

## Structural Policies and the Role of Accounting Information in the Growth Prospects of SMEs in the Comoros

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### Abstract

*The objective of this paper is to present the role of economic development to which Small and Medium Enterprises strongly contribute, to the creation of wealth, employment, and social cohesion in the country whatever their level of development. After a new era of activity sectors presented by the company profile in the union of the Comoros, companies with a turnover of less than 5 million CFA francs and those with a turnover between 5 and 50 million CFA francs are in the majority. The Union of the Comoros needs to implement a policy of commitment to SMEs, as the assessment of the context is particularly critical since only 23% of businesses are aware of the existence of a policy to support the development of SMEs, and only 27% are satisfied with the action taken by the government. The companies that are not very satisfied with the government's action represent 59% of the total, ahead of the dissatisfied companies that account for 11% of the SMEs (BO1-BO2). Next, we present the difficulties encountered by SMEs in the Union of the Comoros in terms of financing. According to the study of the Union of Chambers of Commerce, Industry and Agriculture of the Union of Comoros conducted in (2014), 33% of enterprises have access to bank credit, whose beneficiaries are SMEs with 10 to 49 employees (75%), more than 45% of enterprises mentioned that the financing comes from microcredit and 11% from mutual guarantee, and 4% through other channels. The lack of a business plan and the certification of accounts were mentioned as major obstacles to their access to financing.*

**Keywords:** SMEs: Comoros, policy commitment, financing, growth economy.

### INTRODUCTION

The purpose of this article is to present, first, the evolution of the new profile of SMEs in the Comoros and their economic role. Secondly, the commitment

policies and future prospects for growth, through an analysis of the new criteria for financing and encouraging SMEs. And then, before ending this communication, measures of good managerial practice are likely to allow companies to be eligible for the various funding available to support the development of SMEs in the Comoros. And finally, the forecasted trends for economic growth, job creation, added value and turnover made by the Union of Chambers of Commerce, Industry and Agriculture of the Comoros, are encouraging.

A policy of commitment must be taken by the Union of Comoros to enable small and medium-sized enterprises (SMEs) to strengthen the fragility of their structures and finally to face up to the deep financial difficulties they are facing as a result of regional competition. The Union of Comoros, fully aware of the liberalization of the market, their SMEs are faced with competition that is becoming tougher and that it can only circumvent by structural measures at the level of financial institutions, to provide support to reassure them a development sheltered from the aggressive competitiveness of foreign companies.

The banking institutions of the place and microcredits must promote the Small and Medium Enterprise (SME), although accentuated by a device of financial helps, which must come from the government. The latter explains the lack of transparent management, a near absence of good governance and a managerial capacity not adapted to pursue in real time the evolution of enterprises. In addition, these enterprises employ few management methods and techniques such as forecasting, financial analysis and project management. The decision-making process of SME managers in the Union of the Comoros is seen as more intuitive, less dependent on information and formal decision-making models.

## **I. THE ECONOMIC ROLE OF THE SME IN THE FACE OF DEVELOPMENT AND ON THE OTHER HAND**

In the framework of this study, we will see on the one hand, the economic role of the SME in the face of development and on the other hand, the constraints and sufferings of the various SME financing.

### **1. Profile of SMEs in the Comoros**

In most countries where the Small and Medium Enterprise (SME) has been considered as a priority tool for socio-economic development, the results have been beneficial. This has been true in both developed and underdeveloped countries. In the Union of the Comoros, small and medium-sized enterprises (SMEs)<sup>1</sup> account for 71% of the tertiary sector and 19% of the craft sector, of

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<sup>1</sup> Union of chambers of commerce, industry and agriculture of the union of the Comoros, 2014

which the agricultural sector is underrepresented. Tertiary SMEs account for 56% of GDP and employ 30% of the active population. In the Comoros, SMEs play an important economic role and their efforts are proportional to this importance. Through their contribution to economic development, SMEs face considerable financial needs. So, to remedy this, a profile of the sectors of activity of SMEs is given by the study of the Union of Chambers of Commerce, Industry and Agriculture of the Comoros (2014), calling for the structuring of enterprises and recommending their promotion by the banking establishments of the place, and different financial institutions on our territory. Referring to the sole criterion of the number of employees in the company, the tertiary SMEs occupy an important economic place.

**Company profile according to the Union of Chambers of Commerce, Industry and Agriculture of the Comoros (2014):**

- Companies with less than 10 employees (70%);
- Companies with 10 to 49 employees (24%);
- Companies with 50 to 250 employees (5%);
- Companies with more than 250 employees represent only (1%)

The objective of the new SME profile is twofold. "It is to recommend to the banking establishments of the place and other financial institutions on the territory to make the promotion of it, since the companies of less than 10 employees do not reach the banking financing then, the commitment of the government must be made in its favor. Otherwise, the new profile of SMEs will make it possible to improve and harmonize statistical studies on SMEs. This will enable the government and researchers to make more objective projections and determine, for example, the sector(s) that can benefit from support programs from the national agency for investment promotion (ANPI), the Comoros business movement (MODEC).

**According to the new SME profile, the sectors of activity are as follows**

Sectors of activity <sup>2</sup> .....	percentage of activities
Sectors .....	30, 46% of the total
Industry.....	sectors 23.18
Sectors of commerce .....	40, 40%
Agriculture sectors.....	5.96%.

Source: union of chambers of commerce, industry and agriculture, 2014 (UCCIA)

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<sup>2</sup> union of chambers of commerce, industry and agriculture, 2014 (UCCIA)

## **2-ECONOMIC ROLE OF THE SME IN THE COMOROS ISLANDS:**

In accordance with this new profile of the SME, we expect the leaders to adopt more management accounting practices to promote financial communication, use modern management tools for the daily practice of their activities, in order to establish transparency in the eyes of other partners, and then to ensure that the SME sometimes criticized for opaque management applies good corporate governance. For, as for the accounting certification bodies, no mention is made anywhere of the management or presentation of financial statements of small size, for its structure, where the criterion of ownership director. The conceptual framework states a universal objective for the presentation of generally accepted accounting and financial documents. For this reason, the difficulties that small and medium-sized companies face due to these specific criteria<sup>3</sup>, will have difficulty in finding the necessary financial resources for their activities. But for the time being, given its impact on economic development, through its contribution to national aggregates or to the improvement of performance indicators, the Comorian authorities must commit themselves alongside SMEs to promote adapted and diversified financing measures. The owners and managers of small businesses must understand that success is not an end in itself, but a contribution to national wealth to support human development. At the same time, a profile of SMEs will be adopted by the Union of Chambers of Commerce, Industry and Agriculture of the Comoros, in order to bring out a panel of business sectors that can benefit from the considerable economic advantages linked to their reactivity and great capacity to adapt to different situations of change and to the market evolution.

In the same way, recommendations of good faith made on behalf of the authorities to the benefit of the SME allowing, to clean up the transparent management, and a practice of good governance. The economic development of emerging countries necessarily involves the development of the fabric of small and medium-sized enterprises (SMEs). These contribute considerably to wealth creation, employment and social cohesion in countries at all levels of development. SME managers should be aware that their structures play an important economic role, and that the greatest expectations rest on their success in terms of employment and economic growth. However, an appropriate business environment must enable SMEs to meet the challenge.

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<sup>3</sup> Nevertheless, it is worth mentioning the work of Bergeron (1996), which was carried out in the context of large companies.

To illustrate the economic share of SME

**Sectors, here are some key statistics:**

Agriculture sectors .....	18.7% of GDP in 2017
Industry sectors .....	4.7% of GDP in 2017
Tertiary sectors .....	17.4% of GDP in 2017

*Strategy for Accelerated Growth and Sustainable Development (SCAD2D), 2014*

While in Egypt 90% of enterprises are Small and Medium Enterprises (SMEs) their contribution to industrial employment is 60%, industrial value added corresponds to 40%. In a context of market liberalization where companies are evolving, it is important to help them find ways to

**2.1 Specific criteria for the profile of SMEs in the Comoros.**

Despite their major role in the country's economy, SMEs are characterized by criteria that vary depending sometimes on the sector of activity, its size structure, and its environmental setting. This has been compounded by a financial imbalance, a centralized and personalized organization, and a lack of transparency in their activities. This lack of solidarity still irritates other creditor partners, such as capital investors, who are likely to be interested in the accounting practices of SMEs (Chappelier, 1994)<sup>4</sup>. In addition the frequent absence of a formalized management, that some obligatory accounting documents presented to answer a patrimonial judgment or the solvency of the banking establishment. This explains the difficulties of Small and Medium Enterprises (SME) to find adequate financing solutions for their operations. The problems of access to financing encountered are mainly due to a fragile structure of the SME profile, as well as to a lack of formal management. This can sometimes lead to an imbalance in the risk/profitability ratio. Thus, the profiles of the SMEs in the Comoros mentioned the following criteria:

- Weakness of equity and undercapitalization;
- Frequent absence of management practices;
- Deficiency in human capital levels for the organization of the SME profile;
- Lack of transparency in financial statements to reassure creditor partners;
- No internal and external information system more developed than direct contact and proximity dialogue;

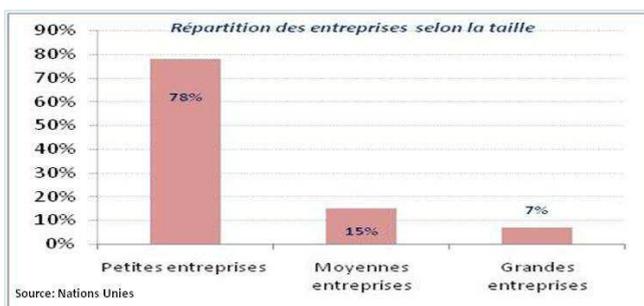
**2. 2 The profile of SMEs according to their evolution:**

After a phase of known difficulties on the creation of enterprise for the previous years, the administrative heaviness quoted as principal obstacles by

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<sup>4</sup> Chappellier (1994) indicates in his research that, as a general rule, managers consult data from cost systems at intervals exceeding one month, while the frequency of use of budget systems is lower

44% of the SME, followed by the corruption at the level of 25% and in last the states of treatment of the requests for 16% of the enterprises (B33-B43). 40% of companies are aware of the CFAE and 77% of them have access to its services. However, we note that on the island of Anjouan, the CFAE is better known (72%) than in the Comoros and Moheli (28% and 24% respectively), according to the UCCIC (2014). The lack of awareness of the service provided by the one-stop shop, especially in Grand Comoros, considerably slows down the creation of businesses. While normally, the status of the auto-entrepreneur created by the modernization of the economy should boost the annual number of creation of SMEs. According to this new profile of SMEs, which disregards the sole criteria of the number of employees in the company, the number of SMEs is estimated at 151 companies in the union of chambers of commerce, industry and agriculture of the Comoros (2014). Out of a total of 71% of the tertiary sector and 19% of artisans. In addition, the UCCIC (2014) has chosen to differentiate the profile of companies by sector of activity (agriculture, 5.96%), (trade, 40.40%), (services, 30.46%), (industry, 23.18%), which allows to refine the statistics. the Large Enterprises<sup>5</sup>, By comparison Tunisia and Morocco create more SMEs than Algeria In Algeria, the number of SMEs is estimated at between 450,000 and 450,000, whereas in Morocco it is 1.2 million. In terms of business creation, Algeria creates 70 companies per 100,000 inhabitants per year, whereas countries of similar level create 350 per year.



### 3. GEOGRAPHIC LOCATION OF THE SME PROFILE ACCORDING TO THEIR ACTIVITY AND LOCALITY

Nearly 56% of SMEs are located in the island of Anjouan for export and producers, 7% for imports. In the greater Comoros 33% are in export and producers and 83% in imports, while 11% in Moheli in export and producers and 10% in imports. As for the distribution by island, more than half of

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<sup>5</sup> Improving access to finance for SMEs in Morocco; United Nations Conference on Trade and Development; May 2010.

exports and producers are found on the island of Anjouan, while imports are found in Grand Comoros main economic and commercial activities of the country (ITC survey on NTMs in Comoros, 2016). The tertiary sector is the most representative in terms of impacts on activity, representing:

56% of GDP and employs 30% of the workforce (Comoros: Business Outlook, Geneva June 2018) ;

Nearly 32% of SMEs have export projects and only 4% export.

## **II- constraints and suffering from various financing of SMEs in the union of Comoros**

The main objective of the mission is to optimize the accounting management and to implement a budgetary approach.

1 - constraints on the eligibility of SMEs in the Union of Comoros for various types of financing are found both on the banking side and at the business level. For the banker it is the constraints of non-repayment:

A distrust of sufficient resources for long-term financing,  
the absence of an interbank market,

Very high interest rates linked to a high credit risk,

Absence of strategic partnership between banks for financing

2- For the second constraint resides at the levels of the applicants of the credits:

Lack of serious projects to finance, which contributes to increase the doubtful credit,

Non-solvent customers with guarantees that are difficult to mobilize,

Low level of banking of the population, therefore less deposits (10% of the adult population),

Large demand for consumer credit (large weddings).

The difficulties identified lie mainly in

- The lack of presentation of a business plan,
- The absence of certification of their accounts by an approved management center,
- Poor governance, perceived as being high in the profiles of the companies,
- The unavailability of quality expertise in certain areas related to productivity, access to markets, innovation and product development and technology,
- The lack of local intermediaries and advisors.

### **2. Financing gaps for the various profiles of SMEs**

The inter-bank partnership set up by the Union of Comoros, makes it possible to accompany in particular the profiles of small and medium-sized enterprises (SMEs), in a process of modernization and to face the improvement of the competitiveness which is hardening during these last years. This partnership

aims to support different sectors of activity, their production and marketing systems. Especially since the fierce regional competition covers several areas such as: quality, competence, logistics and marketing,

Other financial products to be quickly made available to SMEs:

This device must be enriched by products for companies and young entrepreneurs<sup>6</sup>:

Creation of VSE (very small enterprise)

- The Union of Comoros must set up loan guarantee funds for the creation of young businesses

- credit line to support self-employment in each island of the Comoros union

- guarantee of investment credits

- Training funds for the structuring of SME profiles

- support for innovation in the technology sector.

### **III- Commitment policies and future prospects for the growth of SME profiles in the Comoros Islands**

#### **1 - Managerial commitment policies.**

The development of SME profiles must be based on the governance model. Whatever the organization of its business, with structured support functions, a short decision tree, a delegation of decision-making. The leader of the SME profile is not isolated and must be competent to make strategic decisions. Sharing the desire to succeed with the teams, on close collaborators, a management committee or a supervisory board for strategic choices and risk taking. The profiles of SMEs are sometimes perceived as a handicap in attracting and retaining talent. It is often on the quality of its human resources that they must base their development. The leader must instill in his organization a culture and a passion for development. He must often promise values such as conviviality, proximity management, recruitment of competent personnel for decision making, as well as their respect. The managerial policy on the labor market has an impact on the modes of governance. These young people entering the company experience their relationship as a partner and attach great importance to personal development. In addition to remuneration, which drives away the young talents of this generation, they also have other important needs such as the interest of the position, a good work atmosphere, a balanced professional life, and job security. In return for their involvement and work, this generation expects to receive not only fair compensation and a share of the results. But also, a contribution to their professional development through training or internal mobility. The SME manager must commit to innovation in the field of management and human resources. Always question the relevance of his

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<sup>6</sup> Quarterly bulletin of the Central Bank of Comoros, 22 March 2019

organization to meet his development needs. Innovation is not only limited to technological innovation or scientific research. It is present at all levels of an organization or a company. Thus, the Oslo manual of the OECD defines four types of innovations:

- Product innovations ;
- Process innovations;
- Marketing innovations;
- Organizational innovations.

## **2 - organizational commitment policies.**

The problem most commonly encountered by the profiles of SMEs during each stage of the process of starting their business and the lack of transparency of procedures<sup>7</sup>. But with the establishment of services of assistance to the creation of enterprises is the unique interlocutor of all the persons, who want to create an enterprise, whatever the form and who will wish to have recourse to this service, it will be able to have annex at the level of the chamber of commerce of each island, in order to identify the sectors of activities in which the enterprises of the union of the Comoros are or could be the most competitive. The development plan, called the emergence plan, focuses on areas of activity considered the most promising<sup>8</sup>:

On the one hand, the traditional sector, such as agriculture, crafts and agri-food, contributes about 46% of GDP, 57% of jobs and nearly 90% of export earnings,

Food and fishing products contribute 70% of the value added,  
Another priority sector is tourism.

Sectors of the future such as renewable energy,

Within these sectors, a number of niches have been identified.

For example, in the field of more specialized service activities that have a higher added value, which can give a strong impetus to existing or future SMEs to meet the needs of these infrastructures in goods and services, as well as to meet the more direct needs of tourists later.

Other sectors and niches targeted are in the field of renewable energy and in the renewal of agriculture through the new modernization of agriculture.

The plan of emergence tends to emphasize the accompanying measures necessary to maximize the chances of success of sectoral policies. It is a question of giving an increased importance to the transversal and logistic

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<sup>7</sup> Fouzi Mourji-"Evaluation of the Small and Medium Enterprises sector in Morocco within the framework of the empretec Morocco program-study carried out for the UNCTAD secretariat within the framework of the Mediterranean 2000 program", June 2001.

<sup>8</sup> It represents the reservation of budgetary appropriations necessary to meet future expenditure. This commitment must be recorded as soon as the authorizing officer has knowledge of these future expenses.

dimensions which are the reinforcement of the adapted training, the creation of integrated structural platforms, the competitive modernization of the companies, mainly the sectors of activities of the SME and the improvement of the business climate.

### **3 - Financial commitment policies**

The Union of Comoros has been putting in place support mechanisms for small and medium-sized enterprises (SMEs) over the past few years. Structural measures at the level of financing institutions and recommendations of the accounting commitment targeted for their good governance. But also, to the managers who show their reluctance to apply for interbank financing. However, obtaining bank financing can lead to better profitability. The financial commitment policy shows that structuring SMEs can provide additional resources and means to support their growth. Because the tightening of the conditions of access to credit of the banks of the place complicated the way of the development of SME. Consequently, when SME managers are asked about their main means of financing, they cite self-financing as the first or second option. The search for financial resources for the different sectors of activity of SMEs remains a main concern. In a context of financial difficulty, the Union of the Comoros must develop new methods of mediating financing to help SMEs facing cash flow problems or credit refusals. The Union of the Comoros has created a tool to address the problem of SME financing, providing guarantees, equity financing and bank financing. In addition to the preferred partner, which is not the bank, the Union of the Comoros must put in place a number of support mechanisms for SMEs.

### **Future prospects for the growth of SMEs in the Comoros**

In recent years a profound change, with the end of a monopolistic situation and the granting of approval has again intervened at the end of 2016, the Comorian banking and financial system is composed of two financial institutions approved by the Central Bank of Comoros distributed as follows: 4 banks, 3 decentralized financial institutions (DFIs), 3 financial intermediaries. This opening up of the banking market could have an immediate effect on increasing the granting of credit to the economy.

After the monopolistic period that lasted until 2004, since 2005 the banking system has been marked by

- The approval of two microfinance networks in 2005 and 2006 which have a wide geographical coverage,
  - The resumption of the credit activity of the development bank,
  - The opening in 2005 of the national post office and financial services company, which took over the activities of the national savings bank,
- The opening of two new commercial banks in 2007-2009.

This means that credit to the economy has improved from 10.5 billion FC in December 2004 to 75.2 billion FC in December 2016.

Indeed, SMEs are looking for solutions to maintain their advantage. Concentration appears to be an appropriate response to market globalization, in order to achieve critical size in new regional or international markets. The Union of Comoros, notes that for these financial measures announced take effect, we must start with the you of the building to consolidate the whole. The solidity of the you is crucial, otherwise everything will quickly fall apart. Good management practice must be the starting point of any approach in order to give it meaning and to link operational actions to the objectives pursued. On the one hand, they seemed to be able to adapt recognized management methods quite easily. It appeared that collaboration and team management were often essential for problem solving. Their management seemed more collegial than that of traditional companies. The leaders of the SME profiles should start with a transparent management followed by a communication of the vision and the announced objectives, to give sense to the actions. Good governance of SMEs should be done in a pragmatic and progressive way, but with the constant will to achieve operational and tangible results. The Union of the Comoros also notes that even in the midst of a crisis, SMEs have demonstrated a capacity to create value. According to estimates of the future growth outlook projected by the mechanism, the opening up of the banking system will largely finance SMEs to stimulate job creation, added value, and increased turnover.

Evolution of the banking and financial system at the end of 2016:

4 banks

3 decentralized intermediary financial institutions

3 financial intermediaries

The Comorian banking and financial system is composed of 10 institutions

Financial institutions approved by the Central Bank of Comoros

Source: Central Bank of Comoros

Evolution of credit (billions FC)

Opening of the banking system :

Before 2014 10.5 billion FC December 2004

After 2014 75.2 billion FC end December 2016

Source: Central Bank of Comoros

## **CONCLUSION**

In a context characterized by market complexity, both internal and external, the Union of the Comoros reiterates its policy of commitment to small and medium-sized enterprises (SMEs), and recommends that the latter make a great effort in terms of management to enable the financing measures taken

to have an economic and social impact in support of human development. The Union of Comoros, in order to meet the challenge of joblessness which weighs heavily on the youth, and to accentuate the prospect of macro-economic growth in all indicators, reforms must be actively put in place to improve productivity and a quality of cheap labor. Through their contribution to economic development, job creation, competitiveness and foreign trade, the opening of the banking system must promote the Small and Medium Enterprise which should be part of this framework prospecting organizations that are constantly looking for new market opportunities, which develop and manufacture new products to cover the needs of their customers. Companies that are young and many of them are Small Businesses. Their support contributes greatly to the economic growth of the Union of Comoros. SMEs need to strengthen and improve their accounting information system if they are to continue to play a major role in their economic fabric, and to consolidate their credibility with all their external partners (bankers, decentralized financial institutions, financial intermediaries, microcredit, Sanduk, public authorities). As a result of the structural constraints related to the basic infrastructure, including financial and technological infrastructure, the dysfunctional judicial system and the lack of human resources in the field of banking litigation. Faced with this situation, in order to support the professionalization of microfinance structures, reduce the level of risk and improve financing conditions, certain avenues have been identified, such as

- Training to strengthen the capacities of agents has been initiated,
- A new banking law and a reform of the prudential regulations have been implemented,
- A fund for the development of the banking and financial sector has been set up,
- A risk and payment incident center has been set up,
- A mechanism of global effective rate (TEG) has been set up.

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