



Enterprise Development

SCIENCE GRADUATES URGENTLY NEED BUSINESS SKILLS



RISE meeting, Nairobi, October 2008



Overview

- The global view: SME contribution to employment and GDP
- The persistence of the informal economy



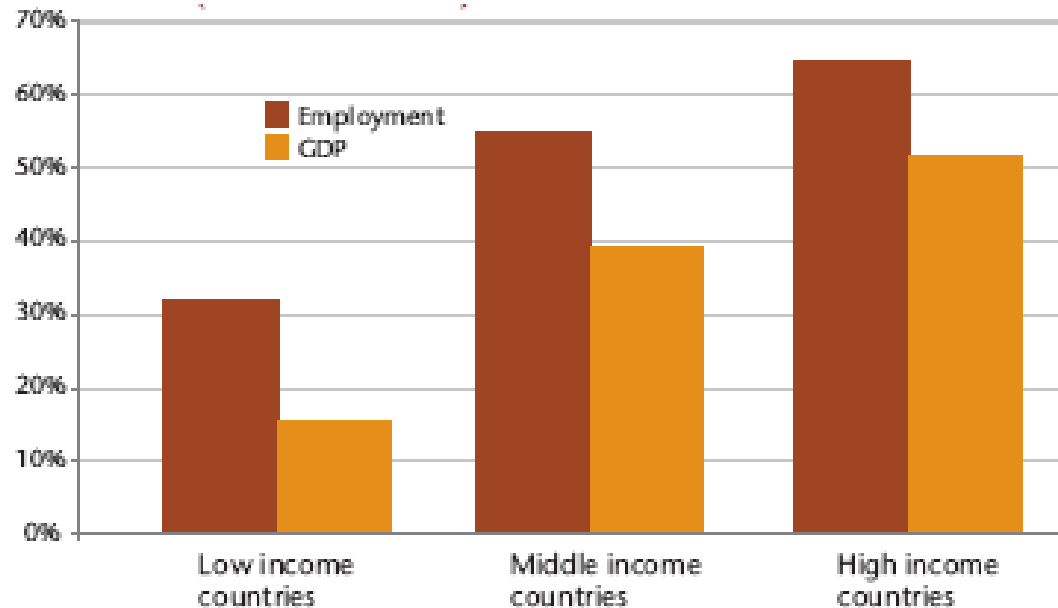
The global view: SME contribution to employment and GDP

In business, SMEs represent an important source of innovation.

In society, they are an important source of employment.

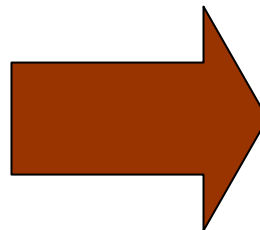
For government, SMEs contribute to wealth creation and generate tax revenues.

SME contribution to employment and GDP (median values)



Source: World Bank

SMEs have **extensive local knowledge** of resources, supply patterns and purchasing trends.

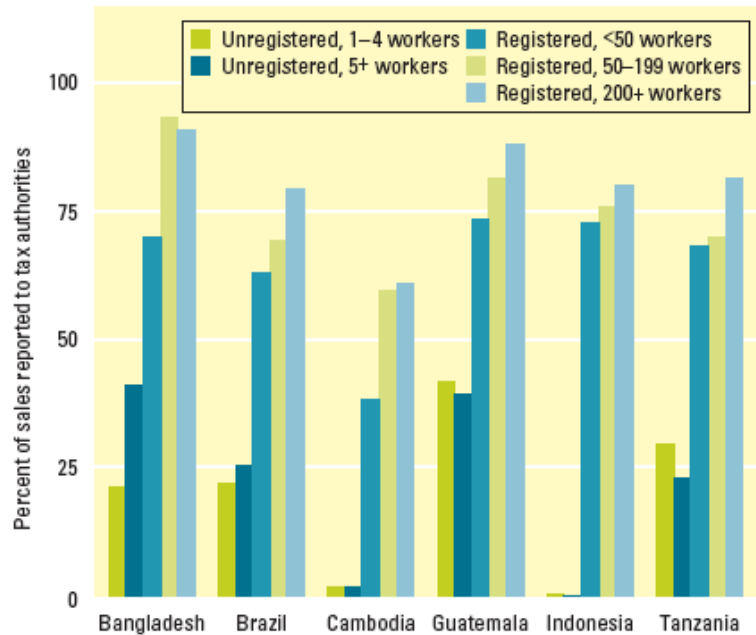


SMEs constitute an important source of local supply and service provision to larger corporations.



The persistence of the informal economy

Informality is a matter of degree

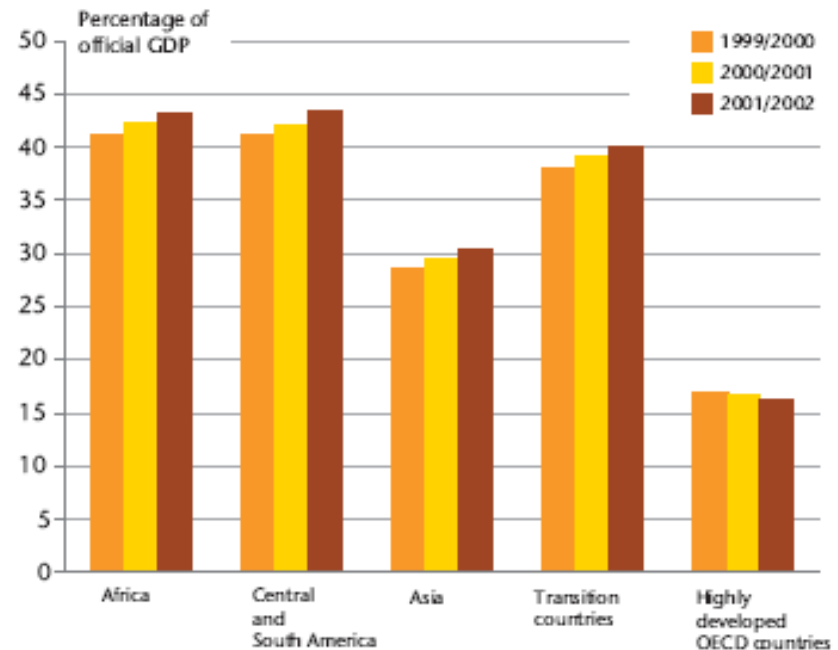


Source: World Bank Investment Climate Surveys and WDR Surveys of Micro and Informal Firms.

Many SMEs choose to remain informal because the costs and procedural burden of joining the formal economy outweigh the benefits.

In developing countries, the size of the informal economy has been increasing as a percentage of official GDP.

Average size of the informal economy, in % of official GDP



Source: Schneider, Friedrich. 2005. "Size and Measurement of the Informal Economy in 100 Countries around the world." Working Paper. 2005-13. Center for Research in Economics, Management and the Arts, Johannes Kepler University of Linz.



SMEs

- **The vast majority of businesses are SMEs(80-99% of total business)***
- **SMEs become economic strength**
- **SMEs are the main drivers of national economic development**



What are the needs?

When income does not fully cover even daily necessities, everything else becomes a luxury. Thus there are a great many things that the poor cannot afford to buy. Tools, materials, and upkeep for income-generating assets like transportation or farm equipment are all expenses that are routinely left out of the family budget.

-World Resources Institute (2005). "Life on a Dollar a Day"

Small and medium enterprises firms have more financing barriers than large firms.¹

Higher interest rates

More bank paperwork

Less access to long-term loans, foreign banks, non-equity, and export finance

If many entrepreneurs dip into their personal savings when financing a business, *what are the implications when personal savings are scarce?*

University graduates need entrepreneurial and business skills



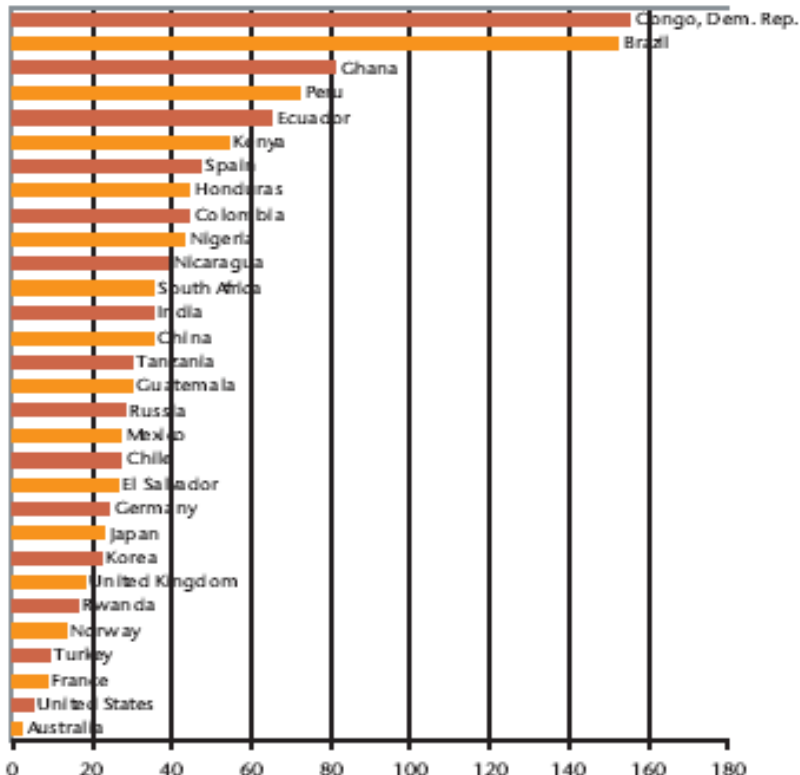
Starting a business in developing countries

Business registration for SMEs needs to be quick, easy and of reasonable cost.

"Starting a business is a leap of faith even in the best of circumstances. Governments should encourage the daring."

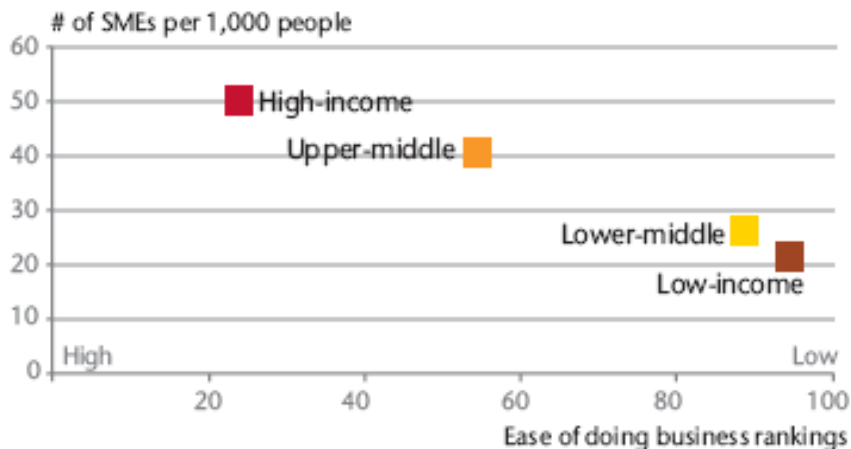
World Bank. 2006. *Doing Business*.

Number of days to start a business



Source: World Bank. 2007. *Doing Business*.

Ease of doing business rankings vs. number of SMEs



Source: IFC. 2006. *Micro, Small and Medium Enterprises: A Collection of Published Data*.



What are the challenges?

- Burdensome regulatory frameworks
- Lack of tax incentives and subsidies
- Absence of investor-friendly environment
- Lack of access to finance
- Lack of capacity-building programs and inadequate provision of vocational training



Opportunities

- What can business do to enable enterprise development?



What can business do to enable enterprise development?

- ✓ Build supply chain capacity
- ✓ Technology transfers, investment in infrastructure
- ✓ Strengthen local distribution networks
- ✓ Improve standards and environmental performance
- ✓ Empower university graduates with business skills
- ✓ Provide access to financial services



Opportunities

- What can governments do to enable enterprise development?



What can governments do to enable enterprise development?

Software Technology Parks

Science & Technology Entrepreneurship Parks

Biotechnology Parks

Incubators

EXPORT PROCESSING ZONES



What can scientists do to enable enterprise development?

- **Acquire business, entrepreneurial, and management skills**
 - Core competence**
 - Business plans & Venture capitalists**
 - Innovation teams**
 - Start-ups/Spin-offs**
- **Financial literacy in university curricula**
 - Graduate job/wealth creators**



The Government Focus

Economic development policies
New high technologies

The Firm Focus

Globalization – competition – need for innovation
“Think globally, act locally”

The University Focus

Investments on ultimate high technology
Academic awards – international papers

KNOWLEDGE AND CAPITAL CONCENTRATION



Projected Market opportunities in the knowledge sector is estimated to be US \$ 365 billion in 2020.

as per High level strategic group of AIMA



Entrepreneurship and the necessity of the **integration** between **University** and the enterprise