

**SEMINAR ON FINANCIAL AND COMMERCIAL SERVICES FOR
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**PRESENTATION NOTE
ON THE SMALL AND MEDIUM ENTERPRISES CHARTER
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The key role of Small and Medium Enterprises (SME) in accelerated growth in terms of the creation of value added, employment and regional and local development is now widely acknowledged.

Indeed, SMEs now constitute effective factors of social cohesion in the fight against poverty, idleness and under –employment. However, in view of their vulnerability to internal and external shocks stemming from a number of factors including a lack of specific regulations, affects their development and limits their contribution to the improvement of the living conditions of the people. Thus, the expected benefits and opportunities expected from the considerable technical and technological progress must be accessible to all in more equitable and less complicated conditions. In fact, the growing phenomenon of globalization should lead to an improvement in the standard of living of the people. But this would require an adaptation of policies and strategies, or else suffer the undesirable consequences, for SMEs, which are more numerous virtually throughout developing countries and by observing priorities relating to the development goals of every country.

Aware of their role and mindful of the need to improve their environment, Senegal, like some developed or emerging countries, has defined a development policy and strategy specially designed for SMEs.

Such a policy entails a clear orientation underpinned by a vision of the President of the Republic that makes SMEs the cornerstone of the country's economy. Consequently for over forty years after independence, a ministry specifically for the development of SMEs was created in May 2001.

The creation of this ministry is the initial institutional response by the country's authorities to the issue of how to translate into concrete deeds the promotion of enterprises and the private sector as the main creator of wealth and employment .

It is against this background that the Charter of Small and Medium Enterprises of Senegal was validated on 2 December 2003 as the new legal and institutional framework for SMEs by all the development stakeholders (Government, Private Sector, Civil Society, Local Authorities and Development Partners) and which is expected to develop soon into an act of a much wider scope on the promotion and development of SMEs. It contains consensual rules to enable SMEs to fully play their role and translate the strategic orientations of the government's policy in the area of

support, supervision and monitoring of this category of enterprises. Admittedly, the population of SMEs, with its numerical and social importance, deserves similar consideration. Indeed, it became increasingly urgent in view of the role played by SMEs in emerging economies to embark on a vast programme to reform them.

1- Undertaking wide ranging reforms for SMEs

Given the fundamental role that SMEs play in economic growth, it is important that policy makers pay particular attention to the critical factors underlying their birth, development, restructuring, transmission and demise.

In Senegal, small and medium enterprises constitute a factor of innovation, employment creation and social integration.

The enhancement of the competitiveness of SMEs in developing countries such as ours could be based on partnerships and sub-contracting arrangements between the better equipped enterprises in industrialized countries and those that require more skills, technologies and financial resources.

Today, the idea of coordination among governments, sub-regional, regional and international organizations in development programmes and initiatives aimed at sustaining the growth of SMEs, transition economies and developing countries is increasingly being debated to ensure greater effectiveness in the various interventions.

However, there is the need to work towards a regulatory framework that would enable SMEs to participate in and take advantage of international environment. This need is all the more pressing as the environment of SMEs is not always conducive to their growth and since it does not provide adequate prospects. Although several key areas are not characterized by a complete vacuum they still need to be improved : corporate learning, specific support for the start-up phase of innovative enterprises, taking into account of the WAEMU market, capacity building in human resources, technology, use of e-commerce etc.

Indeed, there is a need to define an education and human resource policy that would foster a culture of innovation and business spirit.

Consequently, the conception of a legal and institutional framework for the development of SMEs through the SME Charter is a reflection of the will to promote an entrepreneurial spirit and a sector known to be the driving force of the economy and the fight against poverty.

The environment of SMEs is in dire need of a wide-ranging reform that should contribute to the emergence of a network of enterprises that fosters development, political and social dialogue involving the various local and national actors.

II - What challenges for an SME charter in Senegal?

The establishment of an SME charter would foster the definition of concrete actions in the public and private sectors capable of assisting SMEs to developing their assets

at the local level, while taking advantage of the globalization of economies. Furthermore, the formulation of a Charter would help create an environment that is conducive for the creation, expansion and restructuring of SMEs as well as raising an awareness about their peculiarities and vulnerability.

The usefulness of the Charter as a framework of rules that guide and support SME activity is all the more great as its desired flexibility will also contribute to greater adherence. In view of this, the competitiveness of SMEs is made possible, inter alia, with the establishment of a regulatory and consensual framework conducive to the spirit of innovation and growth. It is equally important for SMEs to gain access to financial services, especially start-up capital, operating capital and development capital, including innovative financial instruments aimed at reducing risks and transaction costs associated with their financing. Thus, the adoption of the Charter provides a good definition of the relationships between large enterprises and the SME sector, promotes local development through the contribution of local governments.

Ultimately, the aim would be to render SMEs more dynamic in view of their numerical size and their flexibility in enhancing their economic performance.

In general, the formulation of a new legal and institutional framework responds to challenges that can be found at various levels:

- At the institutional level, SMEs must be operate in an environment that assures their growth;
- At the technical level, the objective is to provide SMEs a multi-faceted support to enhance their competitiveness;
- At the operational level, the objective would be to promote lasting and equitable relationships with trans-national companies.

Moreover, the Charter provides a clear and consensual definition of SMEs before indicating their obligations and the benefits accruing to them.

It is also important to take into consideration the national, sub-regional and international environment in defining the guidelines for the reform of SMEs aimed at improving the competitiveness of their products and services.

I- What guidelines for an effective reform of the SME sector?

The first question that comes to mind at this stage of our analysis is: what role could public authorities play in the reform of the SME sector?

This question may appear to be ill-timed or disconcerting, but it seems that a clear and precise definition of the role of public authority could be a major asset in the formulating an effective Charter. Several factors militate in favour of this argument.

First, it is worth acknowledging the pre-eminence of the private sector in the area under review in order to recall that privatization is a pragmatic policy aimed at

restoring the fundamental role of the government, as a regulator and leaving the actual implementation to the private sector.

This is what accounts for the need for an effective involvement of private stakeholders who are more conversant than anyone else with the constraints besetting their environment. Second, financial obstacles to innovation must be reduced by promoting programmes and measures for risk-sharing (mistrust of SMEs by banks, difficulties in providing required guarantees) including, where necessary, financial support and tax breaks.

Similarly, it would be worth abolishing political and institutional mechanisms that promote large enterprises to the detriment of SMEs.

The administrative, tax, social and economic environment must be reviewed to foster the development of SMEs.

This could be achieved through reduced administrative expenses, improved tax conditions and the promotion of the transfer of the knowledge of Research Institutes and universities to SMEs.

The competitiveness of SMEs must be a reality and this calls for the addressing of a number of needs in terms of principles and lines of action.

These principles include the recognition of values represented by knowledge, commitment and flexibility in the new economy, the dynamism of SMEs and their ability to respond to the new needs of the market.

Alongside the principles, action must be pursued in the area of training in entrepreneurial approach through improved regulation of the sector taking into account bankruptcy law, competition law, corporate law, payments law, social law, tax law, banking and financial law etc.

Furthermore, like any reform, this will entail a transition from one stage to another. Hence, it is crucial to have legal engineering tools to carry out a review of the SME sector aimed at providing the information needed, map out a clear strategy prior to formulating regulatory instruments that would enable the charter to respond to the dual need for effectiveness and efficiency at the national, community and international level

The success of the project is largely based on the methodology used leading to a consensual charter, which alone, can guarantee greater adherence as well as the sustainability and dynamism of business in general and in the SME sector in particular.