



AFRICAN UNION DEFINITION FOR MSMEs.

As adopted by African Ministers of Trade & Industry.

Importance of MSMEs in Africa's Economic Development

Introduction

Micro, Small, and Medium Enterprises (MSMEs) are pivotal to Africa's economic development, serving as the backbone for industrialization, structural transformation, and poverty alleviation.

These enterprises are integral to achieving the African Union (AU) Agenda 2063, known as The Africa We Want, and the Sustainable Development Goals (SDGs).

Recognizing their importance, the African Union Commission developed the AU SME Strategy, adopted by the Executive Council in 2019 and endorsed by the Heads of State and Government in 2022.

This strategy is built on seven pillars designed to transform the continent through job creation and structural transformation.

Importance of MSMEs in Africa's Economic Development

Economic Contribution: MSMEs are the backbone of African economies, contributing significantly to GDP and employment. They are responsible for a substantial portion of economic activities and job creation, particularly in non-agricultural sectors.

Job Creation: These enterprises are key to generating employment opportunities, especially for youth and women, thereby reducing unemployment rates and fostering inclusive growth.

Innovation and Industrialization: MSMEs drive innovation and industrialization by promoting entrepreneurship and facilitating the development of new industries and technologies.

Need for a Unified Definition

Consistency in Policy and Support: A unified definition facilitates the alignment of policies and support mechanisms across the continent. This consistency is crucial for effectively targeting resources and support towards MSMEs, which are vital for economic growth and development.

A standardized definition ensures that the strategic goals of the MSME Strategy are uniformly applied and measured across different regions of the continent.

Improved Data Collection and Reporting: A common definition of MSMEs allows for consistent data collection and reporting, which is essential for informed decision-making by the African Union Commission and other MSME stakeholders. It acts as a reference point for policymakers, financial institutions, business development organizations, and researchers. This uniformity in data helps in accurately assessing the impact of MSMEs on economic development and in making strategic decisions to support their growth.

Enhanced Access to Finance and Markets: A standardized definition helps streamline access to finance and markets for MSMEs, enabling them to scale operations and compete regionally and globally. Financial institutions and investors often rely on clear criteria to assess the eligibility of enterprises for loans and investments. A unified definition provides clarity & reduces ambiguity for MSMEs to access the resources they need to thrive.

Facilitation of Regional Integration: The lack of a unified definition can hinder regional integration efforts, as MSMEs face different criteria and support mechanisms in various countries.

A common definition supports the African Continental Free Trade Area (AfCFTA) by ensuring that MSMEs can operate across borders under consistent regulatory frameworks. This integration is vital for boosting intra-African trade and fostering economic collaboration among member states.



MSME definitions on the Continent and Beyond.

In view of the recommendation from the experts, the African Union Commission embarked on desk research and the following are the findings from this initiative.

Through this research findings, a definition is proposed. It must be noted that one of the challenges was inadequate information from some member states on the definition of these enterprises.

Definition of MSMEs Outside Africa.

There is no standard definition of the MSMEs outside the continent given the varying socio economic conditions in which these enterprises operate.



The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) notes that there is no official or universally accepted definition of an MSME. References to employment, annual turnover and size of balance sheet have been used but the most common indicator remains the number of employees.



Agencies such as the International Labor Organization (ILO) and and the Eurostat's Structural Business Statistics use the number of employees a business have to define MSMEs.



Micro Enterprises

1–9 employees



Small Enterprises

10 – 49 employees



Medium Enterprises

50 – 250 employees



The International Finance Corporation (IFC) uses the number of employees a business have to define MSMEs, they also include annual sales and total assets in its definition to enable it gauge the amount of resources that can be accessed by such an enterprise as a form of loan.



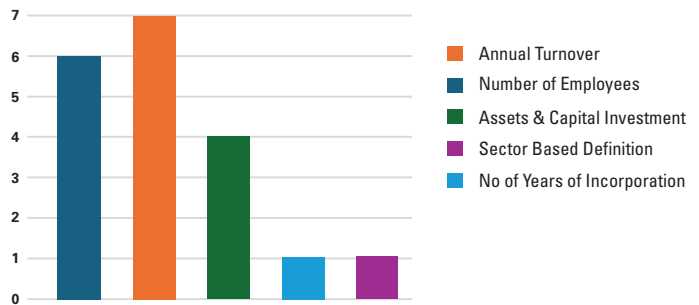
Definition by African Union Member States

An overview of the definition and classification of MSMEs in Africa.

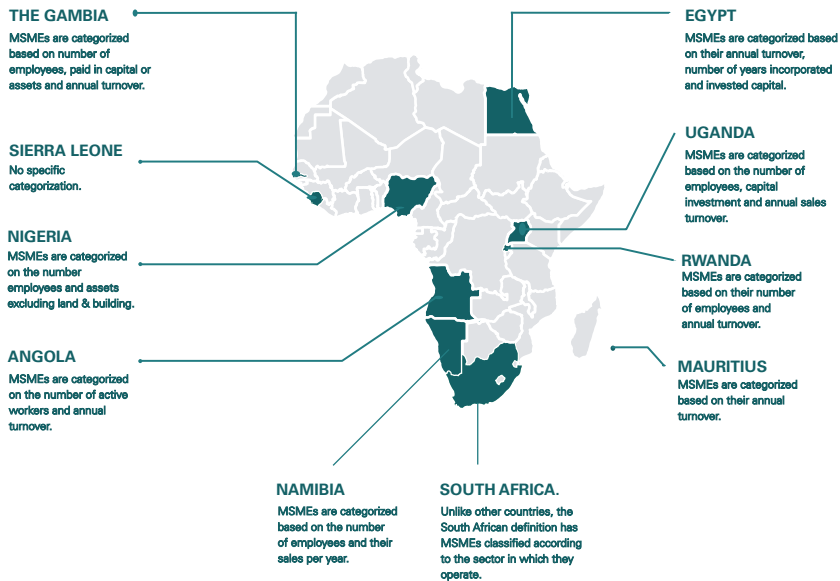
OVERVIEW OF DEFINITION

An evaluation of the MSME definitions from 8 Regional Economic Communities MSMEs was done. Literature from AU member states included: Policies, Strategies and Pieces of legislation show a diverse definition of the MSMEs. Different measures/criteria are used to define MSMEs, such as number of employees, invested capital, assets, sales volume and production capacity.

An overview of MSME definitions from 10 AU Member States.



How African Countries defined MSMEs



How MSMEs are defined in African Regional Economic Communities



COMESA
MSMEs are categorized on the number of employees.



ECOWAS
MSMEs are categorized on the number of employees, turnover excluding tax or level of investment.



SADC
There was no direct definition or any mechanism to categorize MSMEs



EAC
There was no direct definition or any mechanism to categorize MSMEs

Definition by African Union Member States



Angola



No of Employees



Annual Turnover

The national plan to support MSMEs was created through the adoption of Law No. 30/111 based around a programme to reduce bureaucracy and envisages a number of incentives. The law uses the number of employees, and annual turnover as a yardstick for its definition.

Micro Enterprises



1-9 employees



Less than US\$ 250K per year

Small Enterprises



10 – 100 employees



From US\$ 250K to US\$ 3M per year

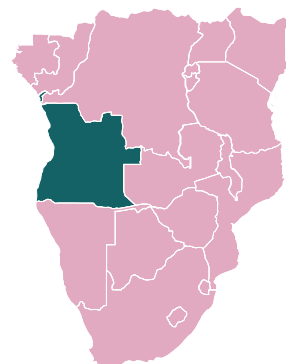
Medium Enterprises



100-200 employees



From US\$ 3M to US\$ 10M per year



Egypt



Invested Capital



Annual Turnover



Years of Incorporation

The country is guided by the MSMEs Development Law No. 152 of 2020 which regulates the MSMEs in the country. The law uses the annual business turnover, years of incorporation, and invested capital as a yardstick for its definition.

Micro Enterprises



less than EGP 1M per Year.



Less than 2 years



Less than EGP 50k

Small Enterprises



EGP 1M to EGP 50M per year.



No more than 2 years



EGP 50k - 5M

Medium Enterprises



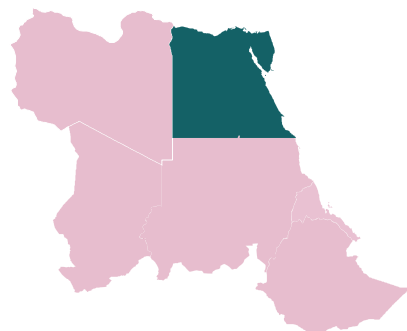
EGP 50M to EGP 200M per year.



No more than 2 years



EGP 5M - 15M



Mauritius



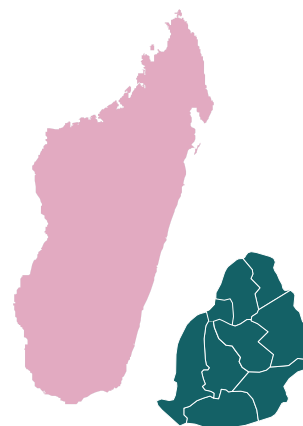
Annual Turnover

The Industrial Policy and Strategic plan for Mauritius (2020-2025) defines the MSMEs utilizing the 2019-2020 budget statement and is simply based on turnover. The Government recognized Mid-Market Enterprises (MMEs) in its strategic plan.

Medium Enterprises



Rs 50 million to Rs 250 million per year.





Definition by African Union Member States



Namibia



No of Employees



Annual Turnover

The National Policy for Micro Small and Medium Enterprises in Namibia (2016-2021) uses employment and turnover as criteria for defining MSMEs.

Micro Enterprises



1-10 employees



Between 0 to 300K N\$ per year

Small Enterprises



11 - 30 employees



Between 300K to 3M N\$ per year

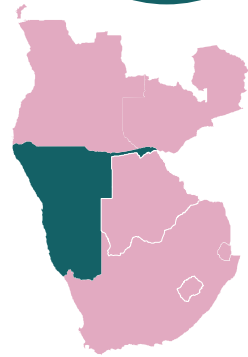
Medium Enterprises



31- 100 employees



Between 3M to 10M N\$ per year



Nigeria



No of Employees



Assets excluding land and building

The National Policy on MSMEs for the Federal Republic of Nigeria (*undated*) uses a dual categorization of MSMEs i.e. using employment and assets excluding land and buildings.

Micro Enterprises



1-9 employees



Less than 5M Naira

Small Enterprises



10-49 employees



Between 5M Naira to 50M Naira

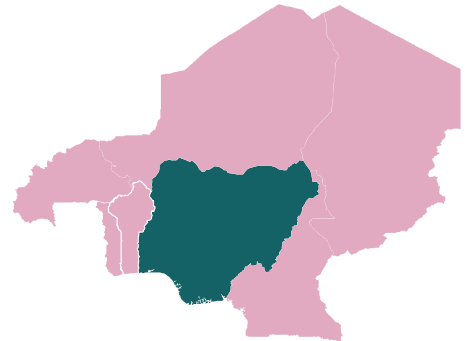
Medium Enterprises



50-199 employees



Between 50M Naira to 500M Naira



Rwanda



No of Employees



Annual Turnover

The Entrepreneurship Development Policy of April, 2020 defines the different sizes of firms in the country. It uses number of employees as well as turnover. An early stage company (less than three years in existence) that is trying to solve problems with scalable, often innovative and technology-oriented business solutions is defined as a startup.

Micro Enterprises



1-2 employees



Less than 1M RWF per year

Small Enterprises



3 - 20 employees



From 1M RWF to 20M RWF per year

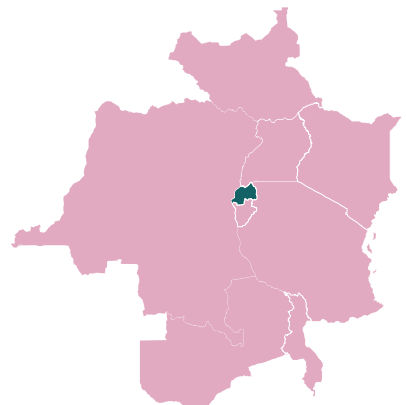
Medium Enterprises



More than 100 employees



More than 500 Million RWF per year



Definition by African Union Member States



Sierra Leone

No of Employees

The National Strategy for Financial Inclusion (2022 – 2026) is said to focus on MSMEs especially for women and the Youth.

The strategy is not explicit in terms of defining the three types of enterprises. It, however, mentions that with 40% of enterprises in Sierra Leone are especially small businesses (5-19 employees).

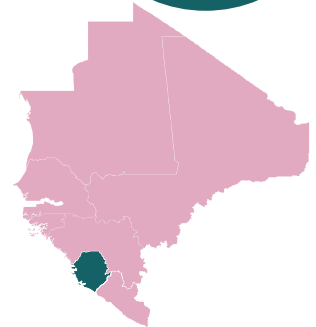
One may therefore deduce that the Micro enterprise in this case are those with less than 5 employees.

Micro Enterprises

1–5 employees

Small Enterprises

1–9 employees



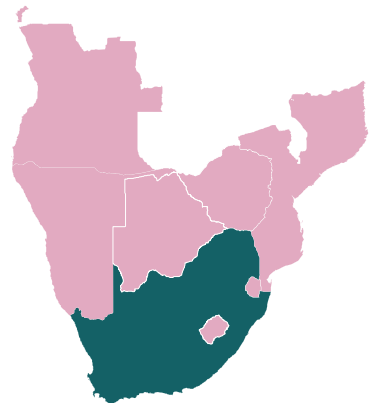
South Africa

Sector Based Categorization

The definition of SMEs is provided for in the government gazette of 2019 which used both turn over and number of employees.

The Gazette defines Small enterprise" means a separate and distinct business entity, together with its branches or subsidiaries, if any, including cooperative enterprises, managed by one owner or more predominantly carried on in any sector or subsector of the economy mentioned in column 1 of the Schedule and classified as a micro, a small or a medium enterprise by satisfying the criteria mentioned in columns 3 and 4 of the Schedule.

Unlike in other countries in the south African definition has these enterprises classified according to the sector in which they ply their trade.



The Gambia

No of Employees

Annual Turnover

Invested Capital

The Gambia National Policy for MSMEs 2019- 2024 uses 3 criteria to define MSMEs. These are employment, paid in capital/ Assets and Annual turnover.

Micro Enterprises

1–4 employees

0-25K GMD

0-100K GMD per year

Small Enterprises

5–49 employees

25K- 1M GMD

100K-1M GMD per year

Medium Enterprises

50–99 employees

1M-5M GMD

1M-10M GMD per year



Definition by African Union Member States



Uganda



No of Employees



Annual Turnover



Invested Capital

The Uganda Bureau of Statistics adopted categorization of enterprises basing the fulfilment of the minimum requirements of any two of the criteria of: number of employees, capital investment and annual sales turnover.

Micro Enterprises



1-5 employees



0-10M UGX

Small Enterprises



5-49 employees



10M-100M UGX

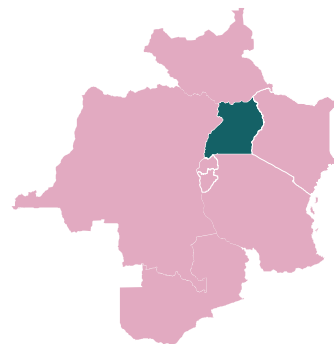
Medium Enterprises



50-100 employees



10M-100M UGX



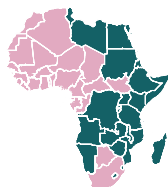
Definition by Regional Economic Communities



COMESA



No of Employees



The Common Market for Eastern and Southern Africa (COMESA) Regional Micro, Small and Medium Enterprise (MSME) Policy (2013) uses the Number of Employees as the defining criteria.

Micro Enterprises



2-9 employees

Small Enterprises



10-50 employees

Medium Enterprises



51-150 employees



ECOWAS



No of Employees



Annual Turnover



The ECOWAS charter on MSMEs defines Micro, Small and Medium-sized Enterprise as a fully registered business that complies with prevailing regulations in the various countries. They are categorized thus by number of employees, and annual turnover excluding tax.

Micro Enterprises



1-9 employees



US\$ 0-60K per year

Small Enterprises



10-50 employees



US\$ 60K- 300K per year

Medium Enterprises



51- 200 employees



US\$ 300K- 2M per year

The East Africa Community Industrialization Strategy (2012-2032) recognizes MSMEs as key to the development of the region as they contribute at least 70% of the non-agriculture jobs in the region. It also recognizes that MSMEs engaging 1-20 persons account for 87% of all enterprises in the region. The strategy, however, does not provide a definition of MSMEs.

The SADC Industrialization Strategy and Roadmap acknowledges the importance of SMEs in the region. They are a domain where the majority of women and youth are concentrated, make important contributions to the growth and development of the region in terms of output, employment, and the supply of consumer products and services. It is, however, shy of defining these enterprises.

Definition by Development Financial Institutions.



Literature from some development institutions was not readily available. The African Development Bank (AfDB) through its African Guarantee Fund for Small and Medium-sized Enterprises notes that the definition of SMEs varies across countries and financial institutions. The AGF, therefore did not prescribe qualifying characteristics for SMEs other than the one defined by the banking sector of the countries where AGF operates.

It should be noted that there is not much literature publicly available on the definition of MSMEs from the development finance institutions.

Approved Definition by African Ministers of Trade and Industry.

In general, an MSME is considered to have fewer than 500 employees, though many countries use a lower threshold, say 300 or 100 employees.

While Employment may be a good indicator, the following are its drawbacks:

The data is not readily available as businesses use many types of employees (full time vs part-time, permanent vs temporary, project consultants, etc)

The number of workers does not take into account productivity: A unproductive firm, employing many people may be neglected in policy interventions while their operation is not sustainable in the long run.

Labor intensity varies across sectors: Perhaps the biggest issue with employment as an indicator is the variation of labor intensity across sectors. Some sectors are inherently more labor intensive than others (agriculture vs tech).

Having looked at the different definitions on the continent including those from Member states, Regional Economic Communities and Development Finance Institutions, below is the adopted definition of MSMEs from the African Union.

African Union adopted definition of MSMEs

A Micro Enterprise is a business that makes an annual turnover lesser than One Million US Dollars per annum, a Small Enterprise is a business that makes an annual turnover between One Million US Dollars and Five Million US Dollars per annum, while a Medium Enterprise is a business that makes an annual turnover between Five Million US Dollars and Twenty Million US Dollars per annum.

Micro Enterprises  Less than US\$ 1M

Small Enterprises  More than US\$ 1M Less than US\$ 5M

Medium Enterprises  More than US\$ 5M Less than US\$ 20M

It should be noted that most countries use their local currencies to define their MSMEs in terms of turnover or assets. In this definition, the US dollar is used in the definition of these enterprises.

It must be noted that the definition is based on international best practice. While Turnover information may not always be accurate, but the magnitude of turnover is generally either available or can be extrapolated.



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