International Trade Centre

TRADE IMPACT FOR GOOD

Promoting SME Competitiveness in Benin

COVID-19: An Inclusive Path Towards Resilience

Ministère de l'Industrie et du Commerce

République du Bénin

In collaboration with

Chambre de Commerce et d'Industrie du Bénin

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An Inclusive Path Towards Resilience

About the paper

Boosting the competitiveness of small and medium-sized enterprises is crucial to transform Benin into a resilient and sustainable economy.

Limited access to finance, low rates of quality certification and shortfalls in infrastructure prevent small firms from thriving in Benin, according to ITC's SME Competitiveness Survey. While COVID-19 put one in five respondents at risk of closure, companies that take steps to reduce their environmental impact are better positioned to handle the pandemic's economic effects, making the case for a sustainable response to the crisis.

Publisher: International Trade Centre

Title: *Promoting SME Competitiveness in Benin – COVID-19: An Inclusive Path Towards Resilience*

Publication date and place: Geneva, November 2020

Page count: 90

Language(s): English

ITC Document Number: RSE-20-46.E

Citation: International Trade Centre (2020). *Promoting SME Competitiveness in Benin – COVID-19: An Inclusive Path Towards Resilience*. ITC, Geneva.

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For more information on the SME Competitiveness Survey, see: http://www.intracen.org/SMEintelligence/

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Foreword

Developing countries and their small businesses have been particularly vulnerable to the repercussions of the COVID-19 pandemic. Benin is no exception.

In Benin, growth is expected to drop to 3.2% in 2020, down from almost 7% growth in 2019. The government has an emergency response plan, focusing on more health spending, assistance to vulnerable households and support to affected businesses.

Small and medium-sized enterprises (SMEs) employ a significant share of Benin's workforce. This makes the impact of COVID-19 on them all the more alarming. SMEs are instrumental to achieving the United Nations 2030 Agenda on Sustainable Development. Their role is also recognized in Vision Bénin Alafia 2025, the 2018–2025 national development plan, with its transformative agenda to make the country more competitive.

Helping small firms become more competitive would unleash their potential to deliver on jobs and inclusive growth in the post-COVID-19 era. The 'new normal' in trade will emphasize resilience to shocks, embracing digital opportunities, inclusive employment opportunities and investing in environmental sustainability.

The transformative policymaking required for this new direction will require data and analysis about the opportunities and constraints that SMEs face.

To this end, the Chamber of Commerce and Industry of Benin and the Ministry of Industry and Trade partnered with the International Trade Centre to assess SME competitiveness in Benin and the impact of COVID-19. Data from more than 500 companies, collected using the ITC SME Competitiveness Survey, offer insights about the strengths and weaknesses of firms and their business ecosystem. A follow-up ITC COVID-19 Business Impact Survey, administered to a subsample of Beninese respondents, complements this business competitiveness data.

ITC, the Chamber of Commerce and Industry of Benin, and the Ministry of Industry and Trade share a common vision to build SME competitiveness to help these small businesses access more local, regional and international markets. The 'great lockdown' caused by the pandemic underscored the importance of investing in strong regional supply chains, providing a powerful rationale for the implementation of African Continental Free Trade Area.

The report can be used to design policies and programmes that create a competitive and resilient SME sector that can weather future shocks, whatever their nature or origin.

Trade can fuel growth, generate income and reduce poverty, especially if suitable domestic policies are in place. We see this report as an important step to make this vision a reality.

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Acknowledgements

The International Trade Centre would like to express its appreciation to the representatives of enterprises who agreed to be interviewed about competitiveness.

Floriana Borino and Eric Carlson wrote this report under the guidance of Valentina Rollo of ITC. Aissata Boubacar Moumouni supervised the data collection and provided statistical support. Aissatou Diallo, Mario Filadoro, Ruat Lalruatpuii, Sarah Mohan, Antonina Popova and Sameedh Sharma provided key inputs and helpful comments. Marion Jansen, Chief Economist and Director of the Division of Market Development, supervised the project.

The staff of the Beninese Chamber of Commerce and Industry collected the report data. Thanks go to Alain Hinkati, Interim Director of CCIB; Raymond Adjakpa Abile, Secretary General; Joëlle Goussanou Videhouenou, Operations Director; Hyppolyte D. Koukou, Chief of Information and Sector Studies Department; Camarou Bello, Chief of Institutional and Economic Partnership Department and Razack Yessoufou, Chief of Delegated Services and Regions Department. ITC would like to thank His Excellency Eloi Laourou, Ambassador and Permanent Representative of the Republic of Benin to the United Nations Office and other International Organizations based in Geneva.

We are grateful to Natalie Domeisen and Anne Griffin of ITC, who oversaw the editing and production process; Jennifer Freedman, who edited the report; and Franco Iacovino and Serge Adeagbo of ITC, who provided graphic and printing support.

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Acronyms

Unless otherwise specified, all references to dollars ($) are to United States dollars, and all references to tons are to metric tons. Some figures in this report may not add up to 100% due to rounding.

CCIB	Chamber of Commerce and Industry of Benin
ICT	Information and communications technology
ITC	International Trade Centre
SMEs	Small and medium-sized enterprises
SMECS	SME Competitiveness Survey

Executive summary

The COVID-19 pandemic is an unprecedented global crisis, affecting human health and economic welfare across the globe. The economic earthquake unleashed by COVID-19 does not affect everyone in the same way. With fewer resources to ride out the storm, small businesses have been particularly vulnerable to the repercussions of the crisis.

Small and medium-sized enterprises (SMEs) are at the heart of the Beninese economy. Many of the country's jobs are in such firms, even though each one employs fewer than 100 people. This makes the impact of the pandemic on small businesses in Benin all the more alarming, as the implications for employment could be catastrophic. Increasing the competitiveness of small companies can spur resilience to the current crisis and future shocks, promoting inclusive and sustainable growth.

Empirical evidence on the strengths and weaknesses of Beninese SMEs can shed light on opportunities to improve their competitiveness and resilience. To set this process in motion, the International Trade Centre (ITC) partnered with the Chamber of Commerce and Industry of Benin (CCIB) and the Ministry of Industry and Trade of Benin. The ITC SME Competitiveness Survey was administered to 502 businesses across the country in 2019. CCIB collected this data, which was then complemented by the ITC COVID-19 Business Impact Survey, administered to 45 Beninese respondents in early 2020, to understand how they have been affected.

This report examines data from these two surveys, identifying challenges and strengths in the capabilities of firms and the business ecosystem, and how they affect resilience. Although the focus is on SMEs, large companies are included in the analysis for the sake of comparison.

Specific analyses on selected competitiveness themes yields insights into the realities confronting the economy. Drilling down into how these themes are addressed among SMEs and in particular sectors and regions – and by companies led by women and youth – shows the detailed pattern of competitiveness across enterprises in Benin.

The pandemic has strongly affected Beninese businesses

Findings from the ITC COVID-19 Business Impact Survey suggest that almost all (97%) interviewed firms have been affected by the pandemic. Three out of four Beninese firms reported a drop in sales (domestically and/or abroad), while only 4% saw an increase in sales. At the same time, about half of surveyed firms had trouble accessing inputs, impairing their ability to prepare their goods and services.

Beninese respondents to the COVID-19 survey highlighted tax waivers, temporary tax relief and financial programmes as the most helpful measures the Government could implement, confirming the liquidity crisis that accompanies lockdown measures. Transparency and information are vital for firms to benefit from government assistance programmes. It is therefore worrisome that more than half of survey respondents in Benin found it difficult or very difficult to access information and benefits from government COVID-19-related assistance packages.

Financial inclusion promotes resilience to COVID-19

Most Beninese companies practice good financial management. For example, almost 90% of firms keep multiple economic records.

However, the degree of financial management varies widely across regions, firm size and sector. Micro and small firms were less able to keep track of their financial transactions than larger companies. Only two-thirds of farmers maintain economic records, while 96% of enterprises in the services sector keeps some form of records.

Access to finance is an obstacle for most firms, and particularly those led by youth. Overall, four in five surveyed companies in Benin need a loan. Businesses rated the quality of the banks quite low on average, indicating that there is room for improvement in private sector access to finance.

Astute financial management and access to finance are becoming increasingly important as firms contend with

COVID-19-related lockdowns. The pandemic has also generated a liquidity crisis, with almost two-thirds of respondents in Benin reporting that clients are not paying their bills. Data show that Beninese firms with good financial management practices are less at risk of permanent closure than those with poor financial management practices.

Signalling quality through certification

Beninese enterprises score relatively low on meeting quality requirements. Four in five surveyed firms were not certified to any quality, safety, sustainability or other internationally recognized standard. Lack of certification means that Beninese firms are not signalling quality to potential new buyers both at home and abroad. In fact, only 20% of interviewed Beninese firms export, but 33% would like to engage in international markets.

Certified companies are more exposed to supply chain disruptions because they are more active in international trade than non-certified companies. Combining data from the COVID-19 Business Impact module with data on SME competitiveness shows that the pandemic has hit certified firms harder than those without certification. This is likely due to production halts and the economic slowdown in source countries (notably Europe and China) due to COVID-19 safety measures.

Reliable infrastructure helps firms deliver on time

Benin has invested heavily in infrastructure over the last 30 years, making considerable progress. Sizeable investments in basic infrastructure are still needed, however. One in five firms interviewed identified infrastructure as its top challenge. For example, only 10% of roads are paved.

Reliable delivery of goods is becoming increasingly important as more consumers shop from home due to lockdowns and social distancing. Inventory management will become more important as the crisis strains supply chains, making it harder to access inputs and new inventory quickly. Evidence suggests that enterprises with good inventory management practices have been more resilient to COVID-19.

Skills and innovation prove crucial to cope with the crisis

Beninese respondents were satisfied with the skill sets of their workers and those available in the labour market. However, a closer look at the labour force situation in the country showed that youth lack relevant skills, which hinders productivity.

The COVID-19 crisis has brought tremendous changes and disruption to business life, and companies will need both creativity and innovation to cope with the economic changes caused by the pandemic. Combining competitiveness data with the COVID-19 module shows that firms with good skill matches and those that innovate are more likely to take resilient approaches to the crisis.

Firms need internet to access vital government information

Respondents report that lack of access to internet is a major obstacle to obtain information and connect with the wider economy. Internet access is most concentrated among businesses in the capital and along the Atlantic coast. Outside of this narrow region, 50% of firms say they cannot access the internet.

In addition, enterprises increasingly rely on information and communications technology (ICT) to remain open during the crisis. The pandemic changed the way people do business across the world, and firms need reliable computer and telecommunications technologies to reach customers and get information about government regulations.

Most small companies in Benin face environmental risks

Three in four surveyed businesses reported facing environmental risks. Many Beninese enterprises depend on the environment and have consequently adopted sustainable production patterns to safeguard the environment for the years to come.

Companies that are proactive about addressing climate risks are also better positioned to withstand the pandemic. Data from the SME Competitiveness Survey show that almost all of the firms (92%) that have adopted measures to reduce their negative impact on the environment have also developed resilient strategies to cope with the crisis. In contrast, just 59% of businesses that have not invested in measures to lessen their negative environmental impact have adopted resilient coping strategies.

Policy insights

Several policy recommendations emerge from the survey findings. Chief among them is broadening access to finance. The Government of Benin can help improve the financial sector with credit guarantees and seed capital. In addition, the Government can offer low-interest lines of credit and tax breaks to help firms survive the crisis.

Investing in better financial and inventory management practices can help firms meet the quantity, cost and time demands of international and domestic markets. It also improves resilience to crises. Policies and programmes that bring together training institutions and the private sector can promote the suitable matching of workforce skills and business needs so companies can access the skills needed to compete internationally.

Skills and education are particularly important today, given the tremendous changes and disruption brought by COVID-19.

Lack of internet access holds back many small and medium-sized enterprises in Benin, especially those outside of Cotonou. Policymakers could invest in broadening access to the internet across the country.

ICT has been crucial for firms to manage their responses to the pandemic. They need internet access to stay up to date about government support programmes and new regulations. As e-commerce grows in popularity during lockdowns, enterprises without reliable internet access will be left behind.

Finally, efforts to reduce exposure to environmental risks would help SMEs become more resilient and sustainable, especially as evidence suggests that the next crisis may arise from climate change.

Business support organizations are well positioned both to convey the interests of the business community to government officials and to provide information about government programmes and regulations to SMEs. They can help by serving as liaisons between the public and private sectors.

This report, along with complementary events and collaborations, disseminates its findings with the aim of triggering a dialogue on SME competitiveness and finding policy-based solutions that the Government can apply to support small companies through the COVID-19 crisis as well as possible future shocks.

Chapter 1

Unleashing the potential of small businesses

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Unleashing the potential of small businesses

The COVID-19 pandemic has affected human health and economic welfare across the globe. Africa has not been spared: by mid-May 2020, all 54 countries on the continent had reported cases. Lower demand for commodities, the collapse of tourism and air transport, and depreciation of local currencies could cause African growth to slow to 1.8% in 2020 in the best-case scenario.[1]

Data from the ITC COVID-19 Business Impact Survey show that the pandemic strongly affected two-thirds of African businesses, compared with 55% of respondents from other continents, confirming the fragility of the African private sector.[2] With fewer resources to ride out the storm, African small and medium-sized enterprises (SMEs) have been particularly vulnerable to the effects of the crisis.[3]

This is especially worrisome, given the important role SMEs play in the Beninese economy. They represent about 98% of all businesses and contribute about half of gross domestic product.[4] These enterprises also employ vulnerable groups such as women, youth and rural people.

By virtue of the jobs they create and their impact on society, Beninese SMEs should be put in a position to catalyse growth for a resilient, digital, inclusive and sustainable future. Resilient, because societies cannot afford to be unprepared for external threats, and digital, because COVID-19 has shown the full power of these technologies in the context of a worldwide crisis. Inclusive, because the recovery must leave no one behind. And sustainable, to avoid a climate shock causing the next global disaster.[5]

The Government of Benin has created policies and organizations and mobilized funds to support SMEs (Box 1). Although small firms have the potential to continue contributing to employment growth, persistent challenges to their competitiveness remain.

This report aims to identify these challenges and how policymakers can address them. Tackling the obstacles that small businesses face on a daily basis is all the more urgent in light of the COVID-19 crisis. With the support of an efficient business environment, Beninese SMEs can become more resilient to change and unexpected shocks, embrace the opportunities offered by digitalization, and promote inclusive and sustainable growth to fulfil the development aspirations of all Beninese citizens.

To set this process in motion, however, leaders need better data about the state of competitiveness in their country. What are the drivers of competitiveness and which characteristics make firms more resilient to shocks? Conversely, what must be done to improve SME competitiveness and resilience?

To answer these questions, the International Trade Centre (ITC) partnered with the Chamber of Commerce and Industry of Benin (CCIB) to assess the competitiveness of SMEs nationwide and the impact of COVID-19 on Beninese firms.

Under this collaboration, the ITC SME Competitiveness Survey questionnaire was administered to 502 businesses across the country in 2019. In addition, in April 2020, 45 of these firms agreed to participate in a follow-up interview on the business impact of COVID-19 crisis. The findings of the COVID-19 Business Impact Survey are presented in this report.

Box 1: Government takes steps to support small businesses

Vision Bénin Alafia 2025 sets out a transformative agenda to make the country more competitive. Drawing on Vision Bénin Alafia 2025, the Government adopted the Government Action Programme (for 2016–2021) and the National Development Plan (for 2018–2025), promoting self-employment and entrepreneurship. Competitiveness and small enterprises feature strongly in this vision. To sustain the private sector, a whole ministry targeting SMEs and the promotion of employment was created in 2017.

Law No. 2020-3 highlights the advantages linked to the quality of small companies in terms of access to public markets, payment of debts, subcontracting and co-contracting, and doing business (free electricity connections, free water connections and facilitation of land access procedures). The law also exempts micro, small and medium-sized enterprises from several taxes, including the patent in the first year of exercise, entry duties and taxes on professional equipment, and corporate tax in case of reinvestment of profits.

In addition, SMEs can benefit from the advantages of the investment code.

Source: https://sgg.gouv.bj/doc/loi-2020-02/

Benin was the first Organization for the Harmonization of Business Law in Africa country to implement the entreprenant legal status. The new law introduced the entreprenant status to make it easier for businesses operating in the informal sector to migrate to the formal sector. Registering for this new status, which is designed for micro and small businesses, is easy, free of charge and takes only one business day.

In March 2020, the Government of Benin created a new online platform, MonEntreprise.bj, taking Beninese business registration processes 100% digital. It sets up an efficient, online single window that houses all regulatory processes needed to open a company in record time. This will help businesses launch efficiently and lower barriers to entry into the business world.

This critical move, ahead of the spike in global infections from COVID-19, means that businesspeople can now start a business in two hours and from the comfort and safety of the office or home.

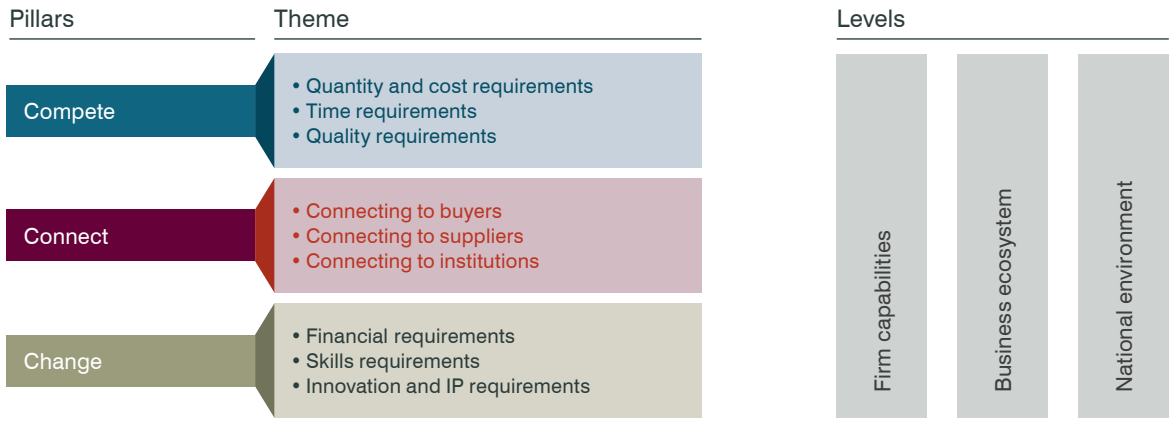
Assessing the competitiveness of small and medium-sized firms

ITC developed the survey used to assess the competitiveness of SMEs in Benin to allow countries to collect the data needed to measure the competitiveness of their enterprises. The SME Competitiveness Survey[6] (SMECS) has been applied in 46 countries, including Benin, Botswana, Ghana, Kenya and Zambia. As of June 2020, more than 17,900 companies had been surveyed.

The tool is designed to combine information at the meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country's private sector to compete in international markets and be more resilient to shocks. Although the focus is on small and medium-sized enterprises, some large companies are included in the survey so the competitiveness of SMEs and bigger firms can be compared.

The importance of competitiveness in driving firm survival, growth and trade make it a key element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. The framework is built around three pillars that drive the capacity of a company to be competitive across three levels of the economy (Figure 1).[7] Each pillar is further subdivided into themes that are the subject of the analysis in this report.

Figure 1 The SME Competitiveness Grid



Source: ITC.

The SME Competitiveness Survey in Benin

CCIB, with support from ITC, collected data for the SME Competitiveness Survey from 502 Beninese enterprises in 2019. The Ministry of Industry and Commerce provided high-level support for the initiative.

Data were collected from six economic regions of the country: Parakou, Natitingou, Abomey, Lokossa, Porto-Novo and Cotonou.[8] The surveyed economic regions are highlighted according to firm population density, with darker colours representing a higher concentration of surveyed companies.

Around 60% of the companies interviewed for the SMECS in Benin operated in the services sector, while a quarter operated in the agricultural sector, as shown in Figure 3. This is consistent with evidence of the prevalence of services and agriculture companies in the country's private sector, gross domestic product and employment.[9]

Women own fewer than 20% of the companies interviewed for this study, a rate of participation lower than in other sub-Saharan African SME Competitiveness Surveys. The survey data showed that two-thirds of the enterprises were engaged in trade, confirming the fact that Benin is the gateway to the wider Western Africa market due to its strategic location.

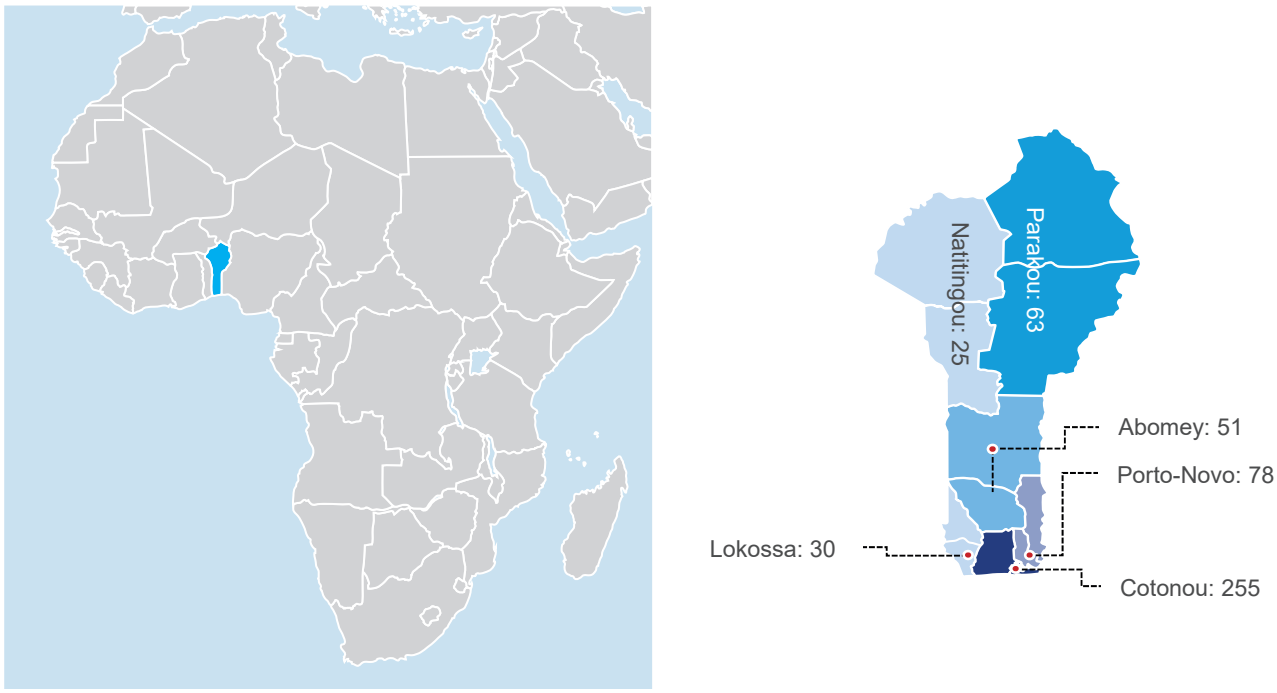
Box 2: Who we are and what we do

The Ministry of Industry and Trade designs, implements, monitors and evaluates the state's general policy on the promotion of industries and trade, with a view to creating prosperity for all. The Chamber of Commerce and Industry of Benin was created on 12 April 1908 to ensure the representation, protection and promotion of the common interests of Beninese economic operators in the fields of trade, industry and the provision of services.

ITC, based in Geneva, Switzerland, is a joint agency of the United Nations and the World Trade Organization. It is dedicated to strengthening the competitiveness of SMEs to build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, young people and poor communities.

The Benin SMECS was a national firm-level survey. The sample was spread across regions, sectors (agriculture, manufacturing and services) and size (micro, small, medium and large). To facilitate the collection of data, a sample of companies operating in the agriculture, manufacturing and services sector was randomly selected from across the country. To the extent possible, each subsector was to comprise exporting and non-exporting firms.

Figure 2 Surveyed departments of Benin



Source: ITC, based on SME competitiveness data collected by CCIB in Benin.

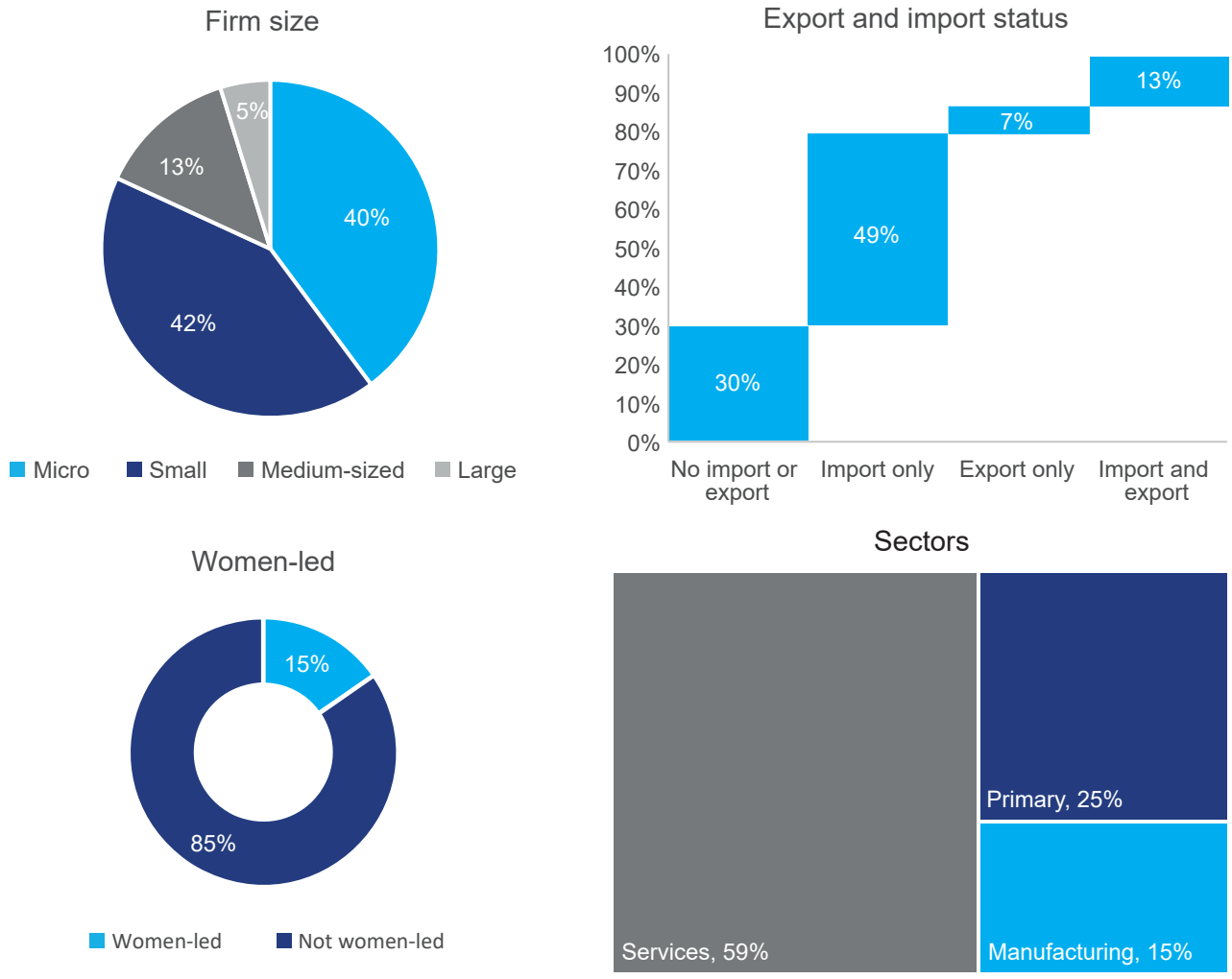
However, about 62% of the businesses interviewed were importers, while only 20% exported. This reveals the unrealized export potential of Benin. In fact, one firm in three does not export, but wants to do so.

ITC (Export Potential Map)[10] estimates that Benin has more than $700 million in untapped export potential, much of it in agriculture (cashew nuts, cotton and wood). This would represent a sizable addition to the country's $952 million in merchandise exports in 2018.[11]

Finally, the Figure 3 highlights that most of the companies taking part in the survey (82%) were micro or small enterprises (fewer than 20 employees).

About 80% of the surveyed enterprises said they were registered with or licensed by a national authority. Yet, in Benin informality is pervasive, with the national statistics agency estimating that the informal sector represents up to 70% of gross domestic product and 95% of employment.[12]

Figure 3 Characteristics of companies that participated in the survey



Note: Microenterprises are defined as those with four or fewer employees; small firms have 5–19 employees; medium-sized ones have 20–99 employees; and large companies have 100 or more employees. Women-led firms are managed by a woman and at least 30% owned by women.

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Two-thirds of firms in non-agricultural sectors faced competition from unregistered or informal firms.[13] As fewer than 20% of the enterprises surveyed for the SMECS are informal, the current analysis cannot cover them fully. Rather, the study focuses on the formal sector.

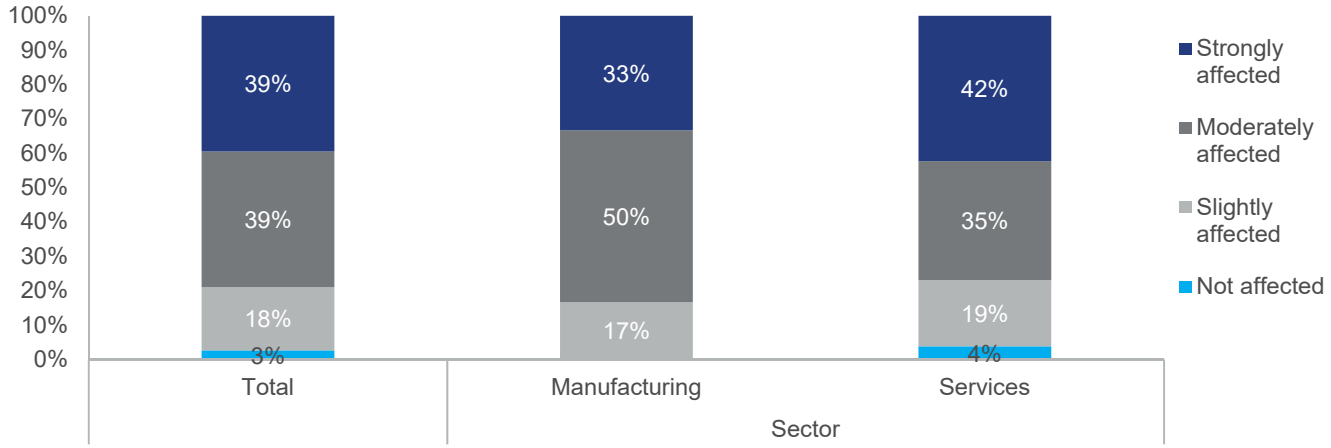
COVID-19 affects most Beninese enterprises

The pandemic has led to an unparalleled health and economic crisis in Benin. Findings from the COVID-19 Business Impact Survey suggest that almost all (97%)

interviewed firms were affected (Figure 4). Three Beninese firms in four reported lower sales (domestic and/or abroad), while only 4% have higher sales. At the same time, about half of surveyed firms had trouble accessing inputs, impairing their ability to produce goods and services. This suggests that the crisis has harmed the vast majority of companies.

Yet some companies have been more exposed to the crisis than others – notably those in the service sector. Two out of five service companies reported being strongly affected, compared to a third of manufacturing firms (Figure 4). The impact has also been severe on women-led enterprises, which operate in many of the industries that were most immediately affected by the crisis, such as accommodation and food as well as retail and wholesale.

Figure 4 Service firms more strongly affected than manufacturers



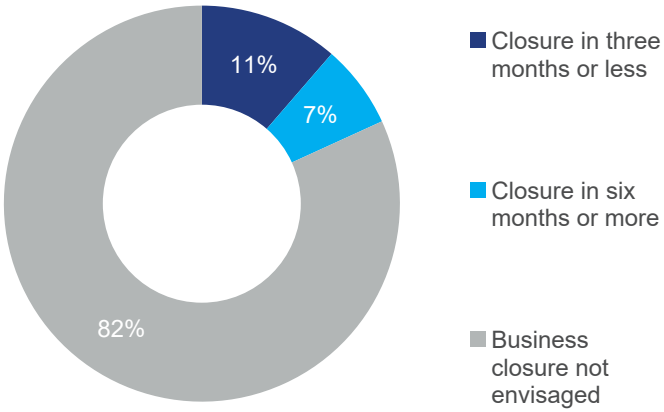
Note: Respondents were asked: 'How have your business operations been affected by the coronavirus (COVID-19) pandemic?'
Source: ITC calculation based on SME competitiveness and COVID-19 Business Impact data collected by CCIB in Benin.

A supply-chain contagion mechanism is amplifying the direct effect of COVID-19 crisis. Benin may lose $7 million worth of industrial inputs exports in 2020 due to factory shutdowns abroad, as the novel ITC methodology estimates.[14] Major importers of Beninese raw materials (such as copper and cotton) imposed lockdowns, which negatively affected firms in Benin. Almost 60% of this expected loss results from the temporary disruption of the supply chain linkages with China, which is a main importer of Benin raw materials.

One in five Beninese firms may go bankrupt as a result of COVID-19 (Figure 5). For every bankruptcy, closed store and unpicked crop, people will lose jobs and families will, in many cases, lose their only income.

This highlights the need for fast government action. Many Beninese companies that are not registered with national authorities are small and have little cash on hand to finance themselves when operations are shut down. These firms are at particular risk of closing. As the COVID-19 crisis has been especially severe on enterprises operating in service sectors, these companies face a higher risk of shutting down.

Figure 5 One in five firms is at risk of permanently closing



Note: Respondents were asked: 'Do you think there is a risk that your business will permanently shut down because of this crisis, and if so, when could this closure occur?'

Source: ITC calculation based on SME competitiveness and COVID-19 Business Impact data collected by CCIB in Benin.

Beninese businesses responded to the crisis in different ways. Some adopted retreating strategies –laying off workers, selling off assets or taking on new debt, all of which may hurt their long-term viability. About one-third of firms that responded to the COVID-19 survey module took such an approach.

However, the rest followed a strategy of resilience – scaling down or adjusting the business temporarily in a way that will allow it to resume fully later on. Being resilient during the pandemic entailed tactics such as shifting the sales mix towards online channels, sourcing from new suppliers or creating novel products.

The following chapters of this report will show which characteristics are more likely to strengthen firms' resilience and allow businesses to survive.

Beninese companies that participated in the COVID-19 survey said that tax waivers, temporary tax relief and financial programmes would be the most helpful government measures, confirming the liquidity crisis that is accompanying lockdown measures. Several measures had already been put into place to help companies, such as postponed fiscal or banking deadlines.

By May 2020, the Government and its partners had made available 100 million CFA francs (around $165,500) for rent subsidies to enterprises in the tourism sector. In addition, 200 million CFA francs (around $331,100) in employment aid was allocated to 50% of the workers in affected enterprises.[15]

Transparency and information are vital for firms to benefit from government assistance programmes. It is therefore worrisome that more than half of survey respondents in

Benin found it difficult or very difficult to access information and benefits from government COVID-19-related assistance packages. The Benin Chamber of Commerce and Industry has an important role to play in offering expert advice year-round, especially during this period of crisis.

The COVID-19 crisis may not be the last global shock to affect small Beninese companies. Lessons learned from this report aim to give business support organizations and the Government of Benin the information and knowledge they need to create a competitive and resilient SME sector that can weather future shocks, whatever their nature or origin.

Chapter 2

Better financial management helps firms cope with shocks

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Better financial management helps firms cope with shocks

Being able to make a product that customers want at a reasonable cost is at the centre of a company's value proposition – and its ability to compete on local and international markets. The ability to meet the quantity and cost demands of markets is closely tied to how the company is managed.[16]

Access to finance also plays an important role, as enterprises must be able to obtain to capital to produce enough output at a good price.[17]

Evidence from the SME Competitiveness Survey indicates that, on average, Beninese firms produce 75% of their maximum possible output. This good result in productivity can be partly attributed to the generally good performance in business and financial management among these firms, although there are significant differences across regions, sectors and company size. The survey also shows that Beninese companies – especially SMEs with limited financial management – must have better access to finance to grow and survive.

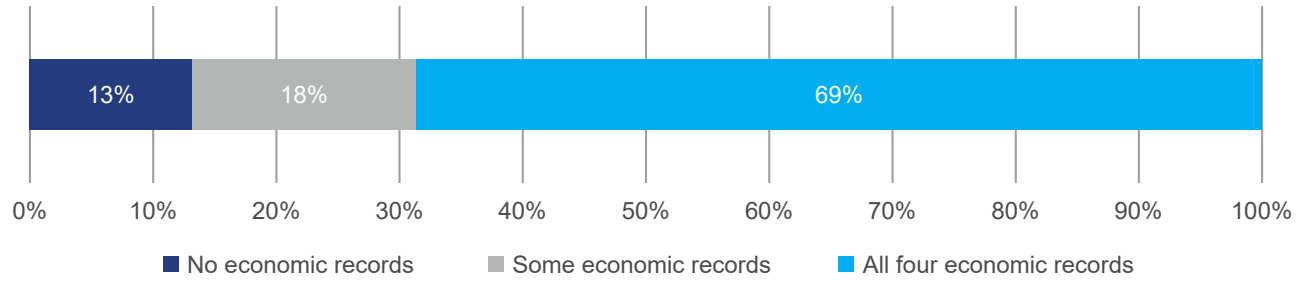
Combining data from the competitiveness survey with the COVID-19 Business Impact Survey shows that while good financial management practices did not enable Beninese firms to avoid the effects of the COVID-19 crisis, they mitigated those effects. Companies with poor financial management were more likely to face severe resource constraints during the crisis and find it harder to survive than those with good financial management.

Keeping economic records can improve cash flow management

Financial management is pivotal for competitiveness. Firms need to know and manage their revenues and expenses to avoid short-term liquidity issues – potential causes of closure for SMEs.

Most surveyed companies in Benin follow good financial management practices. Almost 70% kept all economic records: revenues and expenses as well as assets and liabilities (Figure 6). Two firms in three were good or very good at managing cash flow and preparing a business plan.

Figure 6 Most Beninese firms maintain economic records



Note: Respondents were asked: 'Does your company keep the following types of records? Revenues; Expenses; Liabilities; Assets.'
Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

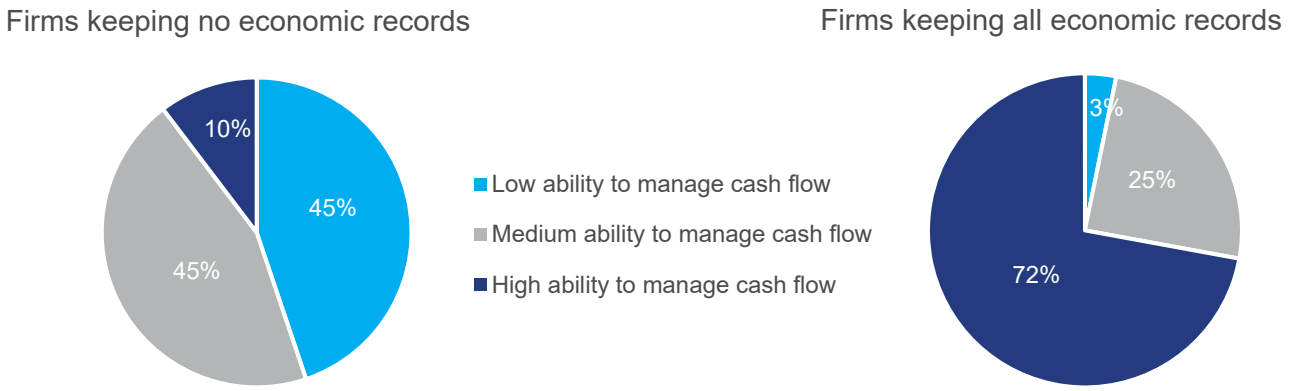
However, the degree of financial management varies widely across regions, firm size and sector. Micro and small businesses were less able to keep track of their financial transactions compared to larger firms. Only two farmers out of three maintain economic records, while 96% of firms in the services sector do the same. Companies in south and central

areas keep financial records more than those in the north (Parakou and Natitingou). For example, just 25% of firms in Parakou's keep track of financial resources, compared to 90% in Cotonou.

Enterprises must keep economic records to manage their cash flows and reliably execute payments. Three out of four firms keeping all economic records said they were good at managing financial flows (Figure 7). On the contrary, only 10% of companies that did not maintain financial records said they were able to manage their cash flows.

Firms that are unable to manage their flows of revenues and expenses might not have enough money to pay their bills. This could indicate opportunities to improve short-term financing options for businesses with weak financial management.

Figure 7 Keeping economic records improves cash flow management



Note: Respondents were asked: 'Rate this company's ability to manage its cash flow to reliably execute payments.' Response options ranged from 1 (no ability) to 6 (very good ability). Responses of 1 and 2 were deemed 'low', 3 and 4 as 'average' and 5 and 6 as 'high'. Respondents were asked: 'Does your company keep the following types of records? Revenues; Expenses; Liabilities; Assets.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Survey results highlight the opportunity to boost the competitiveness of Beninese firms via financial management training for micro and agricultural enterprises in northern regions. These companies are not following best financial management practices, and their ability to meet quantity and cost demands is suffering as a result. Targeted training on financial literacy and risk management, as well as how to apply for a loan and draft a business plan, would help these enterprises capitalize on their potential.

Although good financial management is necessary to avoid short-term liquidity crises and improve productivity, it is not the only requirement. Good access to finance is also necessary for a flourishing and productive SME sector, as the next subsection discusses.

Firms with good cash flow management sell better goods and services

Access to finance is crucial for businesses to start, grow and survive over time. Empirical evidence shows that African enterprises that obtain funding tend to grow faster[18] and are more likely to expand internationally and innovate.[19]

Four in five companies surveyed for the SMECS in Benin need a loan. Almost half of the Beninese firms that participated in the survey see the lack of access to finance as the biggest challenge – more than in other sub-Saharan African countries.[20] This is especially true for micro firms in the agricultural sector, possibly because commercial banks and investors consider them a risky segment for lending.[21, 22] SMECS data also reveal that access to finance in Benin is more of a challenge for youth-led firms (52%) than those not let by youth (48%).

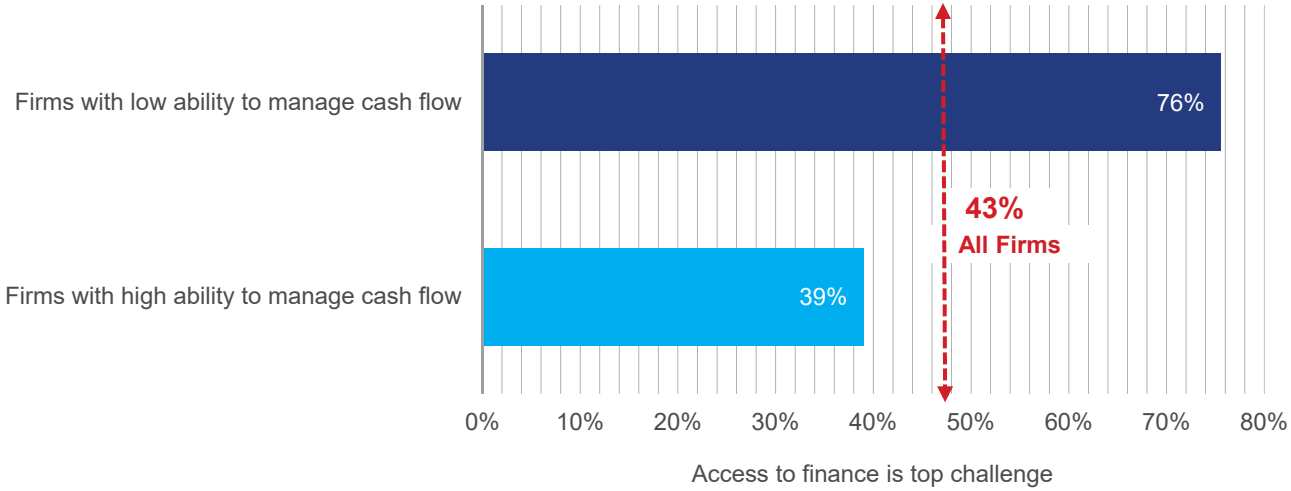
When asked to describe the top challenge they faced with respect to finance, many Beninese businesses cited difficulties obtaining external funding and onerous requirements such as high interest rates, lack of collateral and complex and lengthy application procedures. Many enterprises opt for semi-formal or informal financial services to avoid these obstacles.[23]

The Beninese financial sector is segmented, with 15 banks and more than 600 microfinance institutions – many of which are unauthorized – and nonbank financial institutions.[24] The number of unlicensed microfinance institutions has surged in recent years, with several offering unrealistic deposit rates. This creates risks of Ponzi-type schemes and threatens to increase vulnerability in the sector as a whole.[25]

Therefore, tools that facilitate access to formal financial services are in great demand. Formal entities can offer much larger sums of capital to businesses, which can scale up production, create new products or expand geographically.

Weak financial inclusiveness and financial management are interrelated. Lack of access to a bank account makes it more difficult for a business to monitor financial transactions, but the lack of accounting transparency also hampers access to bank credit. So micro and small firms may enter a vicious cycle where the lack of a bank account makes it more difficult to keep economic records, which in turn makes it more difficult to access finance.

Figure 8 Firms with bad financial practices struggle to obtain finance



Note: Respondents were asked: 'Please select the top challenge that your business faces.' Accessing finance was one possible response. And 'Rate this company's ability to manage its cash flow to reliably execute payments.' Response options ranged from 1 (no ability) to 6 (very good ability). Responses of 1 and 2 were deemed 'low', 3 and 4 as 'average' and 5 and 6 as 'high'.

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

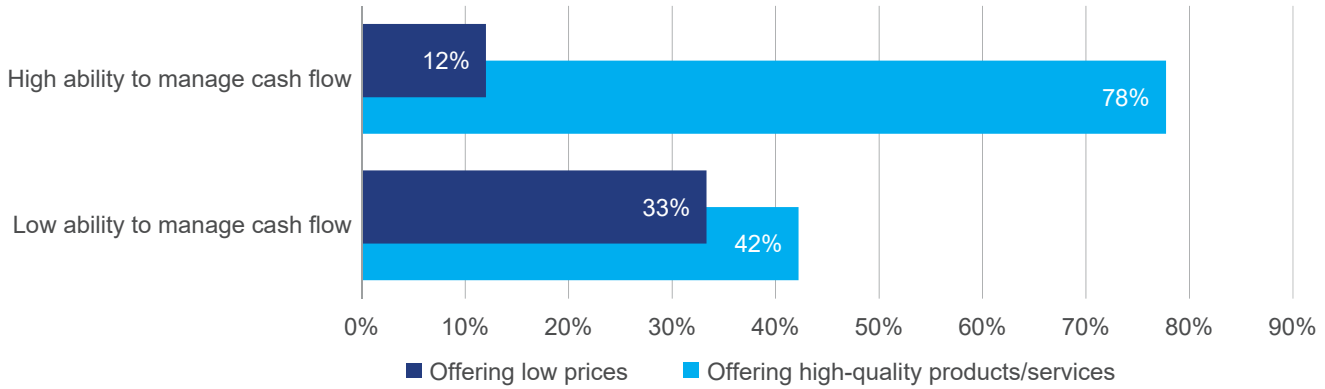
This is confirmed by the data (Figure 8). About three in four businesses with low ability to manage cash flow identify accessing finance as the biggest challenge, compared to 39% for firms with high ability to manage financial flows.

Financial management also affects the way companies compete on the market. Businesses with good financial planning are 36 percentage points more likely to offer high-quality products than those with weak cash flow management (Figure 9).

On the other hand, firms with less rigorous financial management can face short-term liquidity crises. This can force them to sell at lower prices, unless they can easily access finance. In fact, one company in three with bad cash flow management competes by offering lower prices. This, in turn, affects the profitability of Beninese enterprises.

Taken together, this evidence suggests that the financial sector does not address the financial needs of Beninese firms. The Government can step in to correct financial market failures via credit guarantee programmes and seed capital.

Figure 9 Weak cash flow management reduces competition



Note: Respondents were asked: 'Rate this company's ability to manage its cash flow to reliably execute payments.' Response options ranged from 1 (no ability) to 6 (very good ability). Responses of 1 and 2 were deemed 'low', 3 and 4 as 'average' and 5 and 6 as 'high'. Respondents were asked whether 'this establishment competes by: offering low prices; offering high-quality products and services'.

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Better access to finance would help firms invest in productive capacities and grow. This is especially valuable to SMEs, which have lower financial management capabilities and consequently are more in need of finance. Enterprises that manage to obtain finance could change their competition strategy away from lowering prices and towards improving quality. This would allow them to be more competitive at home and in international markets.

Good financial management eases the impact of COVID-19

The economic effects of the pandemic have reached and weakened most companies. Nonetheless, data from the COVID-19 survey module show that good financial management practices can help mitigate the impact.

The share of firms strongly affected by the pandemic is similar among those with good and poor financial management. However, firms with bad financial management are more likely to face severe resource constraints than those with better financial management, and thus find it harder to survive the crisis. This suggests that while businesses with bad financial management are not more exposed to the economic impacts of the pandemic, they are more vulnerable and less able to cope.

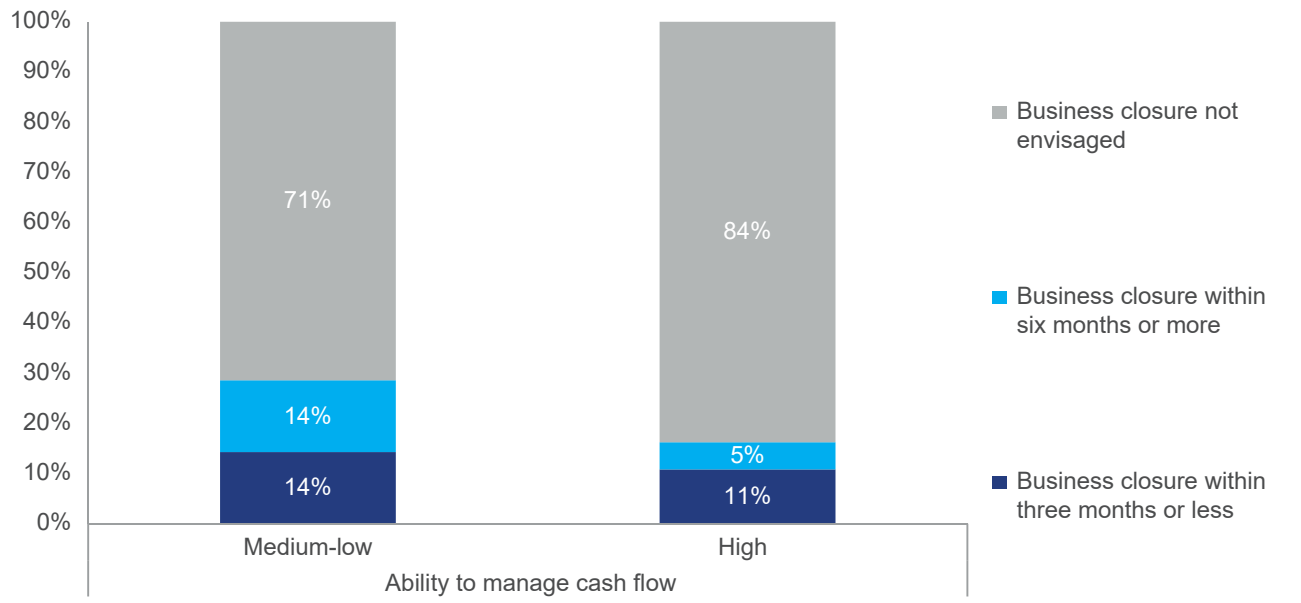
Financial access and management help determine whether a company can respond to changes in the economic environment.[26] Good financial management allows firms to buy inputs and make payments smoothly, despite a revenue stream that crests and troughs. Good financial management has proved especially important during the COVID-19 crisis which, for many, has entailed a sharp but temporary decline in revenue.

Survey results show that 28% of interviewed companies with poor financial management practices are at risk of permanent closure. This compares to 16% of companies at risk of permanent closure among those with good financial management practices (Figure 10).

Besides creating a health crisis, the pandemic has generated a liquidity crisis for businesses around the world.[27] Data from the COVID-19 study show that Beninese firms need liquidity. Almost two-thirds of surveyed firms said their clients were not paying their bills.

Three-fourths demanded financial support from the Government to cope. The top policy requests from Beninese firms were tax waivers or temporary tax breaks (70%) and financial programmes such as low-interest lines of credit (57%). All in all, this confirms the liquidity concerns that accompany the pandemic.

Figure 10 Good financial management mitigates risk of bankruptcy



Note: Respondents were asked: 'Do you think there is a risk that your business will permanently shut down because of this crisis, and if so, when could this closure occur?' and 'Rate this company's ability to manage its cash flow to reliably execute payments.' Response options ranged from 1 (no ability) to 6 (very good ability). Responses of 1–4 were deemed 'medium-low' and 5–6 as 'high'.

Source: ITC calculation based on SME competitiveness and COVID-19 Business Impact data collected by CCIB in Benin.

Policy insights: Financial management will foster resilience to COVID-19

The evidence in this section underscores the opportunity to boost the competitiveness and resilience of SMEs in Benin through financial management training. While most Beninese companies follow good financial management practices, the degree of financial management varies across region, firm size and sector. Businesses in the north, smaller enterprises and agricultural firms lag behind in financial management, and their ability to compete is suffering as a result.

Experience elsewhere shows that managerial training can improve the performance of struggling firms. Therefore, training programmes can be a fruitful avenue to make enterprises in Benin more competitive and resilient. Financial management training is especially important during the COVID-19 crisis, as the pandemic has unleashed a liquidity crisis.

The evidence in this section also suggests that most companies consider tax breaks and financial programmes to be the most helpful government measures for coping with the pandemic. Thus, the Government of Benin should continue using these financial support measures in the short term to keep SMEs afloat during the crisis.

Source: Yoshino (2011). Industrial clusters and micro and small enterprises in Africa: From survival to growth. World Bank.

Chapter 3

Boosting quality to access international markets

Few Beninese companies are certified 20
Certification is rare among the most vulnerable firms 21
Improving domestic information to boost certification 23
COVID-19 crisis takes a heavy toll on certified companies 25

Boosting quality to access international markets

Standards and certifications are essential to international trade and value chains.[28] Overseas markets have long been notorious for their exacting quality requirements, but regional and even domestic markets increasingly expect a high level of quality, too. Buyers require proof of certification to a standard so they can trust the quality of a product or service. This is likely to become even more important after the COVID-19 crisis.

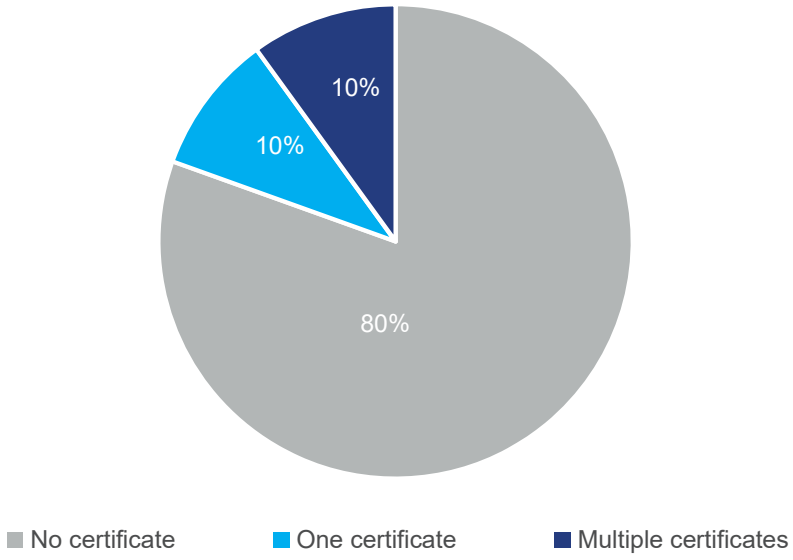
Across the globe, government-mandated containment measures such as lockdowns and confinement have led to a sharp decrease in the international flow of goods.[29] Because certified companies are more involved in international trade than non-certified companies, firms with certifications are more exposed to supply chain disruptions. Data from the SME Competitiveness Survey and from its COVID-19 module show that the pandemic has hit certified firms harder than firms without certification.

Few Beninese companies are certified

Beninese enterprises score relatively poorly on meeting the quality requirements of buyers. Figure 11 shows that four in five surveyed firms were not certified to any quality, safety, sustainability or other internationally recognized standard. However, half of those certified have multiple certificates, as often requested by international markets.

Failure to adopt certificates means that Beninese businesses are not signalling quality to potential new buyers. In fact, only 20% of the surveyed companies were exporters, but one in three firms would like to engage in international markets.

Figure 11 Four in five businesses hold no certificate



Note: Respondents were asked: 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates? Safety certificates; quality or performance certificate; sustainability certificate; other certificate.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Certification is rare among the most vulnerable firms

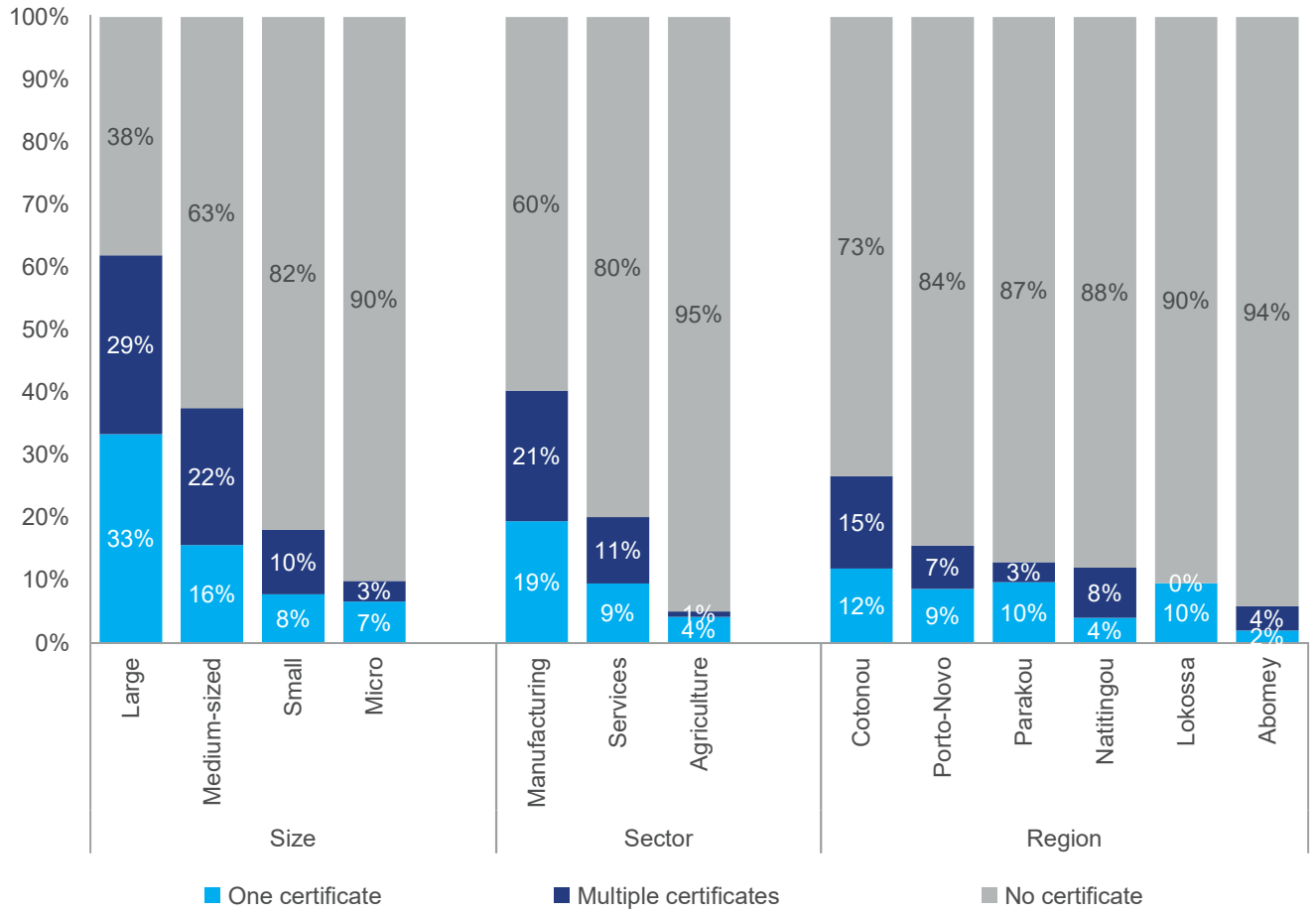
The prevalence of certification varies with the firm size. All categories of standards are more popular among large companies than smaller ones. Compliance with standards involves costs that may be too high for some SMEs. Indeed, large firms are six times more likely to be certified than microenterprises (Figure 12).

Certification also varies across sectors. Standards were most popular in manufacturing and less common in the agricultural and service sectors. Only 5% of interviewed agricultural companies[30] are certified with standards, suggesting that most Beninese farms lack the certificates increasingly required by international buyers (Figure 12). Therefore, it is not surprising that only 13% of respondents in the agricultural sector exports their goods.

Women-led companies in Benin have lower rates of certification and are nearly half as likely to export compared to men-led firms. Data from the SMECS show that 13% of women-led firms hold any kind of certification, compared to 21% of men-led firms.

In addition, fewer than 12% of women-led firms participate in export markets compared to nearly 22% of men-led firms. Women-owned businesses that export tend to be more productive, employ more workers, pay higher wages and report above-average sales than firms led by men.[31] Therefore, helping women-led firms to get certificates represents an important opportunity for economic growth in Benin.

Figure 12 Certification is rare among micro firms and farmers, and in remote areas



Note: Respondents were asked: 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates?' and 'Please select the region in which the entity you are representing is based.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Small Beninese producers find it difficult to comply with standards on agricultural goods, especially non-traditional agricultural exports such as pineapples, cashew nuts or shea butter.[32] For example, cashew nuts, which account for over $450 million in untapped export potential in Benin, must be packed in a specific way to preserve their quality.[33, 34] However, most of the required packaging is not available in the country and needs to be imported. These requirements represent additional costs for Beninese companies, which may decide not to acquire certificates, losing export opportunities.

The prevalence of international certification also varies across regions. It was most common in Cotonou and Porto-Novo (Figure 12), and less so in more remote areas such as Abomey, Lokossa and Natitingou.

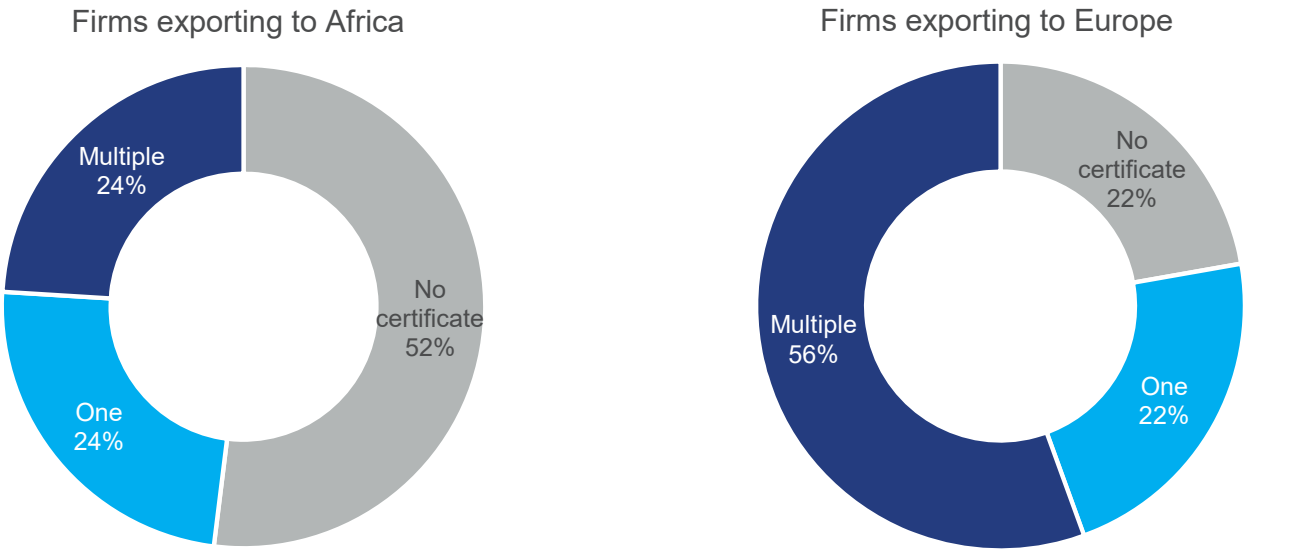
This reflects important differences in the availability of information and the costs of standards across Beninese regions. Most respondents in remote areas said information on standards was not easily accessible. On the other hand, while most firms in central areas have good access to information, they consider the services of certification bodies too expensive.

Benin is highly integrated with the regional market: 70% of its exports go to the Economic Community of West African States, mainly Nigeria. However, regional trade opportunities have diminished since 2015 due to economic reforms in Nigeria including removing oil and gas sector subsidies and banning the re-export of rice, used cars and used clothing.[35]

High quality and standard requirements limit access to international markets for Beninese firms. Interestingly, fewer than half of Beninese exporters to Africa interviewed for the SMECS have internationally recognized certificates (Figure 13). This may be explained by the use of regional, rather than internationally recognized, certificates and the pervasiveness of informal trade in Benin, which contributes to up to 20% of gross domestic product.[36]

In contrast, more than half of the firms exporting to EU markets have multiple certificates, and more than 20% have one certificate (Figure 13). The lack of internationally recognized certificates restricts the number of Beninese exporters to EU markets, underlining the importance of harmonizing regional and international certificates.

Figure 13 Certification is more common among firms exporting to Europe



Note: Respondents were asked: 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates?'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Improving domestic information to boost certification

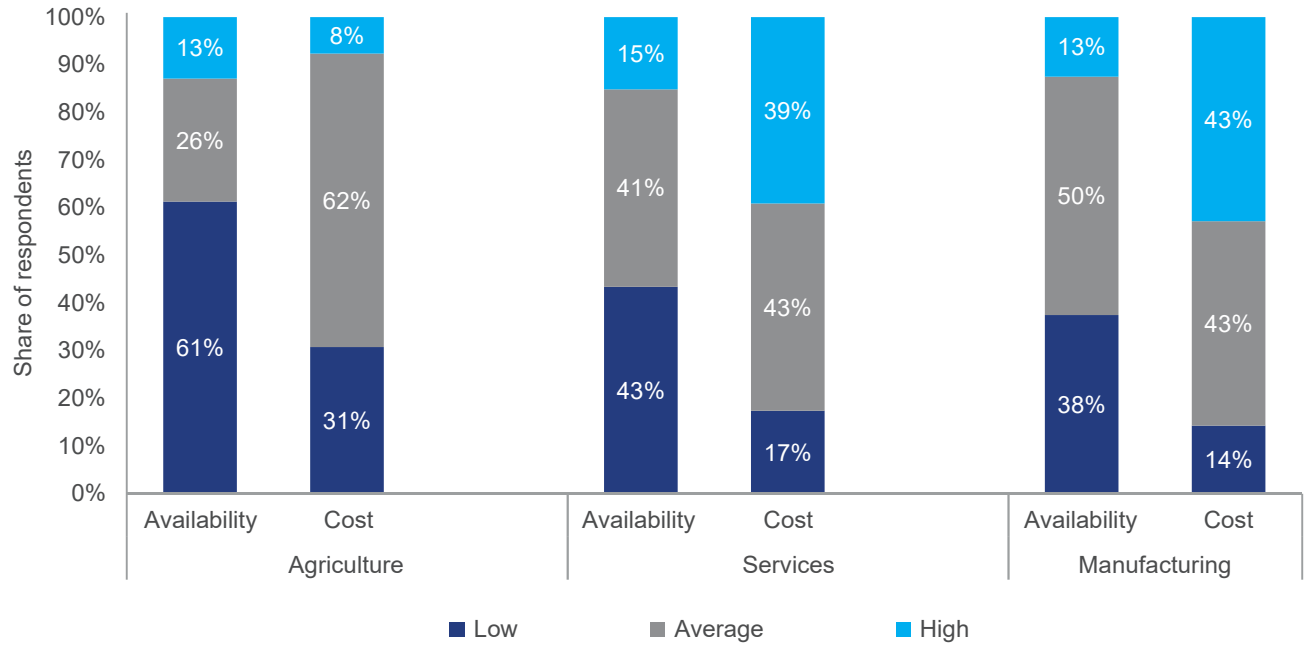
Obtaining information on standards and regulations can be difficult and costly, especially for small and medium-sized companies.[37] Beninese firms without certificates report that information on certification is not readily accessible, with almost half considering availability low to very low (Figure 14).

This is a bigger problem for the agriculture sector, which has the fewest certified companies, than for manufacturing, which has the highest share of certification. This highlights the crucial link between information and certification in Benin, and the role that relevant institutions can play in promoting information and simplifying the certification process.

Evidence collected via the ITC NTM Business Survey in Benin confirms that firms in the agricultural sector perceive the technical requirements for their products as complex and confusing. Small farmers are poorly informed about the necessary documents and the roles of agencies (such as ministries, regional authorities and chambers of commerce) in obtaining standards and certifications to export.[38]

In contrast, most respondents in the manufacturing sector believed information was available, but considered the cost of certification services to be high.

Figure 14 Companies face lack of information and high cost of standards



Note: Respondents were asked: 'Please rate the availability of domestic information on standards and certificates related to this establishment's main product or service' and 'Please rate the cost of the services offered by product testing, certification and inspection authorities.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

The survey evidence suggests that quality performance is a major weakness of Beninese SMEs. Making information on standards and technical regulations more easily accessible to firms is crucial for SMEs to signal the quality of their goods to new buyers across borders.

General and sector-specific trade and support institutions can help address this challenge by disseminating relevant information. These organizations interact directly with businesses and are well positioned to understand their information needs.

SME managers also need to be able to digest and use this information constructively. Technical assistance is essential for the successful adoption of the standards. For example, ITC, with partners such as the International Organization for Standardization, Germany's National Metrology Institute and the United Nations Industrial Development Organization, provides practical information for SMEs to understand standards and technical requirements. This includes training workshops, tools, guides and bulletins.

Box 3: A quality label for fresh Beninese pineapple

The attractiveness of a pineapple sold in a European grocery depends on its colour and size – but the quantity of the chemical used for colouring must be carefully measured to avoid refusal at the EU border.

Few small-scale producers in Benin are aware of these international standards. They are more familiar with consumer quality standards in domestic (Cotonou, Porto-Novo, Calavi, Sèmè, etc.) and regional markets (such as Lomé, Togo, and Lagos, Nigeria), which are largely related to taste. This is one reason most fresh pineapple is sold either on national or regional markets.

It was estimated that less than 2% of the production was exported to Europe. This is far below the export potential, given that Benin has favourable production systems, coastal access and well-appreciated cultivars.

Thus, providing an adequate regulatory framework, verification and training is crucial. A quality label for fresh Beninese pineapple was created in July 2016, as part of a pineapple labelling project led by ITC in collaboration with Ministry of Industry and Trade. This label makes it possible to guarantee the origin and quality of the fruit, and to improve its visibility on foreign markets. Similar projects on important exports would benefit Benin's trade.

Better information availability is especially relevant in the agricultural sector, which employs 40% of the working population in Benin[39] and where certification rates are quite low. Numerous farm products – mainly cotton and textiles, cashews, pineapples and fisheries products – have considerable export development potential.[40] Adopting standards can make Beninese small farmers more competitive, facilitate their access to international markets and strengthen their contribution to more and better jobs.

COVID-19 crisis takes a heavy toll on certified companies

Containment measures aimed at limiting the spread of the coronavirus across countries have led to a sharp decrease in the international flow of goods.[41] In addition, demand for inputs has dropped in major supply chain players including the United States, the European Union and China. Certified companies are more exposed to these supply chain disruptions, because they engaged in more international trade than non-certified companies.

Survey findings show that the pandemic has hit certified businesses in Benin harder than firms without certifications.

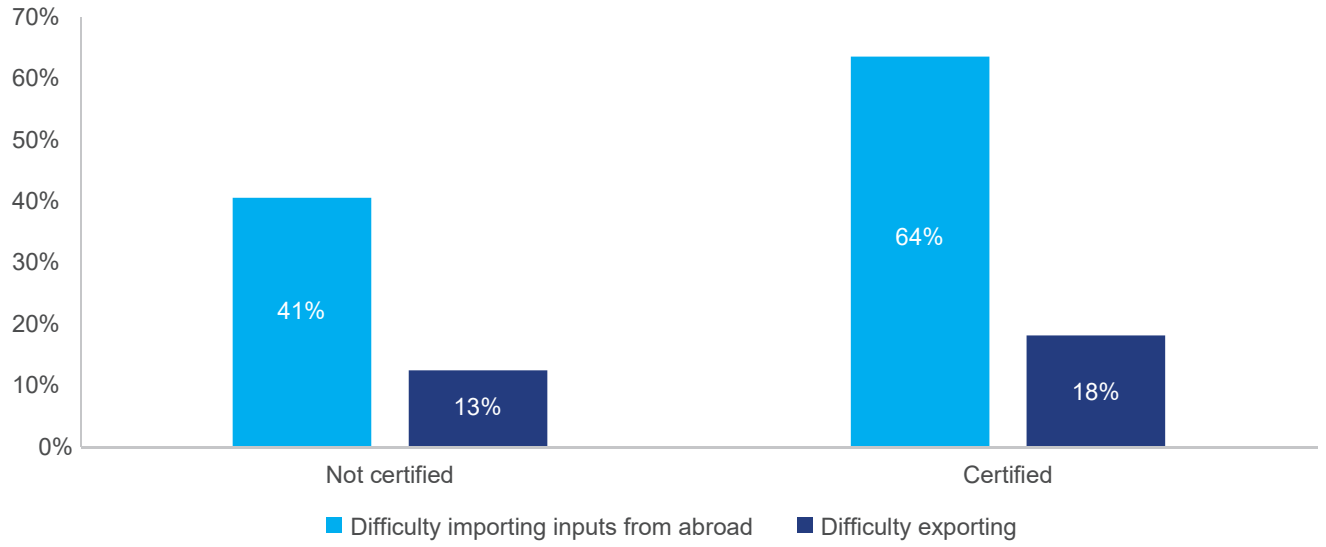
Certified companies are more likely than those without certification to report difficulty accessing imported inputs and exporting their goods. Two-thirds of certified firms struggle to import inputs, compared to two in five firms without certification (Figure 15). This is likely due to economic troubles related to COVID-19 in the source country.

Almost half of certified companies that have experienced problems with importing, import their products from China, where the pandemic struck first, compared to 25% of non-certified companies. In addition, certified enterprises face more difficulty exporting their goods, as demand for inputs has declined in Benin's major partners (Box 4).

This disruption in global value chains underscores the importance of investing in strong regional supply chains for essential goods to hedge against systemic international shocks.[42] The 'great lockdown' provides a powerful rationale to immediately implement the African Continental Free Trade Area. This historic agreement to remove trade barriers across the continent seeks to create an institutional ecosystem to address Africa's marginal role in global value chains, its structural trade imbalance and its overreliance on commodity markets.

The African Continental Free Trade Area can act as a catalyst for SMEs to achieve greater economic efficiency to meet the demands of an integrated market. Integrating regional trade will create a market of 1.2 billion consumers. As a by-product of regional integration, industrialization will strengthen economic diversification and resilience.[42]

Figure 15 Certified firms have trouble accessing inputs and selling abroad



Note: Respondents were asked: 'Has the coronavirus (COVID-19) pandemic affected the ability to purchase inputs for your enterprise and/or sell outputs? (multi-select)'and 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates?'

Source: ITC calculation based on SME competitiveness and COVID-19 Business Impact data collected by CCIB in Benin.

Box 4: Supply chain disruptions will hit copper and cotton

Fresh ITC analysis of global value chain data indicates that Benin's exports of intermediate inputs will fall by almost $7 million, assuming a two-month long shutdown of manufacturing facilities in all partner countries due to the pandemic. According to this analysis, the disruption of trade with China is responsible for more than half of the total anticipated reduction of exports of intermediates from Benin. The second- and third-biggest sources of disruption are India and Bangladesh, each of which is responsible for about 15% of the total anticipated reduction of Benin's intermediate exports.

A few product lines are driving these results, with cotton and copper together accounting for about four-fifths of the anticipated decline in Beninese exports of intermediate inputs.

According to the novel ITC analysis, copper is the most affected product. It accounts for 42% of the expected export drop, translating into an anticipated loss of $3 million. Copper-zinc alloys (brass), unrefined copper and copper billets are the most affected items. The disruption of trade with China is responsible for almost the entire decline of Beninese copper intermediary exports.

Beninese exports of cotton inputs are expected to decrease by about $3 million. This drop is mainly driven by factory shutdowns in Bangladesh and China, which are responsible for 33% and 26% of the loss in the Beninese cotton sector, respectively. Interrupted access to inputs, namely artificial and synthetic filaments sourced from China, has affected the cotton sector in Benin. Many SMEs and women workers are active in this sector, signalling that supply chain disruptions will strongly affect these vulnerable groups.

Source: ITC (2020c), *op.cit*.

Policy insights: Improving certification

The survey evidence suggests that quality performance is a major weakness of Beninese SMEs. Better quality infrastructure could improve access to information on market quality requirements, but real resources also must be dedicated to certification if small firms are to signal the quality of their goods to new buyers across borders.

There is, however, a chicken-and-egg problem here, as SMEs often need financing and assistance from buyers to adopt these schemes. In the absence of pre-existing buyers willing to finance certification, there is a role for government and development institutions to support the certification process.

Certification will become increasingly important as global value chains reorganize and international trade resumes after the COVID-19 crisis. Buyers are likely to prioritize the sanitary production standards of venders. Certifications of sanitary quality can help give Beninese firms an edge in the reawakening global marketplace.

The adoption of standards by African SMEs – in Kenya and Morocco, for example – has fuelled increased agricultural exports in these countries, indicating that there may be lessons to learn from across the region.

In addition, accommodations must be made with respect to the ongoing health crisis. Beyond setting standards and offering certifications, accreditation bodies should also ensure they can undertake desk audits when lockdowns and social distancing prohibit on-site assessments.

Source: Enquête sur la compétivité des PME exportatrices au Maroc. Geneva, Switzerland: International Trade Centre; ITC (2019c). Promoting SME Competitiveness in Kenya: Targeted Solutions for Inclusive Growth. Geneva, Switzerland: International Trade Centre; ITC (2020c), *op. cit.*

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Chapter 4

Investing in infrastructure for timely delivery

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Investing in infrastructure for timely delivery

The ability of a firm to compete is reflected in its ability to meet time requirements.[43] The proliferation of lean supply chains and e-commerce mean timely delivery is more important than ever for competitiveness. Transport and logistics services are critical for delivery times and can determine whether a company can join a global value chain and begin exporting.[44]

Long journeys and delivery delays result in high costs and can damage the goods being transported. Benin has invested heavily in infrastructure over the last 30 years, making considerable progress. Still, sizeable investments in transport infrastructure are needed to unleash trade opportunities for local firms.

Evidence from the SMECS indicates that Beninese firms perform well in terms of delivering goods and services on time. However, this strong performance masks significant differences across sectors, size and regions. A firm's access to quality infrastructure and logistics services appears to affect the capacity to meet time requirements.

Strengthening the transport infrastructure and logistics services across the country would boost the competitiveness of SMEs. Addressing infrastructural challenges would also enable Benin to exploit its potential to the fullest – including its agricultural and agro-industrial potential, as well as its role as the gateway to the West Africa.

Reliable delivery of goods is becoming increasingly important as more consumers shop from home due to lockdowns and social distancing.[45] Inventory management will also become more important as the COVID-19 crisis strains supply chains, making it harder to access inputs and new inventory quickly.

The survey data show that companies with good inventory management practices have less difficulty accessing inputs and are more resilient to COVID-19 than firms with poor inventory management. Benin can use inventory management training to boost the resilience of businesses to external shocks.

Improving inventory management for timely delivery

Beninese companies excel at delivering their products and services on time, with an average 80% of goods and services delivered according to schedule. More specifically, the survey found that more than one-third of firms always delivered goods and services on time, and 38% had punctual deliveries at least 75% of the time (Figure 16).

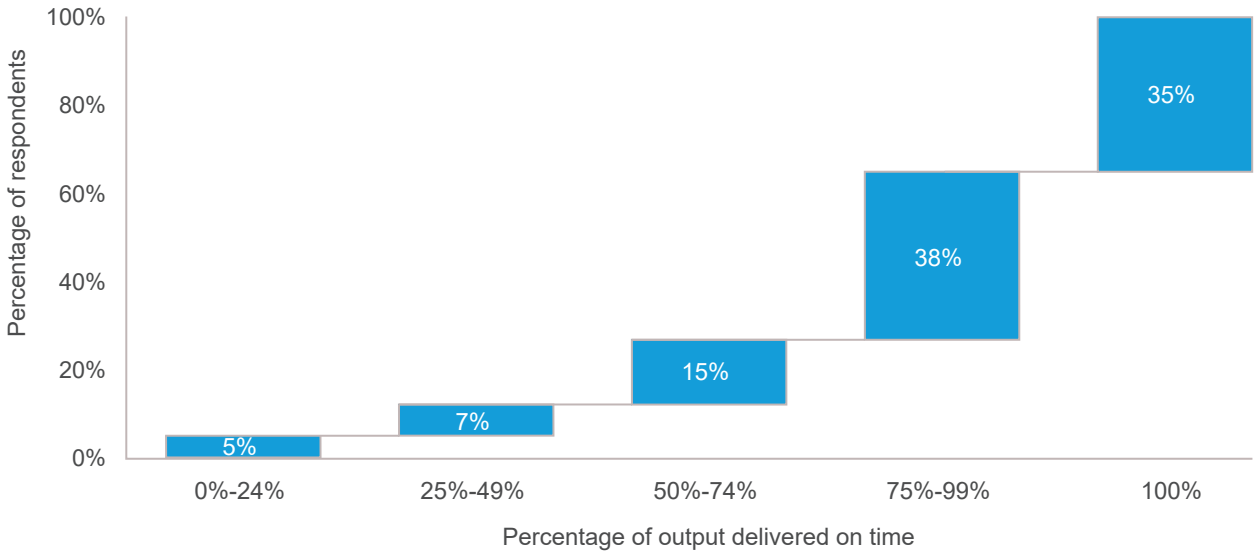
The ability of a company to meet the time demands of markets is closely tied to how it is managed. Adopting professional inventory and cash flow management can ensure that production is smooth. Interestingly, 64% of the firms that deliver more than three quarter of their products and services on time have high-quality inventory management, while only one in three firms that deliver fewer than half of their goods on time has high-quality inventory management (Figure 17).

Inventory management is weaker in the agricultural sector than in manufacturing, and agricultural firms have less punctual deliveries. This means there are opportunities to improve inventory management for agricultural businesses. Management trainings for these firms are a high-return investment of technical assistance resources, as they address management capacity gaps that would otherwise decimate SMEs in the agricultural sector. This, in turn, would boost the competitiveness of Beninese agricultural companies and the income of many agricultural workers.

Beninese companies need better infrastructure

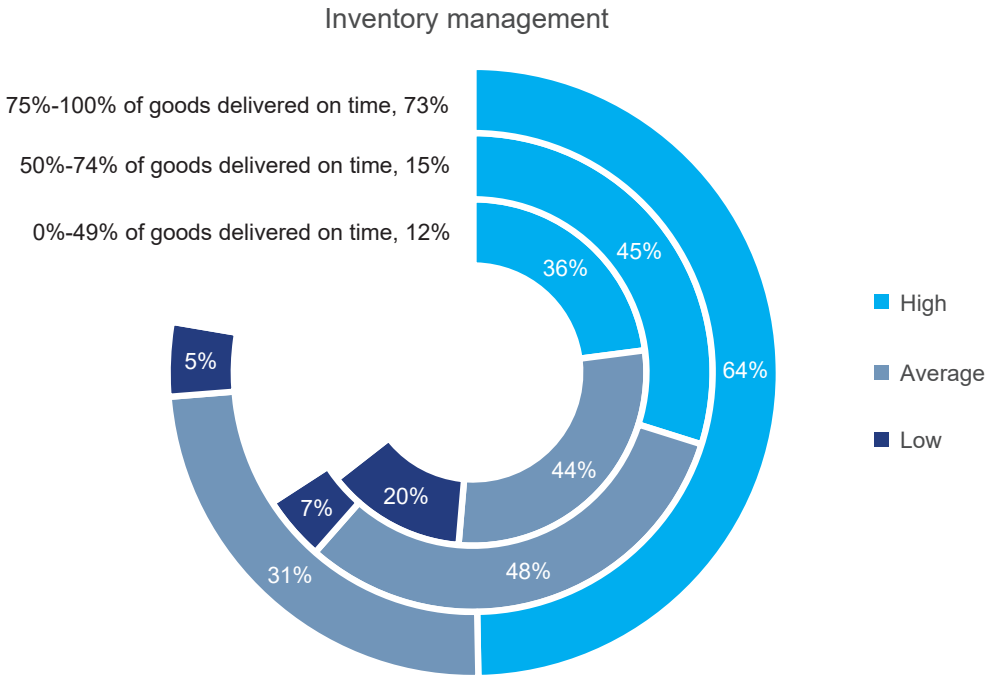
Firms rely heavily on infrastructure networks such as roads, telecommunications and the supply of utilities. High-quality infrastructure can reduce costs and delivery times, and facilitate connections with suppliers and customers. Infrastructure is thus essential for competitiveness.

Figure 16 Most goods and services are delivered on time



Note: Respondents were asked: 'In the last year, what percentage of this company's goods or services were delivered on time?'
Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Figure 17 Strong inventory management facilitates timely delivery



Note: Respondents were asked: 'In the last year, what percentage of this company's goods or services were delivered on time?' and 'Please rate the efficiency of this company's inventory management system.'
Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Substantial investment in infrastructure is needed in Benin. The inadequate infrastructure has reduced the profitability of economic activity and been an obstacle to growth.[46] Not surprisingly, one in five interviewed firms identified infrastructure its top challenge.

With the *Programme d'Actions du Gouvernement* for 2016–2021, the Government has implemented a large-scale infrastructure investment programme in three priority sectors – transport, energy and ICT –to solve this issue.

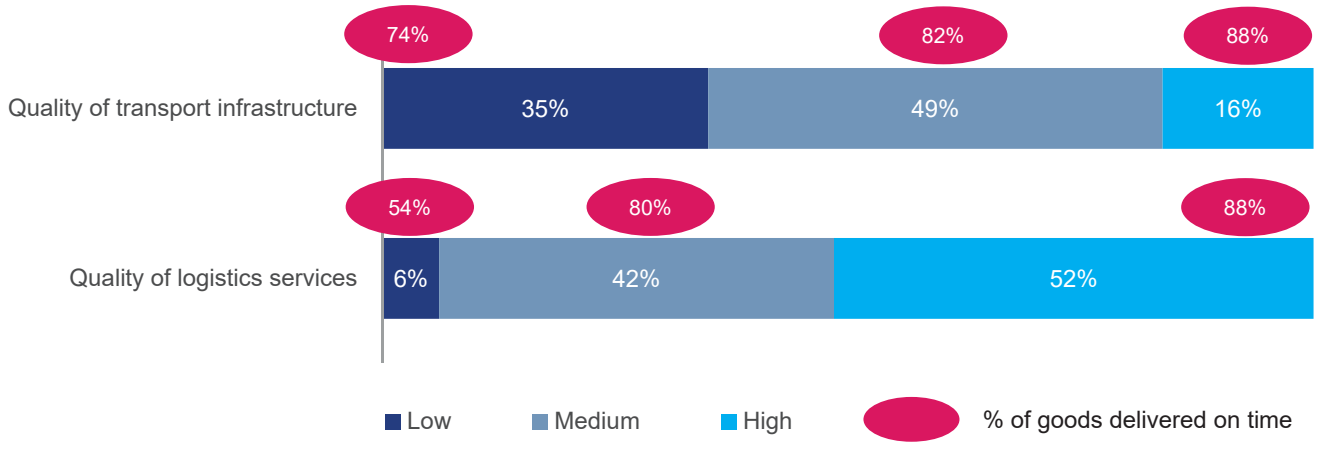
The ability of a business to deliver punctually depends greatly on the quality of transport infrastructure and logistics services. As Figure 18 shows, firms that rated the quality of transport infrastructure as low delivered fewer goods and services on time than those reporting high-quality infrastructure.

About 35% of interviewed Beninese firms rated the quality of transport infrastructure as low (Figure 18). Roads are the most popular mode of transport, accounting for three-quarters of goods transportation. However, only 10% of roads are paved.[47] The network of rural tracks is still very inadequate and many areas are cut off during rainy season.[48]

The quality of transport infrastructure varies across regions. Firms in northern regions value the quality of infrastructure as particularly low, with 80% of those in Parakou's giving low ratings. Parakou lies at the intersection of a few major road networks, but poor maintenance of these roadways exposes businesses to higher vehicle operating costs and places drivers at greater risk for accidents.[49]

Facilitating access to farming areas and reducing transport costs could increase SME competitiveness and help reduce poverty. Actions to improve infrastructure would enable Benin to benefit from income-generating opportunities offered by its agricultural potential, access to the Economic Community of West African States market and its position as a corridor serving the subregion. They would also contribute to the development of trade in West Africa and inclusive growth in Benin.

Figure 18 Better transport infrastructure and logistics services cut delivery times



Note: Respondents were asked: 'In the last year, what percentage of this company's goods or services were delivered on time?' and 'Please rate the quality of the services offered by the logistics services companies this company uses' and 'Please rate the quality of transport infrastructure in your location.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Investments in infrastructure tend to work best when governments collaborate with the private sector to identify constraints and suggest solutions. This challenge is incorporated in the *Programme d'Actions du Gouvernement*, under which transport infrastructure development would absorb 25% of projected investments.

Infrastructure is also vital for most logistics services. Half of surveyed firms rated logistics services as good or very good. The high quality of these services may explain the high rate of timely delivery among Beninese firms (Figure 18). On average, firms that rate logistics services highly deliver 88% of goods and services on time, while those with low-quality logistics deliver only 55% of goods on time.

Logistics costs, which often depend on external factors, are an important share of the value of final goods produced, especially for SMEs and in developing countries.[50] These costs are very high in Benin. One in five Beninese respondents does not use logistics services, probably because of the cost. This is especially true of agricultural enterprises, almost half of which do not use logistics companies.

Interestingly, when asked to identify the main challenge in meeting delivery requirements, agricultural firms most frequently pointed to transport-related issues. Many mentioned the lack of access to logistics services and the need to buy motorized tricycles, small trucks or other means of transport.

Furthermore, of the few agricultural firms that use logistics services, just 15% rate the quality of logistics as high, compared to 50% of manufacturers. Transport and logistics services are very important for the competitiveness of agricultural and agri-food firms, because the goods they produce are perishable.[51]

Benin has considerable export potential in cashews, pineapples and fresh fruit juices. However, the low quality and high cost of logistics services make it more difficult for agricultural and agri-food firms to join global value chains and begin exporting. Tackling infrastructural challenges can greatly reduce logistics costs, enabling SMEs in the agricultural and agri-food sector to use these services and creating trade opportunities.[52]

Inventory management increases resilience to COVID-19

Good inventory management helps companies deliver goods on time. This is becoming more important as a growing number of consumers shop from home, given lockdowns and social distancing.[53] Inventory management will become even more crucial as the COVID-19 crisis strains supply chains, making it harder to access inputs and new inventory quickly.

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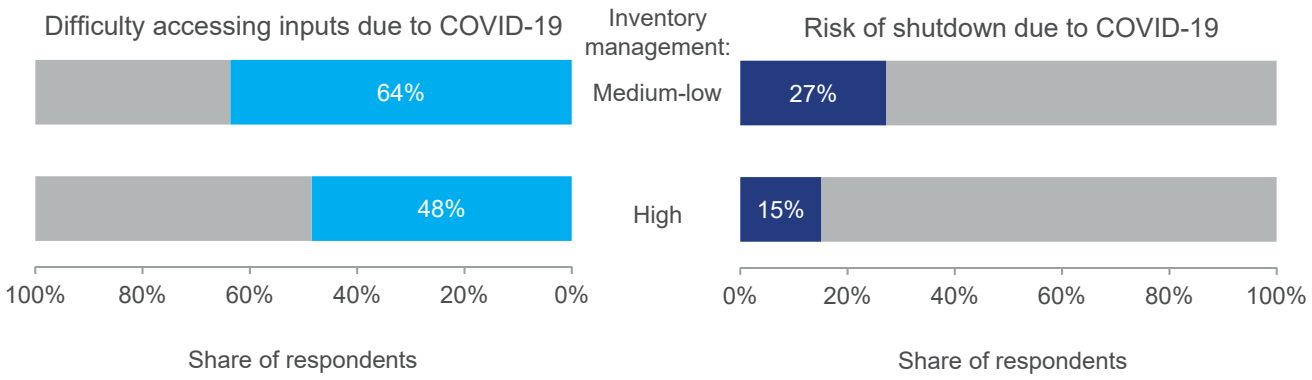
Firms that manage inventory efficiently are better positioned to weather the crisis. This is partly because the skills needed to manage inventories are useful to secure inputs. Two-thirds of Beninese enterprises with medium to low inventory management efficiency have difficulty accessing inputs. In contrast, fewer than half of firms with highly efficient inventory management have problems obtaining inputs.

Furthermore, good inventory management practices are helping firms survive the COVID-19 crisis. Only 15% of companies with highly efficient inventory management plans to cease operations, while 27% of firms with medium or low inventory management techniques plan to cease operations in the next few months (Figure 19). The robustness of firms with good inventory management practices reinforces the importance of management training as a potential way to build resilience against future crisis.

Figure 19 Firms that manage inventories well have less difficulty accessing inputs



Note: Respondents were asked: 'Please rate the efficiency of this company's inventory management system?' and 'Has the coronavirus (COVID-19) pandemic affected the ability to purchase inputs for your enterprise and/or sell outputs?' and 'Do you think there is a risk that your business will permanently shut down because of this crisis, and if so, when could this closure occur?'

Source: ITC calculation based on SME competitiveness and COVID-19 Business Impact data collected by CCIB in Benin.

Policy insights: Continue investing in transport infrastructure

The insights generated from this analysis indicate that continued investment in transport infrastructure would enhance SME competitiveness in Benin. Because the country is positioned as a corridor for West African trade, investment in transportation infrastructure would help solidify its reputation as a valuable trade intermediary. However, the poor quality of roads, particularly in northern regions, exposes firms to higher vehicle operating costs and places drivers at greater risk of accidents.

Efforts to improve infrastructure tend to work best when governments collaborate with the private sector to identify constraints, suggest solutions, remedy policy gaps and provide a supportive domestic environment for trade logistics service providers.

In addition, lowering the costs and improving terms and conditions would make transport and logistics services more accessible for all types of companies in Benin, especially agricultural firms. Finally, better dissemination of information can help small farmers understand all the options offered by logistics providers, boosting their trade opportunities.

Sources: World Bank (2015b), *op.cit.*; Carruthers, Robin (2018). Financing Infrastructure in the Transport Sector in Landlocked Developing Countries: Trends, Challenges & Opportunities. New York, NY: Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS).

Chapter 5

Skills are essential for success

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Skills are essential for success

A skilled and educated workforce is vital for businesses to anticipate change and adjust to it.[54] Skills and education are particularly important today, given the tremendous changes and disruption brought by COVID-19 and the transformational changes brought by international trade integration, technology, climate change and demography.[55]

Workforce education, experience, and cognitive and noncognitive skills[56] underpin the productivity of a company, as well as its ability to export[57] and diversify the goods and services it sells overseas.[58] A skilled workforce is also key to achieve resilience, by spurring technological progress and innovation.

Companies taking part in the SME Competitiveness Survey in Benin were generally satisfied with the skill sets of their workers and those available in the labour market. However, a closer look shows that youth lack relevant skills and this undermines productivity. Benin can improve skill matching in the labor markets by making education and training systems more demand driven. This would improve innovation and competitiveness of SMEs, given the high share of youth employed in small and medium-sized firms.

Firms will need both creativity and innovation to deal with the economic changes brought about by the pandemic. Survey data show that companies with good skill matches are more likely to take the long view in the COVID-19 fight. In addition, innovative businesses in Benin are better positioned to cope with the crisis.

Smaller and remote firms lack skilled workers

The SMECS suggests that a lot of Beninese companies are satisfied with the skills of their workers and those available in the labour force. Nonetheless, many need a more suitably skilled labor supply.

Matching company needs with the skills supplied by education systems is not always easy, and it is a usual cause of inefficiency.[59] Micro and small firms find it harder than large firms to match workforce skills with their own needs (Figure 20, left). This is because even if skilled workers are available to hire, smaller firms often lack the established process to select the best candidates (Figure 20, right).

African SMEs often rely on friends and relatives (of the owners and employees) and unsolicited applications to fill vacancies. The common method of recruitment is word of mouth, increasing the risk of hiring unprepared staff.[60]

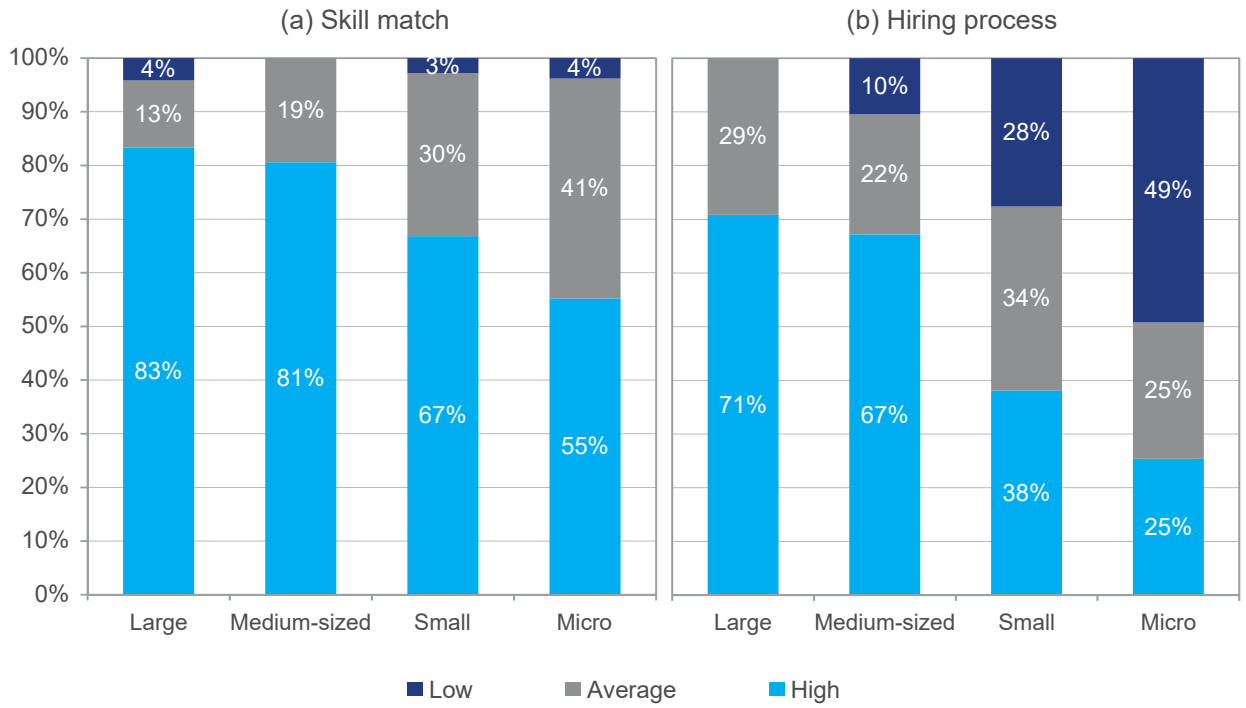
Previous research has found that just 20% of Beninese firms offer formal training to improve the skills of their employees – a much lower proportion than in other countries in sub-Saharan Africa.[61] SMEs are likely to face more severe resource constraints (as shown in Chapter 2) than larger firms, which means it will be tougher for them to invest in strengthening the skills of their workers.

ITC survey data, for example, show that more than half of large Gambian companies provide in-house training, compared with just one-third of micro, small and medium-sized enterprises.[62] Therefore, weaknesses in the skill mix available in the labour market usually affect smaller businesses disproportionally, because they have very limited resources to invest in training. Education, including vocational education and training systems providing knowledge and skills that are in demand, is vital for the competitiveness of micro, small and medium-sized firms.[63]

Geographical disaggregation also highlights different results on skill availability across economic regions of Benin. Companies in the south were generally happier with the availability of skilled workers than those in the north. This may be due to the fact that the supply of training is unevenly distributed geographically: more than half of schools and two-thirds of all trainees are concentrated in areas on the Atlantic coast.[64]

Therefore, customized training programmes should be created to include youth and women living in northern economic regions. Virtual learning can offer a way to leapfrog constraints and ‘skill up’ the Beninese workforce.

Figure 20 Smaller companies have weaker hiring processes and skill matches



Note: Respondents were asked: 'Please rate the extent to which your company has an established hiring process to hire the best candidates' and 'Please rate the extent to which the skill set of currently employed workers matches the needs of this company' and 'Please rate availability of skilled workers for hire.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

For instance, the ITC SME Trade Academy partnered with Sri Lanka's National Institute of Exports to develop an online course, touching international trade and cross-border procedures. This allowed students to be trained without physically leaving their workplaces.

To fully benefit from e-learning, however, the Government of Benin will need to invest in building the digital infrastructure, such as high-speed internet and mobile virtual networks, which are needed to enable the development of appropriate skills. This will be very important to help businesses outside of Cotonou, where most firms have no internet access whatsoever.[65]

Promoting youth skills to harness the demographic dividend

Benin has a youthful population – almost 65% of Beninese are under the age of 25 – that is bolstered by high fertility and population growth rates.[66] This young and growing workforce can be an asset in driving economic transformation, if it has the right skills.

The country has made significant progress in education, abolishing pre-primary and primary school fees in 2006–2007 and including 'improving educational performance' as one of the seven priorities in the Revealing Benin investment programme.

Benin must accelerate efforts to improve education to benefit from the demographic dividend and ensure that its young population becomes a productive force for the economy. Small Beninese businesses hire large numbers of youth, so improving youth skills will promote SME competitiveness.

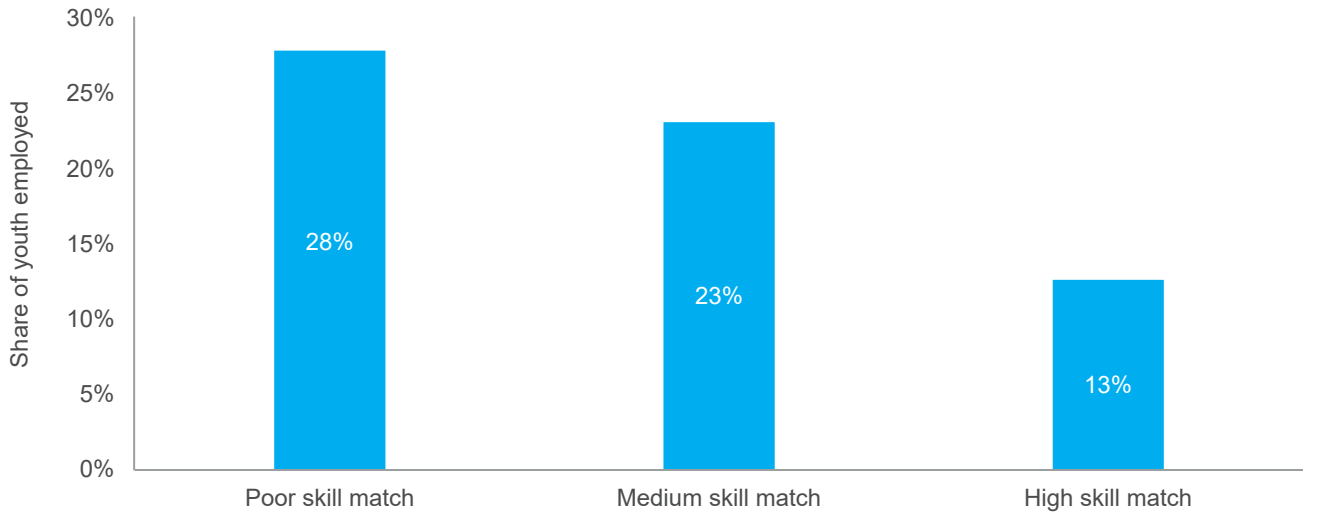
ITC survey results highlight the importance for young workers to enter the labour force with appropriate skills. Companies that reported a good match between their workforce and their needs had a smaller proportion of youth employees than firms reporting a poor skill match (Figure 21). This indicates that Beninese firms are not entirely satisfied with youth skills.

Only 13% of workers in enterprises with good skill match are under age 25, compared to 28% in firms with inadequate skill match. One tyre retailer in Porto-Novo

said the biggest challenge related to labour is 'to bring know-how to younger generations'.

Young Beninese workers also confirmed the skill mismatch. According to the School-To-Work Transition Surveys carried out by the International Labor Organization, 40% of young Beninese workers considered their skills to be inadequate, and two in three workers had an insufficient level of education.[67]

Figure 21 Firms employing more youth are less satisfied with their worker skills



Note: Respondents were asked: 'Please rate the extent to which the skill set of currently employed workers matches the needs of this company' and 'How many full-time employees younger than 25 years of age does this establishment currently employ?'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Beninese companies that cannot find young employees with the skills they need may hire fewer youth workers. The SMECS results indicate that only one of five full-time workers in interviewed firms is a youth.[68] Indeed, youth unemployment is a well-known consequence of skill mismatch.

Not surprisingly, the share of unemployed Beninese youth is double the share of adults,[69] posing high security risks.[70] At the same time, the lack of skills among youth impairs firm competitiveness. This is particularly true among SMEs, which employ a larger share (20%) of youth than large firms (where the share is 6%). Thus in Benin, the twin problem of youth unemployment and low SME competitiveness can be solved jointly by promoting youth skills.

In many Beninese industries, a lot of youth have formal qualifications but lack the actual skills demanded by employers. Previous research estimated the employability rate of graduates from vocational training courses at 10%, reflecting the unsuitability of the training for employment.[71]

The prevalence of such skills mismatches, especially for youth, suggests that the development of skills should remain a central strand of national policymaking in Benin.

To assist better matching of youth skills with firm needs, the Government needs to develop a demand-driven education system in sync with employers' needs. Partnerships among the private sector, government and local education institutions are vital for upskilling and reskilling. Learning programmes are more effective when all stakeholders are involved, with co-funded models showing strong potential. These are typical of successful vocational education systems, such as that of Germany.[72]

Programmes that combine technical and life skills training with on-the-job training can also support the development of the youth skills needed.

Improving skills in the services sector to foster innovation

The ability to transform knowledge and ideas into new products, processes and systems is fundamental to a company's capacity to change. When it comes to skills and innovation in Benin, manufacturing firms are the strongest (Figure 22). SMECS data reveal that Beninese firms with high skill matches are 20% more likely to innovate.

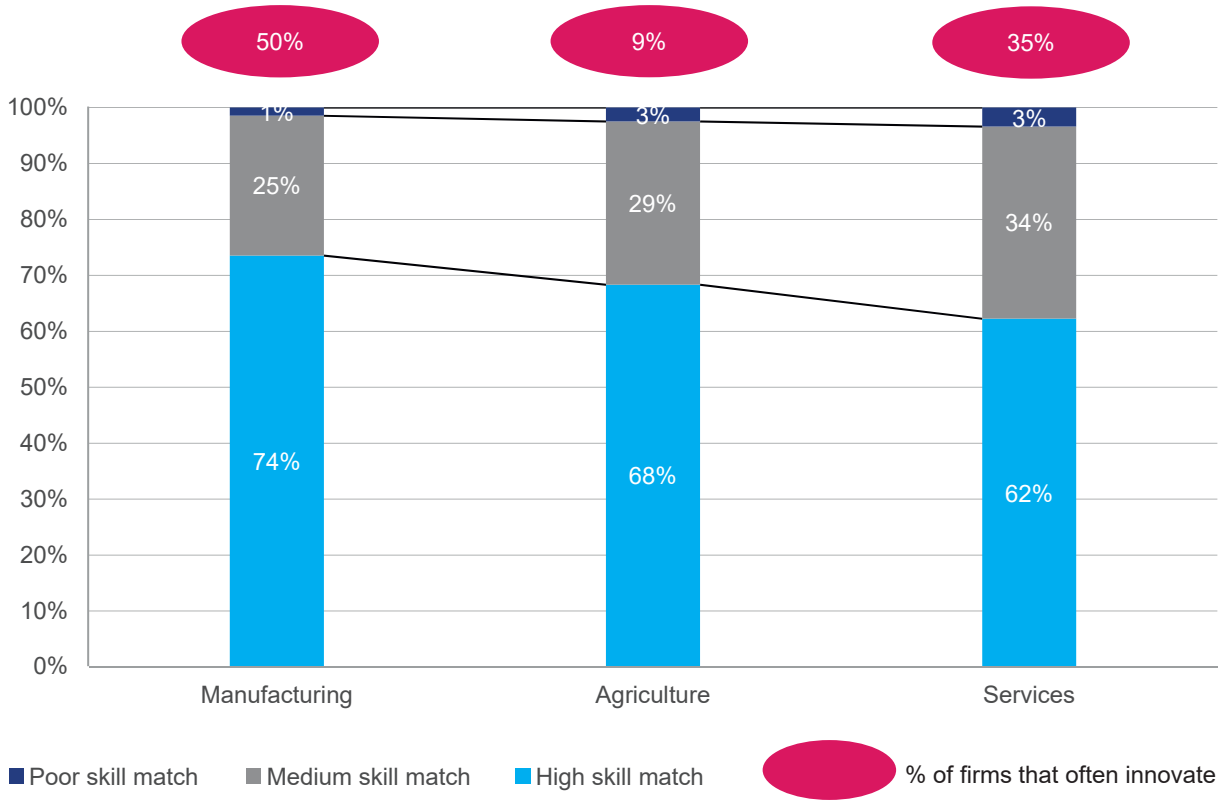
It is no surprise that half of interviewed manufacturers often introduced new or improved goods or processes. Innovation is most common in food manufacturing, showing the potential of this subsector. The National Development Plan highlighted the agri-food sector as the driving force behind the transformation of the Beninese economy.

The least innovation occurs in crop and animal production, with just 7% of enterprises innovating (Figure 22.)

It is worth noting that the service companies that were interviewed perform worse than manufacturing and agricultural firms when it comes to skill matching. Only two-thirds of service firms are satisfied with the skill sets of their workers.

This may be due to the underuse and low quality and relevance of vocational education and training in the service sector. Service companies have a harder time than manufacturing and agriculture firms finding skilled workers. About half of the surveyed companies in the service sector are satisfied with the availability of workers, compared to 70% in agriculture and 60% in manufacturing.

Figure 22 Innovation and skills are strongest among manufacturers



Note: Respondents were asked: 'Please rate the extent to which the skill set of currently employed workers matches the needs of this company' and 'Please rate the frequency with which your company develops and implements new or improved processes or products.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Indeed, SMECS data show that few service firms are satisfied with the quality of technical and vocational institutes. Many said their biggest labour challenge is finding workers with the skills they require. This hinders innovation in the service sector.

To foster innovation and productivity of small service companies, the Government of Benin should develop a demand-driven education system in sync with employers' needs. This will help ensure that worker skills better match job opportunities in the service sector, benefiting SME competitiveness and the many women working in the sector.

Improving skills and innovating to withstand the crisis

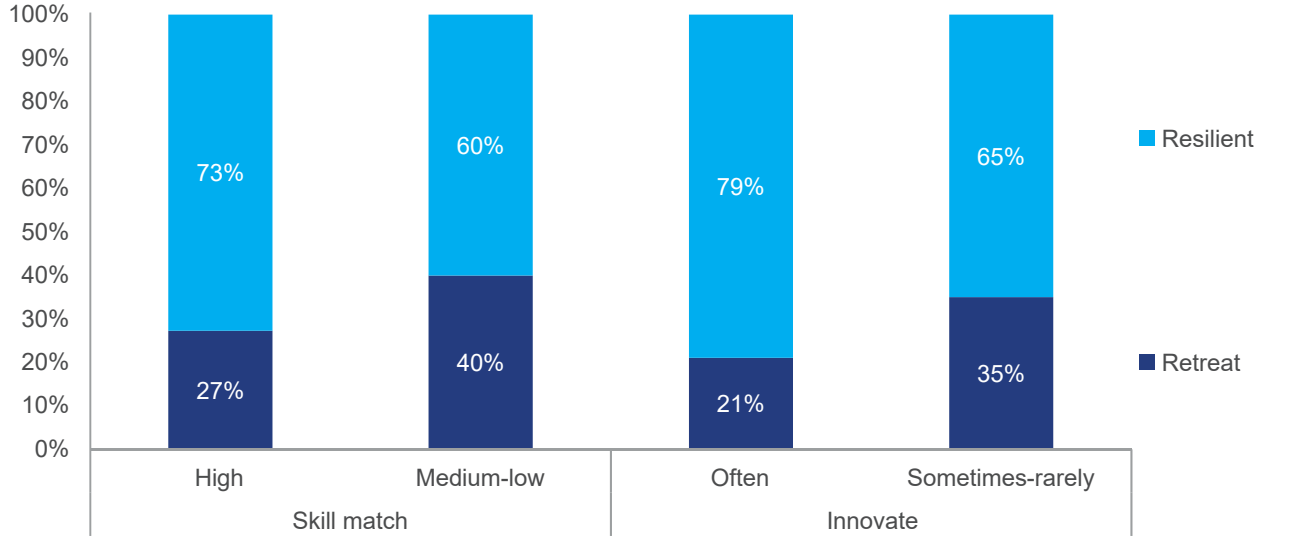
Firms must innovate to adjust to the changes wrought by COVID-19. Innovation requires patience and a long-term managerial perspective, because it involves investing in something that will pay off at a later date. It also requires the ability to cope with considerable uncertainty.

Innovating requires planning and good financial management to mitigate the risk that some innovative efforts will not succeed.[73] Evidence from the ITC survey shows that innovative businesses are better positioned to manage the COVID-19 crisis. Four of five companies that innovate adopt resilient strategies to deal with the crisis, while only two-thirds of companies that rarely innovate adopt such strategies (Figure 23).

Skill matching is also important in dealing with COVID-19, because the right workers will be able to come up with creative solutions to problems.[74] Skill matching fosters creativity, because people whose skills complement their jobs tend to be happier with their work and are good at developing firm-specific skills on the job.[75, 76] If these workers know the product and the production process well, they may be able to develop creative solutions to the challenges brought on by the crisis.

Indeed, data from the 45 firms that participated in both surveys show that businesses with good skill matches are more likely to embrace resilient strategies, such as proposing new products or business models according to market trends, shifting the sales mix towards online channels or sourcing from new suppliers. Three-quarters of the companies with a good matches between worker skills and company needs have adopted resilient strategies to deal with the crisis. However, fewer than two-thirds of the companies with medium or poor skill matching adopt resilient strategies (Figure 23).

Figure 23 Firms with better skills and more innovative embrace resilient strategies



Note: Respondents were asked: 'Please rate availability of skilled workers for hire' and 'Please rate the frequency with which your company develops and implements new or improved processes or products' and 'Have you adopted any of the following strategies to cope with the crisis?'

Source: ITC calculation based on SME competitiveness and COVID-19 Business Impact data collected by CCIB in Benin.

Box 5: Successful agricultural training in Benin

SMECS results show that Beninese agricultural enterprises were the most satisfied about the availability of skills in the market and the quality of skills training. This could be due to investments since 2010 in technical and vocational training in the agricultural sector by the Government, in collaboration with donors and the private sector. The rapid expansion of Agricultural Technical Vocational Education Training in Benin in the last decade produced a growing number of trained students, both at the tertiary and secondary level. In 2008–2013 alone, four new agricultural technical high schools and two university centres of agronomy were opened.

For example, the Songhaï centre, founded in 1985 in Porto-Novo, provides training to young people on sustainable agriculture using local resources. Students are equipped to set up small-scale businesses in rural areas. Technical training covers piggery, fishery, vegetable production and post-harvest practices. With the support of the local government and multiple donors, the Songhaï centre is expanding its activities.

Sources: Review of ATVET Best Practices in Africa (2013). See https://www.nepad.org/publication/review-agricultural-technical-vocational-education-and-training-atvet-best

Policy insights: Demand-driven vocational training

Partnerships between technical and vocational training institutions and the private sector can ensure that the skills taught are relevant for the private sector. In Singapore, for instance, the Ministry of Trade and Industry and the National Manpower Council created an interlocking system of communication and interaction among government bodies, the private sector and higher education and training institutions to ensure that workforce skill demands were translated into changes in the population skill set. These initiatives have been crucial to the island nation's successful upskilling of its workforce in the last 40 years.

Support for ongoing training of workers within a firm and in training institutions can also ensure that companies have the skills needed to meet the challenges of COVID-19. The Government and business support organizations can promote good skill matching through formal skills testing and assessment.

Inadequate information about worker skills is a major challenge in matching jobs to workers. Formal assessments can help businesses identify suitable skills more easily and can help workers prove their skills to hiring managers.

A template for this already exists in Benin. Local federations (collectifs) were developed in the mid-1990s to provide formal assessments of skills for craftspeople. Business support organizations, which know the needs of firms in their industries, can develop appropriate assessments and can expand testing sectors outside of the craft industry.

The Government can also encourage creativity through grants and cash prizes for innovation related to COVID-19. The economic effects of the pandemic represent a shared experience for Beninese firms, and businesses need creative ways to cope. This means an innovative solution developed by one firm can benefit many others.

Innovation and research require a large initial outlay, and the Government can help by offering financing or grants to enterprises engaged in innovative activity. In addition, the Government can offer a substantial cash prize for coronavirus-related inventions in exchange for widespread use of the intellectual property. This will encourage innovative activity that is targeted towards COVID-19 mitigation and will allow many firms in Benin access to innovation.

Sources: Kuruvilla, S., Erickson, C.L. and A. Hwang (2002). An assessment of the Singapore skills development system: Does it constitute a viable model for other developing countries? World Development, 30(8), pp. 1461–1476; International Labour Organization (2015). Case studies on skills assessments in the informal economy conducted by small industry and community organizations. Geneva: ILO; Tabarrok, Alexander (2020). Grand Innovation Prizes to Address Pandemics: A Primer. See https://www.mercatus.org/system/files/tabarrok_-_policy_brief_-_grand_innovation_prizes_to_address_pandemics_a_primer_-_v1_0.pdf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Chapter 6

Fostering business linkages and inclusion via internet access

Internet helps Beninese firms connect to buyers and suppliers 46
Women-led businesses struggle to connect 49
Internet is vital to find out about COVID-19 measures 50

Fostering business linkages and inclusion via internet access

Access to market-relevant information, such as consumer demand, competitor behaviour or input availability, has always been important for companies. Information is also needed about the legal requirements companies must meet to sell or export, and about the status of relevant trade agreements. In times when digital technologies have revolutionized every single aspect of dealing with data and connecting different market players, access to information has become a key determinant of survival.[77]

The lack of internet access hinders the ability of Beninese firms to access information and connect with the wider economy. As such, investing in the country's digital infrastructure would enable policymakers to help a large share of businesses.

Internet access is most concentrated among companies in the capital and along the Atlantic coast. Outside of this narrow region, half of firms report having no access to the internet.

In addition, improving internet access offers an opportunity to promote the position of women, as women-led businesses are more likely than their male-led counterparts to report difficulties connecting to buyers and suppliers.

The COVID-19 pandemic has also made ICT more important: firms increasingly rely on online business to maintain operations during lockdowns.[78] They need reliable computer and telecommunication technologies to reach customers and to receive information about government regulations during this time of social distancing.

Internet helps Beninese firms connect to buyers and suppliers

Internet access makes it easier for companies to build and maintain connections with their buyers and suppliers. These connections are an important determinant of a firm's competitiveness. However, many firms in Benin lack access to a reliable internet connection. The digital divide is greatest between companies in Cotonou and those elsewhere, and between men-led firms and those headed by women. Evidence from the SMECS in Benin suggests that the lack of internet access is limiting the ability of firms to develop and use company websites, obtain market information on potential buyers and access quality information about potential suppliers.

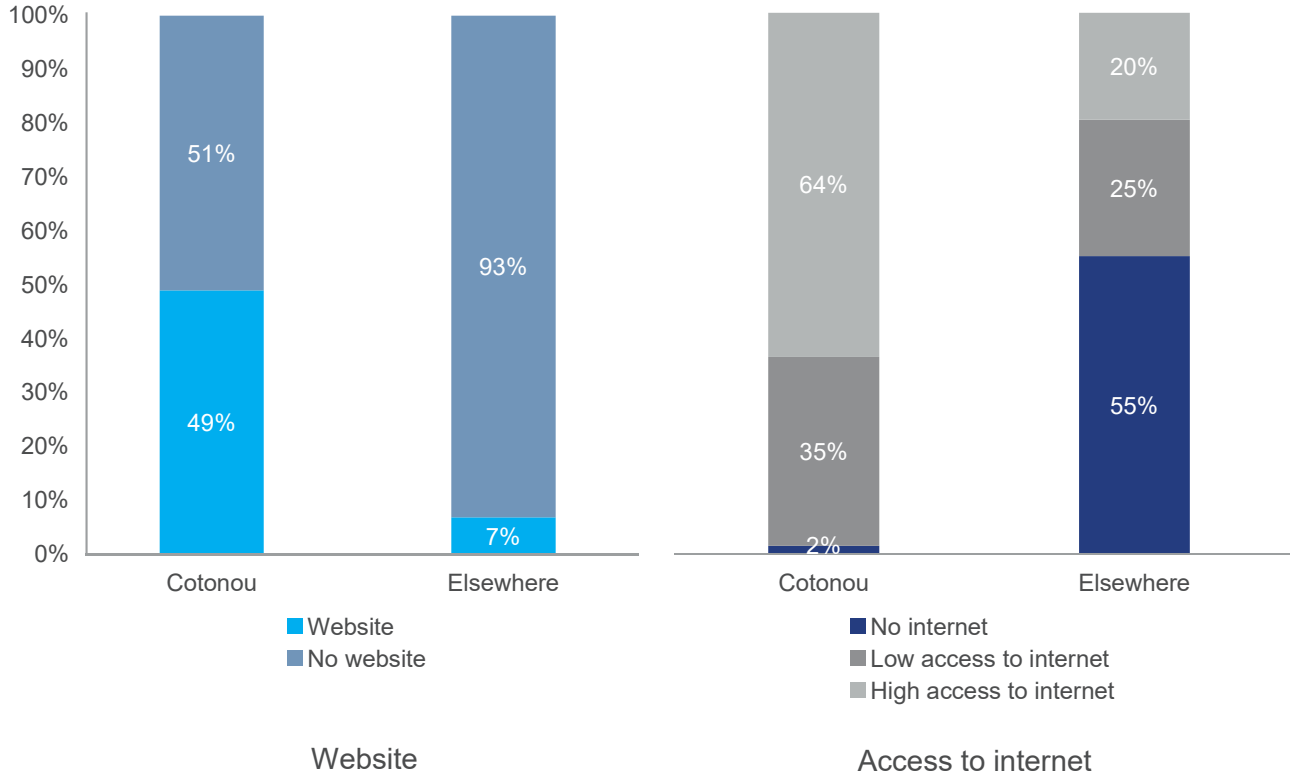
In Benin, there is a great deal of heterogeneity in terms of online connectivity. Firms that are large, led by men or operating in the central area are more likely to own a business website. Regarding firm size, for example, data from the SME Competitiveness Survey show that large companies are three times more likely to own a business website than SMEs (79% vs. 26%).

The most striking disparity is the availability of internet across geographic regions. Half of the firms in the Cotonou region own a website compared to less than 10% of firms elsewhere (Figure 24). Moreover, the majority of firms outside of Cotonou have no internet access whatsoever. Only 2% of firms based in Cotonou have no access to internet, compared to 55% of firms elsewhere (Figure 24).

Policymakers can help by encouraging competition in the telecommunication industry or by subsidizing fixed-line or mobile internet subscriptions for small businesses.[79] In addition, policymakers and business support organizations can offer computer and technology training programmes to teach business owners how to set up websites and use e-commerce platforms.[80]

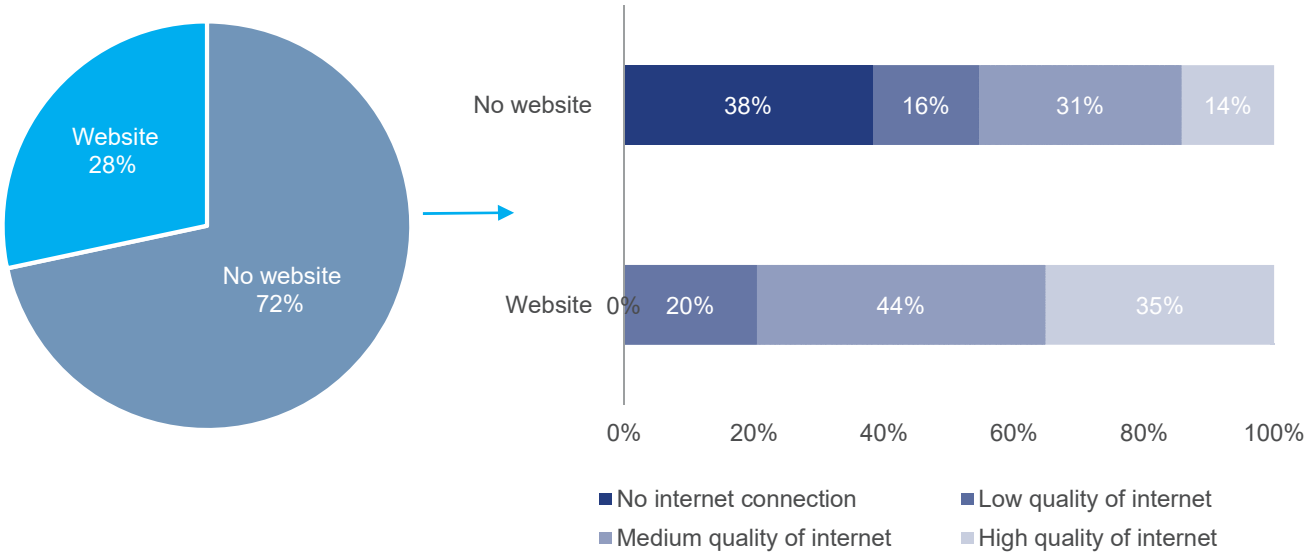
Company websites and social media platforms provide firms with a scalable method of disseminating information about their brand and their products. A website can expand the reach of a company by enabling it to conduct remote sales and engage customers outside of regular business hours. Yet almost three out of four Beninese firms do not have a business website, and most (38%) cite a lack of access to internet as the reason (Figure 25).

Figure 24 Companies are more connected in Cotonou



Note: Respondents were asked: 'Does this company have a business website?' and 'Please rate the quality of your internet connection.'
Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Figure 25 Three out of four firms do not have a website



Note: Respondents were asked: 'Does this company have a business website?' and 'Please rate the quality of your internet connection.'
Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Digital marketing, such as running advertisements on social media, provides a low-cost way to connect with customers and offers real-time product feedback in the form of comments from users.[81] The vast majority (84%) of surveyed firms with high-quality internet connections use social media advertising.

On the other hand, firms without internet access advertise through traditional methods such as radio and television. However, these forms of advertising do not offer the same real-time feedback from customers and the ongoing customer engagement that digital marketing provides.[82] Broadening internet access may also help SMEs increase sales abroad.

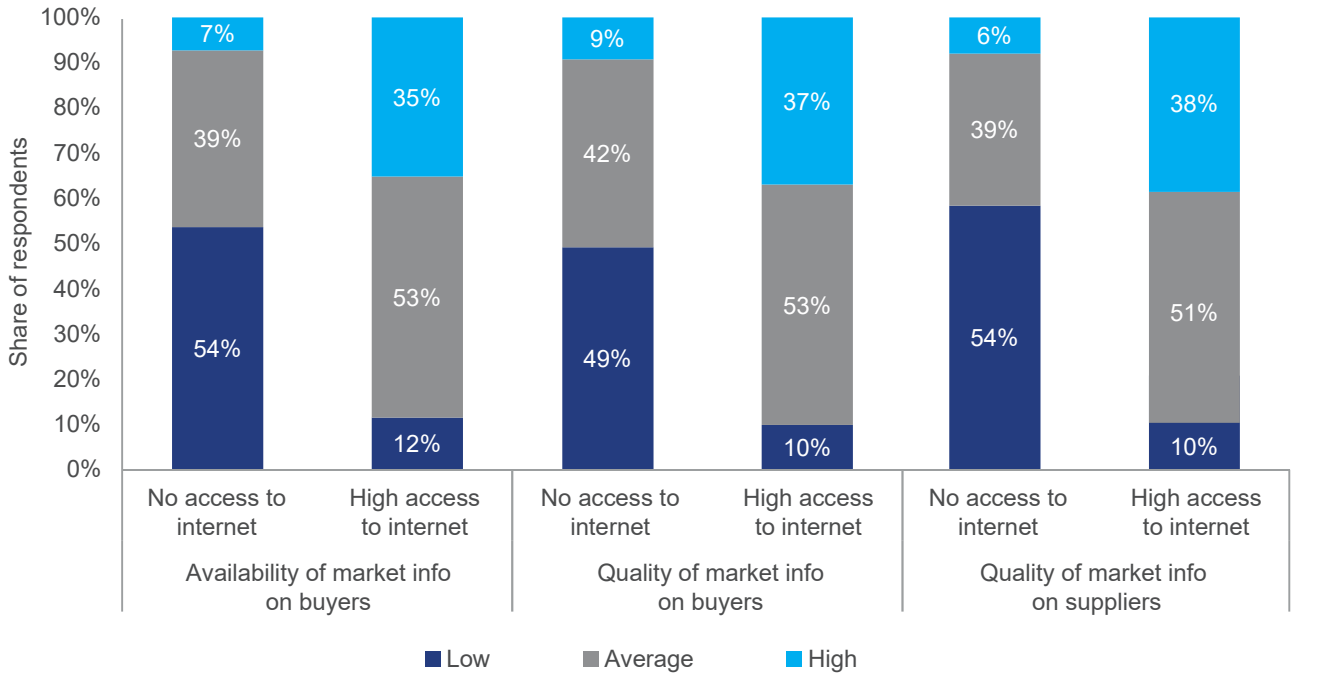
Although it is too early to know, initial evidence suggests that internet access is becoming increasingly important as business rely more heavily on e-commerce during the COVID-19 lockdowns.[83]

Internet access also allows companies to conduct market research about potential buyers and suppliers. This is especially important for firms hoping to export, as they must navigate the regulatory standards of foreign markets.

Most (54%) companies without internet access report low availability of market information about buyers, while only about one in 10 firms with internet access reports low availability of market information about buyers (Figure 26). Furthermore, when firms can obtain information about buyers, the information going to those without internet access is of poor quality while the information going to firms with internet access is of better quality.

Good information about suppliers is also crucial to a firm's ability to compete, as it allows them to buy inputs to meet customer demand in a timely way.[84] Lack of internet access makes it hard for companies to gather quality information about potential suppliers. Only 10% of firms without internet access report having high-quality information about suppliers. On the other hand, most (54%) firms with internet access say they can get high-quality information about suppliers.

Figure 26 Internet access improves connections with buyers and suppliers



Note: Respondents were asked: 'Please rate the availability of market information on potential buyers' and 'Please rate the quality of market information on potential buyers' and 'Please rate the quality of market information on potential suppliers' and 'Please rate the quality of your internet connection.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

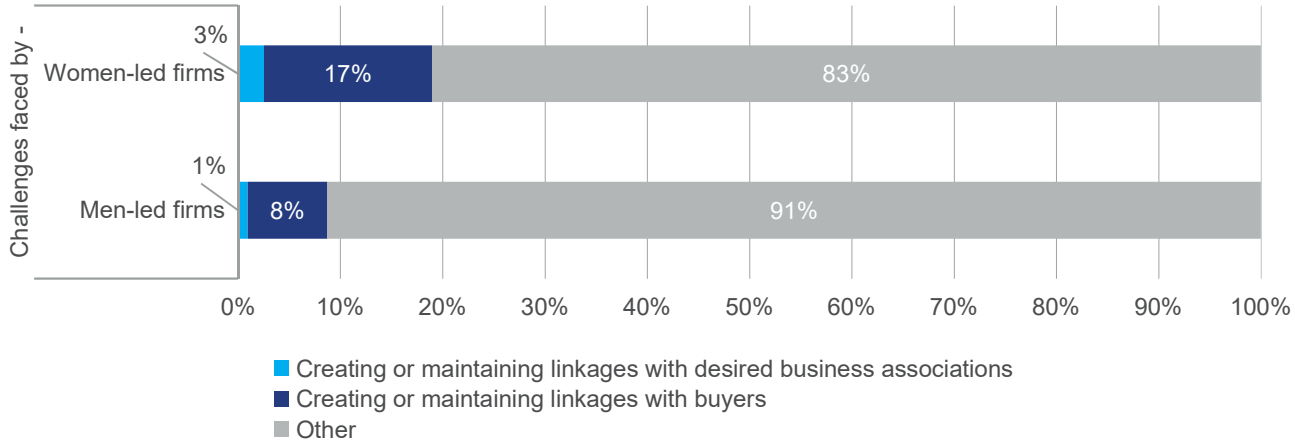
Women-led businesses struggle to connect

Improving gender equality is important to the economic development of Benin. Advancing the participation of women in the economy is good for both economic growth and societal wellbeing.[85] Improving gender equality positively impacts gross domestic product, boosts employment levels and increases productivity.[86] With respect to an improved society, women are more likely than men to use their earnings and greater bargaining power to invest in their children's education and health. But in many countries, including Benin, women disproportionally face obstacles to owning and operating their own businesses, despite the significant benefits resulting from their empowerment.[87]

Connectivity, a key pillar of a firm's competitiveness, is a particular challenge for women-led companies in Benin. The SME Competitiveness Survey reveals that a fifth of businesswomen cite connectivity concerns as their main obstacle to conducting business. The data indicate that women-led firms are more than twice as likely as those led by men to report difficulties developing customer relationships as their top challenge (Figure 27).

Factors that make it difficult for women-led firms to form connections include demands on women's time outside of work and low engagement with business associations. Promoting the use of the internet and e-commerce platforms can open new opportunities for women as ICT provides the flexibility to overcome time and mobility constraints.[88]

Figure 27 Women-led firms have more difficulty connecting with buyers



Note: Respondents were asked: 'Please select the top challenge that your business faces.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Women in Benin devote much more time to unpaid care work than men.[89, 90] For example, a 2018 report by the International Labour Organization shows that Beninese women spend more than 3.5 hours a day on household chores while men spend just 45 minutes a day on such activities.[91] This greatly reduces the time left for women to manage their businesses and create relationships with potential buyers.

In addition, analysis of SMECS data reveals that just 13% of women-led firms have a website, compared to 31% of companies headed by men. Expanding internet access and promoting the use of websites and social media can help women-led enterprises develop a permanent online presence. This would allow them to engage with buyers despite other demands on their time.[92]

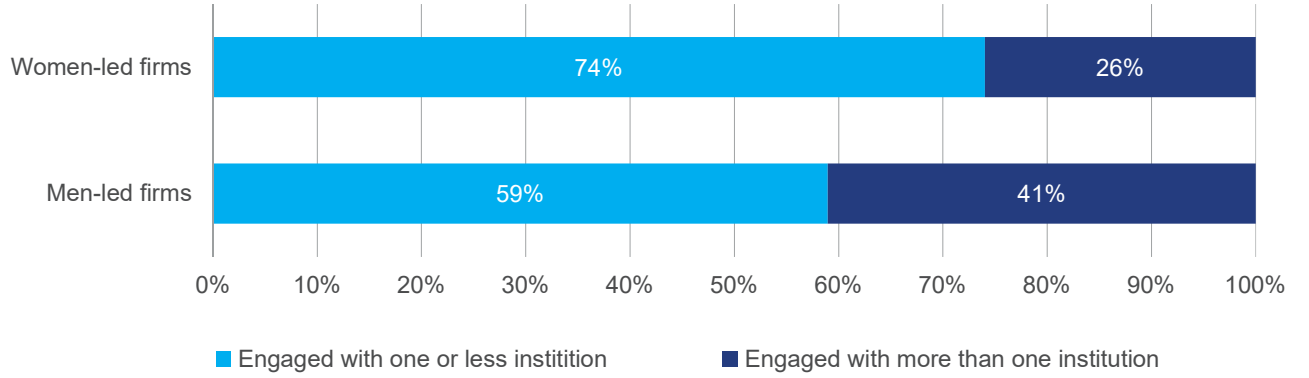
Women in Benin are also less likely than men to be involved with business support institutions such as chambers of commerce, sector associations, trade promotion organizations and investment promotion organizations. Business associations underpin firm connectivity as the network generated from membership helps members share market information, identify business opportunities and establish cross-referrals.[93]

Despite these advantages, only a quarter of women-led firms interviewed are engaged with more than one business support institution, compared to 41% of male-led firms (Figure 28).

There are several possible causes of this low participation rate. For instance, many women may be unaware of the benefits of membership, or they may question the benefits of membership due to concerns that these (predominantly male) organizations will not take their particular needs seriously.[94]

Consistent with these observations, data from the SMECS show that Beninese businesswomen view the quality of these institutions less favourably than men. Greater adoption of ICT may help to alleviate some of the informational obstacles. For instance, access to a reliable internet connection can help women learn more about the benefits of joining a business association and search for the organization that best suits their needs.

Figure 28 Women-led firms are less engaged with support institutions



Note: Respondents were asked: 'Are you actively engaged with any of the following types of institutions?' Institutions included trade promotion organizations, investment promotion organizations, chambers of commerce and sector associations.

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Although ICT can help women connect to customers by reducing mobility and time constraints, they lag behind men when it comes to accessing and adopting these technologies. In terms of access, about 34% of women-led firms report having a medium- to high-quality internet connection, compared to 43% of men-led firms.

The gender disparity in terms of internet use is more pronounced. Among women-led business with an internet connection, just 17% have a website. In contrast, 43% of men-led businesses with internet access have a website.

Business support organizations have a role to play in empowering women and helping them build connections. They can provide resources and training to help women entrepreneurs build websites and use e-commerce platforms. In addition, through public-private dialogues, they can encourage policymakers to support women-led businesses.[95]

Internet is vital to find out about COVID-19 measures

The pandemic has changed the way people do business all over the world. Social distancing, lockdowns and other measures in response to the health crisis have led consumers to pivot from shopping at brick-and-mortar stores to shopping online, and businesses to rely on teleconferencing and working remotely.

The crisis has also underscored the importance of ICT for firms to respond to this new reality.[96] Companies need reliable computer and telecommunications technologies to reach customers and to get information about government regulations during this time of social distancing.

Governments can help by acting as a liaison between consumers and companies and by subsidizing the use of ICT. And, in regions where SMEs lack internet access,

business support organizations can act as a conduit for the flow of information between the private and public sectors.[97]

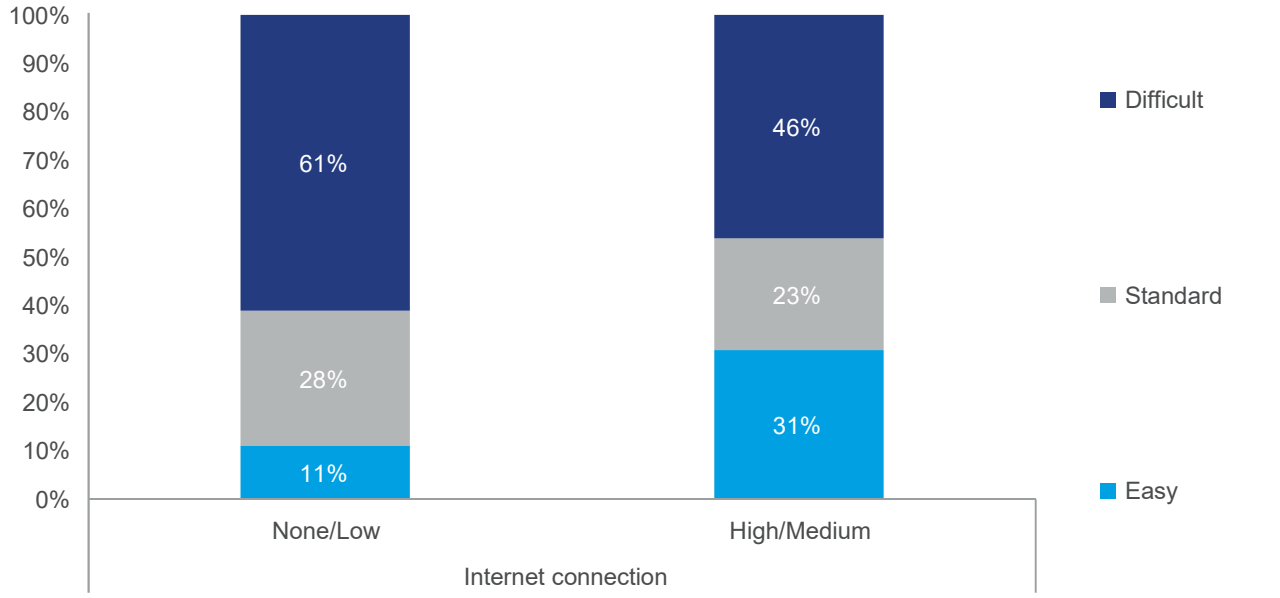
Firms increasingly depend on ICT to conduct business during the COVID-19 pandemic.[98] The prospect of shifting to predominantly remote sales may pose a particular challenge for Benin and other emerging markets. Data from the SME Competitiveness Survey show that the lack of internet access makes it harder for Beninese businesses to survive the pandemic, and that firms with poor internet connections are more likely to close within three months than those with good internet connections.

Furthermore, in a study using transaction data comprising 2,500 brands across 100 countries, COVID-19 Commerce Insight finds that firms in areas where e-commerce is more established – such as the United States and Europe – have weathered the crisis better than firms in places where e-commerce is less developed. For example, companies in Nigeria have suffered steady declines in sales since the start of widespread social distancing.[99]

Nevertheless, there is some good news for e-commerce in emerging markets. While it is still early to estimate the full impact of COVID-19, initial interviews from countries such as Tunisia, for example, indicate that home-delivery services are gaining popularity. This may indicate a change of purchasing habits.[100] Governments can further assist firms as they make the transition to remote sales though policies such as ICT subsidies.[101]

ICT also helps firms stay up to date on government regulations, which change rapidly as the health situation evolves. Data from the SME Competitiveness Survey show that 61% of businesses with a poor internet connection struggled to access information and benefits from government support programmes related to COVID-19. This compares to 46% of companies with a good Internet connection (Figure 29).

Figure 29 Internet access facilitates finding out about COVID-related support



Note: Respondents were asked: 'Please rate the quality of your internet connection' and 'How easy is it to access information and benefits from government COVID-related SME assistance programmes?'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Besides supplying information about support programmes for SMEs, the Government of Benin can help businesses communicate with their customers by acting as an information hub. For example, the Italian Government built a website that lists the online services offered by companies across the country.[102] In addition, the Trade Ministry of Senegal set up an e-commerce platform that provides easy access to the websites of SMEs that sell essential goods.[103]

The long-term solution to this problem would be investing in widespread internet access throughout Benin. However, an important short-term solution would be to mobilize business support organizations to provide information to SMEs.[104]

Policy insights: Investment in ICT infrastructure can bear fruit

Efforts to deepen the ICT infrastructure would enhance the competitiveness of small Beninese enterprises. Expanding access to the internet would be particularly beneficial to firms based outside of Cotonou and to firms headed by women, who all too often fail to connect to the customers and business services they need. The Government can offer subsidies for internet subscriptions as well as training in website development and maintenance.

The narrow ICT infrastructure in Benin hampers access to important information about government benefits and regulations related to COVID-19. While the long-term solution to this problem would be to invest in widespread internet access throughout Benin, an important short-term solution would be to mobilize business support organizations to provide information to SMEs.

The data gathered for the SMECS in Benin indicate that three out of four companies engage with business support organizations. This means these organizations are well placed to act as a conduit for the flow of information between the private and public sectors. They can aggregate the concerns of individual SMEs and offer policy recommendations that promote the interests of the business community. The CCIB has already started to help enterprises learn about government measures.

Sources: World Trade Organization (2020), *op. cit.*; Hallward-Driemeier (2013), op. cit; ITC (2020b), *op. cit*.

Chapter 7

Seize the opportunity to address climate change risks

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Seize the opportunity to address climate change risks

Many firms in Benin depend on the environment directly and/or indirectly. The economy depends heavily on agriculture.[105] Crops in Benin are largely rain-fed, which makes them sensitive to changes in the weather and climate.

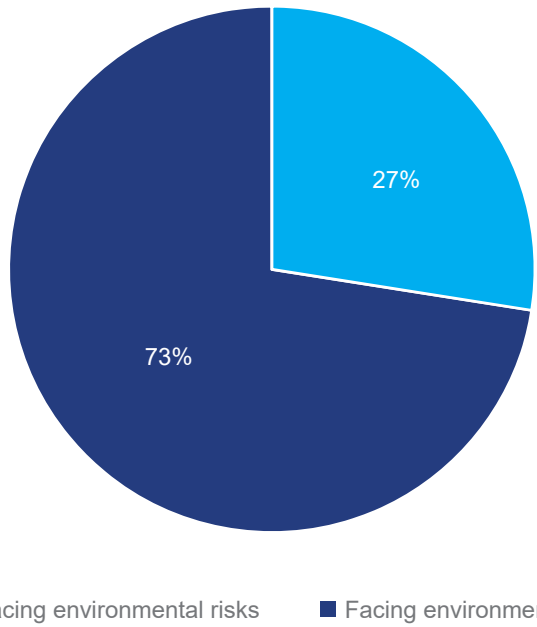
In addition, firms outside of agriculture depend on the environment indirectly. For example, a quarter of Beninese manufacturers make food products, requiring agricultural inputs. This environmental dependence has prompted many SMEs in Benin to adopt sustainable production patterns that are needed to safeguard the environment for the years to come.

The COVID-19 crisis has illustrated how vulnerable businesses are to shocks. The SME Competitiveness Survey found that Beninese companies that are proactive about the environment are also better positioned to survive the pandemic. This suggests that the skills developed from planning for environmental changes are transferable to planning for other shocks.

Most small firms in Benin face environmental risks

Data from the SMECS show that three in four firms face environmental risks (Figure 30). This is primarily due to Benin's agriculture industry – almost all agricultural companies (98%) said environmental risks were significant for their business. In contrast, 64% of firms outside of agriculture report facing environmental risks.

Figure 30 Three-fourths of firms feel threatened by environmental risks



Note: Respondents were asked: 'Which of the following environmental risks are significant for your business?' The values in the Figure show the percentage of respondents who answered 'None.

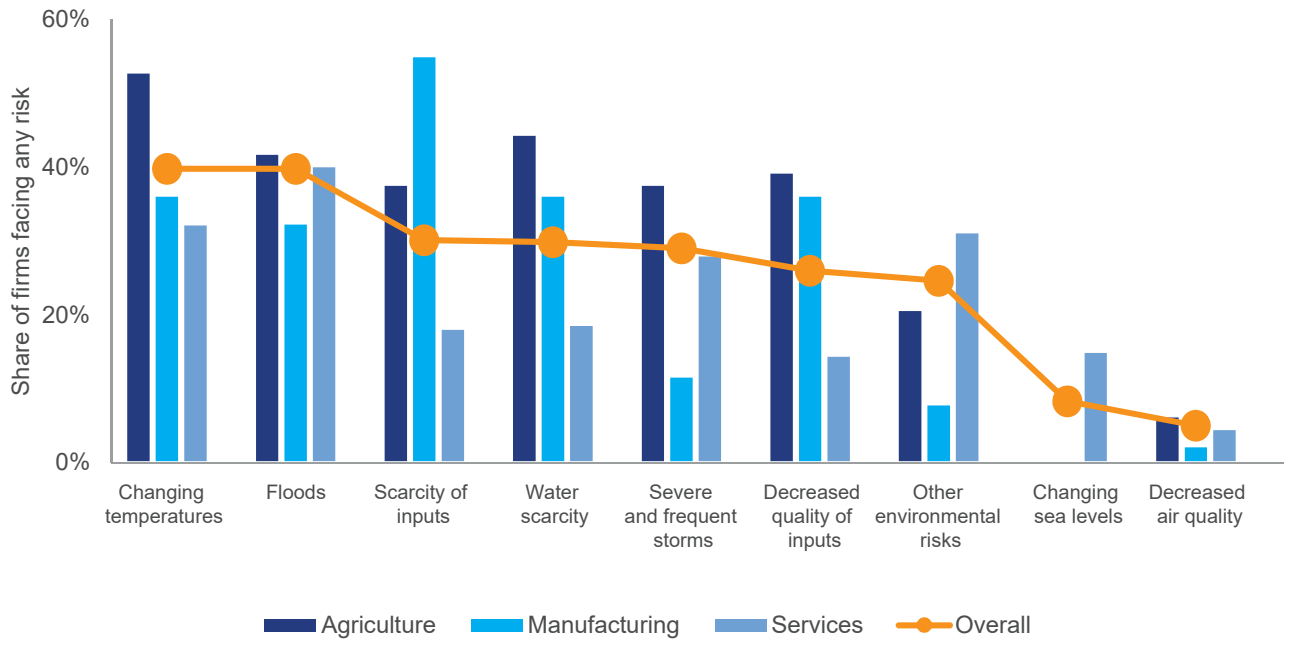
Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Beninese firms are mainly worried about environmental volatility, such as floods, droughts and changing temperatures. For instance, among firms facing environmental risks, 55% list floods as a concern, 39% list changing temperatures and 29% list water scarcity.

Indeed, estimates from the International Labour Organization show that by 2030, heat stress will cause the Beninese economy to lose close to 7% of its total working hours – the equivalent of a quarter-million full-time jobs – if no action is taken. The agricultural sector is expected to bear the brunt of these losses, with an estimated 13% reduction in working hours.[106]

The main environmental concerns of firms in Benin differ by industry. For example, agricultural firms are most worried about risks associated with climate change while manufacturers mainly cite risks associated with the availability of inputs. The three top concerns of firms in agriculture that face environmental risks are temperature (53%), water scarcity (44%) and floods (42%). In contrast, the three chief concerns of manufacturers who report facing environmental risks are input scarcity (55%), input quality (36%) and water scarcity (36%) (Figure 31).

Figure 31 Agricultural firms are more worried about environmental risks



Note: Respondents were asked: 'Which of the following environmental risks are significant for your business?' and 'Please choose the 2-digit ISIC code that best applies to this establishment's main sector of activity.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Companies in Abomey are the most exposed to environmental risks

Data from the SME Competitiveness Survey show that exposure to environmental risks varies by regions. Benin is divided into three climactic zones: the Sudanian zone in the north, the Sudano-Guinean zone in the middle and the Guinean zone closer to the coast.[107]

The northern and coastal zones both have regular and predictable weather patterns. But the Sudano-Guinean zone, a region of transition between the northern and southern zones, is subject to unstable weather patterns. This implies that the particular environmental concerns of SMEs in Benin depend on their location.

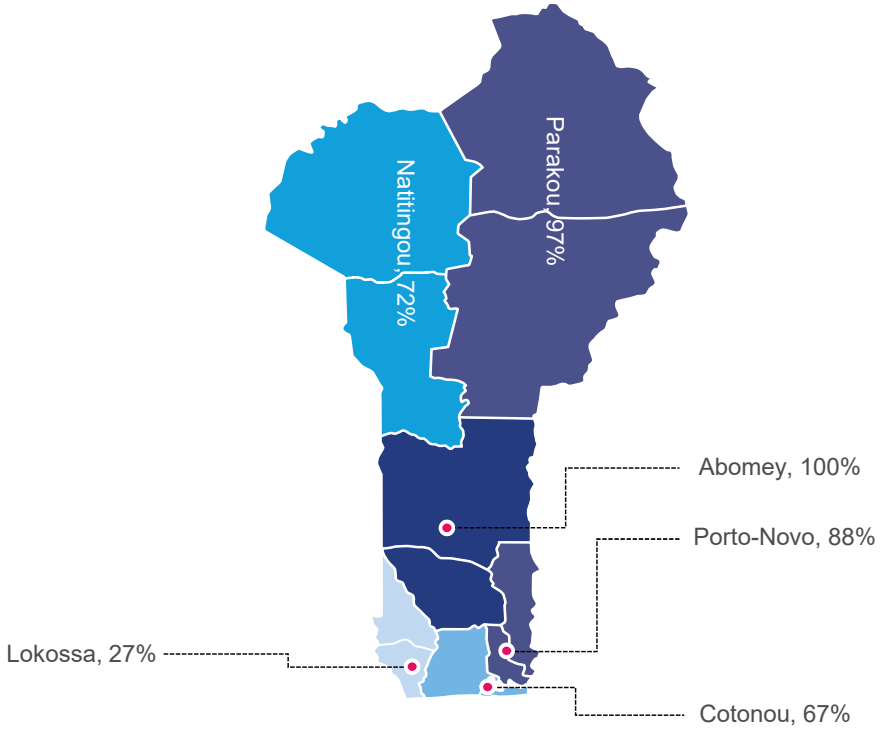
Firms in Abomey face more environmental risks than firms elsewhere. This region is located at the point where the Guinean zone gives way to the Sudano-Guinean zone. All 51 companies surveyed in Abomey said they faced

environmental risks (Figure 32). From water scarcity (84%), changing temperatures (71%), scarcity of inputs (75%) and lower quality of inputs (71%) to frequent and severe storms (43%), the region is the most exposed.

Companies in this region are anxious about many environmental risks. Firms in the other two climatic zones expressed few major worries, although one-third of those in the north signalled concerns about flooding, possibly reflecting their experience dealing with the annual tropical rainy season.[108]

Along the southern coast, in contrast to the other regions, exposure to environmental risks appears more idiosyncratic than systematic, with individual businesses facing certain threats. This could be due to various factors, including their more stable climate and government investments in environmental projects along the coast.[109]

Figure 32 Climate change weighs heavily on companies in Abomey



Note: Respondents were asked: 'Which of the following environmental risks are significant for your business?' and 'Please select the region in which the entity you are representing is based.'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Despite their proximity to the Atlantic coast, few surveyed firms in southern Benin feel threatened by the rising sea level. In Porto-Novo and Cotonou, for example, 15% and 6% of SMEs, respectively, report feeling threatened by the higher sea level.

This suggests that a coastline protection project launched by the Government in 2008 is bearing fruit. The project involved building a series of barriers to reduce erosion of the coastline along Cotonou. A recent evaluation showed that these barriers have significantly slowed the erosion of the coast.[110] But other infrastructure interventions more inland are needed as well. For example, certain regions suffer from periodic flooding, and droughts can hit farms in the north of the country during the dry season.[111, 112]

Infrastructure investment will promote resilience to climate change

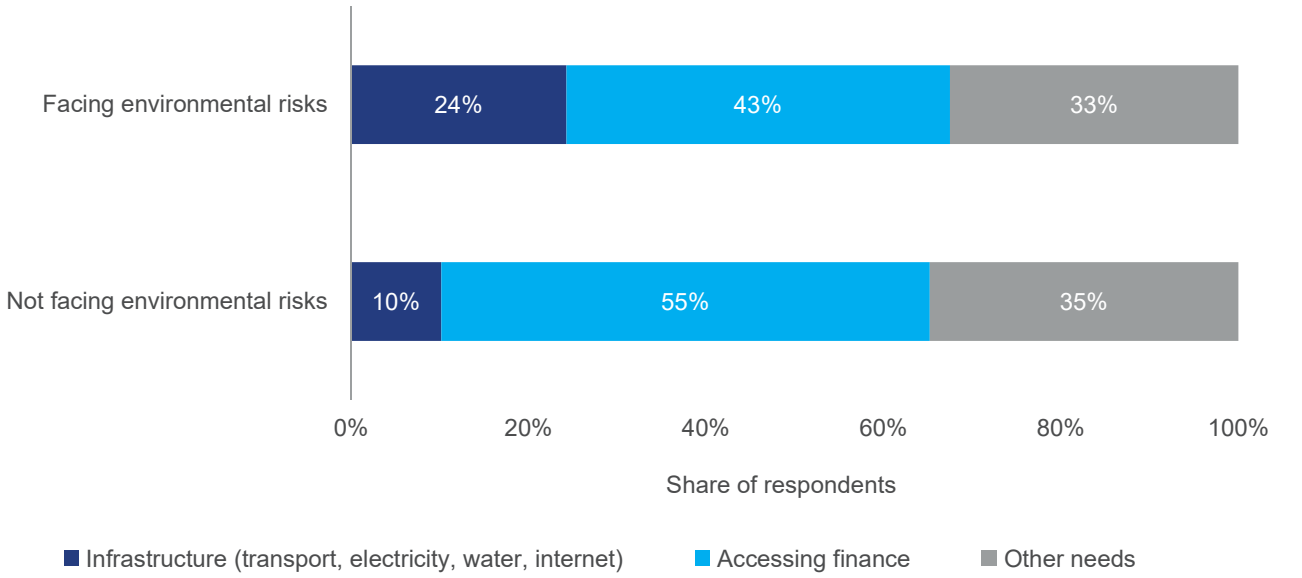
Most Beninese firms that face environmental risks must contend with low-quality infrastructure. Two-thirds of the companies that consider environmental risks to be significant for their business have limited access to transport infrastructure. One-third have limited access to water.

In contrast, just a quarter of the firms that report no exposure to environmental risks cite limited access to transport infrastructure, and one-fifth cite limited access to water. This disparity in infrastructure quality is reflected in the differences in the top concerns identified by companies that are exposed to environmental risks compared to those that are not.

Businesses with more exposure to environmental risks are more concerned about infrastructure than others. About 25% of firms that face environmental risks reported access to reliable infrastructure as their top challenge, compared to only 10% of non-exposed firms (Figure 33). This indicates that reliable infrastructure plays a critical role in building firms' resilience to climate change.

Without reliable transport and irrigation networks, for example, an unusually dry year means that businesses tied to agriculture – either directly or indirectly – will suffer.[113] The Government can help by investing in infrastructure projects across the country. As the climate warms, agricultural companies will need access to good irrigation networks and a reliable water supply.[114] In addition, regions in Benin that suffer periodic flooding will require adequate draining and retention ponds.[115]

Figure 33 Firms facing environmental risks need quality infrastructure



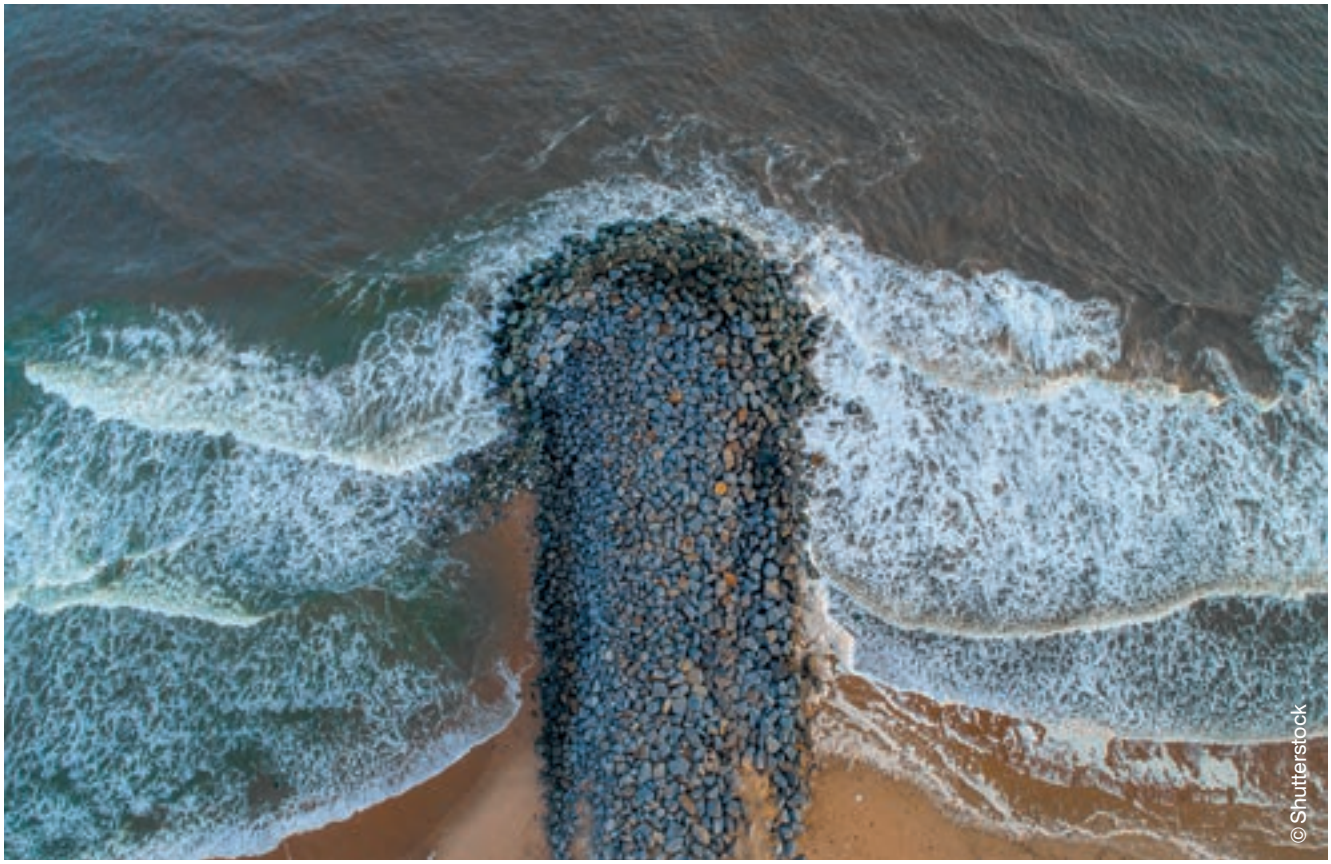
Note: Respondents were asked: 'Please select the top challenge that your business faces.' Respondents are grouped based on answering 'None' when asked: 'Which of the following environmental risks are significant for your business?'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

The Government can protect SMEs from environmental risks by investing in infrastructure. One key area is flood protection, as floods have caused major damage in Benin in the past. In 2010, severe flooding razed tens of thousands of houses and damaged hundreds of schools and businesses.[116] The Government should invest in drainage systems, barriers and retention ponds to prevent this scale of damage from happening again.[117]

Another recurrent environmental risk in Benin is shoreline erosion. The country has already invested in successful headland construction off the coast of Cotonou,[118] and this should be expanded to other parts of the country. But the protective effects of headlands are highly localized, shifting erosion further along the coast.[119] Because shoreline protection efforts can transfer erosion to other points along the shore, regional cooperation is crucial to combat an issue that crosses borders.

Water scarcity is an issue of concern for 43% of Beninese agricultural firms. Climate change is only likely to make the issue more salient. Benin should invest in irrigation networks so farmers have access to a stable supply of water during unusually dry spells.[120]



Firms that reduce their environmental footprint are more resilient to crisis

The COVID-19 crisis has illustrated how vulnerable businesses are to shocks.[121] The ability to adapt to changes in the business environment is an important pillar of firm competitiveness and requires planning, foresight and innovation on the part of the manager.[122]

The skills needed to respond to a changing business environment are also required to adapt to a changing climate and to meet the challenge of emergent health crises. In this way, responses to climate change and responses to COVID-19 are linked. Companies that have taken steps to reduce their environmental impact are also better positioned to handle the economic effects of the COVID-19 crisis.

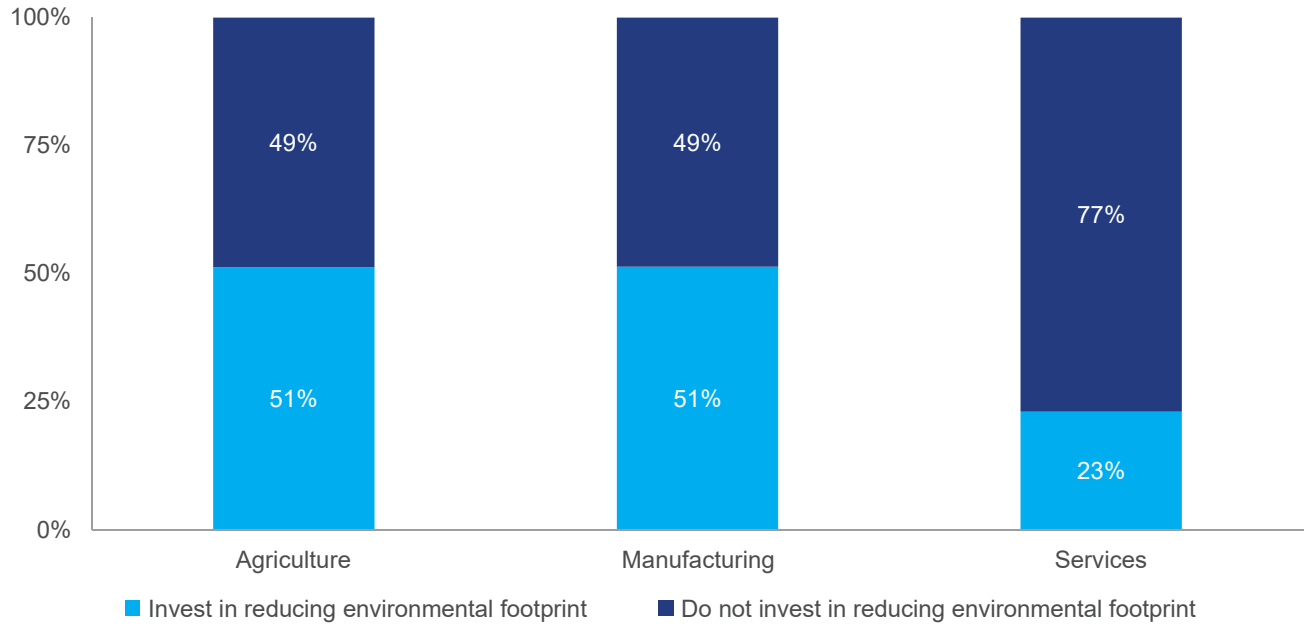
A firm's industry plays a role in its tendency to adopt measures to reduce its environmental impact (Figure 34). Half of interviewed firms in agriculture and half of interviewed firms in manufacturing report taking sustainability measures compared to a less than a quarter of firms in services.

In addition, the specific measures that companies take depend on their industry. For example, firms in agriculture prioritize reducing their use of chemicals (39%) while manufacturing firms prioritize using recyclable packaging materials (21%). Service companies prioritize using more water-efficient technologies (20%).

Data from the SME Competitiveness Survey suggest that measures taken to reduce their environmental footprint are related to the ability of firms to weather the COVID-19 crisis. In other words, the skills developed from planning for environmental changes are transferable to planning for other shocks, more generally.

In particular, companies that have invested in sustainability are more likely to adopt resilient strategies to cope with the economic effects of the pandemic. Almost all of the companies (92%) that have adopted measures to reduce their environmental footprint also embraced resilient strategies to cope with the COVID-19 crisis. In contrast, only 59% of firms that have not invested in measures to reduce their negative impact on the environmental have adopted resilient COVID-19 coping strategies (Figure 35).

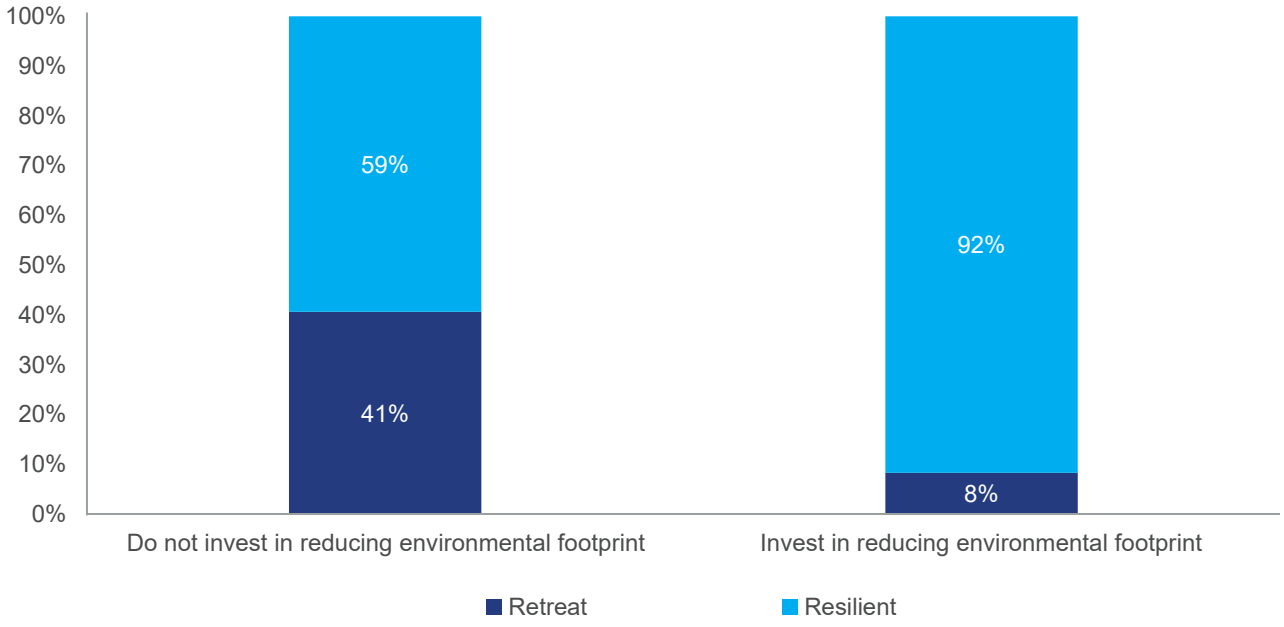
Figure 34 Service companies are less likely to invest to reduce their environmental footprint



Note: Respondents were asked: 'In the last three years, did your company invest in any of the following measures to reduce its negative impact on the environment?' and 'Please choose the 2-digit ISIC code that best applies to this establishment's main sector of activity.

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Figure 35 Most firms that reduce their environmental footprint act resiliently



Note: Respondents were asked: 'In the last three years, did your company invest in any of the following measures to reduce its negative impact on the environment?' and 'Have you adopted any of the following strategies to cope with the crisis?'

Source: ITC calculation based on SME competitiveness data collected by CCIB in Benin.

Combining data on competitiveness with COVID-19 Business Impact data shows that tax waivers or temporary tax breaks (70%) and financial programmes such as low-interest lines of credit (57%) are the top policy requests for COVID-19 response.

The Government can use this as an opportunity to build a response to the crisis that emphasizes environmental sustainability by offering larger tax breaks or grants for firms that invest in clean production measures. This will help put Beninese businesses on solid footing to meet the demands of a changing global economy.

Policy insights: Promote green growth

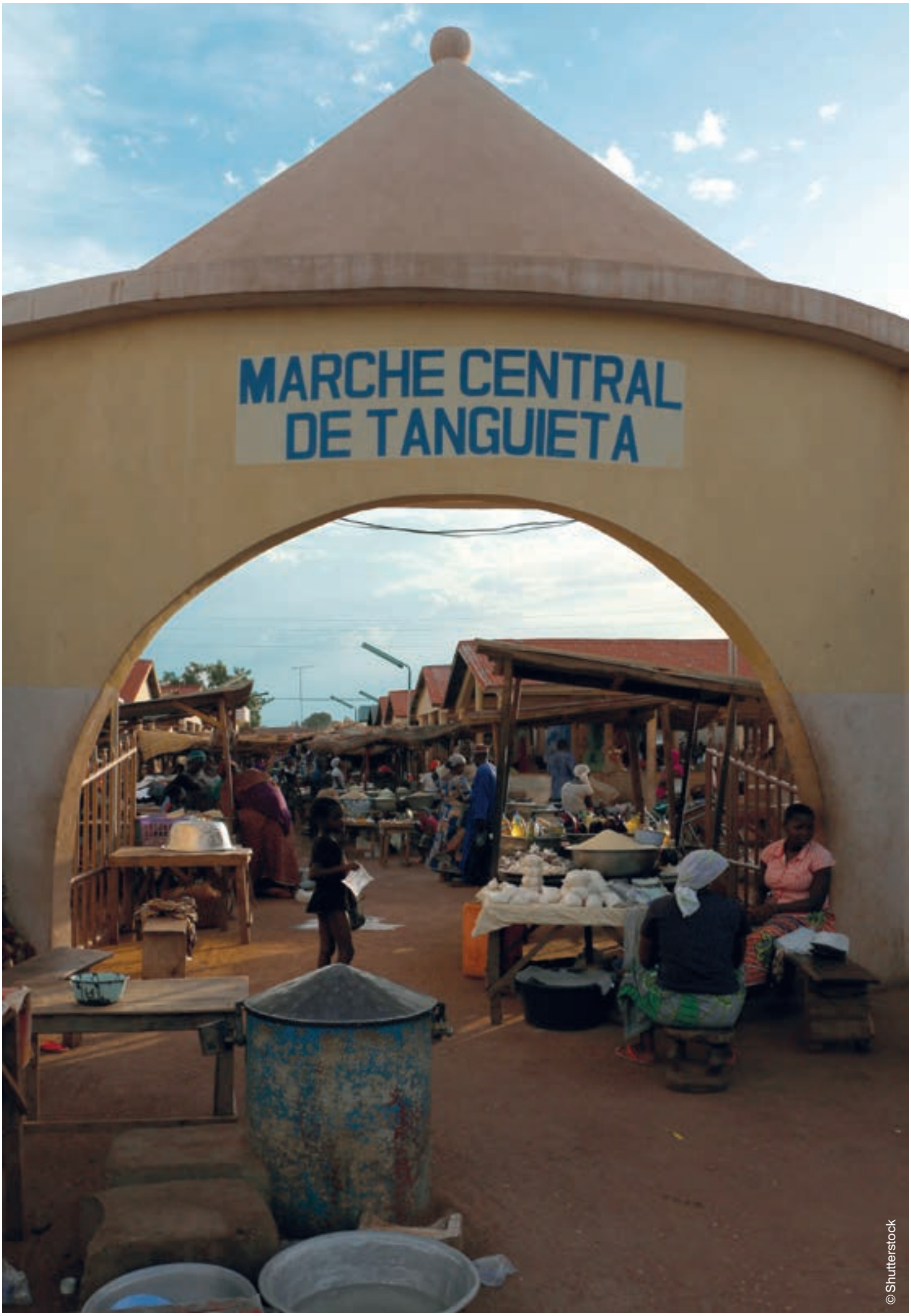
As global supply chains reorganize, international businesses are likely to seek partners with clean, dependable and energy-efficient production processes. Investing in sustainable business practices can help small and medium-sized enterprises secure high-value export opportunities.

After the pandemic recedes, the next economic crisis is likely to be linked to climate change. A 2019 survey of insurance industry experts showed that climate change ranked as the top business risk. Important policies include subsidizing and promoting energy-efficient production methods, as well as improving access to finance.

Finally, environmental protections will also help guard against future infections. After all, while the exact origin of the novel coronavirus is unknown, the pandemic began after a virus shifted hosts from wild animals to humans. The threat of emerging zoonotic disease is only expected to grow as human activity harms wild ecosystems and brings people into closer contact with wild animals.

In the case of the environment, private business decisions can impose widespread social costs. These private and social costs can only be aligned through government policies such as taxing pollution or subsidizing environmentally responsible business practices.

Sources: ITC (2020c), op. cit.; Rudolph, M. 2019. '12th Annual Survey of Emerging Risks. Canadian Institute of Actuaries, Casualty Actuarial Society and Society of Actuaries.' https://www.soa.org/globalassets/assets/files/resources/research-report/2019/12th-emergingrisk-survey.pdf; Mackenzie, J.S. and D.W. Smith (2020). COVID-19: A Novel Zoonotic Disease Caused by a Coronavirus from China: What we Know and What we Don't. Microbiology Australia, 41(1), pp. 45-50; United Nations Environment Programme (2016). UNEP Frontiers 2016 Report: Emerging issues of environmental concern. Nairobi, Kenya: United Nations Environment Programme; Coase, R.H. (1960). The Problem of Social Cost. *Journal of Law and Economics*.



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Chapter 8

Strategic policies for competitiveness and resilience

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Strategic policies for competitiveness and resilience

Small and medium-sized enterprises are today's reality in Benin. With most Beninese workers employed at small firms, SMEs have great potential to contribute to the development of the country. Helping these companies become more competitive would unleash their potential to build a 'new normal' characterized by an emphasis on resilience to shocks, embrace of digitalization opportunities, greater inclusiveness and sustainability.

Using data from the SME Competitiveness Survey and from the COVID-19 Business Impact Survey carried out in Benin in 2019 and 2020, respectively, this report finds that even though firms in the country have important strengths, strategically chosen policies can improve their performance. In doing so, these policies will help companies become resilient to shocks such as the COVID-19 crisis, and enable them to take advantage of promising opportunities on the horizon.

Beninese SMEs have many strengths. Yet they also suffer from some crucial weaknesses. Access to finance continues to be a constraint, especially for SMEs with less financial management. Low rates of certification to international standards cripple efforts to attract new international buyers. Furthermore, the fundamental difficulties of establishing good infrastructure for all Beninese enterprises mean that many firms do not deliver on time.

In addition, firms report having difficulty finding young workers with appropriate skill sets. The lack of suitably skilled workers impairs innovation. In addition, inadequate internet access represents a major obstacle for connecting with buyers and suppliers as well as accessing information. Finally, many firms in Benin face environmental risks and businesses related to agriculture bear the brunt of the burden.

Strengthening competitiveness is key for resilience

The international competitiveness of Beninese companies is particularly important and must be improved at a time when SMEs face the huge threat of the COVID-19 crisis. The challenges that these businesses face will hamper their ability to weather the economic effects of the pandemic.

Without access to finance, firms will be unable to operate smoothly as revenue declines and many businesses find themselves at risk of shutting down. In addition, as global value chains restart and reorganize, firms without certifications of quality will be overlooked as potential partners.

As consumers increasingly shop from home during lockdown periods, companies without access to good roads and transport networks will have difficulty meeting delivery demand. Firms with bad inventory management will struggle to access inputs in a timely manner and are at higher risk of closing.

Without a skilled labour force, firms will find it hard to develop innovative ways to operate a business during the crisis. Furthermore, without internet access, it will be difficult for firms to learn about new government regulations regarding COVID-19 and e-commerce will be impossible for many.

Finally, after the pandemic abates, the next crisis is likely to be related to the environment. Firms will need to be sure that their responses to the COVID-19 crisis emphasize sustainability.

Improving management practices and access to finance

Four out of five companies surveyed for the SMECS need a loan and access to finance is uneven across industries. The fact that some groups have been relatively excluded from accessing finance – notably agricultural firms and microenterprises – indicates that efforts to tackle bias against these types of companies would mitigate the cash flow issues that undermine their competitiveness. Many of these firms rely on informal finance mechanisms and can more easily fall prey to scams and Ponzi schemes.

The Government can help improve the financial sector with credit guarantees and seed capital.

The COVID-19 crisis has also created a liquidity crisis for SMEs, with two-thirds of Beninese firms reporting that clients were not paying their bills. Companies that participated in the COVID-19 survey said that tax waivers, temporary tax relief and financial programmes would be the most valuable government measures to help them cope with the crisis.

In addition, interviewed firms with bad financial management and poor inventory practices were more likely to shut down due to the pandemic. Experience elsewhere shows that offering management skills training to struggling firms can deliver meaningful impact. This suggests that targeted investment in skills such as cash flow management and inventory management could yield dividends for small and medium-sized enterprises in Benin.

Boosting quality

The rate of certification is quite low among Beninese business. This is even more important as firms work to recover from the effects of the COVID-19 crisis. In fact, as global value chains reorganize, buyers will probably become more aware of sanitary standards of production. Making information on standards and technical regulations more easily accessible to firms is crucial for SMEs to successfully signal the quality of their goods to new buyers across borders.

General and sector-specific trade and investment support institutions can help address this challenge by disseminating relevant information. These entities interact directly with businesses and are thus better positioned to understand their information needs.

Investing in infrastructure

Inadequate infrastructure has reduced the profitability of economic activity and has been an obstacle to growth in Benin. One firm out of five interviewed for SMECS points to infrastructure as the top challenge its business faces.

Roadways are the most popular mode of transport for Beninese companies, yet only 10% of roads are paved. There is a critical need for the government to invest in paved roads. This will help alleviate product losses, especially bruising and damage to agricultural goods.

Investments in information and communications technology infrastructure would help Beninese SMEs take advantage of digital opportunities. Internet access facilitates the creation of connections between firms, their buyers and their suppliers. But lack of internet access holds back many SMEs, especially those outside of Cotonou. Policymakers could invest in broadening access to the internet across the country.

In addition, ICT will be crucial to help firms manage their responses to the COVID-19 crisis. First, they need internet access to stay up to date about government support programmes and new regulations. Second, as e-commerce grows in popularity during lockdowns, enterprises without reliable internet access will be left behind.

Upskilling youth

Many firms, especially small businesses, find it hard to match worker skills with firm needs. Furthermore, SMEs often lack the resources to offer training to employees.

To help these businesses, skills can be developed through the education system. The Government has an opportunity to invest in demand-driven education systems. The tremendous changes and disruption brought by COVID-19 make reskilling and upskilling particularly important. Skilled employees will be able to develop creative solutions to the challenges their businesses face.

The Government and business support organizations can work together to offer training and certification programmes to promote the supply of a talented workforce.

Addressing climate change risks

The next shock the world faces after COVID-19 may well be related to environment. Climate change threatens to increase the frequency and severity of droughts, and decrease average rainfall, which would reduce production and exports in the agricultural sector.

Investing in infrastructure aimed at helping companies cope with environmental changes will be critical. In areas that experience periodic flooding, drainage networks and retention ponds will be key. In areas at risk of droughts, investment in irrigation networks will be necessary.

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Responses to the COVID-19 crisis should ensure sustainability. This will help SMEs become more competitive as the global economy opens back up. For example, the Government of Benin could structure its tax breaks to include additional incentives for firms working to reduce their environmental impact, or provide grants and low-interest loans to companies investing in green technology.

Business support organizations are well positioned to convey the interests of the business community to government and to provide information about government programmes and regulations to SMEs. They can help by serving as liaisons between the public and private sectors. As such, they are instrumental to building a more resilient SME sector.

Boosting the international competitiveness of Beninese small and medium-sized enterprises – including by addressing the issues identified by the analysis in this report – will be crucial in unleashing their potential to transform the country into a resilient, digital, inclusive and sustainable economy.

Annexes

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About the SME Competitiveness Survey

ITC analyses competitiveness using the three competitiveness pillars and three levels of the SME Competitiveness Grid (see Figure 36). Each pillar is subdivided into three themes. Although it was designed to focus on the competitiveness of small and medium-sized enterprises, the framework can also be used to assess the competitiveness of larger firms.[123]

The three pillars of competitiveness are compete, connect and change.

- **Capacity to compete**: The first pillar refers to the static dimension of competitiveness, focusing on the current operations of firms and their efficiency in terms of cost, time, quality and quantity themes. This concept also extends to the immediate business and national environment. Examples of determinants include use of internationally recognized quality certificates (firm capability), access to technical infrastructure (immediate business environment) and low tariffs (macroenvironment).
- **Capacity to connect**: The second pillar centres on gathering and exploiting information and knowledge. At the firm level, this refers to efforts to collect information flowing into the firm (e.g. consumer profiles, preferences and demand), and efforts to facilitate information flows from the firm (e.g. marketing and advertising). At the immediate business environment level, this includes links to sector associations, chambers of commerce and other trade and investment support institutions. At the national level, the capacity to connect is predominantly about the availability of information and communications technology infrastructure. The capacity to connect is not strictly a time-sensitive phenomenon, but gathering and exploiting information is so fundamental to current and future competitiveness that they act as an essential link between the two pillars of static competitiveness and dynamic competitiveness.
- **Capacity to change**: The third pillar pertains to the capacity of a firm to make changes in response to, or in anticipation of, dynamic market forces, and to innovate through investments in human, intellectual and financial capital. This pillar incorporates the dynamic dimension of competitiveness. Industry phases and breakthrough or disruptive innovations all require strategy adaptations. Thus, the capacity to change includes how well firms access finance and invest in human capital, innovation and intellectual property protection. At the business or macroeconomic level, the ability of the environment to deliver these resources to companies is measured.

These three pillars of competitiveness can be examined at three levels of the economy.

- At the **firm level**, their ability to manage resources adeptly influences their competitiveness.
- At the **business ecosystem level**, factors that support firm competitiveness but are outside the firm – including the availability of skilled workers, infrastructure and business support organizations – are important.
- The **national environment** includes the macroeconomic and governmental factors that establish the fundamentals for the functioning of markets in the economy.

The SME Competitiveness Grid bridges a gap in composite indicators that focus on macroeconomic determinants of competitiveness rather than local or microeconomic determinants. The importance of macroeconomic determinants is fully recognized, however, and is reflected in the 'national environment' level of the competitiveness grid. ITC's SME Competitiveness Outlook 2015 provides a more detailed description of the SME Competitiveness Grid and the methodology behind it.

How to measure the competitiveness of small firms?

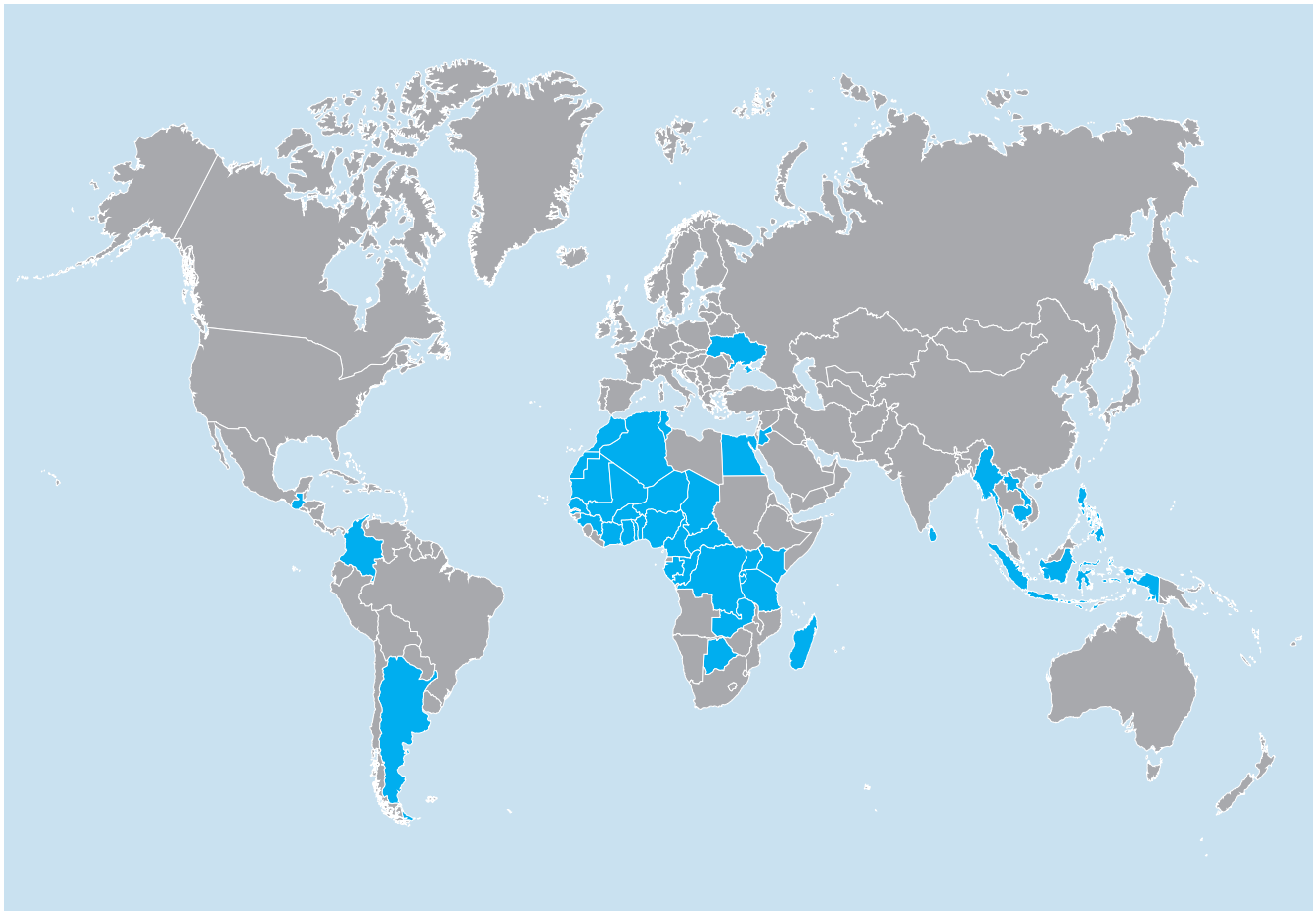
Measuring all dimensions of competitiveness can be difficult. ITC created the SME Competitiveness Survey (SMECS) to allow countries to collect the data they need to measure the competitiveness of their enterprises. As of June 2020, more than 17,900 companies in 46 countries, including Benin, had been surveyed.

The SMECS is typically deployed in partnership with domestic trade and investment support institutions. ITC gives these institutions the software to gather and maintain an active database on micro, small and medium-sized enterprises, and helps their staff select samples and train interviewers.

The SME Competitiveness Survey helps governments and trade support institutions better understand the needs of their enterprises. The tool is designed to combine information at the macro (national business climate), meso (local support ecosystem for businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country's private sector to compete in international markets.

Policymakers and trade support institutions can use the findings to identify and address bottlenecks to competitiveness; to compare the competitiveness of enterprises based on size, sectors and location; and to better match firms with potential investors and buyers.

Figure 36 SME competitiveness surveys across the world



Source: ITC

How to understand the competitiveness of small firms?

This report uses the conceptual framework described above to evaluate the Benin SMECS data and assess the competitive position of small and medium-sized companies in the country.

The report analyses data from three levels in the SME Competitiveness Grid: national, ecosystem and firm level. The national environment is examined based on a review of secondary data and related literature. Firm and ecosystem-level competitiveness is evaluated from firm-level survey data collected through the SMECS.

The report is structured according to selected themes in the SME Competitiveness Grid. Themes were included in the report analysis depending on whether the data indicate that Benin has a particular strength or weakness in that domain, or if previous research suggests the topic is important to the country's SMEs. The themes examined in the report include management for quantity, cost and time requirements; quality requirements; connecting to buyers and suppliers using infrastructure; financial requirements; innovation and skills requirements.

A disaggregated analysis of the SMECS dataset in Benin yields additional insights on each theme. Subsamples from each sector are analysed to assess sector-specific challenges and strengths. Results vary by firm size, defined according to number of employees. Women-led and youth-led firms are compared to their peers.

An examination of environmental issues and a complementary COVID-19 Business Impact Survey round off the analysis by shedding light on resilience and sustainability implications. Where relevant, and notably in the final chapter, policy recommendations highlight opportunities to address issues that have been identified in the analysis of the data. The report presents highlights of the study of the data, given the limited space available. More analysis was conducted, and additional information can be further extracted from the data.

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9 The primary and secondary sectors represent, respectively, 23.3% and 24.7 % of gross domestic product. The service sector represents 52% of gross domestic product. (*Comptes nationaux, Scn/93, Institut national de la statistique et de l'analyse économique, 2016*).

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