



**Small & Medium Enterprises (SMEs) in
Commonwealth Countries:
An Analysis of Obstacles for Growth**

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Small & Medium Enterprises (SME) and Economic Development

Small and medium enterprises (SMEs) play an important role in economic development in general and in industrial development in particular. According to some estimates more than 9 percent of enterprises across the world are SMEs, accounting for approximately 60 percent of private sector employment (Ayyagari et al., 2011). SMEs play key roles in high-income countries as well as low-income countries by making significant contributions to both Gross Domestic Product (GDP) and employment (Dalberg, 2011). However, the contribution of SMEs to economic indicators varies substantially across countries from 16 percent of GDP in low-income countries, where the sector is typically large but informal, to 51 percent of GDP in high-income countries. For instance, India has total SME of about 48 million which employ nearly 40 percent of total workforce, creating about 1.3 million jobs every year and contributing 45 percent to India's manufacturing output, 40 percent of total exports and 17 percent contribution to GDP (Business Standard, 2014). On the other hand, in South Africa, 91 percent of the formal business entities are SMEs, which contribute 52–57 percent to GDP. In Ghana, SMEs contribution is even higher, representing about 92 percent of Ghanaian businesses and contributing about 70 percent to Ghana's GDP (Abor and Quartey, 2010).

SMEs also provide significant employment opportunities, as they are highly labour intensive. A World Bank survey of 47,745 businesses across 99 countries revealed that firms with between 5 and 250 employees accounted for 67 percent of the total permanent, full-time employment (Ayyagari et al., 2011). Interestingly, SMEs create more jobs than large enterprises. For instance, between 2002 and 2010, on average 85 percent of total employment growth was attributable to SMEs (de Kok et al., 2011). SMEs in Bangladesh (here meaning enterprises with fewer than 100 employees) provide 58 percent of total employment. According to Abor and Quartey (2010), 91 percent of the formal business entities are SMEs in South Africa, which provides 61 percent (in Ghana over 80 percent) of the total employment. Further, SMEs account for 52 percent of global private sector value added (ACCA, 2010).

In the Least Developed Countries (LDCs), the role of SMEs is even more important because they offer the realistic prospects for increase in employment and value-added. SMEs contribution to economic development is important due to several reasons. For example, SMEs are more labour-intensive and tend to lead to a more equitable distribution of income than larger enterprises; SMEs contribute to a more efficient allocation of resources in

developing countries and SMEs support the building of systemic productive capacities because they absorb productive resources at all levels of the economy and contribute to the establishment of dynamic and resilient economic systems in which small and large firms are interlinked (Hobohm, 2001).

Thus, it is believed that a vibrant SME sector will bring competition, reduce rent seeking and will promote creative destruction in Schumpeterian sense thus enhancing economic growth. SMEs are drivers of inclusive growth, and thus its development can provide the solution for increasing inequality observed across the countries. For developing and least developed countries, SMEs represent an opportunity of wider economic development and poverty alleviation. Some SMEs may also be a source of foreign exchange earnings if they are able to meet the quality and quantity standards required to export their products or services overseas.

SMEs: A Brief Overview

The largest and most comprehensive database on SMEs is provided by the International Finance Corporation (IFC) study of MSME Country Indicator Database for 132 economies (Kushnir et al., 2010). As per this study, which covered 132 economies, there are 125 million formal MSME (micro, small, and medium enterprises) of which 89 million operate in emerging markets. The formal MSMEs are more common in high-income economies and these formal MSMEs employ more than one-third of the world's labor force. MSME density is increasing at a great pace in low and middle-income economies.

On an average there are 31 MSMEs per 1000 people across the 132 economies and this figure grew by 6 percent per year from 2000 to 2009. MSMEs in high-income economies grew three times slower than low-income economies and five times slower than lower-middle income economies. In about half of the high-income economies covered in the study, formal MSMEs employed a minimum of 45 percent of the workforce while this figure was 27 percent in low-income economies. Formal MSMEs employ more than one-third of the global population, contributing around 33 percent of employment in developing economies. However, informal MSMEs, especially in developing countries, far exceed formal MSMEs by many times. For instance, in India in 2007, there were nearly 1.6 million registered MSMEs and 26 million unregistered MSMEs. This means about 17 unregistered MSMEs for every registered one.

Region wise, East Asia and the Pacific have the highest ratio of MSME employment to total employment. For instance, in China formal MSMEs account for 80 percent of total employment. However, formal MSME employment to total employment in South Asia is less than 100 million, and this is due to large informal MSMEs in the three countries - Bangladesh, India and Pakistan. It should be noted here that SME data on the informal sector are rare and data are not comparable across countries due to differences in the definition of the informal sector and in estimation methods.

Defining SMEs

Definitions of an SME vary significantly from country to country and even within single countries, depending on the business sector concerned – e.g., agriculture, natural resources, manufacturing, services and retailing (ESCAP, 2009a). There is no universal definition of SMEs as it depends upon the business culture, country's population, industry, level of integration of the country with the outside world and lobbying forces. According to a World Bank study, more than 60 definitions of SMEs are used in 75 countries (IIFT, 2011). Similarly, IFC study shows that there is a significant variance in the countries' definitions of MSMEs; however around a third of 132 countries define MSMEs as having up to 250 employees.

However, the three main parameters that have been generally applied to define SMEs are: (a) the number of employees; (b) turnover of business; and (c) capital investment. Among the above three parameters, the number of employees has been the most important characteristics in defining the SME by national governments and statistical agencies (UNESCAP, 2012). Further, the most common typology of SMEs is based on their line of business, such as mining, manufacturing and services as well as wholesale and retail businesses. This is evidence in the SME definitions of some economies such as India, Japan, Malaysia and Taiwan (UNESCAP, 2012).

Country and industry specific definition creates problems for targeting SMEs. A universal definition can make it easier to design the policies for SMEs growth and development. It can also ease the design of loans, investments, grants and statistical research. Gibson, T. and Vaartindeed, H. J. van d. (2008) in their paper “Defining SMEs: A Less Imperfect Way of Defining Small and Medium Enterprises in Developing Countries” suggested one universal definition of SMEs:

“An SME is a formal enterprise with annual turnover, in U.S. dollar terms, of between

10 and 1000 times the mean per capita gross national income, at purchasing power parity, of the country in which it operates”.

A definition on the basis of annual turnover can give us a single definition however it is extremely difficult to get data on annual turnover of SMEs particularly in developing and least developed countries. Thus, it is important to recognize the country and industry specific definitions while developing targeted intervention programme (See UNESCAP, Policy Guidebook for SME Development, 2012 for detailed review of SME definitions and typologies).

SMEs in Commonwealth Countries

Following the MSME Country Indicator Database of IFC, there were total 14 commonwealth countries, which belong to low-income group or low middle-income group. A regional classification revealed that 9 countries were from Africa, 4 countries from Asia and 1 country (i.e., Guyana) was from Caribbean region. We have dropped Guyana from the final list in order to focus on Africa and Asian region. Table 1 below gives the number of SMEs and their contribution to employment in the select economies for which latest data are available in IFC.

Table: 1 Country Wise SMEs and Percent of Employment

Country Code	Country	Year	No of SME's	Percentage Contribution to Employment
BGD	Bangladesh	2003	29,87,560	12.8
CMR	Cameroon	2004	72,248	75.0
GHA	Ghana	2004	25,679	66.0
IND	India	2007	15,52,492	2.2
KEN	Kenya	2006	16,00,000	33.2
LKA	Sri Lanka	2007	14,146	78.3
NGA	Nigeria	2004	84,00,000	50.0
MOZ	Mozambique	2004	28,607	1.8
MWI	Malawi	2000	7,47,396	38.0
PAK	Pakistan	2005	29,11,751	78.0
RWA	Rwanda	2006	63,240	7.5
UGA	Uganda	2006	1,85,089	6.1
ZAF	South Africa	2004	18,00,000	60.0
TZA	Tanzania	2011	30,00,000	57.69

Source: MSME Country Indicator Database

Characteristics of Selected Commonwealth Countries

In this section, we explore the characteristic of the selected commonwealth countries. To put things in perspective, we have taken two developed country United States (USA) and Germany (DEU) as reference countries so that we can compare the select countries in comparison to their developed counterparts. In Germany, SMEs represent 99.95 percent of all companies and employs about 68 percent of the working population (KFW). Except South Africa, all the countries have very high share of agriculture in value added. Out of the sample countries, only South Africa have agricultural share comparable to the developed countries like United States and Germany (Figure 1). In most of the countries, the state capacity defined as tax revenue as a percentage of GDP is less (Figure 2). This leaves not enough room for the state intervention and that’s why development of SMEs becomes important for economic development and poverty alleviation.

Figure: 1 Agriculture Share of Value Added in 2013

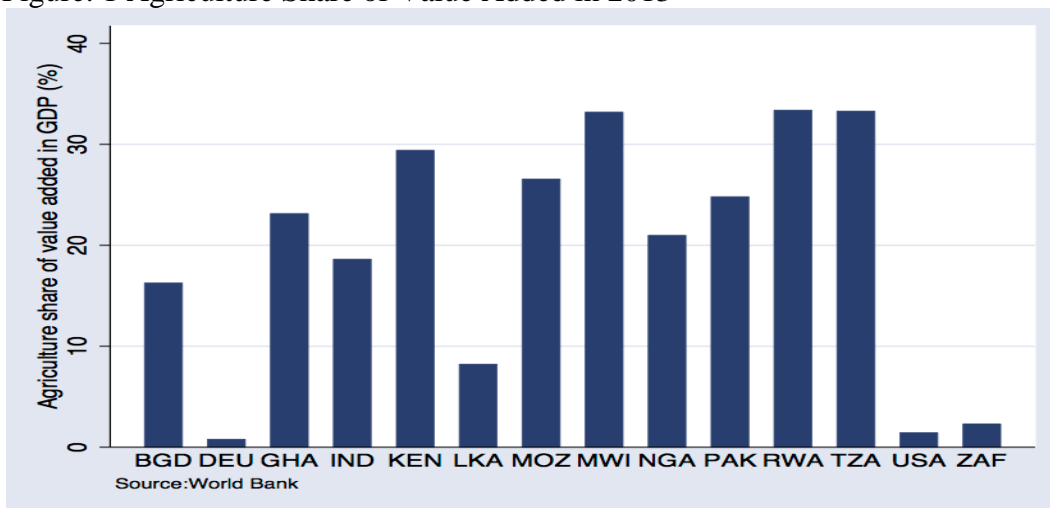
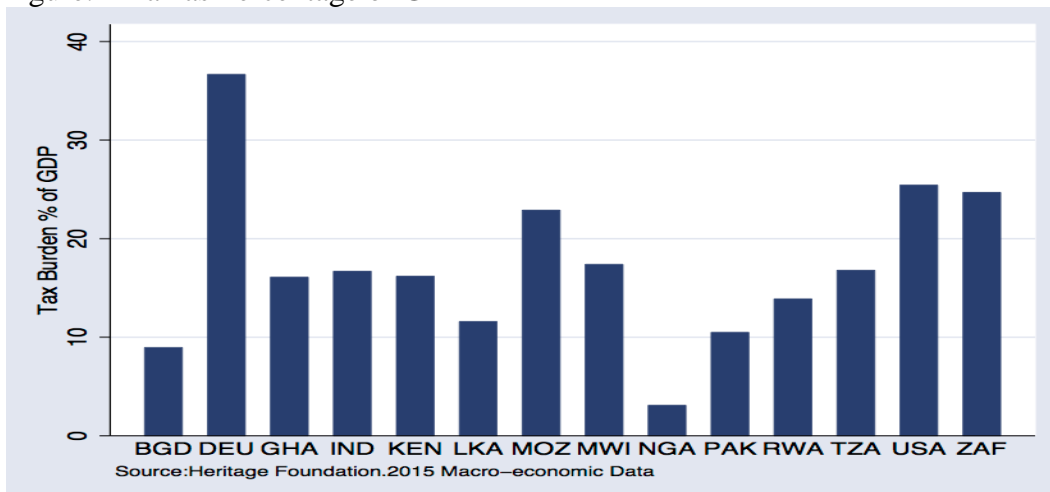


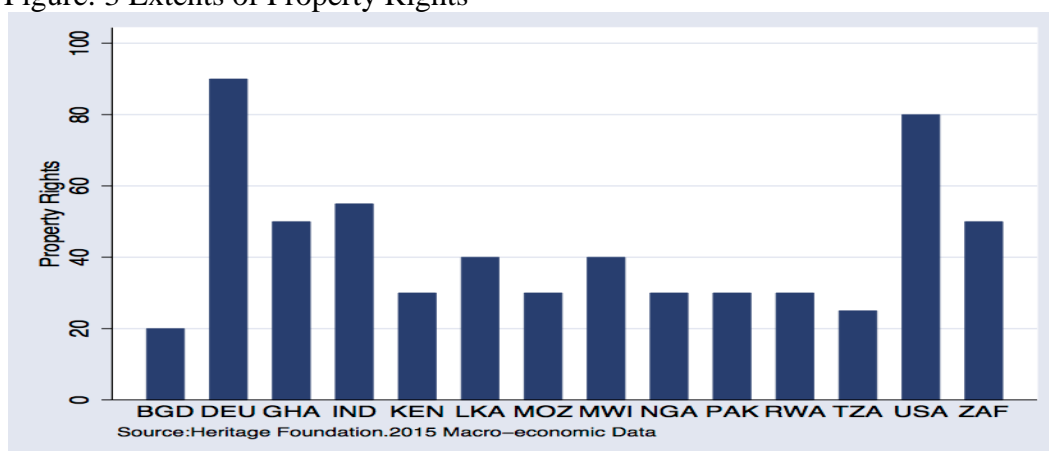
Figure: 2 Tax as Percentage of GDP



In most of the countries property rights are not well understood. Establishing property rights are important for freeing the dead capital so that it can be used for the productive use. Figure 3 is based on the property right index created by heritage foundation. “It is based on the degree to which a country’s laws protect private property rights and the degree to which its government enforces those laws. It also assesses the likelihood that private property will be expropriated and analyzes the independence of the judiciary, the existence of corruption within the judiciary, and the ability of individuals and businesses to enforce contracts”. Score of 100 implies “Private property is guaranteed by the government. The court system enforces contracts efficiently and quickly. The justice system punishes those who unlawfully confiscate private property. There is no corruption or expropriation”. As the score decreases property rights becomes less and less enforceable.

Cost of registering the business as percentage of per capita GDP is too high in most of these countries in comparison to the developed countries like US and Germany. Although the per capita income is very high in countries like US and Germany but there is no doubt that this higher cost put significant hindrance to registration of new Businesses (Figure 4).

Figure: 3 Extents of Property Rights



Not only that the cost of registering a business is high and that’s not suitable for business environment there is added affect of extreme prevalence of corruption in these countries that significantly affect business decisions. Below bar chart reports prevalence of corruption among these countries as reported by heritage foundation. Figure 5, derived directly from Transparency International’s Corruption Perceptions Index (CPI), measures the level of perceived corruption in 175 countries. For countries that are not covered in the CPI, the freedom from corruption score is determined by using the qualitative information from

internationally recognized and reliable sources. This procedure considers the extent to which corruption prevails in a country.

Figure: 4 Cost of Registering a Business as a percentage of Per Capita GNI (2015)

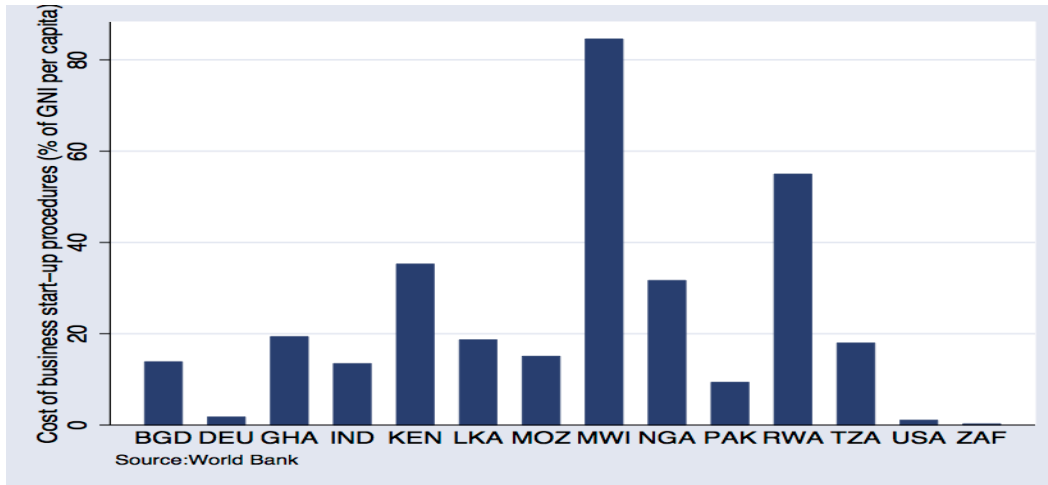
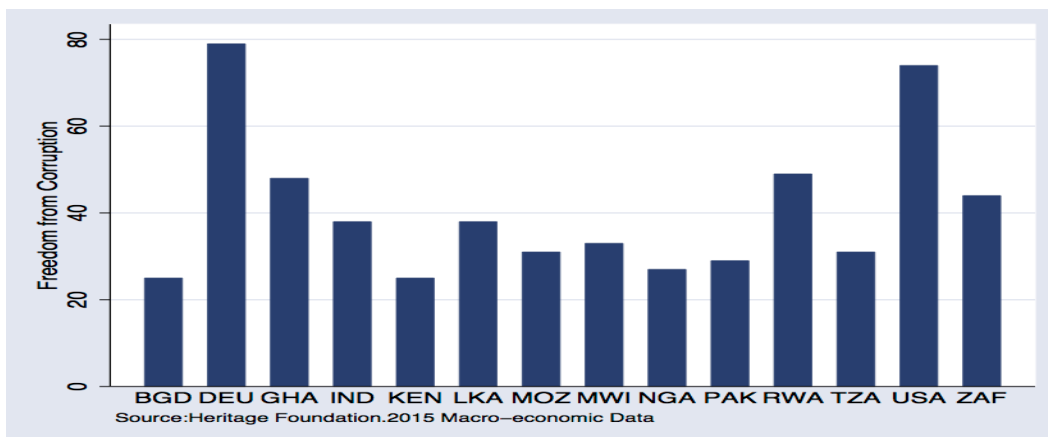
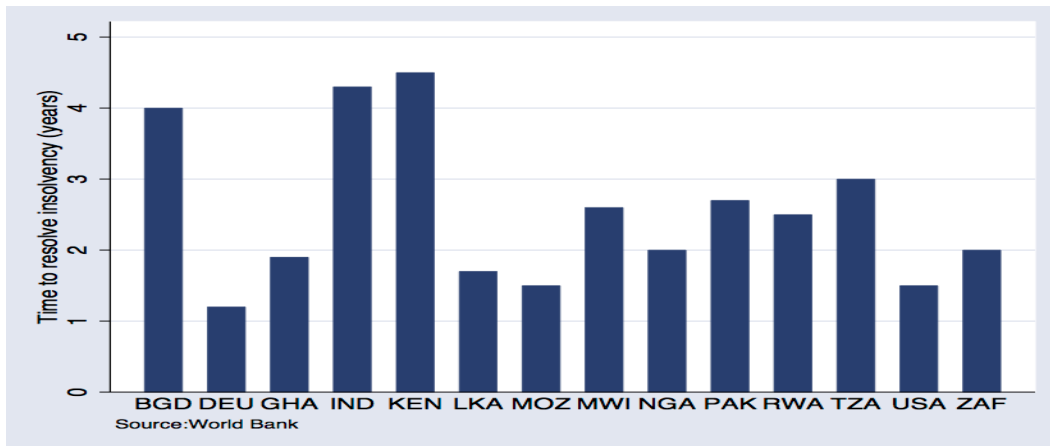


Figure: 5 Freedoms from Corruption



The prolonged period of insolvency procedures in these countries makes business harder and put a kind of artificial brake on creative destruction in Schumpeterian sense. The willingness of banks and investors to support new businesses depends a great deal on the rules that govern failing businesses. Effective insolvency regimes save struggling firms when possible, or reallocate assets of failing firms more productively. These procedures—focused on the end of the business life cycle—have a profound impact on the beginning. Banks and investors are more willing to lend when they know they can recover at least some of their investment. Entrepreneurs are more willing to enter the market when they are not putting their entire personal fortunes at risk. This viewpoint examines literature that quantifies the impact of effective insolvency regimes (Figure 6).

Figure: 6 Time to Resolve Insolvency in Years (2015)



Except South Africa, all the countries considered are either low income or lower-middle income country according to the World Bank classification (Figure 7). Low level of income is translated in to low private deposit to GDP ratio and in turn low private credit to GDP ratio. This reduces access to finance (Kuntchev et al, 2014). There is evidence that increase in GDP per capita increases low private credit to GDP ratio (Year 2011, the latest year for which data is available in Global Financial Development Database) as in shown Figure 8.

Figure 7: GDP Per Capita

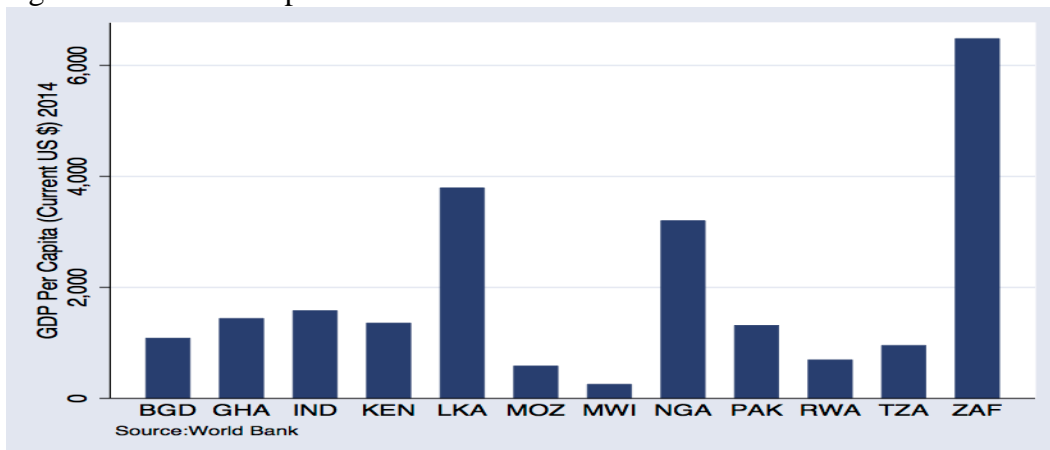
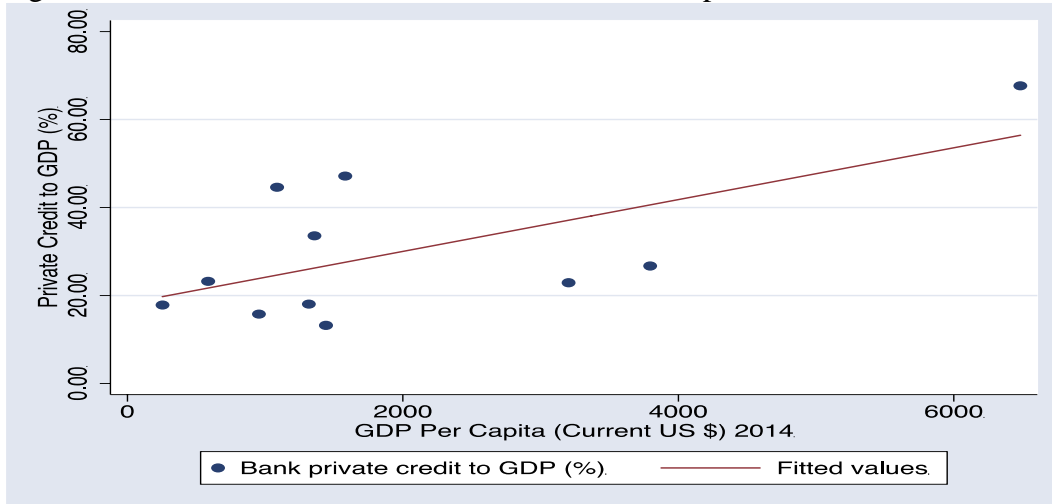


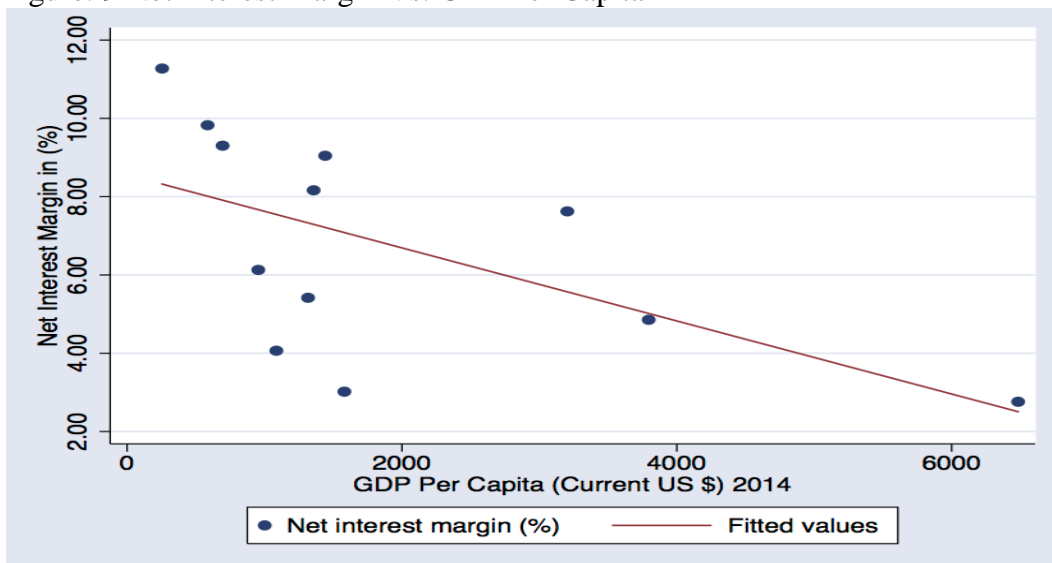
Figure: 8 Bank Private Credit to GDP Vs. GDP Per Capita



Source: Global Financial Development Database (2015)

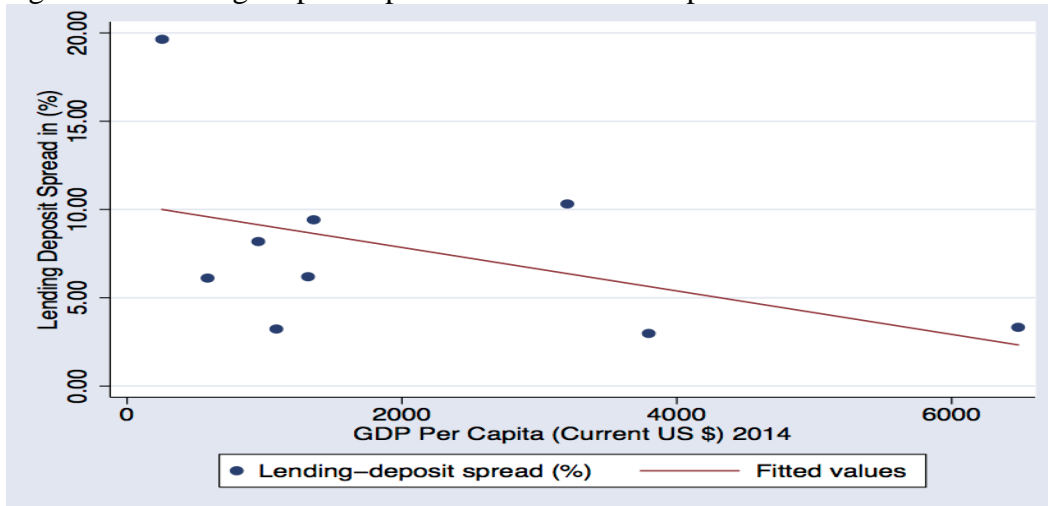
Additionally, in poor economies the demands for other banking spread is very low and as income raises the share of non-interest income to total income increases. This leaves banks with interest rate income as their main source of income. Higher dependency on interest income has obvious consequences as it makes loan costlier through either higher interest rate on loan or financial repression, which is basically low interest rate on saving or combination of both. Figure 9 suggests that with rise in per capita income net interest revenue as a share of average interest-bearing (total earning) assets declines. Further, financial repression, which is basically low interest rate on saving, will lead to higher lending deposit spread as shown in Figure 10.

Figure: 9 Net Interest Margin Vs. GDP Per Capita



Source: Global Financial Development Database (2015)

Figure: 10 Lending-Deposit Spreads Vs. GDP Per Capita



Source: Global Financial Development Database (2015)

Characteristics of SMEs of Selected Commonwealth Countries

In this section, we explore SME characteristics in the selected economies using the survey data of World Enterprise Survey. This survey was carried out by private agencies on behalf of the World Bank. The survey employed stratified random sampling method and respondents were business owners and top managers. Broadly, 1200-1800 interviews were conducted in larger economies, 360 interviews were conducted in medium-sized economies; and for smaller economies, 150 interviews took place. **Appendix Table 11** provides the details of the latest data available for the selected economies in the survey. If we look at the firm characteristics from the World Enterprise Survey it suggests that the average age of the firm surveyed is higher in Asian countries in comparison to the African countries and this is true for both small and medium enterprises. More details are given in **Appendix Table 12**.

Table: 2 Age of the Establishment (in years)

	Countries	Mean	Std. Dev.	Min	Max	
Small	Asia	4	18.88	3.29	14.30	21.90
	Africa	10	12.88	2.73	8.20	16.70
Medium	Asia	4	19.73	2.76	17.70	23.60
	Africa	10	16.63	3.64	11.00	21.70

Source: World Enterprise Survey, Latest Round

The firm characteristic from the World Enterprise Survey reveals that proportion of private domestic ownership is high in Asia for both small and medium enterprises (Table 3) (see **Appendix Table 13** for country wise details). Government ownership is very less in

both the economies; and among Asian economies the ownership held by the government is even lesser than the ownership held by the government in African economies (Table 4). **Appendix Table 13** provides country wise details. The level of private and government ownership in African and Asian economies implies that the level of foreign ownership is high in African economies especially among medium sized enterprises. Participation of women in ownership and percent of firms with majority female ownership is also less in Asian countries in comparison to select African countries (Table 5). **Appendix Table 14** provides country wise details.

Table: 3 Proportion of Private Domestic Ownership in a Firm (in Percentage)

		Countries	Mean	Std. Dev.	Min	Max
Small	Asia	4	99.38	0.67	98.4	99.9
	Africa	10	89.07	6.62	73.6	95.1
Medium	Asia	4	98.38	1.20	96.9	99.5
	Africa	10	78.68	11.83	58.4	97.3

Source: World Enterprise Survey, Latest Round

Table: 4 Proportion of Government/State Ownership in a Firm (in Percentage)

		Countries	Mean	Std. Dev.	Min	Max
Small	Asia	4	0.05	0.10	0.00	0.20
	Africa	10	0.32	0.50	0.00	1.60
Medium	Asia	4	0.03	0.05	0.00	0.10
	Africa	10	0.84	1.00	0.00	2.60

Source: World Enterprise Survey, Latest Round

Table: 5 Percent of Firms with Female Participation in Ownership (in Percentage)

		Countries	Mean	Std. Dev.	Min	Max
Small	Asia	4	10.73	7.27	5.90	21.50
	Africa	10	28.67	9.94	16.80	50.10
Medium	Asia	4	16.78	14.53	7.90	38.50
	Africa	10	28.56	13.93	3.00	47.90

Source: World Enterprise Survey, Latest Round

Table: 6 Percent of Firms with a Female Top Manager (in Percentage)

		Countries	Mean	Std. Dev.	Min	Max
Small	Asia	4	5.38	3.54	1.50	9.50
	Africa	10	16.91	3.05	13.20	23.10
Medium	Asia	4	5.30	2.47	2.70	7.70
	Africa	10	10.83	4.23	5.60	18.30

Source: World Enterprise Survey, Latest Round

Access to electricity and continuous supply of the same is one of the major obstacles for SMEs (see the next section for more details). The World Enterprise Survey reveals that this problem is more acute among Asian firms in comparison to the African firms and is true for both small and medium sized enterprises (Table 7). Number of electrical outages in a typical month is more than four times in Asia in comparison to Africa. **Appendix Table 15** provides country wise details.

Table: 7 Numbers of Electrical Outages in a Typical Month

		Countries	Mean	Std. Dev.	Min	Max
Small	Asia	4	39.93	37.55	3.80	79.20
	Africa	10	8.15	8.63	0.80	31.10
Medium	Asia	4	42.00	37.48	5.30	75.50
	Africa	10	9.76	10.89	1.00	39.50

Source: World Enterprise Survey, Latest Round

As argued earlier, SMEs may also be a source of foreign exchange earnings if they are able to meet the quality and quantity standards required to export their products or services overseas. World Enterprise Survey data reveals that not more than 10 percent of the small firms have an internationally recognized quality certification. Roughly one fourth of the medium enterprises have internationally recognized quality certification (Table 8). **Appendix Table 16** gives country wise details.

Table: 8 Percent of Firms with an Internationally Recognized Quality Certification

		Countries	Mean	Std. Dev.	Min	Max
Small	Asia	4	10.15	6.35	4.6	17
	Africa	10	9.61	3.99	5.10	15.60
Medium	Asia	4	23.53	13.82	9.20	38.40
	Africa	10	22.59	8.97	7.10	32.80

Source: World Enterprise Survey, Latest Round

Exploring performance indicators as given in the Table 9 and Table 10 from the survey suggests that differences in performance in two continents. In terms of real sales growth, labor productivity and capacity utilization in both small and medium enterprises in select Asian economies are doing better while in terms of employment generation and acquisition of fixed assets firms in Africa are doing better. **Table 17 and Table 18 in Appendix** provide country wise details.

Table: 9 Performance Indicators (Small Enterprises)

Region	Variable	Count ries	Mean	Std. Dev.	Min	Max
Africa	Real annual sales growth (%)	10	-6.72	18.49	-32.60	15.60
	Capacity utilization (%)	9	72.20	5.44	63.40	80.90
	Annual employment growth (%)	10	5.62	3.82	0.50	10.70
	Annual labor productivity growth (%)	10	-11.07	17.36	-35.70	14.90
	Percent of firms buying fixed assets	10	32.34	7.57	16.10	42.00
Asia	Real annual sales growth (%)	4	1.58	5.96	-3.80	9.50
	Capacity utilization (%)	4	76.98	3.99	72.80	81.50
	Annual employment growth (%)	4	2.85	1.59	1.70	5.20
	Annual labor productivity growth (%)	4	-0.38	7.21	-7.30	7.30
	Percent of firms buying fixed assets	4	17.80	4.06	14.20	23.10

Source: World Enterprise Survey, Latest Round

Table: 10 Performance Indicators (Medium Enterprises)

Region	Variable	Coun tries	Mean	Std. Dev.	Min	Max
Africa	Real annual sales growth (%)	10	-7.77	20.74	-43.40	17.40
	Capacity utilization (%)	9	72.63	4.97	67.50	80.20
	Annual employment growth (%)	10	7.77	3.92	1.80	16.50
	Annual labor productivity growth (%)	10	-12.71	18.50	-46.40	10.50
	Percent of firms buying fixed assets	10	47.16	9.60	30.40	58.10
Asia	Real annual sales growth (%)	4	3.95	6.43	-3.80	11.50
	Capacity utilization (%)	4	78.93	5.53	70.80	83.20
	Annual employment growth (%)	4	5.58	2.87	2.30	9.30
	Annual labor productivity growth (%)	4	-1.28	7.89	-8.90	9.80
	Percent of firms buying fixed assets	4	27.73	4.61	22.30	33.30

Source: World Enterprise Survey, Latest Round

Determinants of SMEs Competitiveness

SME competitiveness can be defined as an SME's (or the national SME sector's) ability to compete for markets, resources and revenues, as measured by indicators such as relative market shares, growth, profitability or innovation levels (ESCAP, 2009b). In this context, competitiveness can be referred to as the relative performance of SMEs in a particular product (or service) market at the national, regional or global level as well as the capability to create new market niches. It reflects the ability of SMEs to sustain superior market positions and profitability, relative to their domestic and international competitors, by (a) producing goods and/or services of high quality and functionality for their customers at

low cost and (b) by delivering in a timely manner or (c) for overall superior QCD (i.e., quality, cost and delivery) (ESCAP, 2009b).

Barriers and constraints that influence the competitive performance of SMEs can be broadly divided into external (change or pace of change) or internal (lack of resources) factors. These are summarized in Table 11.

Tables 11: Determinants of SME Competitiveness

<i>External Determinants</i>	<i>Examples</i>
Market access	Domestic markets; penetration of export markets; GSP treatment; trade and investment liberalization (e.g., regional trade agreements, bilateral trade agreements, bilateral investment treaties); and the establishment of foreign operations.
Access to resources	People; skills; capital; finance; physical assets; technologies; knowledge; and supply of raw materials.
Regulatory framework which conditions business performance	The processes of business registration and licensing; taxation; competition and bankruptcy laws; property and intellectual property rights; trade, fiscal, monetary and investment policy; legal system; customs procedures; and export/import procedures.
Supporting services provided by both public and private organizations	The quality of physical infrastructure and logistics systems; formal and vocational education; training services; business development services; and professional services such as accounting and legal advice.
Consumer demand	Change in consumer preferences.
<i>Internal Determinants</i>	<i>Examples</i>
Management and personnel issues	Lack of scientific management skills; labour shortages; low skills and education of staff; personal commitment and ambition.
Capacity to respond effectively to competitors	Substitutes for products and services; diversified product and service lines; low cost structure; technical and operational discrepancies.
Capability and flexibility to respond to changing circumstances	The availability to access key resources; capacity for process and product innovation; and flexible supply chains.
Contestable market power and capability to create new market niches	Marketing capability and branding; culture of innovation; and customer/market orientation

Source: ESCAP, 2012.

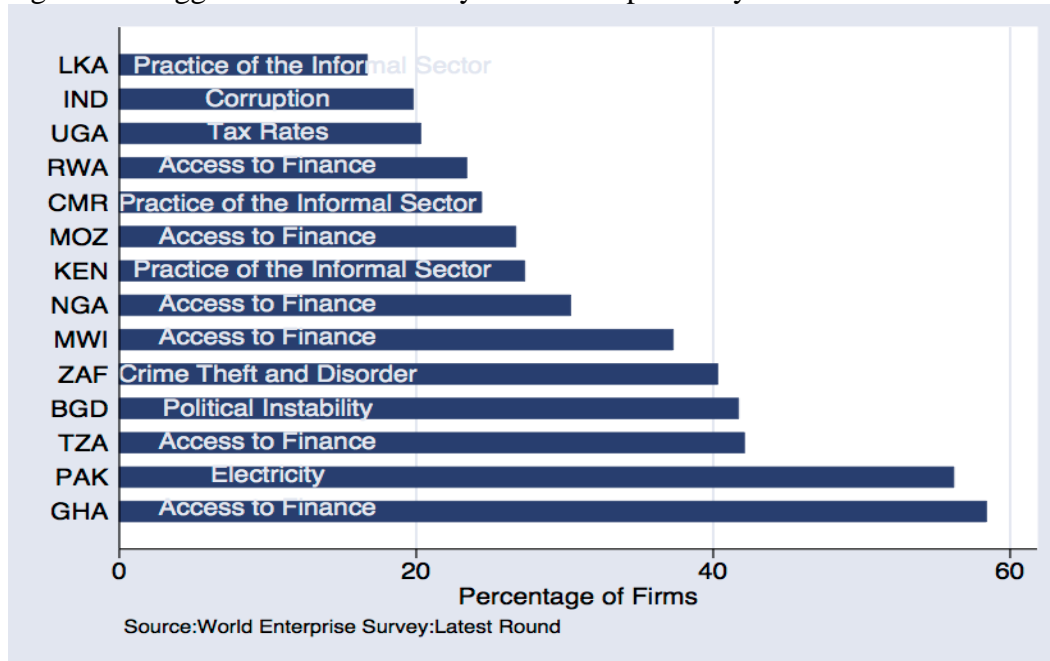
Major Obstacles faced by SMEs in the Selected Commonwealth Countries

Despite their paramount importance for an economic eco-system, SMEs suffers from a variety of problems. According to (Shane, 2008), most of these SMEs works under extreme financial and human resource constraints and suffers from huge knowledge gap in comparison to their large competitors. They are, in fact, less likely to access markets or to innovate. There exists significant potential for SMEs to enhance competition and to create new technologies, but only if the environment in which they operate nurtures such development.

According to Kuntchev et al (2014), small and medium enterprises are more likely to be credit constrained (either partially or fully) than large firms and they finance their working capital and investment using trade credit and informal sources of finance more frequently than large firms. More productive firms are less credit constrained and the effect of productivity on access to finance is stronger for small firms. They also found that size is important determinant of access to finance but the age of the firm doesn't significantly affect access to finance. Their results show that in countries with high private credit-to-gross domestic product ratios firms are less likely to be credit constrained.

According to World Enterprise Survey, the access to finance, electricity, practice of the informal sector and tax rates are major obstacles in the selected economies and there exist significant geographic as well as temporal variation. For example, in case of Bangladesh the most important obstacle, as per World Enterprise Survey of the World Bank, was access to finance followed by access to electricity and political instability in 2007 for small firms (See Figure 11). In 2013, proportion of respondents citing access to finance and electricity has fallen and political instability has risen which is reported by 41.7 percent of the respondents as the most important obstacle. According to the latest round data 2014, corruption is the most cited major obstacle for the development of small enterprises in India. Issue of corruption has become more severe in all the countries for which two rounds of survey are available except in case of Pakistan for small enterprises. This suggests that in developing countries combating corruption is of huge importance for the development of SMEs. Figure 11 shows the major obstacles reported by maximum number of respondents.

Figure 11: Biggest Obstacle Country Wise as Reported by Small Firms



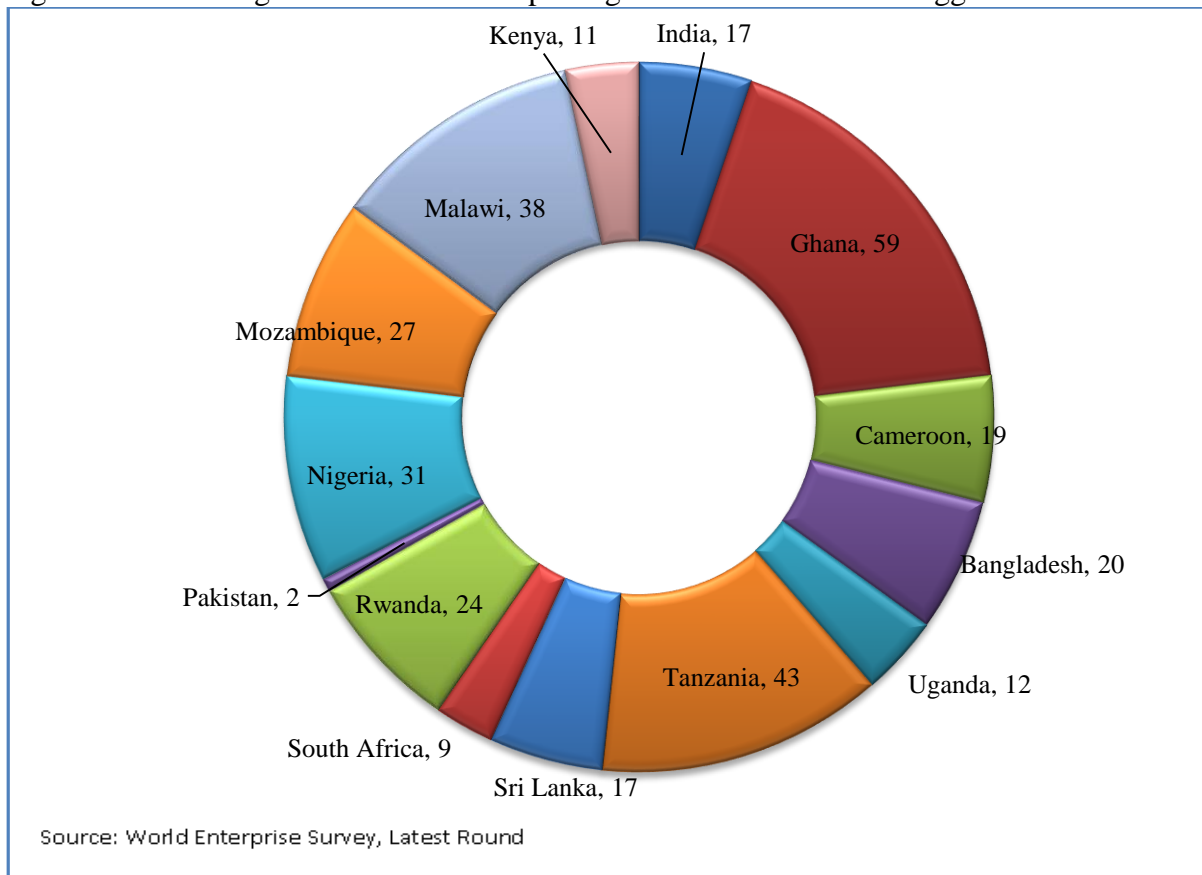
Access to Finance

In 6 out of 14 countries, largest percentage of firms responded access to finance as the most important obstacle. There exists literature on access to finance and economic growth (Levine, 2005). Recently, SMEs finance has been pointed as an important channel of growth. There are different channels through which it can affect firms and ultimately growth. It can increase the number of new organizations coming up thus promoting dynamism, innovation and competition (e.g., Aghion et al., 2007; Ayyagari et al., 2011b). It can lead to proper utilization of growth opportunities thus helping firms in attaining larger size (e.g., Beck et al., 2006b). Finally, firms can safely acquire a more efficient productive asset portfolio where the infrastructure of finance is in place, and they are also able to choose more efficient organizational forms such as incorporation (e.g., Demirgüç-Kunt and Maksimovic, 2006).

Although access to finance is a major obstacle, however heterogeneity exists among selected countries. In Ghana, 59 percent of the firms report access to finance as biggest obstacle whereas in Pakistan only 1 percent of the firms report access to finance as biggest obstacle. Improving access to finance is important for the development of SMEs but it should be noted that “one size fits all” approach is unlikely to work. Percentage of medium firms (20-99) reporting access to finance as biggest hurdle is given in the **Appendix Figure 16**. In 10 out of the 14 countries, higher percentage of small firm (5-19) report access to finance as biggest hurdle in comparison to medium sized firms. Therefore, it can be said that in the

selected economies access to finance is a more serious problem for small sized firms in comparison to the medium sized firms.

Figure 12: Percentage of Small Firms Reporting Access to Finance as Biggest Hurdle



If we consider the percentage of firms with a bank loan/line of credit from the same survey, it shows that access to finance has worsened in many countries for which two rounds of surveys are available, for example Cameroon and Malawi. We expect financially more developed economies to have a larger share of enterprises with a loan but the relationship is not linear and there are many outliers. For example, in South Africa, often seen as one of, if not the, most developed financial systems on the continent, 30.1 percent of enterprises have a formal bank loan, while in Rwanda 45.5 percent have a formal bank loan. Out of the selected countries, access to finance is most severe in case of Pakistan where according to the 2013 survey only 6.7 percent of the surveyed firms have a bank loan/line of credit, a decline from 8.6 percent in 2007. It is surprising that even with such a low level of bank penetration among firms in Pakistan very few firms reported access to finance as a major obstacle.

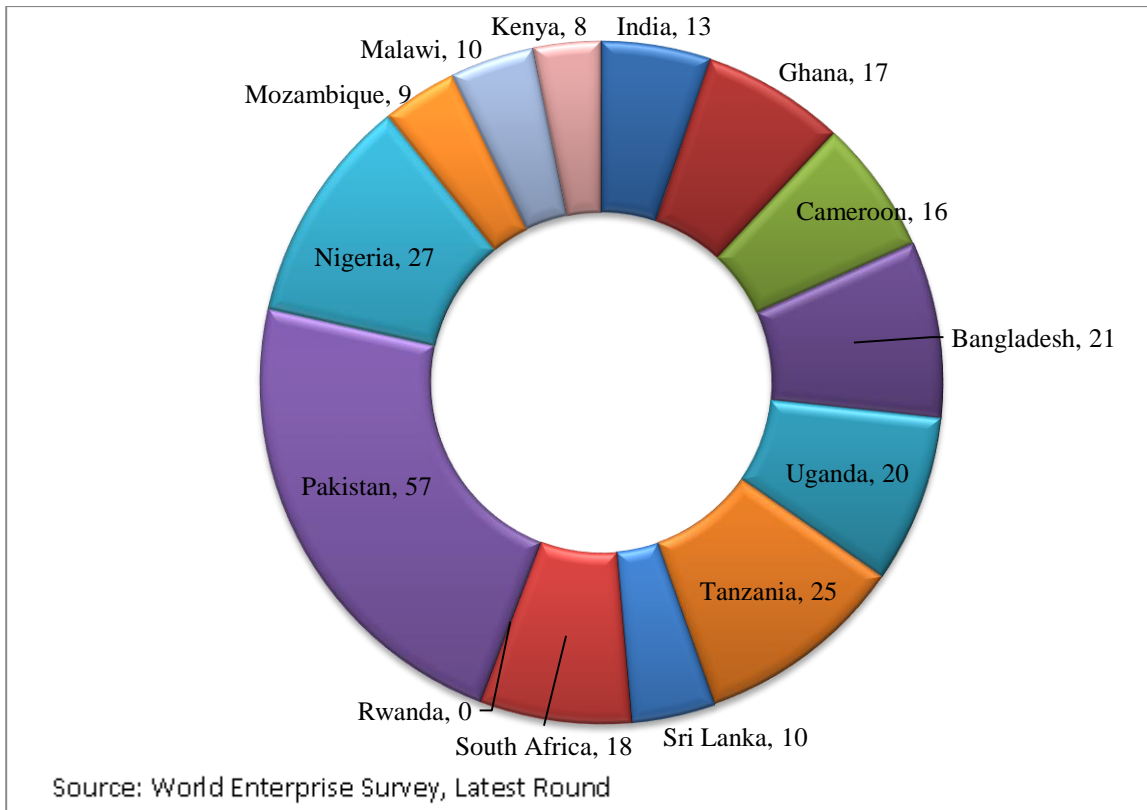
In all selected countries, more than 60 percent of these loans are collateralized and the

collateral value exceed the loan value in most of the cases, sometimes twice of the loan value. Poor property rights in the developing and least developed countries as explained earlier as one of the characteristics of these countries makes availability of collateral difficult as in most of the cases property rights are not clear. Establishing property rights can free these ideal capitals and thus help in the development of SMEs. Supplier's credit to finance working capital is also scarce as not more than 25 percent of the working capital is financed by the supplier credit in the selected economies. It is not very difficult to understand the scarcity of supplier credit, as many of the suppliers would be facing the same issue of funding working capital since the bank funding of working capital is scarce.

Availability of Electricity

Electricity is one of the major problems faced by SMEs in Pakistan. In Pakistan, 57 percent of the firms report access to electricity as the major obstacle followed by Nigeria (27 percent) and Tanzania (25 percent). In Rwanda, almost no firm report electricity as the major obstacle. Africa's most advanced economy South Africa has more firms reporting electricity as the major obstacle. It can be seen that in Rwanda the availability of electricity is better in comparison to South Africa. It may also be possible that in Rwanda the availability of electricity is worse in comparison to South Africa but the firms there have more pressing issues and they report those issues as major obstacle. In general, it can be observed that the level of economic development and per-capita income is not a common guide to understand the problems of SMEs in various regions. Percentage of medium firms (20-99) reporting electricity as biggest hurdle is given in the **Appendix Figure 18**. In 4 out of 14 countries, higher percentage of small firm (5-19) report electricity as biggest hurdle in comparison to medium sized firms. Therefore, it can be said that availability of electricity is a more serious concern for medium sized firms.

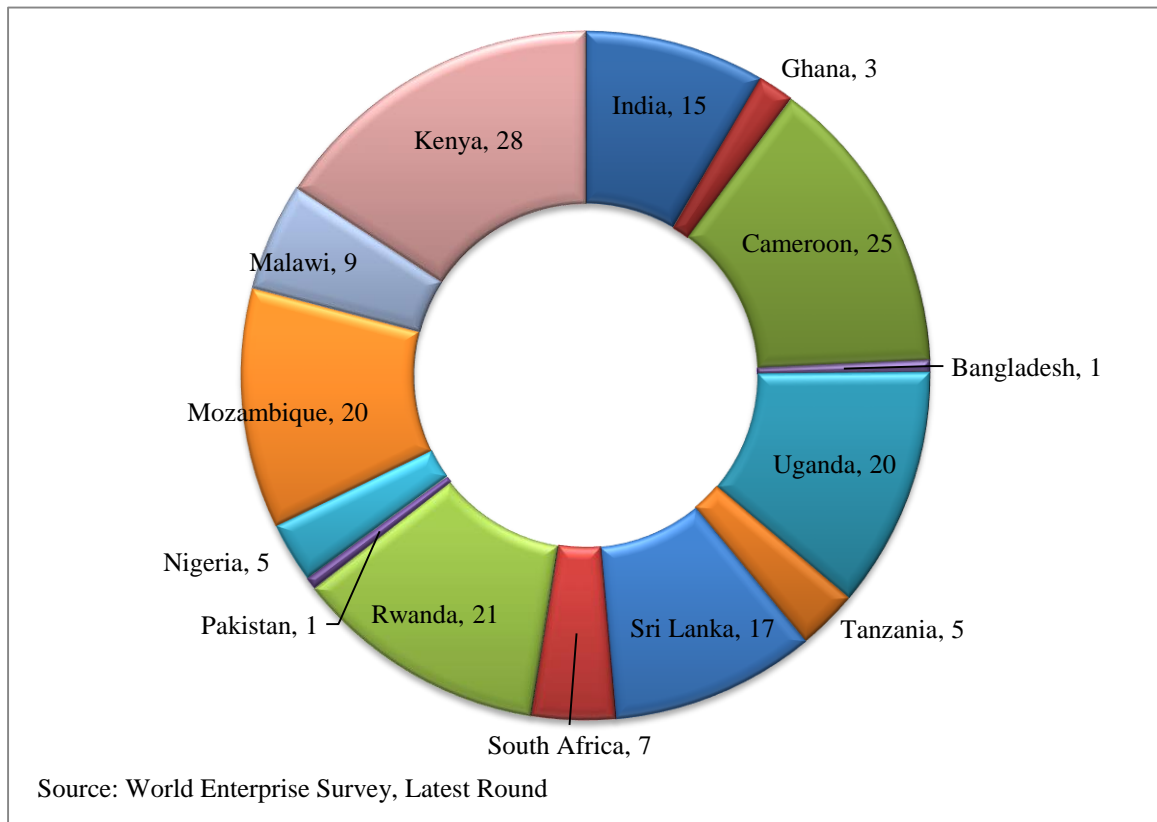
Figure 13: Percentage of Firms reporting Practice of the Electricity as Biggest Obstacle



Informal Sector

An examination of the percentage of firms identifying practice of the informal sector as the biggest hurdle reveals country wise differences. A very few of the firms report this as biggest obstacle in Pakistan. We see more number of firms from African countries (such as Kenya, Cameroon and Rwanda) reporting this as an obstacle. Percentage of medium firms (20-99) reporting practices of the informal sector as biggest hurdle is given in the **Appendix Figure 17**. In 7 out of the 14 countries, higher percentage of small firm (5-19) report practices of the informal sector as biggest hurdle in comparison to medium sized firms. Overall, it can be inferred that extent of problem is different in different countries and therefore SME development priorities should factor in the country wise differences in obstacles.

Figure: 14 Percentage of Firms reporting Practice of the Informal Sector as Biggest Obstacle



SMEs Expectations from Government

Figure 15 represents what government can do for the SME development. This can help identifying the priority areas for the government. This is more or less in sync with what we have discussed above as major obstacles faced by SMEs according to the World Enterprise Survey report. Improving access to finance, tax breaks, removing red tape and providing more information are some of the SMEs expectation from the government. It can be suggested that government's SMEs interventions should consider the expectation of SMEs for the effective outcomes.

Figure 15: Percentage of Responses about What Government Can do?

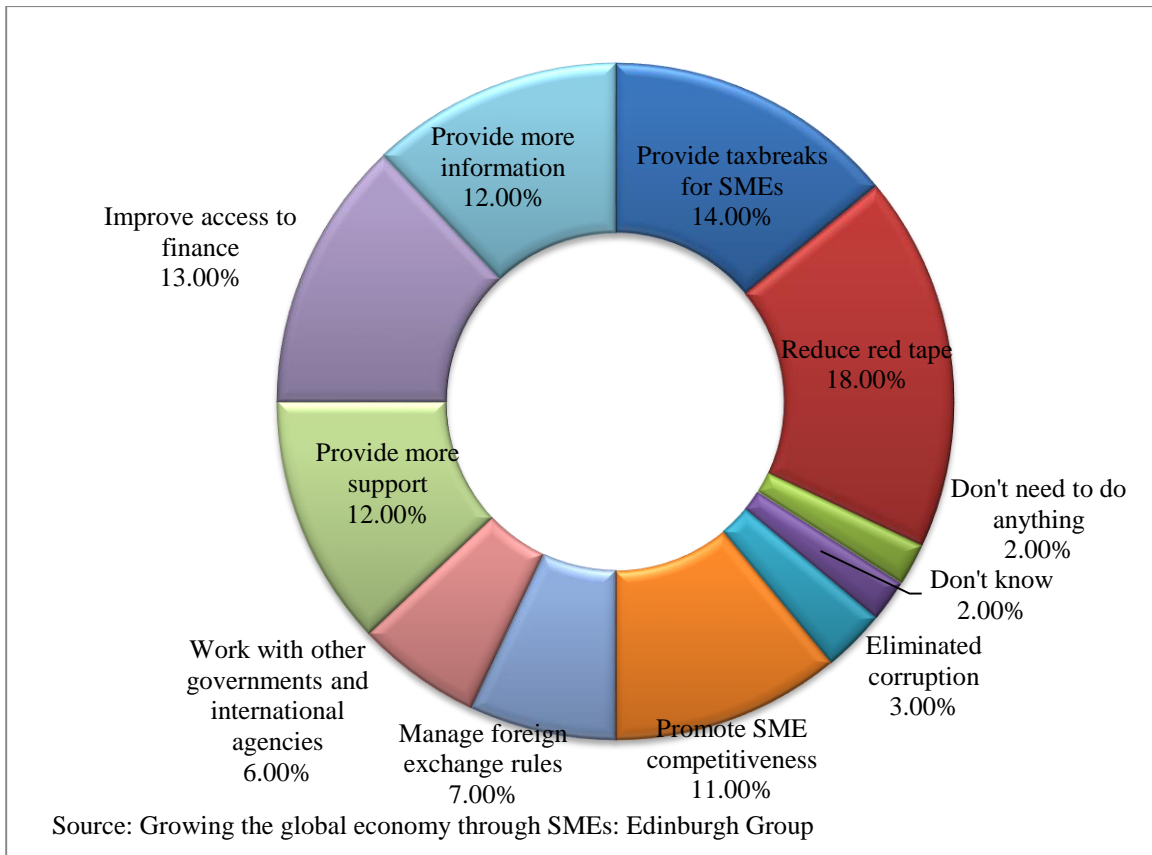


Figure 16: Percentage of Medium Firms Reporting Access to Finance as Biggest Hurdle

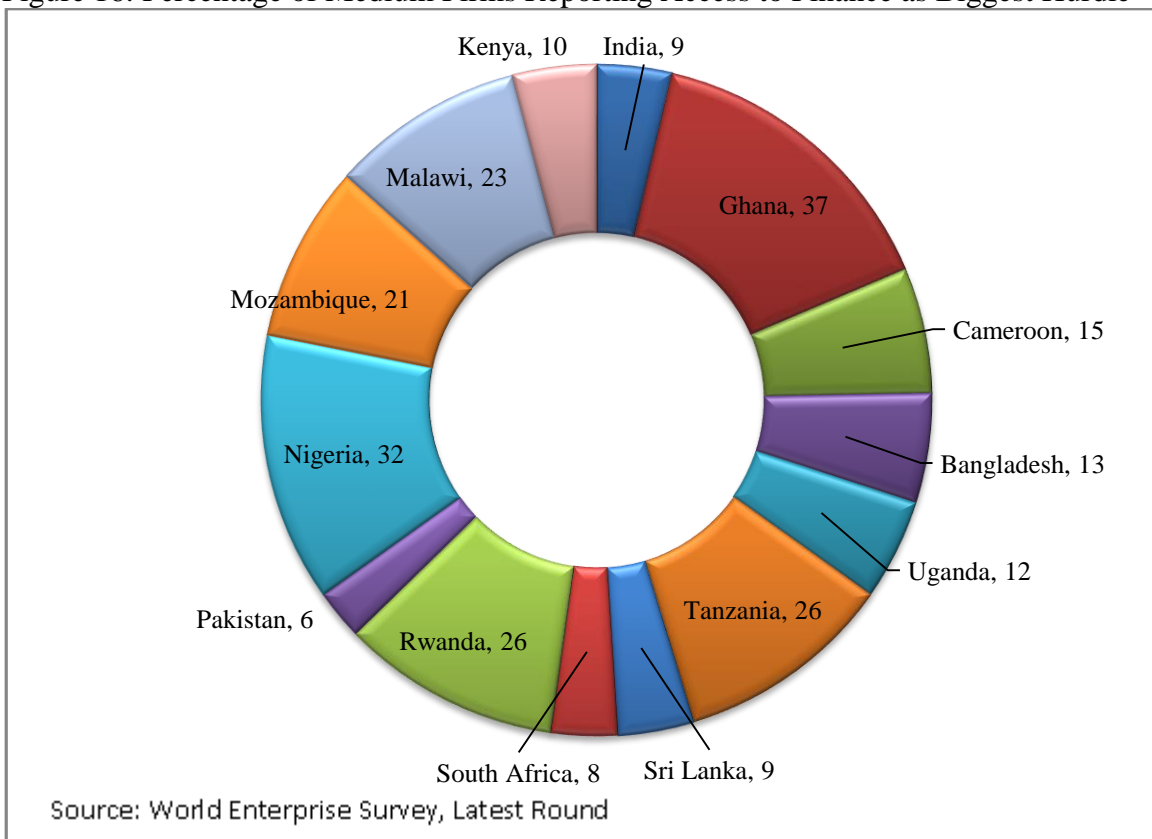


Figure 17: Percentage of Medium Firms reporting Practice of the Informal Sector as Biggest Obstacle

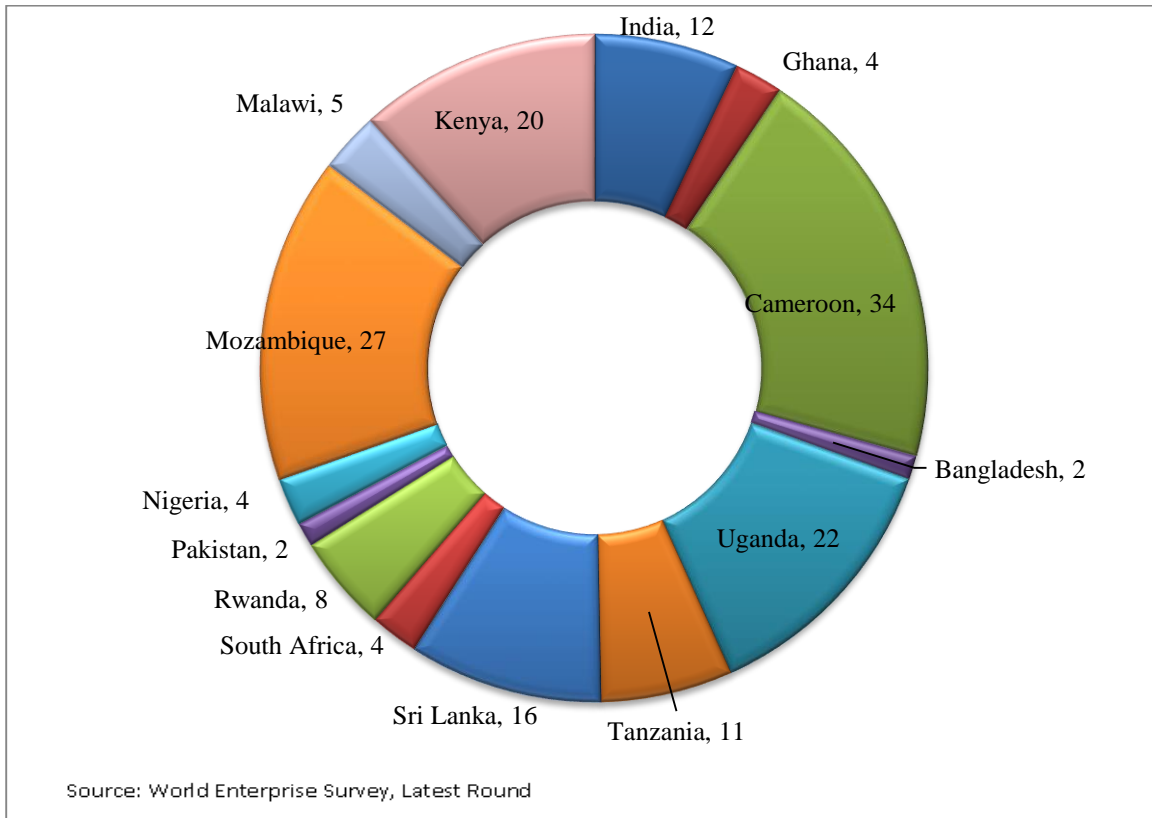


Figure 18: Percentage of Medium Firms Reporting Electricity as Biggest Obstacle

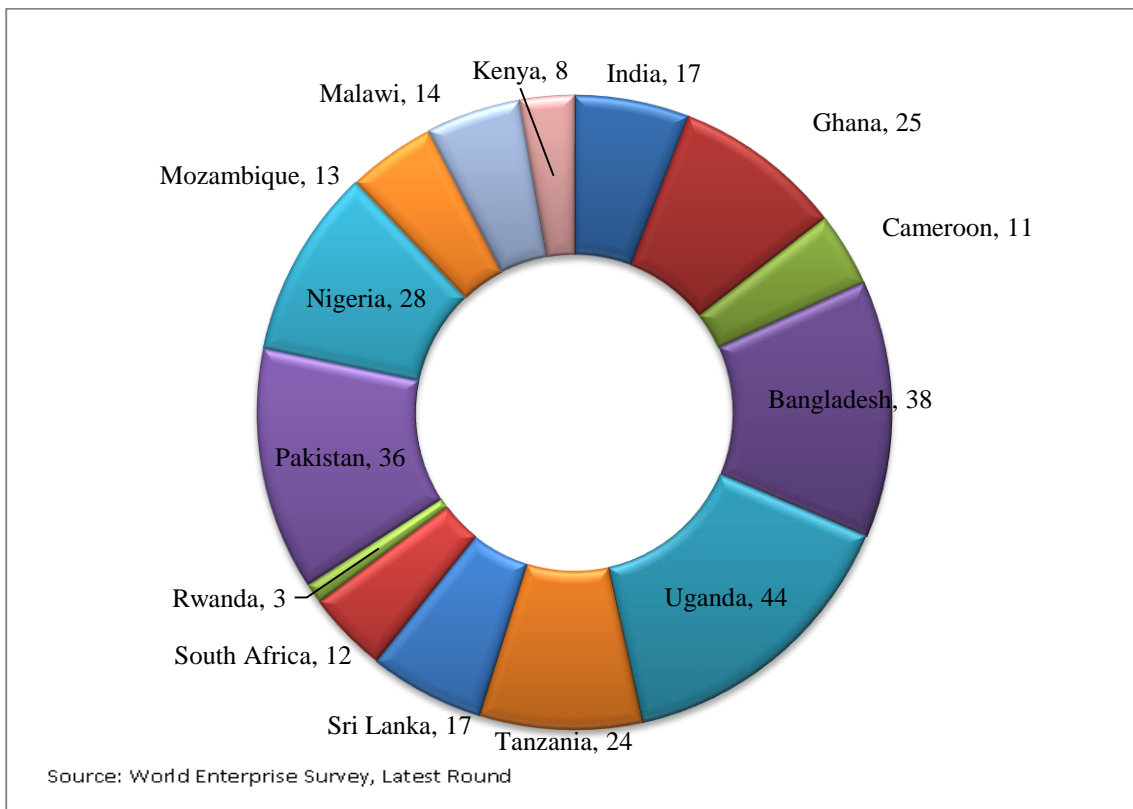


Table 12: Country: Bangladesh

Issues	Obstacles/Constraints	Recommendations
Market Related Issues	<ul style="list-style-type: none"> • Inability to market product produced by SMEs • Lack of quality assurance • Scarcity of resources such as finance, infrastructure • Lack of research and development facilities • Poor quality of products 	<ul style="list-style-type: none"> • Providing market linkages • Proper implementation of SME policy. • Quality of SME products through technological improvements
Technology Related Issues	<ul style="list-style-type: none"> • Use of absolute technology and absence of modern technology 	<ul style="list-style-type: none"> • Use of modern technology and related capacity development
Skill Related issues	<ul style="list-style-type: none"> • Lack of skilled technicians and workers • Training facilities for SME workers and development of entrepreneurial skills are not adequate • Lack of awareness about the importance of marketing tool • Poor management skills of entrepreneurs 	<ul style="list-style-type: none"> • Training facilities for SME workers and entrepreneur • Organizing trade fairs, symposiums, workshops on SMESs on regular basis
Infrastructure Related Issues	<ul style="list-style-type: none"> • Poor physical infrastructure • Lack of freehold land • Deficient infrastructure and utility services 	<ul style="list-style-type: none"> • Development of infrastructure related to SME with adequate government support
Financial Issues	<ul style="list-style-type: none"> • High interest rate • Inadequate access to finance 	<ul style="list-style-type: none"> • Offer lower interest rate to SMEs and enhance access to SME finance • Encourage banks to lend on the basis of projected cash flow rather than collateral
Other Issues	<ul style="list-style-type: none"> • Access to finance is also important constraint • Time to resolve insolvency in years is average four years • Extent of property right is very low 	<ul style="list-style-type: none"> • Bring bankruptcy reform and strengthen property rights • Encouraging MSMEs formalization

Sources: Compiled from Alauddin and Chowdhury, M. M. (2015), “Small-Medium-Enterprise”, *Global Journal of Management and Business Research*, Global Journals Inc., USA; Bakht, Z. and Basher, A. (2015), “Strategy- for- development-of-SME-in Bangladesh” Bangladesh Institute of Development Studies, January, 2015 and World Bank Enterprise Survey Latest Round.

Country: India

Issues	Obstacles/Constraints	Recommendations
Finance Related Issues	<ul style="list-style-type: none"> • Lack of finance and access to finance • High cost of credit • Collateral requirements: Players in MSME sector are not in a position to provide collateral in order to avail loans from banks and hence denied access to credit 	<ul style="list-style-type: none"> • Introduction of easy financing and credit tools • Encourage banks to lend to small and medium enterprises
Market & Production Related issues	<ul style="list-style-type: none"> • Limited access to equity capital • Procurement of raw materials at a competitive cost • Problems of storage, designing, packaging and product display branding and marketing • Absence of exclusive marketing platforms and distribution networks • Lack of access to global markets 	<ul style="list-style-type: none"> • Access to marketing platforms and networks • Option of online marketplace through e-retailer • Support in market linkages
Skill Related Issues	<ul style="list-style-type: none"> • Lack of skilled manpower for manufacturing, services, marketing, etc. • Lack of trained staff for technical jobs 	<ul style="list-style-type: none"> • Government skill development initiative is trying to provide vocational training facilities.
Infrastructure Related Issues	<ul style="list-style-type: none"> • Inadequate infrastructure facilities, including power, water, roads, etc. 	<ul style="list-style-type: none"> • Strengthening the physical infrastructure
Technology Related Issues	<ul style="list-style-type: none"> • Low technology levels and lack of access to modern technology 	<ul style="list-style-type: none"> • Access to modern and affordable technology and related capacity building
Other Issues	<ul style="list-style-type: none"> • Corruption is the biggest obstacle cited by highest number of small firms • Availability of electricity is yet another obstacle 	<ul style="list-style-type: none"> • Reducing red tape and bureaucratic hurdle • Business friendly process reform • Improve access to electricity

Source: Compiled from Tripathi, M., Tripathi, S. and Dedhia, R. (2016) , “Challenges Faced By Micro, Small And Medium Enterprise (MSME) Sector In India”, International Journal of science Technology and management; Nath, Rachna and Singh, Guralp (2010), “Creating Competitive SMEs” Confederation of India Industry (CII), and World Bank Enterprise Survey Latest Round.

Country: Pakistan

Issues	Obstacles/Constraints	Recommendations
Financial Issues	<ul style="list-style-type: none"> SME sector is totally neglected in providing access to financial credit system: Business companies accounted 54 percent share of total financial credit system whereas SME sector get just only 19 percent share. Shortage/irregular availability of financing facilities Inability to meet financing formalities/credit conditions 	<ul style="list-style-type: none"> SME policy to address the distinct requirements of SMEs MSMEs need to be encouraged to go for credit rating Encourage banks to lend on the basis of projected cash flow rather than collateral
Business Registration	<ul style="list-style-type: none"> Process of business registration is costly in comparison to several developing countries Lengthy & complex procedure of obtaining business license 	<ul style="list-style-type: none"> Expedite process of automation registration and reduce the cost of registration; also harmonise policies related to business registration
Skill and Training Related Issues	<ul style="list-style-type: none"> The managers in SME are not much aware about knowledge how to manage their financial matter which results in underutilization of business resource Poor book keeping skills Informal training because the formal training is costly 	<ul style="list-style-type: none"> Increases skill level of SME staff to manage their business and formal T&D activities Managers have to work with experts to develop extensive Training & Development (T&D) plans to drive the objectives of organization to work effectively Government may fund training programme through some kind of incentives
Infrastructure Issues	<ul style="list-style-type: none"> Lack of storage facilities and Poorly developed physical markets Inadequate supply of electricity: as per one estimate, a typical business in Pakistan loses 5.6 percentages in annual sales due to irritant electricity 	<ul style="list-style-type: none"> Government support in infrastructure development Interrupted power supply and subsidizing electricity charges of SMEs
Corruption Issue	<ul style="list-style-type: none"> Almost 40 percent businesses owner feel that corruption is major concern for their business 	<ul style="list-style-type: none"> Government measures to contain and remove corruption
Technology Related Issues	<ul style="list-style-type: none"> Relying on low and out dated technology Lack of technical knowledge about business, lack of management skills, poor planning for business and inability to do good market research 	<ul style="list-style-type: none"> Supporting technological changes in SME policy Providing guidance on industry best practices related to technology

Source: Compiled from Syed Kamran Sherazi and Muhammad Zubair Iqbal, (2013), "Obstacles to Small and Medium Enterprises in Pakistan" IDOSI Publications.

Muhammad Mohsin Khan (2015), "Sources of Finance Available for SME Sector in Pakistan" *International Letters of Social and Humanistic Sciences*, Vol. 47, pp 184-194.

Country: Sri Lanka

Issues	Obstacles/Constraints	Recommendations
Financial Issues	<ul style="list-style-type: none"> Access to finance: shortage of capital due to number of reasons such as lack of access to bank facilities, lack of knowledge of bank procedures, long delays and inability to provide guarantees 	<ul style="list-style-type: none"> Improve and consolidate financial assistance available for SMEs
Management Related Issues	<ul style="list-style-type: none"> The sector has a weak institutional base due to lack of management skills 	<ul style="list-style-type: none"> Providing capacity training and facilitation Organising symposiums, workshops on SMEs on regular basis
Government Related Issues	<ul style="list-style-type: none"> The lack of SME policies and institutional support to protect and encourage SME 	<ul style="list-style-type: none"> A national policy on SMEs as an integral part of the overall industrialization policy
Other Issues	<ul style="list-style-type: none"> Practice of the informal sector is the biggest obstacle cited by highest number of small enterprises Access to electricity is also important obstacles High transaction cost and high cost of doing business 	<ul style="list-style-type: none"> Encouraging MSMEs formalization Improve access to electricity and access to finance Improve ease of doing business

Source: Compiled from Aruna S.Gamage (2003), “Small and Medium Enterprise Development in Sri Lanka: A Review” 3-4, pp. 134-150.

Country: Cameroon

Issues	Obstacles/Constraints	Recommendations
Lack of Entrepreneurial Skills	<ul style="list-style-type: none"> Highly personalized structures Poor financial management Weak track record of meeting commitments Inadequate bookkeeping 	<ul style="list-style-type: none"> Promote entrepreneurship. Develop a policy for technology transfer to MSMEs. Government, through tax incentives, can encourage certain training institutions and NGOs to provide training to entrepreneurs on simple record keeping and managerial know-how
Business Development	<ul style="list-style-type: none"> Launch of activities in copycat fashion Inadequate knowledge of the market 	<ul style="list-style-type: none"> Improving the investment climate to make it easier for businesses to do business. The Cameroon Leasing Program; SME development through Africa Micro Small and Medium Enterprise project at Ecobank; and a Business Edge program to deliver training and support to smaller businesses. Focus to support high potential value chains in export Promotion. Provide more mentoring and counseling.
Regulatory	<ul style="list-style-type: none"> Un-conducive judicial/legal environment (very lenient towards debtors) Weak organization of branch network and product lines Tax system unsuited to SMEs 	<ul style="list-style-type: none"> Steps to minimize the legal procedures involved in doing business Government to provided facilities for smooth business transactions Develop a tax regime suitable for SME sector
Access to Finance	<ul style="list-style-type: none"> Non availability of adequate funds Absence of, or inadequate, collateral 	<ul style="list-style-type: none"> Encourage the banks to lend to small and medium enterprise. Some kind of priority sector lending scheme should be implemented and may be encouraged to go for credit rating
Business Registration	<ul style="list-style-type: none"> Business registration is costly 	<ul style="list-style-type: none"> Expedite process of automation of registration process, and single window clearance will reduce cost
Other Issues	<ul style="list-style-type: none"> Practice of the informal sector is the biggest obstacle reported by highest number of the small enterprise Access to electricity is an obstacle 	<ul style="list-style-type: none"> Encouraging MSMEs formalization Provide electricity at subsidized rate and provide regular supply

Source: Finance for All: Promoting Financial Inclusion in Central Africa, A Presentation File of First Bank, March 23, 2015 and World Bank Enterprise Survey Latest Round

Country: Ghana

Issues	Obstacles/Constraints	Recommendations
Regulatory	<ul style="list-style-type: none"> • Cumbersome and costly procedure for registering and commencing business; and unclear definition of SMEs • High cost of settling legal claims, and excessive delays in court proceedings • Lack of protection for property rights limits SMEs' access to foreign technologies 	<ul style="list-style-type: none"> • A national legislation in Ghana to define what constitutes an SME and their legal as well as tax obligations will help to integrate a number of informal enterprises into the formal framework. • Steps to minimize the legal procedures involved in doing business
Business Development	<ul style="list-style-type: none"> • Lack of support services • Weak institutional capacity • High cost of training/services • Lack of access to appropriate technology 	<ul style="list-style-type: none"> • Tax incentives to encourage certain training institutions and NGOs to provide training to entrepreneurs on simple record keeping and managerial know-how • Technology transfer through simple, inexpensive and adaptable technology should be promoted to enhance the productivity of SMEs • Develop a coherent and practical policy for technology transfer to MSMEs
Market Access	<ul style="list-style-type: none"> • Limited international marketing experience • Poor quality control and product standardisation • Little access to international partners • Lack of information on foreign markets 	<ul style="list-style-type: none"> • Support high potential value chains in export promotion and provide information about international markets • Provide more mentoring and counselling • Review and improve standards, quality assurance, accreditation infrastructure
Access to Finance	<ul style="list-style-type: none"> • Lack of adequate financial resources for operational and investment needs • Limited access to financial resources 	<ul style="list-style-type: none"> • To improve access to credit to SMEs, entrepreneurs should be encouraged to form cooperatives since financial institutions believe peer pressure often reduces the risk of default
Lack of Managerial Skills	<ul style="list-style-type: none"> • Scarcity of management talent • Lack of management skills and training 	<ul style="list-style-type: none"> • Promote entrepreneurship and provide training programme to build managerial skills

Source: Compiled from Abor, Joshua and Quartey, Peter (2010), "Issues in SME Development in Ghana and South Africa", *International Research Journal of Finance and Economics*, Issue 39.

Country: Kenya

Issues	Obstacles/Constraints	Recommendations
Business Registration Issues	<ul style="list-style-type: none"> • Process costly and time consuming and process centralized in Nairobi, • Process not automated and obtained physically in Nairobi 	<ul style="list-style-type: none"> • Expedite process of automation of registration process, • Merging of all activities into a single user-system interface. • Make business registration automatic and a pre-requisite to business operations
Finance Related Issues	<ul style="list-style-type: none"> • High cost of finance including negotiation, commitment, legal, valuation, processing and insurance fees. • Credit access seems to be poor for SME's, especially in rural areas. • Information Asymmetry due to poor record keeping • Firm size (micro) due to non formalization, • Lack of entrepreneurship skills among the target group 	<ul style="list-style-type: none"> • Encourage the Kenya Bankers Association on ensuring effective participation of banks in the new credit bureau (s) and recognize credit rating certification issued to MSMEs as an alternative to collateral requirement. • MSMEs need to be encouraged to go for credit rating. • Encouraging MSMEs formalization. • Support and Promote of new products being undertaken by the private sector as in the revolution in e-banking created by Safaricom's M-Pesa and Equity Bank's increase in client outreach. • Increase transparency as regards interest rates and non-interest charges and fees
Business Taxation Related Issues	<ul style="list-style-type: none"> • Turnover Tax (TOT) perceived inequitable for those enterprises with lower profit margins and those that will realize losses as they would bear a higher burden of tax than would otherwise apply under the current income tax • Lack of proper taxation enforcement mechanisms 	<ul style="list-style-type: none"> • Enforcement of taxes to reduce unfair competition among firms, through interlinking of registration and tax authority • Allow e-tax registration and e-return filling • Train MSMEs on taxation requirements and use of IT in tax compliance
Infrastructure & Technology Related Issues	<ul style="list-style-type: none"> • Inefficient and ineffective connection of firms, suppliers and consumers to nation and global supply chains, due to poor road network • Electricity (power interruptions, poor connections) • Expensive technological equipment and 	<ul style="list-style-type: none"> • Increase public and private investment in energy generation, transmission, and distribution to increase connectivity • Expedite ongoing reforms in the roads sector • Streamline cargo clearance procedures and digitalized cargo tracking systems • Promote and support business incubators

Issues	Obstacles/Constraints	Recommendations
	associated accessories <ul style="list-style-type: none"> • Unreliability of utility services and inappropriately small business premises and sheds (stall) in the industrial sites 	<ul style="list-style-type: none"> • Provide business premises in the industrial sites and ensure reliable provision of utilities • Subsidize technological equipment and associated accessories for use by Kenya Industrial Research and Development Institute (KIRDI)
Market Related Issues	<ul style="list-style-type: none"> • SMEs are often unable to take advantage of market opportunities that require large volumes of production, broad product range and regular supply • They lack information and marketing skills and have little access to expertise and finance • SMEs lack potential and unable to reduce the costs and risks involved in penetrating new markets 	<ul style="list-style-type: none"> • Providing market information to SMEs, through MSMEs centers, proposed resource centers. • Enhance apprenticeship for upcoming SMEs in large firms • Develop market linkages for SME products through use of development portals • Develop capacity of SMEs Associations to hold trade internationally • Government should provide market for MSMEs products through Public Private Procurement Partnership (4P).
Business Development Services (BDS) Related Issues	<ul style="list-style-type: none"> • Most of the BDS are not tailored to specific MSMEs needs and expensive to MSMEs • Most operating MSMEs need mentorship rather than training offered by most of Government BDS providers. • Most of BDS are government or donor funded, in case of fund withdrawal the services provider cease operation. 	<ul style="list-style-type: none"> • There is need to tailor DBS to specific MSMEs needs. This will entail clustering MSMEs into their needs and linking them to appropriate DBS providers • There is need to promote and strengthen activities of Business Incubator (s) • Support and strengthen ethics, integrity and professional practices among DBS providers so that MSMEs can access services from qualified providers. The regulating agencies need to ensure providers adherence to professional ethics

Source: Compiled from E&Y Study on the Promotion of Micro Small and Medium Enterprises (MSMEs) in the East African Region, 2009

Country: Malawi

Issues	Obstacles/Constraints	Recommendations
Regulatory	<ul style="list-style-type: none"> • High cost of doing business and poor investment climate • Lack of specific policies aimed at women and the youth • Weak private sector support institutions • Weak institutional and regulatory framework • Outdated policy, legal and regulatory framework 	<ul style="list-style-type: none"> • Enabling, facilitating and supporting the MSME sector through setting and enforcing policy • Strengthen the capacity of the Ministry of Industry and Trade (MoIT) to implement policy and harmonise and align MSME development efforts across government • Encourage public private dialogue • Reward excellence and promote an entrepreneurship culture • Reduce red tape and compliance costs for doing business
Business Development	<ul style="list-style-type: none"> • Weak value chain integration • Limited business development services • Lack of a strong, coherent and organised MSME voice to represent the sector • Inability to meet production standards • Few opportunities to export • Unreliable and costly infrastructure services 	<ul style="list-style-type: none"> • Foster business-to-business linkages • Support high potential value chains in export promotion and import substitution crops • Provide more mentoring and counselling • Decentralise support services • Review and improve Standards, Quality Assurance, Accreditation and Metrology (SQAM) infrastructure
Access to Finance	<ul style="list-style-type: none"> • Lack of access to capital and the high cost of capital for MSMEs 	<ul style="list-style-type: none"> • Support an MSME venture capital fund • Support a financial innovation challenge fund • Provide tax incentives
Lack of Entrepreneurial Skills	<ul style="list-style-type: none"> • Weak culture of entrepreneurship amongst indigenous Malawians 	<ul style="list-style-type: none"> • Promote entrepreneurship • Develop a coherent and practical policy for technology transfer to MSMEs

Source: Chris, Darroll (2012), "Enabling Enterprise Growth in Malawi" SBP *Micro, Small and Medium Enterprises (MSME) Policy Strategy for the Republic of Malawi 2012 – 2017*, Ministry of Trade & Industry, Malawi.

Country: Mozambique

Issues	Obstacles/Constraints	Recommendations
Business Environment	<ul style="list-style-type: none"> • High import costs on inputs, delays in importing /exporting and high transport and power costs • Registration and licensing is costly and time consuming • Labor laws are complex with dismissal costs high and formal compliance bureaucratic • The tax system has over 30 direct taxes and is not transparent • High rates of taxes and social security contributions unbearable for micro and small enterprises in the formal sector • Heavy economic legislation and procedures highly bureaucratized for registration and licensing 	<ul style="list-style-type: none"> • Collaborate with German Technical Corporation (GTZ) and UNIDO for a comprehensive “one-stop shop” program with possible inclusion of SEBRAE (MSE Support Institution in Brazil with experience in the area) • Utilize the RPED/ICU administrative costs survey to work with the public/private working groups to improve the business environment
Access to Finance	<ul style="list-style-type: none"> • Real interest rates are high due to limited creditor enforcement of contracts, high bank overhead costs, high reserve requirements and non-performing loans • Small businesses are highly undercapitalized & in need of financing • Short and long term credit requires collateral of up to 300 percent & land cannot be used for collateral • Microcredit is available but few institutions have reached operational sustainability 	<ul style="list-style-type: none"> • Expand financial services to rural areas • Support institutions interested in SME lending with capacity building programs to offer lending products as per SMEs need • Offer new ideas in alternative financing mechanisms to provide capital to SMEs • Explore possibility of expanding Novobanco’s outreach and ability to reach small businesses
Enterprise Support Services	<ul style="list-style-type: none"> • Lack of services such as business plans, basic management and improvements in quality and standards • There is a limited supply of technical and vocational training and weak accounting and auditing services 	<ul style="list-style-type: none"> • Provide capacity building support to local institutions collaborating in supply chain linkage work that link SMEs to multinationals (i.e. Mozal, SASOL & Western Mining). Transfer the model to other sectors. • Develop a program to support more consulting/training services for SMEs, and work with local business associations in capacity building and outreach • Begin by assessing supply and demand side needs

Source: Compiled from Barriers to SME's business, IFC, <http://mozambique.smetoolkit.org/mozambique/en> and Small and Medium Enterprise (SME) Mapping Mozambique, World Bank Group Small and Medium Enterprise Department (2004).

Country: Nigeria

Issues	Obstacles/Constraints	Recommendations
Market Related Issues	<ul style="list-style-type: none"> Inability of SME to cope with increased competition in the industry and problems are caused due to lack of access to formal source of finance Low capacity utilization 	<ul style="list-style-type: none"> Micro, small and medium enterprises operators should device effective marketing strategies Technology facilitation should be provided to improve quality and quantity of products produced by SME
Policies & Regulations Issues	<ul style="list-style-type: none"> Multiplicity of policies and regulatory measures such as removal of fuel subsidy, taxes, several charges on loans 	<ul style="list-style-type: none"> Tax regime should be harmonised and the administration of these taxes and levies should be transparent
Management Related Issues	<ul style="list-style-type: none"> Lack of competent management and inability of owners to employ the services of experts 	<ul style="list-style-type: none"> Government, chamber of commerce and other non-governmental organization should regularly organize seminars for current and potential small and medium enterprise operators to build their capacities in managing businesses.
Infrastructure Related Issues	<ul style="list-style-type: none"> Lack of basic infrastructure: the availability of infrastructural facilities is grossly inadequate in the areas of access roads, electricity, water supply, etc. 	<ul style="list-style-type: none"> The state government should partner with the private sector in the provision of efficient public utilities (power supply, water supply, good transport/communication facilities etc.) to ensure uninterrupted supply of these public utilities
Technology Related Issues	<ul style="list-style-type: none"> Use of obsolete equipment and methods of production because of owner's inability to access new technology 	<ul style="list-style-type: none"> Facilitates use of modern technology and focus should be on entrepreneurial development
Skill Related Issues	<ul style="list-style-type: none"> Poor education and experience of managing business Lack of skilled manpower 	<ul style="list-style-type: none"> Intensify efforts in reforming educational system to make more functional and result oriented

Source: Imoisi Anthony Ilegbinosa¹ & Ephraim Jumbo (2015), "Small and Medium Scale Enterprises and Economic Growth in Nigeria" *International Journal of Business and Management*, and Mba Okechukwu Agwu & Cletus Izunwanne Emeti, (2014), "Issues Challenges and Prospects of Small and Medium Scale Enterprises (SMEs) in Port-Harcourt City, Nigeria" *European Journal of Sustainable Development*.

Country: Rwanda

Issues	Obstacles/Constraints	Recommendations
Financial Issues	<ul style="list-style-type: none"> • Cost of doing business is high • Business registration process too costly as percentage of per capita income • Lack of access to capital for investment 	<ul style="list-style-type: none"> • Harmonize and coordinate business regulatory agencies in the country • Expedite process of automation of registration process, reduce the cost of registration and establish a national level regulator • Establish credit rating agency • Review company laws to enhance access to capital markets • Encourage banks to lend to MSME's and encourage banks to lend on the basis of projected cash flow rather than collateral
Infrastructure Related Issues	<ul style="list-style-type: none"> • Limited use of land for economic empowerment and lack of land for investments • Uncoordinated infrastructure policy 	<ul style="list-style-type: none"> • Coordinate and harmonize approaches to provision/ allocation of land for business premises including small businesses • Land tenure reform; and provide incentives to investors to encourage them to invest in these regions • The formulation and implementation regional infrastructure policy and build capacity to regulate investments in infrastructure • Coordinate the approaches to be used to rationalize central and local government taxes
Services Related Issues	<ul style="list-style-type: none"> • Weak support services to private sector development 	<ul style="list-style-type: none"> • Take stock of existing capacities for providing business development services and other business support services and identify their capacity needs. • Build capacity of BDA service provider. • Harmonize and coordinate initiatives and approaches towards promoting provision of business supportive services.
Market Related Issues	<ul style="list-style-type: none"> • Inefficient suppliers and lack of value addition in primary products • Lack of resources to implement East Africa Business Council (EABC) Strategic Plans 	<ul style="list-style-type: none"> • Formulate incentive systems to encourage large enterprises to upgrade the quality of products and services from SMEs • Mobilize resources for the implementation of the EABC Strategic Plans • Formulate policies to encourage value addition and develop incentives for value addition
Other Issues	<ul style="list-style-type: none"> • Access to electricity is the biggest obstacle cited by highest number of small enterprises • Extent of property right is very less • Informal sector practices and longer time to resolve insolvency 	<ul style="list-style-type: none"> • Provide access to electricity as affordable rate • Encourage MSME's to adopt formal accounting and business practices • Encourage formalization of SME sector and strengthen property rights

Source: E&Y Study on the Promotion of Micro Small and Medium Enterprises (MSMEs) in the East African Region, 2009 and World Bank Enterprise Survey Latest Round

Country: South Africa

Issues	Obstacles/Constraints	Recommendations
Management Related Issues	<ul style="list-style-type: none"> Insufficient management skills, expertise in functional areas such as marketing and human resources, and financial knowledge are the major causes of SME failures 	<ul style="list-style-type: none"> Training programmes and workshops to build capacities of SMEs Improve skills related to major problems faced by SMEs so that they can cope with the challenges
Market Related Issues	<ul style="list-style-type: none"> The most SMEs face marketing related problems. Barriers to entry and expansion in the range of institutions providing finance to the SME sector 	<ul style="list-style-type: none"> The marketing of SMEs should include aspects of the “Proudly South African” initiative and also the endorsement of supporting local SMEs
Skill Related Issues	<ul style="list-style-type: none"> Lack of clarity and insufficient guidelines around legislation and its interpretation and implementation 	<ul style="list-style-type: none"> Harmonize the guidelines and provide training, if SMEs are unable to understand those.
Other Issues	<ul style="list-style-type: none"> Crime theft and disorder is the biggest obstacle reported by approximately 40 percent of the small enterprise Access to electricity is also a constraint Time to resolve insolvency is average 2 years 	<ul style="list-style-type: none"> Improve law and order condition Provide legal safeguards to MSME’s Improve access to electricity Bring reforms to smooth bankruptcy procedure

Source: World Bank Enterprise Survey Latest Round

Country: Uganda

Issues	Obstacles/Constraints	Recommendations
Finance Related Issues	<ul style="list-style-type: none"> High cost of finance and limited sources of long-term finance and lack of acceptable collateral Inadequately compiled financial records and accounts, especially audited accounts Poor information sharing between banks and SMEs 	<ul style="list-style-type: none"> Increasing access to capital at reasonable costs and promoting SME specific financial products Reducing risks associated with lending Restoring public confidence in the financial sector
Technology Related Issues	<ul style="list-style-type: none"> Low level of technical and management skills Inadequate technologies & no economies of scale due to limited scale 	<ul style="list-style-type: none"> Technical assistance to technological up-gradation Improve technology transfer
Skill Related Issues	<ul style="list-style-type: none"> Lack of entrepreneurial skills Lack of general skills in management 	<ul style="list-style-type: none"> Support in entrepreneurship and management skill development
Market Related Issues and Business Development Services (BDS)	<ul style="list-style-type: none"> Lack of market channel, poor quality and non-standardized products Poor transport system in the country which does not favour on time delivery of products SMEs in rural area have no access to BDS and high BDS fees if after subsidy. Training and capacity building programs are neither demand-driven nor specifically targeted at certain groups of MSMEs 	<ul style="list-style-type: none"> Provide market linkages and business support services Uganda National Bureau of Standards has to be stricter on given products if they are to meet the more strict standards such as the ISO MSMEs should use their associations in accessing international markets, this improves bargaining power The Government should work with service providers to develop markets for BDS dealing with information, training and other business services.
Policy Regulation	<ul style="list-style-type: none"> Ubiquitous and inconsistently applied regulation No direct process to govern business development 	<ul style="list-style-type: none"> Create an appropriate legal framework Create a Small and Medium Enterprise Development Authority
Infrastructure Related Issues	<ul style="list-style-type: none"> Poor infrastructure network. Uganda's poor state of infrastructure has hindered the growth of business the MSMEs. 	<ul style="list-style-type: none"> Ensuring the provision of adequate infrastructural facilities for the promotion and development of MSMEs.
Other Issues	<ul style="list-style-type: none"> High tax rates is the biggest obstacle cited by highest number of small enterprise Informal sector practices and lack of access to electricity 	<ul style="list-style-type: none"> Make the tax regime business friendly and provide tax waiver to SMEs Improve access to electricity

Source: Compiled from E&Y Study on the Promotion of Micro Small and Medium Enterprises (MSMEs) in the East African Region, 2009 and World Bank Enterprise Survey Latest Round

Country: Tanzania

Issues	Obstacles/Constraints	Recommendations
Market Related Issues	<ul style="list-style-type: none"> No access to international marketing Unaware about international standards and regulations. Lack of consumer need assessments 	<ul style="list-style-type: none"> Strengthen marketing agencies and institutions that support SMEs Promote business linkages between large and small enterprises Facilitate SMEs to participate in local and international markets through trade fairs and missions.
Financial Issues	<ul style="list-style-type: none"> Lack of financial power to produce in bulk to serve large community and thus unable to achieve economies of scale High transportation and logistics costs Heavy costs of compliance Access to finance is the biggest obstacle reported by more than 40 percent of the small enterprise 	<ul style="list-style-type: none"> Promote innovative financial products for SMEs such as hire, purchase scheme, leasing, inventory financing, venture capital Facilitate simplification of procedures of financial institutions Encourage banks to lend on the basis of projected cash flow rather than collateral Bring reforms to smooth bankruptcy procedure
Technology Related Issues	<ul style="list-style-type: none"> Outdated and/or non-integrated technologies Services related to entrepreneurship, business training, marketing, technology development and information are underdeveloped and not readily available 	<ul style="list-style-type: none"> Information should be provided through available and accessible technology, encourage networking through formation of associations that are more business oriented
Skill Related Issues	<ul style="list-style-type: none"> Lack of skills for entrepreneurship Lack of clear guidance and policy for the development of the sector 	<ul style="list-style-type: none"> Entrepreneurship skills should be imparted through various forms of education and professional courses
Business Registration	<ul style="list-style-type: none"> Cost of registering the business is high in comparison to the developed countries as percentage of per capita income, even higher than India and Bangladesh 	<ul style="list-style-type: none"> Expedite process of automation of registration process, and single window clearance will reduce cost
Other Issues	<ul style="list-style-type: none"> Access to electricity is another important obstacle Extent of property right is very less Time to resolve insolvency is average 3 years 	<ul style="list-style-type: none"> Strengthen property rights MSMEs need to be encouraged to go for credit rating Improve access to electricity

Source: Paluku Kazimoto (2014), "Assessment of Challenges facing Small and Medium Enterprises towards International Marketing Standards" *International Journal of Academic Research in Accounting, Finance and Management Sciences* and World Bank Enterprise Survey Latest Round

Conclusion

In the paper, we have tried to explore the importance of SMEs, country characteristics, and the major obstacles faced by SMEs. We observe that SMEs play an important role in the economic development of a nation by contributing to its GDP, industrial output and exports. And in this process, SMEs creates ample employment opportunities that help in improving standard of living. In general, SME sector is dominated by informal sector but such proportion varies significantly across countries. While SMEs are important building blocks of any economy, they face a variety of obstacles. The some of the obstacles are related to access to finance, access to electricity, high cost of doing business and lengthy registration process, lack of marketing support, infrastructural problems, inadequate managerial skills and outdated technology causing quality issues and high cost of manufacturing. Though, there is no denying to the fact that there is noting like one size fits all and one has to consider country specific and even inside a country - region specific and industry specific characteristics to foster development of SMEs.

There are some important policy conclusions according to UNIDO (2006). SMEs development depends largely on a business-friendly environment, emphasizing the rule of law, fair competition, as well as low levels of red tape and corruption. This is clearly evident from the expectations of SMEs as given in the Edinburgh Report. A good private sector policy with specific references to SMEs is the need of the hour. SMEs lack information and access to finance; and this requires targeted intervention. Also, there is a need to balance social policies and SMEs policies. Since there is a possibility that destruction of inefficient traditional micro and small enterprises can led to unemployment issues and hence other social policy options to support these people should be considered. The primary concern of SME policy should be, therefore, to support a socially inclusive pattern of economic development that lays the foundations for sustainable growth. SME programmes should emphasize the promotion of activities that explore new business ideas (“opportunity entrepreneurship”), that increase profitability by penetrating unexplored markets, and that deepen the inter-firm specialization of labour, and thus generate positive externalities and raise productivity levels (UNIDO, 2006).

Overall, in this paper, we identify heterogeneities among the selected nations about the pressing issues for the development of SMEs. At the same time, there exist significant differences in the characteristics and development priorities of small and medium enterprises. Any development plan must consider the varied expectations of SMEs to realize the full potential for their development

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Table 11: World Enterprise Survey Country Year

Country	Year
Bangladesh	2013
Cameroon	2009
Ghana	2013
India	2014
Kenya	2013
Sri Lanka	2011
Mozambique	2007
Malawi	2014
Nigeria	2014
Pakistan	2013
Rwanda	2011
Tanzania	2013
Uganda	2013
South Africa	2007

Table: 12 Age of the Establishment

Country	Year	Small	Medium
Bangladesh	2013	18.9	17.8
Cameroon	2009	13.4	18.1
Ghana	2013	13.4	16.5
India	2014	14.3	17.7
Kenya	2013	16.7	21.7
Malawi	2014	15.4	21.4
Mozambique	2007	13.8	16
Nigeria	2014	15.1	17.9
Pakistan	2013	20.4	19.8
Rwanda	2011	8.2	11
South Africa	2007	9.9	17.7
Sri Lanka	2011	21.9	23.6
Tanzania	2013	13	14.9
Uganda	2013	9.9	11.1

Table: 13 Proportions of Private Domestic and Government Ownership

Country	Year	Small		Medium	
		Private Domestic	Government	Private Domestic	Government
Bangladesh	2013	99.5	0.2	99.2	0
Cameroon	2009	93	0.3	84.1	0.3
Ghana	2013	93.2	0.1	77	0.2
India	2014	99.9	0	97.9	0.1
Kenya	2013	92.5	0.7	87.3	2
Malawi	2014	86.1	0.3	66.8	2.2
Mozambique	2007	82.8	0.1	70.4	0.2
Nigeria	2014	73.6	1.6	58.4	2.6
Pakistan	2013	99.7	0	99.5	0
Rwanda	2011	89.3	0	80.6	0
South Africa	2007	91.5	0	91.2	0.2
Sri Lanka	2011	98.4	0	96.9	0
Tanzania	2013	95.1	0	97.3	0.3
Uganda	2013	93.6	0.1	73.7	0.4

Table: 14 Female Participation in SMEs

Country	Year	Small		Medium	
		Female Participation	Female Top Manager	Female Participation	Female Top Manager
Bangladesh	2013	6.9	3.6	7.9	2.7
Cameroon	2009	28.8	13.7	3	6.2
Ghana	2013	34	16.9	32.2	11.9
India	2014	8.6	6.9	10	7.7
Kenya	2013	50.1	18.3	47.9	8
Malawi	2014	25.4	17.3	37.1	13.9
Mozambique	2007	19.9		28.3	
Nigeria	2014	16.8	16	12.2	5.6
Pakistan	2013	5.9	1.5	10.7	3.7
Rwanda	2011	38.9	23.1	46.8	12.2
South Africa	2007	22.5		23.5	
Sri Lanka	2011	21.5	9.5	38.5	7.1
Tanzania	2013	23.5	13.2	28.6	18.3
Uganda	2013	26.8	16.8	26	10.5

Table 15 Number of Electricity Outage in a Typical Month

Country	Year	Small	Medium
Bangladesh	2013	64.6	73.1
Cameroon	2009	10.3	8.9
Ghana	2013	7.9	9
India	2014	12.1	14.1
Kenya	2013	6.5	5.8
Malawi	2014	5.7	7.5
Mozambique	2007	1.4	2
Nigeria	2014	31.1	39.5
Pakistan	2013	79.2	75.5
Rwanda	2011	3.5	5.1
South Africa	2007	0.8	1
Sri Lanka	2011	3.8	5.3
Tanzania	2013	9	8.3
Uganda	2013	5.3	10.5

Table: 16 Percent of firms with an internationally recognized quality certification

Country	Year	Small	Medium
Bangladesh	2013	4.9	9.2
Cameroon	2009	9.1	31.6
Ghana	2013	5.1	12.7
India	2014	14.1	31.8
Kenya	2013	15.4	22
Malawi	2014	5.3	28.5
Mozambique	2007	15.6	21.4
Nigeria	2014	6.4	7.1
Pakistan	2013	17	38.4
Rwanda	2011	9.1	13.3
South Africa	2007	10.7	32.8
Sri Lanka	2011	4.6	14.7
Tanzania	2013	13.1	25.6
Uganda	2013	6.3	30.9

Table: 17 Firm Performance Indicators Small Firms

Country	Year	Capacity utilization (%)*	Real annual sales growth (%)	Annual employment growth (%)	Annual labor productivity growth (%)	Percent of firms buying fixed assets
Bangladesh	2013	79	-3.8	1.7	-5.7	14.2
Cameroon	2009	73.1	15.6	2.1	14.9	35.5
Ghana	2013	63.4	6.7	4.8	3.3	42
India	2014	81.5	-2.1	5.2	-7.3	15.1
Kenya	2013	69	-20.7	1.4	-21.8	37.8
Malawi	2014	67.8	-32.6	3.2	-35.7	33.6
Mozambique	2007	73.4	8.9	5.7	3.7	30.2
Nigeria	2014	74.5	-4.7	8	-10.9	28.3
Pakistan	2013	74.6	2.7	2.3	4.2	23.1
Rwanda	2011		-1.1	10.3	-10.7	39.8
South Africa	2007	78.4	13.4	9.5	4.4	26.2
Sri Lanka	2011	72.8	9.5	2.2	7.3	18.8
Tanzania	2013	80.9	-20.1	10.7	-26.3	33.9
Uganda	2013	69.3	-32.6	0.5	-31.6	16.1

Table: 18 Firm Performance Indicators Medium Firms

Country	Year	Capacity utilization (%)*	Real annual sales growth (%)	Annual employment growth (%)	Annual labor productivity growth (%)	Percent of firms buying fixed assets
Bangladesh	2013	83.2	2.2	5.5	-3.1	22.3
Cameroon	2009	67.5	17.4	7.4	10.5	54.9
Ghana	2013	68.7	14	7.3	7.3	58.1
India	2014	81.1	-3.8	5.2	-8.9	28.9
Kenya	2013	71.9	-20.8	3.2	-23.3	51.1
Malawi	2014	68.7	-31.3	1.8	-31	41.2
Mozambique	2007	69.6	6.3	7.9	-0.9	39.4
Nigeria	2014	70.5	-6.3	16.5	-12.2	37.4
Pakistan	2013	70.8	5.9	9.3	-2.9	33.3
Rwanda	2011		-3.4	7.3	-9	54.2
South Africa	2007	80.2	11.3	8.4	3.1	47.1
Sri Lanka	2011	80.6	11.5	2.3	9.8	26.4
Tanzania	2013	79.8	-21.5	9.9	-25.2	57.8
Uganda	2013	76.8	-43.4	8	-46.4	30.4