on the side. We have an entrepreneurship mindset; it is very important.”*

As discussed above, the literature makes a distinction between necessity-driven entrepreneurship and opportunity-driven entrepreneurship, a theme echoed in the interviews.¹²² In all four countries, interviewees said that the cultural expectation for people with a university education was not to set up a firm, but rather to find professional employment in an established organisation or with government. A university-educated entrepreneur from Bangladesh said: *“I have grown up hearing from my parents, teachers, neighbours that one day you have to become a doctor, engineer or a banker. This has been told to me since I was a kid.”* There appears to be stigma associated with entrepreneurship amongst highly educated people.

¹²¹ Stein, P; Ardic, O.P; Hommes, M. (2013.) Closing the Credit Gap for Formal and Informal Micro, Small, and Medium Enterprises. International Finance Corporation, Washington, DC.

¹²² See e.g. Williams, C.C. and Gurtoo, A. (2016). Chapter 1, Introduction and Overview. In Routledge Handbook of Entrepreneurship in Developing Countries, Williams, C.C. and Gurtoo, A. (eds). Routledge, Taylor and Francis Group.

This was summarised by an entrepreneur from Senegal. *"There is still a very strong cultural stigma that, you know, you become an entrepreneur when you don't have a choice."*

One possible reason for this reluctance by educated people in the case study countries to engage in entrepreneurship is the risk that is perceived to be associated with it. Several of the interviewees stressed that their culture was risk-averse, which was a serious deterrent to forming a company. As an interviewee from Bangladesh said: *"Children should get a job rather than start a business, trying something that is so uncertain and risky. Mindset is preventing us a lot from thinking. Okay I have the knowledge and I can contribute to a start-up or a business."* There was also some discussion that failure was also frowned upon. Instead of setting up businesses, failing, and learning from it, entrepreneurs were more likely to try to keep the failing businesses alive, despite small chances of survival, to avoid the perceived stigma of failure.

Cultural perspectives towards women also deterred them from becoming entrepreneurs, promoting the view that a highly-educated woman should try to get a good job and look after her family. As one interviewee from Bangladesh said: *"Women are not raised to become entrepreneurs or even going outside to work, that is a big challenge. Majority of women who graduate from universities rarely contribute to the economy. That is a big challenge. So, facilities are there, but we have to convince the family and community to value women and give them freedom to work."*

Some interviewees in Ethiopia said that because of its political history, there was a mistrust of private-sector development. As one donor interviewee in Ethiopia stated:

"Compared to other African countries, the mindset is almost nonexistent. We did a cross-cultural training and one of the really interesting things they said is that an entrepreneur who is earning millions of dollars won't have the same respect as a

bank manager who has worked through the hierarchy, followed the rules. It's just different in Ethiopia. Kenyans hustle, they have it in the blood."

To change the mindset, several interviewees mentioned that it was important to showcase successful entrepreneurs as good role models. This applied both to the need for male and female role models. "We need more role models out there to change this belief that women are, you know, they're not capable of being successful." The newly established Khmer Enterprise in Cambodia has formalised the promotion of culture and has it as well as showcasing entrepreneurship as one of its core activities.

5.5 Linkages and coordination

A number of people we spoke to felt that a lack of linkages and coordination between different types of organisations within their entrepreneurship ecosystems posed serious challenges for effective SME development. This was mentioned by interviewees in all countries, but less emphasised by those in Cambodia than those in the other three case study countries.

All kinds of disconnects were mentioned. Some talked about different government ministries not working well together. *"It's not one voice! There are a lot of different voices, views."* For instance, an Ethiopian government representative said:

"One ministry does research and comes up with recommendations, and another ministry does the same thing. It's a waste of money. What we do, we are trying to do, is creating some synergy. We have to integrate: what are the main problems? Who's going to be responsible for this gap, this challenge? There should be one organisation who is responsible to coordinate."

In some of the countries, there seem to be many organisations working on promoting SME development, and it is not clear how their roles and mandates differ. Senegal has, for example, set up a complex government infrastructure with many actors and with what sometimes appears to be overlapping mandates. As a result, some of the interviewees felt it was difficult to understand the system and with whom to talk. Entrepreneurs starting businesses also talked about how challenging it was to get accurate information:

"people don't know about those services [to firms], so how to make this information available to really do something. Where can we put it so that somebody who needs to start a business in the app sector, or raising fish or whatever, can find the information they need, both public and private, in terms of financial and non-financial services, technical services. So, this I think, is a real challenge in the market."

In the summer of 2020, the Honourable Macky Sall, President of Senegal, announced the need to coordinate the functions of organisations supporting SME development, and has initiated work to do that.¹²³ The focus is on both those providing financial and non-financial support.

Some of the interviewees also talked about a disconnect between the ecosystems supporting more traditional SME development, and those supporting the development of start-ups and technology-based firms. Learning from traditional SMEs can be quite valuable for start-ups, and vice-versa. The ecosystems are in silos, and experiences and knowledge don't flow between them. An interviewee

from Bangladesh said: *"On a broader canvas, how can these siloed ecosystems be connected in a coherent manner so that each of them, while working independently, can contribute to others and work in synergy. So that piece is missing."* More synergies and knowledge flow ensure that different actors are not duplicating the efforts and certainly can strengthen learning and SME development in these countries.

It was also clear that more linkages were needed between universities in these countries and industry. Universities needed, for example, to work more with commercial banks in order to jointly develop products that were useful for SME development. *"If there is collaboration between the universities and commercial banks, the production would be very much demand-centric. Tailored products or services can be offered if there is collaboration between universities and commercial banks or universities and our entrepreneurs."*

Some of the people we spoke with emphasised that donors needed to coordinate their efforts and be better aligned. They come with their own agenda to promote entrepreneurship in these countries. As a Cambodian interviewee said: *"The problem that I see is the donors, as usual, are not really aligned. They each want to have their share of the pie and want to be able to advertise and market it."* Some talked about the importance of donors aligning themselves better with government priorities. A challenge for donors was that in some of the countries, these priorities were not clear. As one donor said: *"I am not seeing a very strong and consolidated strategy from the government. So, I would raise this as a concern that, you know, you have lots of different approaches."* Other interviewees mentioned that donors need to coordinate their efforts better among

¹²³ République du Sénégal. (2020). Council of Ministers, 15 July 2020, <https://www.sec.gouv.sn/actualite/C3%A9conseil-des-ministres-du-15-juillet-2020>

COVID-19 AND SMEs

The COVID-19 pandemic has been a challenge for SMEs around the globe. In the four case study countries, the pandemic has been devastating for the small firms. Many of the SMEs that focus on business to consumer marketing lost their markets almost overnight. In interviews, entrepreneurs described how they did not have reserves to pay their employees, rent and other operational costs. Some lamented that contracts had dried up or that investors planning to finance their firms had pulled out. Many stressed the need to support SMEs through these challenging times and the serious consequences of the firms becoming bankrupt. One interviewee summarised this sentiment by saying about start-up firms: “We have to give them CPR because they are dying. Because if we cannot make sure they survive, the whole ecosystem will collapse.”

Some of the entrepreneurs said that after the initial shock, they started to look for opportunities offered by the pandemic. A Bangladesh entrepreneur said, for example: “So, I started to think how to turn the challenge into an opportunity ... there is an expanding market for masks – and I can get my artisans to make them and sell at a small profit.” Similarly, an Ethiopian leather entrepreneur started to think about how to repurpose her sewing machines from working on leather to fabric. While masks and other pandemic-related products were not likely to offer complete solutions for these SMEs, they were able to cushion the blow. With restaurants closed, there were increased opportunities for firms in food delivery. Some start-ups in the case study countries had developed apps around food delivery and other logistics, and they blossomed during the pandemic. The same applied to SMEs offering online education. During the pandemic, these firms did well and expanded their businesses.

All four countries were quick to react to COVID-19 by conducting surveys of the impacts of the pandemic on SMEs. These surveys confirmed massive losses in income because of COVID-19, with some sectors, such as in tourism, nearly annihilated; they also showed that the pandemic’s harshest impacts were on women entrepreneurs. The surveys were developed by government agencies, by private sector incubators or by donors. They were expected to contribute to the policy dialogue and provide input into the development of stimulus packages offered by governments and donors. The countries also tried to open up a conversation on the response to COVID-19 by organising hackathons aimed

at identifying solutions to the economic impacts of the pandemic. These were often organised by incubators/ accelerators or universities and were geared towards enhancing the innovativeness of COVID-19 solutions. Other funds supporting SMEs, released calls for ideas intended to promote creative solutions to address the implications of COVID-19.

Governments in all four case study countries reacted relatively swiftly to the pandemic by developing stimulus packages aimed at SMEs. These included a number of measures, such as cash transfers, loans with reduced interest rates, temporary tax breaks for the firms, and rent relief on government- owned properties. Interviewees in all the countries pointed out that even though the government stimulus packages were meant to alleviate the challenges the SMEs encountered due to the pandemic, they only would reach the SMEs that were formally registered. With most SMEs in these countries being informal, the stimulus packages were, as a result, likely to fall flat and not reach all who needed them. Some countries explored alternative ways to reach the SMEs by, for example, working with NGOs active in different districts.

Donors were also active in developing solutions for firms to deal with the pandemic. Some contributed financing directly to firms or governments, or set-up e-commerce infrastructure. Many donors focused on training. It was clear that firms with digital skills fared better when adjusting to COVID by moving commercial interactions online. Providing firms with training in digital skills thus became a common response to the pandemic. Other donors provided firms with training in crisis management, teaching firms how to revisit their business models and take advantage of emerging opportunities.

Time will tell how successful these measures are in strengthening the resilience of SMEs in LDCs. As early as in the latter half of 2020, Bangladesh, has, for example, shown a surprising growth. Increased digitalisation is clearly key for survival, and firms in the four countries started early on to experiment with new approaches. This included using Facebook for consumers to bid on textiles in one case, and a dating app format to buy a goat for Easter dinner in another. COVID-19 will surely change the landscape of SMEs in the LDCs and change their operations permanently.

themselves to have a stronger impact. Donors play a large role in promoting entrepreneurship, and their lack of coordination can therefore contribute to fragmented entrepreneurial ecosystems.

A few interviewees mentioned that the entrepreneurial ecosystems in their countries are still immature. They need more cohesion and concerted efforts to grow into systems that effectively support SME development. There are different ways this can be done, and research can inform which approach works in the different contexts. One is stronger government prioritisation that encourages everyone to align their efforts. Governments can also establish platforms to coordinate SME initiatives. In some ways, the establishment of Khmer Enterprise in Cambodia is an example of this approach. It is too early to evaluate its success, but its establishment and frequent use of a co-funding mechanism is a promising start to encourage coordination. The same applies to many partnership initiatives by the ADEPME and the DER in Senegal. They also represent an attempt to channel and coordinate donor funding. Other countries have also set up committees to coordinate efforts for SME development. Bangladesh, for example, has set up two policy-coordination committees to coordinate the implementation of its 2019 SME Policy. The National SME Development Council will coordinate efforts at the ministerial level and ensure the overall coordinated policy development of the SME sector, and the National SME Task Force will ensure the execution of the policy.

This chapter has shown that there are several challenges impeding SME development in the four case study countries. These challenges are experienced by SMEs in general in these countries and apply also to women

entrepreneurs and technology-based firms. There are many promising initiatives, but because of systemic challenges, they have more limited impact on the growth of SMEs. In all four countries there is important ongoing work taking place to address these challenges. More coordination can contribute towards making this work effective and lead to more inclusive SME development.

The chapter also points out several areas for further research to inform innovative strategies to address the challenges. It is not known how strong a role research has played in shaping the efforts to promote SME development in the case study countries. In general, the levels of research on SME development in LDCs are low.¹²⁴ The research on SME development is highly concentrated in the LDCs with the largest populations, including Bangladesh and Ethiopia. Some smaller LDCs have almost no research on their SME issues which can limit the evidence base of policies and weaken efforts to address national challenges. Much of the existing research is carried out by authors from high-income countries or the emerging economies, such as South Africa or China. A stronger local contribution to research, and capacity-building efforts to enhance local expertise in research on SME development is, therefore, called for.

¹²⁴ Thorsteinsdottir, H., Bell, J.M, Bandyopadhyay, N (2020). Scoping Report: Research on SME Development in Least Developed Countries. Presented at a Webinar Workshop 15 October 2020.

5. CONCLUSIONS AND NEXT STEPS

This report presents and contrasts initiatives that the four case study countries have engaged in to promote development on three fronts. One is fostering SMEs to stimulate economic growth, increase employment opportunities and encourage more inclusive development. The second is bolstering information and communication technologies and integrating a focus on digitalisation with economic policies. The third is emphasising the empowerment of women to contribute to economic gains and greater equity in societies by encouraging women entrepreneurship.

The four countries in this study have made considerable efforts to build entrepreneurship ecosystems that other LDCs can learn from. All the countries in this study have a long history of referring to SME development as one of their governments' priorities and have issued various policies that incorporate references to promoting their SME sectors. Setting up an organisational infrastructure to stimulate the creation of SMEs has clearly been key to realising these policy goals. The four countries differ in how long they have actively been pursuing SME development. Senegal was an early adopter and started to establish organisations to promote SME development in the early 2000s, whereas Cambodia started more recently to set up organisations that focus on SME development.

All the countries have emphasised promoting technologies as a part of their SME development. They have developed national digital strategies to increase the use of information and communication technologies by their SMEs, for instance, in marketing, retail and banking.¹²⁵ Apart from this, Bangladesh and Cambodia, in particular, have been

emphasising building an infrastructure for promoting technology-based start-ups whose core essence involves digital technologies.

The countries also differ in their emphasis on entrepreneurship by women. Bangladesh and Senegal have been cultivating entrepreneurship by women for years. They have set up specific funds that support women-owned SMEs. One area these countries have focused on is to facilitate finance by women entrepreneurs by, for example, bypassing needs for them to provide collateral for loans. Women often don't own land or other collateral which limits their potential to secure commercial loans.

In all four countries, diverse organisations, both public and private, are active in promoting SME development. Donors are also heavily pursuing entrepreneurship development in these countries, and have set up numerous programs and other initiatives to support SMEs. Often these are in partnership with local government entities. The donors have also played a strong role in promoting female entrepreneurship, frequently by an emphasis on skills development.

Still, SME development in all these countries has challenges, and more needs to be done to promote the three fronts: to create SMEs, stimulate technology development and promote women entrepreneurship. There is an acute need to increase access to financial resources, both for men and women entrepreneurs as lack of financing has made it challenging for SMEs in these countries to survive. All countries need considerable efforts to enhance their business environment and make

¹²⁵ Note in Cambodia the Digital Policy is in process and not yet completed.

it better adjusted to SME development. The legal and regulatory environments is generally too demanding for SMEs and is misaligned to their needs. Human resources are often a limiting factor for SMEs, and more effective approaches are needed to build capacity. There is also a need to showcase successful SMEs in the case study countries to encourage people to consider SME development. All this work needs to be integrated much better to encourage concerted efforts. Priorities need to be made clearer, both in order to coordinate local work, and to increase the impact of donors' contributions.

Based on this research, the next steps to strengthen SME development in the LDCs and extend the emphasis on technology-based firms and women entrepreneurs to more countries can include:

1. **Establish a program to support research on SME development in the LDCs.** As discussed above, limited research has been conducted on SME development in the LDCs. The existing research is also concentrated in the few most populous LDCs with a majority of the countries having almost no research on local entrepreneurial issues. There is also a need to build the capacity of LDC-based researchers to investigate their local SME development. Research can contribute to more evidence-based policies and explore innovative solutions to problems. As the features of SME development are shaped by local contexts in the different countries, it is of paramount importance that the research is grounded in the realities of the countries to inform effective policies and programs. It is also important that the research is closely connected to policy making and bridges are built between researchers and public and private sector representatives to ensure the relevance of the research to local needs.

Donors/multilateral organisations might consider exploring interest in such a program by reaching out to public and private sector entities in the LDCs, including universities and research organisations. With a rich

input from the LDCs, donors/multilaterals can partner in developing the features of such a program and in running it. The program might consider, for example, open calls aimed at researchers in the LDCs to strengthen local capacity, and could also potentially have special calls aimed at researching technology-based SMEs and/or women entrepreneurs as well as calls focused on other development priorities. With more research aimed at SME development in the LDCs, these nations can explore more tailor-made approaches to address their challenges and promote effective SME development.

2. **Set up an international network that explores innovative financing options for SME development in the LDCs.** The research discussed in this report underlines the challenges that the firms in all the case studies have in accessing financing for their operation. Some countries have started to experiment with innovative financial models to enhance options for targeted sectors/populations that can be valuable to share with other countries. There is also a scope for the LDCs to work together towards increasing financing for their SMEs and to partner with the international donor community in this work.

LDC governments, financial institutions, donors/multilaterals and the private sector could, for example, organise workshops to plan innovative potentials for SME financing. This could include a close examination of fintech options, including the use of bitcoin technology. It might also involve exploring the potential of syndicate funds, set up through temporary alliance of investors. The interest of LDCs and the donor community in establishing a dedicated SME Bank aimed at supporting SMEs in LDCs could be explored. Such a bank could support concerted efforts to help SMEs in LDCs address the aftermath of the COVID-19 pandemic. Any innovative financing option under consideration could also be tailored to a particular scope, such as to the use of technology-based solutions, to supporting women owned SMEs

or supporting green innovation. An international network that explores innovative financing options for SME development in the LDCs can strengthen coordinated efforts for LDCs to increase availability of financing for local SMEs, and harness emerging technologies that enhance financing options.

3. **Establish a soft-landing program.** This report has demonstrated an increasing emphasis by the case study countries on setting up incubators/accelerators to foster start-ups in the countries. Numerous such entities have been established, often with donor support. Many LDCs have small local markets, and for start-ups to be viable they need to export their products/services to other countries. This need for internationalisation introduces complications for many SMEs. It is difficult for firms to gain insights into foreign market preferences and the export-import processes can be challenging. One way to facilitate the internationalisation of SMEs is to set up a soft-landing program where firms can connect with, and be temporarily housed at, incubators/accelerators in their destination countries and benefit from the training and networks these entities provide.

LDC governments, donors/multilaterals, incubators/accelerators might together consider establishing such a soft-landing program where LDC firms can connect with incubators/accelerators in other countries in their region, in other LDCs, or, in fact, anywhere in the world. This work could start by exploring such existing soft-landing programs in other countries and by initiating a dialogue by LDCs representatives and other interested parties on the needs and features of such a program. Targeted use of soft landing programs can increase SMEs' survival in

the LDCs by enhancing their internationalisation, and allow more firms to benefit from the entrepreneurship ecosystems that have been established in LDCs and other countries.

These and other steps can contribute towards strengthening SME development in the LDCs. With focused efforts, collaboration and coordination, the LDCs can realise their goal of SME development. By enhancing the roles of women and technology in this work, countries can increase their chances of expanded employment opportunities and cultivate inclusive growth.

APPENDIX 1 – DESCRIPTION OF METHODOLOGY

To examine the development of small and medium-sized enterprises (SMEs) in least-developed countries (LDCs), we conducted case studies on four select countries. We started by considering how to define SMEs. The definition of SMEs varies from country to country. They are typically defined according to how many people are employed by firms, and/or the firms' gross income. In our work, we used a definition from UNIDO which defines micro-firms to have 9 or fewer employees, small firms to have between 10 and 49 employees, and medium-sized firms to have between 50 and 250 employees.¹²⁶

For our case studies, we chose countries that were relatively active in publishing research on entrepreneurship and SME development, based on a bibliometric analysis.¹²⁷ We chose to focus on two countries in Africa and two in Asia. Further, we wanted to include countries, where English or French were widely spoken. In the end, we chose Ethiopia and Senegal in Africa, and Bangladesh and Cambodia in Asia. Both Bangladesh and Ethiopia have large populations, with 163.0 and 112.1 million respectively, whereas Cambodia and Senegal are smaller, with 16.5 and 16.3 million, respectively.

For each case study, we reviewed a wide range of background documents concerning SME development, technology-based firms, and female entrepreneurs in the select countries. These background analyses included reviews of policy documents from governments in the

case study countries, reports from multilaterals, academic publications, material from the websites of organisations, and local newspaper articles describing SME-related initiatives.

To gain a deeper understanding of SME development in the four countries, we also interviewed experts directly involved in promoting entrepreneurship and SME development in these LDCs. We chose experts with diverse roles in their entrepreneurial ecosystems. Some were representatives from governments or multilateral/donor organisations, whereas others were entrepreneurs themselves, or representatives from organisations that support SME development such as incubators, accelerators, universities or professional associations. We also interviewed six experts ("other informants"), who had experience in promoting development in the LDCs, but were based centrally with multilateral organisations. In total, we interviewed 67 experts as a part of these case studies (**Table 2**).

We conducted the interviews using online communication software including Zoom, Meet Now and Google Meet. The interviews were semi-structured; lasted approximately 60 minutes; and were conducted from April to September 2020. We adjusted the interview guides to each country and to the different roles experts played in promoting SME development in the case study countries. In the interviews, we explored respondents' views on diverse issues bearing

¹²⁶ Luetkenhorst, W. (2005) Private Sector Development: The Support Programmes of the Small and Medium Enterprises Branch, United Nations Industrial Development Organization.

¹²⁷ Thorsteinsdottir, H., Bell, J.M, Bandyopadhyay, N (2020). Scoping Report: Research on SME Development in Least Developed Countries. Presented at a Webinar Workshop 15 October 2020.

Table 3. Interviewees interviewed for the case studies

	Bangladesh	Cambodia	Ethiopia	Senegal	Other informants	Total
Government	2	3	4	3		12
Industry/ incubators	2	4	3	3		12
Financial institu- tions/ investors	4	1	2	2		9
Multilaterals/ Donors	4	3	5	6	6	24
Academic/ Research Organisations/ Think Tanks	3	3	1	2		9
Associations		1				1
Total	15	15	15	16	6	67

on SME development. For example, we asked them to tell us about initiatives they were involved with on promoting/carrying out SME development; to summarise the main strategies governments followed in stimulating entrepreneurship; their emphasis on promoting women entrepreneurs and technology-based firms; and the main challenges they saw in promoting SME development in the case study country. We also solicited their advice on what could be done to strengthen SME development. The interviews were conducted in either English or French, according to interviewee preference.

All the interviews were recorded and transcribed for further analysis. We coded each interviewee's answers to questions according to themes. We then clustered related themes together when analysing the data. We compared the answers from the different case studies to explore

which themes were more specific to each country, and which were more widely shared. When writing up the results, we triangulated the findings from the interview data with results from the background review, and statistics that related to the themes examined.

By interviewing experts who have experience working in LDCs in Africa and Asia, and who have played diverse roles in their innovation ecosystems, we had the opportunity to collect diverse views on SME development in the LDCs. This multi-pronged approach to gathering and collecting data has, we believe, yielded a nuanced picture of SME development in the LDCs.



Women and girls develop skills in industries such as leather, weaving, basketry, embroidery, gemstones, and spinning, Addis Ababa, Ethiopia. Photo: UN Photo/Eskinder Debebe

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