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## **Analysing institutional and government support for the development of Mauritian SMEs**

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**Abstract:** This research paper provides an insight about the institutional and government support for the development of small medium enterprises (SMEs) in Mauritius over the past two decades. The rationale of the study is that SME growth and development is still a problematic issue despite years of government support and incentives. The article seeks to analyse changes with regards to government policy decisions, namely laws, incentives and innovation schemes provided to SMEs in the Mauritian context. The methodology used is the content analysis where reference is made to websites (SME support arm and institutions from 1993 onwards), secondary data, budget speech documents, Parliamentary Hansard documents and existing statistics for making appropriate analysis. The methodology is mostly qualitative and relies on extensive research on government reports and other research findings to consolidate a logical sequencing of the SME laws in the Mauritian context. The study is of great importance to the policymakers and the different stakeholders for understanding the importance of institutional support for SMEs for a small island economy such as Mauritius.

**Keywords:** small medium enterprises; SMEs; institutional support; SME development; incentive schemes.

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### **1 Introduction**

There have been tremendous changes regarding the public policy for small and medium enterprise (SME) development in Mauritius over the past decades. However, the changes have not been documented and structured to evaluate the pathway developed. The present research seeks to provide a logical sequencing of the institutional support and also provide a frame of reference for all the stakeholders in the buoyant and dynamic SME sector. The Mauritian Government has brought substantial changes to the SME landscape

by adapting to the changing business environment and the entrepreneurial ecosystem. In 1993, the SMIDO Act was enacted and was repealed in 2005 to give birth to Small Enterprises and Handicraft Development Authority (SEHDA). This legislation was replaced in 2010 by SMEDA which catered for medium enterprises and the latest developments in the SME policy framework. With the change in government in 2015, new legislation was enacted, namely SME Mauritius Ltd. The research analyses the implications of policy changes, including government incentives related to entrepreneurship in the Mauritian context. The study has been highly enriching as it also encapsulates the challenges and opportunities for the SME sector over the years.

### 1.1 Research objectives

The objectives of the research are to:

- study the importance of institutional support for the development of SMEs
- evaluate the strengths and weaknesses of the different support schemes provided to Mauritian entrepreneurs
- develop broad policy recommendations based on the qualitative research.

## 2 Background and context of study

### 2.1 SMEs in Mauritius (1998–2018)

The SMEs contribute about 40% to the overall GDP of Mauritius and also represents around 56% of total employment in 2016 (Statistics Mauritius, 2016). This depicts the overall importance and contribution of the small firms for the economic growth and development. The latest Small and Medium Enterprises Act 2017 classifies firms as SMEs with a turnover of less than Rs.2 million. The survival of small firms has been problematic (International Trade Center, 2017) and the government, through its strategic plan for the forthcoming ten years, wants to re-engineer this vital economic sector.

**Table 1** Performance of small businesses

<i>Selected years</i>	<i>No. of small establishments</i>	<i>Total employment</i>	<i>% of the labour force</i>
1985	16,000	47,608	22
1992	40,497	113,274	24
2002	75,267	200,000	36
2007	125,543	229,700	46
2013	172,197	264,900	48
2015	NA	276,625	49
2016	NA	NA	55

*Source:* Statistics Mauritius (2016), Lall and Peedoly (2006) and Ministry of Business, Enterprise and Cooperatives (2016)

The SME sector in Mauritius has witnessed a drastic change over the past two decades, as shown by the statistics in Table 1 for selected years.

The figures show a growing SME sector where both the employment level and the number of SMEs have considerably increased over the past twenty years. The percentage labour force for SMEs has expanded from being 22% to 55% which is more than double. A vision has been developed for the SME sector in Mauritius under the National Export Strategy (2017), namely to become “a vibrant export-oriented SME sector to be the economic backbone of Mauritius’ sustainable growth in international markets.”

## *2.2 SMEs and internationalisation through the National Export Strategy*

The National Export Strategy is a blueprint that provides guidelines for SMEs to improve national productivity, competitiveness, and innovation in a socially inclusive manner. It also explores new avenues of business and further exploration to boost up the national economic growth. The vision of the Mauritian Government is to convert Mauritius into a strategic hub based on knowledge-based economy driven by innovation. One of the key strategies lies in the internationalisation of SMEs with further focus on exports. This country needs a vibrant export-oriented SME sector that can become the backbone of Mauritius’ sustainable export growth.

Consequently, there is a need for an ecosystem that is highly conducive to entrepreneurship. The government may play a key role through mentoring programs, matchmaking between SMEs and foreign investors, and facilitating access to finance mechanisms to SMEs are presented in the strategy. In the medium term, the sustainability and survival of SMEs are to be ensured through a national skills gap identification programme that bridges the gaps in the areas of quality management, logistics, and production standards. In the long-term, integrating successful SMEs into global value chains provides a horizon to the strategy. All these functions require substantial government support, together with the participation of the private sector.

## **3 Literature review**

### *3.1 Government and institutional support to SMEs*

North (1990) purported the institutional theory claiming that the institutional framework for society includes the fundamental political, social, and legal ground rules that may help for the organisational function and which may establish legitimacy. He was also of the view that SMEs typically depend on existing institutional matrix. Previous research on the governmental role for SME development in developing countries has increased significantly over the last decade (see for example Chen et al., 2013; Doh and Kim, 2014; Obeng and Blundel, 2013; Senik et al., 2011). In these contexts, the SME profiles seem to be different and consequently require a government support policy which fits a diversified economic base. In spite of low level of government support, SME entrepreneurs show some level of resilience and continue to grow their businesses closely related to their resource acquisition ability (Shane and Venkataraman, 2000).

The World Trade Report (2016) believes that supporting SMEs will improve the distribution of income. However, it is fair to state that some researchers find no evidence that the existence of a large number of SMEs in a given economy alleviates poverty or decreases income inequality (Beck et al., 2005). The second argument involves the view that certain market failures more adversely affect SMEs and require a public intervention.

Hence governments should engage in institutional support as it may help to deal with some of the market failures (World Trade Report, 2016).

The functioning of institutional environments differs considerably across the broad spectrum of societies at different stages of socio-economic development. The concept of the institutional void is the inability of the existing institutional setup to support market transactions with effectiveness and efficiency (Mair et al., 2012). Formal institutional voids relate to the inability of the current political and legal system to support the fundamental rights of entrepreneurs such as the right to property, infrastructure, and development of appropriate governance systems (Webb and Ireland, 2015). The authors claim that formal and informal support systems help to improve the overall productivity of enterprises. They build upon the theory of North (1990) and explain that formal institutional voids may also result due to lack of developed infrastructure domains, such as those “related to communication, transportation, and utility access” (Khoury and Prasad, 2016). Based on the review of the existing literature in the Mauritian context, there is a significant research gap in terms of institutional support and institutional void for SMEs. Consequently, the current research seeks to analyse some of the institutional support provided over the years and identify any institutional voids based on qualitative research.

Studies show that government should make sustained and continued efforts through its series of effective policies to nurture the right entrepreneurial ecosystem for SMEs (Dandago and Usman, 2011; Sobri Minai and Lucky, 2011). Some of the policy actions are the need to reduce dumping, trafficking, and importation of low-priced foreign products. It also calls upon the government to reduce corruption practices, provide social justice, and provide information and also training for SMEs. Many factors may influence the financial performance of SMEs, and most of them are multifaceted and erratic. For example, the government can also play an entrepreneurial role in achieving sustainable development. Besides, the government can also provide appropriate land infrastructure to support SMEs (Nguyen et al., 2009). Previous studies (Sana and Abbas, 2005; USAID, 2009, 2010, 2011) show that economies in transition such as Iraq need to take particular measures to build up the conditions for the development of entrepreneurship culture and for SMEs to avail of growth opportunities in various economic sectors. Some studies (Mohd Shariff et al., 2010; Mohd Shariff and Peou, 2008; Nguyen et al., 2009; Sobri Minai and Lucky, 2011) additionally demonstrate that in the absence of strong market powers in these countries transitional economy, the government must play a pivotal role to create those conditions. Besides, the previous studies underlined that government policies have an impact on SMEs activities, linkages, and networking for cooperation and utilising resources (Brimble et al., 2002; Harvie, 2001, 2002; Tambunan, 2005).

Theoretical and empirical studies (Opara, 2010; Mohd Shariff and Peou, 2008) have demonstrated that government support and policies are more effective in influencing and impacting on the financial performance of SMEs. In developed and developing countries, government policies that provide support are a critical factor for SMEs growth (Nguyen et al., 2009). Policy support for entrepreneurship and small businesses has many similarities, but also fundamental differences in developing and transition countries compared to other economies. This is because they are ‘factor-driven’ with institutions oriented towards capitalist markets that are mostly new, more limited in extent, and usually less adjusted to modern entrepreneurship (Bennett, 2014).

### 3.2 Supportive business environment

Two of the significant government supports required by SMEs are first, a supportive financial environment and secondly, access to business support services. The research found that a plausible explanation for how SMEs can sustain growth without reliance on external financing. This type of resource acquisition method was originally used to define the diminishing reliance upon external funding by improving cash flow through different strategies (Winborg and Landström, 2001; Ebben and Johnson, 2009; Irwin and Scott, 2010). The Mauritian Government has always provided extensive support in different ways to the SME sector explaining its rapid growth in the Mauritian context (actually contributing 40% of GDP).

SMEs are highly dependent upon external non-financial business development services, such as access to advice, mentorship, and expertise such as accountancy, consultancy, and marketing (Yusoff and Fakhrol, 2012). The private sector and government play a leading role in providing these services (Berry et al., 2006). These services have been supplied by Small Enterprises Ltd. (previously SMIDO, SEHDA, and SMEDA). However, research shows that the government, as an external source of advice, did not significantly impact on SME growth (Robson and Bennett, 2000) due to a lack of trust in government-led services (Curran and Blackburn, 2000; Niska and Vesala, 2013; Wyrick et al., 2013). The present research will seek to analyse the support and incentive schemes provided by the government at different levels.

Lewis (2014) of *The Telegraph* has provided some critical support that may be provided by the government for SMEs to grow. The government may help in terms of innovation scheme, energy efficiency, and cost reduction, providing skills development programme, expert advice, and tax reliefs. Swigciski (2015) of *The Guardian* speaks a lot of bottlenecks, such as lack of availability of information and administrative bureaucracy.

### 3.3 Case studies of institutional support for SMEs

The Malaysian Government's commitment to the development of SMEs has been significant since the early 1970s. The 'New Economic Policy' was formulated in 1971 with the overall aim to improve the overall standard of living and reduce any economic inequalities. The government's endeavour to the development of SMEs has been testified in the Second Industrial Master Plan (IMP2) which ended in 2005. Consequently, this has been followed by the Third Industrial Master Plan (IMP3) 2006–2020, to coincide with the country's vision for 2020 (MITI, 2005). The government has implemented various policy decisions and strategies under these plans. The IMPs, as enunciated above have been developed to bolster the growth of the manufacturing sector across the entire value chain. Consequently, this plan provides an integrated approach to the development of industrial areas and opportunities for the growth of SMEs (MITI, 2005).

Mauritius has been following this approach, although it is still developing its institutional support. Different institutional and governmental arms support SMEs directly and indirectly in the Mauritian context. The SME Mauritius Ltd., the Development Bank of Mauritius, Mauritius Institute of Training and Development, the Human Resource Development Council are only some examples. Other institutions cater for agriculture, agro-industry, and ICT sectors. Mauritius also has international

collaborations with partner organisations such as in India for knowledge management and innovation diffusion. The Mauritius Research Council has recently launched industry-oriented research schemes that may be useful for SMEs at different levels. Accumulation of technological capacity in the textiles, agriculture, agro-industry, tourism, and services sector have been crucial in the economic success of Mauritius. The above are key elements of the national technology programs in Mauritius and are based on strong public, private sector collaboration, and participation. A dialogue between the private sector and the government and its institutions are regular. There is a reasonably good follow-up on agreed programmes as the country is relatively very small.

There are many government institutions which support the growth of SMEs in Mauritius. Some of the institutions are SME Mauritius Ltd., Development Bank of Mauritius, Enterprise Mauritius (now Economic Development Board) and National Women Entrepreneurship Council.

**Table 2** Institutions supporting SMEs in Mauritius

Economic Development Board Mauritius (previously Enterprise Mauritius)	EDP is the agency responsible for export promotion and export development. It seeks to provide the right support to Mauritian businesses to expand into regional and international markets.
Development Bank of Mauritius	DBM is a financial institution of excellence and a strategic partner which provides a range of financial and non-financial support to local firms.
National Women Entrepreneurship Council	The National Women Entrepreneur Council (NWECC), is the leading organisation that provides support and assistance to both potential and existing women entrepreneurs in Mauritius.

*Source:* Websites of different institutions (2018)

However, the focus of the study will be on the leading institution, namely SME Mauritius, which is the primary governmental arm for promoting small business. The range of business facilities provided under the aegis of the different institutions is provided in Table 3. However, the different institutional support provided is indicated in Table 3.

The range of government services are wide-ranging and relates to the different roles explained in the literature. However, it seems that there is a duplication of functions under different Ministries and institutions. The SMEDA now SME Mauritius provides broader services as compared to other institutions. The Mauritius Business Growth Scheme (MBGS) Unit was setup in 2010 by the Government of Mauritius in partnership with the World Bank. It seeks to support private sector growth by enhancing enterprise productivity and competitiveness, specifically in areas of skills and training, technology upgrading, innovation, quality standards, and business development. The MBGS payback scheme has not been successful as there were many arrears which have not been cleared by SME entrepreneurs. The National Women Entrepreneur Council provides specialised services specific to women entrepreneurs and also operates incubators. Table 3 also illustrates the importance of particular functions, such as business plan preparation, counselling, and marketing advice. With regards to creativity and innovation, only SME Mauritius (previously SME) provides such services.

**Table 3** Types of business facilities provided to SMEs in Mauritius

<i>Services</i>	<i>SMEDA</i>	<i>MBGS unit</i>	<i>EM</i>	<i>NWEC</i>	<i>DBM</i>
1 Business counselling	✓	✓	✓	✓	
2 Business plan elaboration	✓	✓		✓	
3 Provision of management training	✓		✓	✓	
4 Provision of technical training	✓		✓	✓	
5 Registration, leading to preferential treatment	✓			✓	
6 Entrepreneurship development	✓	✓	✓	✓	
7 Business for a	✓	✓	✓	✓	
8 Development of sub-sector strategies	✓		✓	✓	
9 Marketing advice, market intelligence	✓		✓	✓	
10 Participation in trade fairs	✓	✓	✓	✓	
11 Access to finance	✓	✓	✓		✓
12 Research and development support		✓	✓		
13 Research and future projects	✓		✓	✓	
14 Common facilities	✓		✓	✓	
15 Advocacy, lobbying			✓	✓	
16 Joint venture promotion			✓	✓	
17 Export promotion	✓	✓	✓	✓	
18 Access to business development services	✓	✓			
19 Financial support to start-up entrepreneurs		✓			
20 Mentoring/coaching/handholding services	✓	✓			
21 Networking/clustering	✓	✓			
22 Company diagnostic/capability assessment		✓			
23 Innovation/creativity	✓	✓			

*Source:* Office of Public Sector Governance (2013)

### 3.4 *The scope of government support*

The nature and scope of government policies have a direct impact on a company's financial performance (Borges et al., 2009). The influence and impact of government policies for SMEs vary from country to country and from developed countries to developing countries due to differences in culture, the level of industrialisation and business contexts (Nguyen et al., 2009). Governments set the rules and frameworks in which businesses can compete against each other. In the Mauritian context, the government has come up with various changes in the law to adapt to the changing socio-economic background as well as demographics. The government frequently changes these rules and frameworks, forcing SMEs to change the way they operate. Financial performance of SMEs is thus keenly affected by government policies. Governments of the day regularly change laws in line with its political policies. As a result of SMEs continually have to respond to changes in the legal framework. These



policies can have a significant impact on the competitiveness and profitability of SMEs (Araujo et al., 2008; Kjellberg and Helgesson, 2007; Nguyen et al., 2009; Nugent and Yhee, 2002).

### *3.5 Problems with institutional support for SMEs*

While institutional support is expected to drive SME growth; the government may, at the same time, bring different barriers. For example, a study by Hashi (2001) explores constraints developed by the government, such as fiscal constraints, particularly high tax rates and contributions, and the overall institutional environment may be a burden. In the Mauritian context, reference is made to administrative bureaucracy and also lack of control over piracy. Some of these problems have encouraged firms to do activities in the informal sector of the economy. Percent of firms that chose practices of the informal sector as the biggest obstacle faced by this establishment (survey respondents were presented with a list of 15 potential obstacles) World Bank, Enterprise Surveys Hashi (2001) based on the survey of 50 SMEs established since 1992 highlights some of the problems.

The area with the highest potential lies in studies that seek to explore in more detail how environmental factors influence entrepreneurship internationally. In many developing countries, central and local government plays an active role in the economy, and firms tend to be attuned to government priorities and preferences. Government support provides firms from developing countries with privileged access to certain inputs, preferential financing, subsidies, and other support. SMEs gain similar attention from the government when they act as boosters to the country's economic growth. Support from the local government is provided for SMEs not only in developing countries but also in developed countries, as internationalisation is recognised as a significant yet formidable and expensive process. The whole policy and business environment in developing countries is possibly the most crucial influence on private sector investment and exporting behaviour including building export capabilities in SMEs (Badrinath, 1997; Levy, 1993; Meier and Pilgrim, 1994). Factors related to the policy and business environment can be classified into two main sections; first, the application of government policies, regulations and procedures about macroeconomic conditions, international trade, domestic competition, taxes, bureaucratic procedures and labour; second, the institutions and other aspects of the business environment relating to finance, infrastructure, market conditions, law and crime (Wignaraja and O'Neil, 1999). A study by Vega et al. (2012), SME innovation relies a lot on government departments and public-private partnerships. They also suggested that SME associations have a potentially important role in increasing participation by SMEs in the public program for innovation and knowledge support policy.

## **4 Research methodology**

The present research is based on a qualitative research study based on content analysis using several available resources in the Mauritian context for the development of SMEs. The keywords/constructs for the research are SME laws, government incentives and innovation schemes. The research data collected spans over two decades, and as there no

repository of data in Mauritius makes the tasks more tedious. The past websites (institutions), budget speeches, and existing literature are the primary sources of information. The purpose of the research is to have a better understanding and insight into the significant changes in terms of institutional support. Hence, the research approach used is also the case study methods where information has been gathered through various sources to analyse the institutional support. A researcher does not necessarily have to choose between paradigms because case study often uses numerous sources of evidence and may be practised as multi-method research (Denzin and Lincoln, 2005). A qualitative researcher should feel assertive to use quantitative surveys or institutional data archives (such as economic statistics) if this help to answer the research question. Flyvbjerg (2006) contrasts rule-based knowledge with case-based knowledge, the difference being that the latter is always context-dependent.

**Table 4** An overview of changes in SME support laws and incentive schemes

<i>SME law/ institutional arm</i>	<i>Scope and vision</i>	<i>Functions and incentives provided (based on websites)</i>
Small and Medium Industries Development Act 1993 (1993–2004)	Vision: A strong and modern SME sector that is efficient, competitive and export-oriented	<ul style="list-style-type: none"> <li>• Export credit guarantee scheme</li> <li>• Export assistance scheme</li> <li>• Start-up scheme</li> <li>• Training, consultancy and business expertise</li> <li>• Business counselling</li> <li>• Feasibility study grant scheme</li> </ul>
SEHDA (2005–2009)	Vision: SEHDA promotes the development and growth of the small business sector in Mauritius  <i>Takes over the function of SMIDO (as above) and merges with National Handicraft and Promotion Agency</i>	<ul style="list-style-type: none"> <li>• Business counselling and facilitation</li> <li>• Skills development programme</li> <li>• Informational services</li> <li>• Business forums</li> <li>• Marketing assistance</li> <li>• Design services</li> </ul>
SMEDA (2009–2014)	<i>Integration of medium enterprises in the framework and better representation of SME entrepreneurs (including women)</i>	<ul style="list-style-type: none"> <li>• To encourage new business ventures</li> <li>• To facilitate business setup with minimum problems</li> <li>• To provide information on financial facilities available</li> <li>• To assist entrepreneurs to find appropriate technical information and assistance for their business</li> <li>• To assist entrepreneurs to plan their business and minimise failure</li> <li>• To monitor implementation of new businesses</li> <li>• To assist enterprises in their continuous improvement</li> </ul>

Source: <http://smido.intnet.mu/incentiveandsupport.htm>

**Table 4** An overview of changes in SME support laws and incentive schemes (continued)

<i>SME law/ institutional arm</i>	<i>Scope and vision</i>	<i>Functions and incentives provided (based on websites)</i>
Small and Medium Enterprises Act (2015)	The aim is to repeal the Small and Medium Enterprises Development Authority Act and replace it with a modern, more business-friendly and appropriate legislative framework for the small and medium enterprises sector	<ul style="list-style-type: none"> <li>• Promote a conducive business environment and empower MSME's to emerge and grow</li> <li>• Promote a service delivery network which increases the contribution of MSMEs in the national economy and enhances economic growth</li> <li>• Enhances the competitiveness of MSMEs</li> <li>• Devise and implement development support programs and schemes for MSMEs</li> <li>• Facilitate, assist and provide the necessary support to MSMEs to gain market access and business opportunities and to compete successfully in the national and international markets</li> <li>• Promote and develop entrepreneurship</li> </ul>

*Source:* <http://smido.intnet.mu/incentiveandsupport.htm>

The current research will be highly useful as it will help stakeholders understand the development of SMEs under different governments. The use of content analysis and interactive media for purposes of research has increased in the digital era (Skalski et al., 2017). The research ontology that has been adopted is that institutional support may be highly beneficial for the SMEs in Mauritius. Besides, the research approach clearly shows that the research findings have been triangulated with analysis from budget speeches, parliamentary debates and also existing academic literature. Through the research, it is evident that lack of information is a crucial impediment in the Mauritian and African context. The discussions and analysis have been correlated with macroeconomic variables such as economic growth, innovation index, and other tools. The three variables are the key constructs that have typically been used in previous researches related to government support.

Hence, some of the limitations of the study are in terms of potential subjectivity as findings and observations are based on opinions not necessarily substantiated by facts such as in the case of budget speeches. However, efforts have been made to analyse the research objectives based on a comprehensive discussion using pieces of evidence gathered together with a literature review.

#### 4.1 Analysis of findings

##### 4.1.1 Theme 1: changing SME laws and institutional support in Mauritius

Table 4 provides an overview of the different laws enacted over two decades to support SMEs in Mauritius. It also provides the scope and vision of the laws and a description of the key incentives provided. It should, however, be mentioned that it is a highly summarised version of the changes. The experiential learning in the SME sector is continuing as now there is a ten-year Master plan developed by EMPRETEC (a consultancy firm).

#### 4.2 *Analysis and discussion: changes in SME laws*

Table 4 has outlined the changes in laws pertaining to the institutional body for supporting the SMEs in Mauritius. The most important question is whether there have been fundamental changes in the legislative framework for supporting SMEs. Lall and Wignaraja (1998) had the following to say about the SMIDO:

“SMIDO is doing useful work but is inadequate in terms of helping Mauritius transform SMEs into efficient sub-contractors and make them export-oriented. The institutional framework as a whole needs to be improved and expanded if it is to play a key role in improving competitiveness. There is no research design. There is a need to look at financing, training, and marketing support.”

However, the question is whether the enactment of SEHDA (replacing SMIDO) helped to fill the institutional void explained by Lall and Wignaraja (1998). An analysis of the SEHDA legislation shows that nothing much changed except that the new institution merged with the National Handicraft and promotion agency. Hence, the aim was more about rationalising the operations rather than improving the overall competitiveness of SMEs. There was not much change in terms of the functions of the new agency except that there was a rebranding of some of its functions. The period between the years 2005–2009 (SEHDA) witnessed a rapid growth of SMEs propelled by the increasing economic growth. It is essential to point out that SEHDA did play a developmental role in the growth of SMEs by providing several support facilities such as training and marketing support, but the institution may have played a better role in improving the competitiveness of SMEs.

The creation of SMEDA brought the medium enterprises into the framework for supporting enterprises and also sought for a better representation of women entrepreneurs. There was not much change in the overall support functions provided to SMEs. This period was characterised by high SME failures (2 out of 3). The institution also faced financial deficit over four years. The Office of Public Sector Governance (2013) had the following to say about the operational efficiency of the SMEDA:

“SMEDA provides a variety of services to the SME’s but with little success. SMEDA should not aim at servicing all the 100,000 SME’s because it is simply not feasible and not cost-effective, and a lot of them will survive and prosper without the support of SMEDA. It should instead concentrate on those who need its assistance badly and provide them all-round support for them to grow. With the phasing out of the duty-free and tax rebate to SME’s registered with SMEDA, fewer entrepreneurs are inclined to seek registration. SMEDA should move closer to the entrepreneurs instead of expecting them to come to its head office at Coromandel.”

Hence, it was recommended that SMEDA needed to have a more targeted approach to supporting SMEs and decentralise its services for improving accessibility. But then the high failure rate of SMEs depends on several factors and cannot be attributed only due to lack of institutional support. In Mauritius, a change in government has, in most cases led to a change in the law as well as the branding of the governmental body for supporting SMEs. This may be explained because successive governments always promoted supporting SMEs to reduce unemployment. The institution is now known as SME Mauritius which seeks to “promote and develop entrepreneurship, and provide the necessary support and assistance to the micro, SMEs in Mauritius.”

Mauritius has brought different laws for institutional support (North, 1990) to increase the economic development of Mauritius. The government is making a special effort to support SMEs in its quest to increase the contribution of small firms to the national income. The ten-year master plan may fill the gap of having a long-term vision for the SMEs especially with the aim of internationalisation of SMEs.

### *4.3 The creation of SME Mauritius Ltd.*

'SME Mauritius' has been setup to replace SMEDA as a fundamental institutional reform to better support the SMEs and as recommended in the ten-year master plan for the SME sector. Its main objects are to promote and develop entrepreneurship and provide the necessary support and assistance to the micro, SMEs in Mauritius.

The following has been put forward for the enactment of the law by Fowdar (2017) as cited from Hansard documents (Parliamentary Debates, No. 27 of 2017):

"Near to us, Mr. Deputy Speaker, Sir, in South Africa, the SME contributes from 52% to 57% to the GDP. In Ghana, 92% of businesses are SMEs, and they contribute to 70% to the Ghanaian GDP. But here in Mauritius, we are still at 40% of contribution to the GDP, and only 3% of our exports are from the SMEs. *Yes, we can definitely do better, and this is why we are here to discuss this SME Bill.*"

Other reasons put forward are the need to reduce administrative bureaucracy and also modernise the existing financing schemes. The Fowdar (2017) claimed strongly in favour of the new institution:

"In many countries, Mr. Deputy Speaker, Sir, government is helping the SMEs financially directly and government is intervening in many other ways to support the SMEs. In some countries, governments are putting in place mandatory schemes for banks or interest rate subsidies to support the SMEs. Mr. Deputy Speaker, Sir, Philippines, Bangladesh, and India are a few examples. In India, they recently announced that the banks are required to observe a credit ratio of 7.5% of their total credit to the SME sector, thus forcing the banks in some way to lend to the SMEs. But then, Mr. Deputy Speaker, Sir, finance is not the only hurdle for the SMEs. The second biggest hurdle and we all know about this in this country, is the regulatory burden, the administrative burden that SMEs or the entrepreneurs face in Mauritius and also elsewhere. This remains a major obstacle. Although Mauritius has gained substantial merits on the ease of doing business, yet our SME sector is struggling. Entrepreneurs keep complaining about the excessive time taken to process their files where too many documents, too many information are needed before things are sorted out. A lot of hurdles, Mr. Deputy Speaker, Sir!"

The Hon. member also emphasised the need to bring research, innovation. He is of the view that SME Mauritius Ltd. will bring new people. It will also bring change in the overall culture of doing business as he claimed:

"Let's do away with this mindset of nine to four, let's bring people with good qualifications with motivation, people who are going to work for the sector, not those who are looking after their job, those who are ensuring whether they will be redeployed." (Hansard No. 27 of 2017, pp.105–110)

A recent study confirms that despite low institutional support sustainable entrepreneurs need to act as institutional entrepreneurs to adapt the business environment and also seek

to bring changes in societal norms and values (Shepherd and Patzelt, 2011; Thompson et al., 2015).

#### 4.3.1 Theme 2: government incentives to SMEs

The research paper also seeks to analyse the importance of the government schemes for the development of SMEs over the years. The research shows that successive governments have always sought to boost up employment and contribution of SMEs to the economic growth of the country as evidenced by the data collected (provided in Table 5). It is difficult to assess the efficacy of the government incentives individually which may be potential research avenues in the future. Consequently, a macroeconomic perspective is adopted whereby the overall performance of SMEs between 2005 and 2012 are used to make some observations. However, it is important to reiterate that the performance of SMEs relies on many constructs and variables which may vitiate the analysis and there will always be a certain degree of subjectivity.

**Table 5** Government incentives based on budget speeches

Budget speech (SMIDO website)	<ul style="list-style-type: none"> <li>• Export credit guarantee scheme</li> <li>• Export assistance scheme</li> <li>• Start-up scheme</li> <li>• Training, consultancy and business expertise</li> <li>• Business counselling</li> <li>• Feasibility study grant scheme</li> </ul>
Budget speech (2002) – key measure for SME growth	<ul style="list-style-type: none"> <li>• SME challenge project</li> <li>• Technology improvement scheme of up to Rs.1 m</li> <li>• DBM venture capital fund from Rs.500 K to Rs.1 million</li> </ul>
Budget speech (2012) – key measures for SME growth	<ul style="list-style-type: none"> <li>• Banking sector to release Rs.3 billion at favourable interest rate including Development Bank of Mauritius</li> <li>• More industrial space at lower costs</li> <li>• More government contracts to SMEs</li> <li>• Resilience fund that may help in factoring schemes and guarantee for import loans</li> <li>• Participation of SMEs in fairs</li> <li>• Equity fund for corporate restructuring</li> </ul>
Budget speech (2017) – key measures for SME growth	<ul style="list-style-type: none"> <li>• SMEs will be given dedicated space for their activities</li> <li>• SME e-platform for increasing visibility of products</li> <li>• Export financing facility</li> <li>• SME venture capital fund</li> <li>• Lower costs of electricity</li> </ul>

*Source:* Budget excerpts from budget speeches (2002, 2012 and 2017)

#### 4.4 Analysis and discussion: budget incentives to SMEs

Table 6 statistics show the high vulnerability of SMEs with high closures during the year of registration of new firms. However, despite that, SMEs have prospered with the incentives provided by the government. The SME contribution to GDP has increased significantly from 13.5% in 2006 to around 40% in 2018. The share of employment has also considerably increased and is now 55%. This implies that government support has indeed brought positive benefits. However, it is difficult to assess the extent of the impact as there are so many variables that come into play.

**Table 6** SMEs registered during the period 2005–2012

	<i>Enterprises</i>				
	<i>In</i>	<i>New</i>	<i>Total</i>	<i>New in</i>	<i>Total in</i>
	<i>operation</i>	<i>registered</i>	<i>registered</i>	<i>operation</i>	<i>operation</i>
	<i>2005</i>	<i>2005–2012</i>	<i>2012</i>	<i>2012</i>	<i>2012</i>
Food and beverages	473	1,884	2,357	607	1,081
Leather and garments	886	1,819	2,705	670	1,556
Wood and furniture	262	236	498	98	360
Paper products and printing	69	72	141	26	95
Chemical, rubber, plastic	46	62	108	28	74
Handicrafts, pottery and ceramics	476	990	1,466	373	849
Jewellery and related items	67	63	130	27	94
Fabricated metal products	251	338	589	126	377
Profession/vocation/occup.	764	2,274	3,038	788	1,552
Trade and commerce	1,463	5,054	6,517	1,431	2,894
Business support service	67	158	225	48	115
Others	338	866	1,204	248	586
<i>Total</i>	<i>5,162</i>	<i>13,816</i>	<i>18,978</i>	<i>4,470</i>	<i>9,632</i>

*Source:* SMEDA (2013)

The different excerpts from budget speeches show that unlike the laws for institutional support, the budget incentives are wide-ranging and have sought to address the problems of access to finance, marketing, and training. Government has also provided financial support for the development of e-platforms for small firms showing that government incentives have been adapted to the changing business environment.

The above is supported by the studies of Smallbone and Welter (2001) who claimed that “as in mature market economies, the state is a significant factor influencing the nature and pace of SME development, although more through its influence on the external environment in which business activity can develop than through direct support measures or interventions.” However, survey evidence from the Ukraine, Belarus, and Moldova suggests that many enterprises are setup, survive and sometimes even grow despite government, because of the creativity of individuals in mobilising resources and their flexibility in adapting to hostile external environments. Doh and Kim (2014) further consolidate that in Korea, financial aids have been highly useful in bringing a higher level of innovation.

#### 4.4.1 Theme 3: innovation schemes for SMEs

The Government of Mauritius has implemented several innovation schemes for SMEs so that small firms may improve their business processes, systems or even bring product improvements. Some of the innovation schemes are provided in Table 7 for reference purposes.

**Table 7** Innovation schemes for SMEs

Scheme 1	<i>Levy grant scheme (ongoing since 2003)</i> Employers can recover up to 75% of course fees depending on their tax rate. Funds and grants awarded by the Human Resource Development Council are based on a cost-sharing principle, i.e., grants will meet only part of the costs incurred for training by employers since they are not intended to be a subsidy.
Scheme 2	<i>SME refund scheme for export promotion and technology fairs</i> A grant of Rs.200,000 is provided per year under this scheme to SMEs in the manufacturing and agricultural sectors for participation in export promotion events and technology fairs.
Scheme3	<i>ICT support</i> Funds have been earmarked for SMEs to help them take advantage of the opportunities offered by recent developments in the ICT sector. An ICT guide is being prepared for SMEs.
Scheme 4	<i>SME partnership fund</i> Foster the creation, restructuring, and consolidation of small and medium enterprises.

*Source:* Government reports (SME master plan)

#### 4.5 Analysis and discussion: support for innovation

The Government of Mauritius has always come forward with schemes for improving innovation amongst SMEs. However, there are limited statistics regarding how far these funds have been utilised (as provided above) and more important on its overall effectiveness. However, the government is more than convinced that innovation is way forward and has recently developed a national framework for innovation development based on a study carried out by Empretec Mauritius Ltd. A study by Kasseeah (2013) on the effect of innovation of firm performance shows that results obtained indicate that innovation affects the performance of firms in Mauritius even after controlling for factors such as experience of the owner-manager, age of the firm, size of the firm, region in which the firm is located and the sector in which the firm operates. However, there is very little innovation, as outlined by the governmental authorities.

The National Innovation Framework (2017–2020) gives a new perspective to innovation in Mauritius with some new dimensions such as the critical role of the private sector and business companies in generating innovation amongst others. The NIF also recognises that innovation in people-centred and the importance of social change.

Over the past five years, Mauritius has moved up the Global Competitiveness Index (GCI) ranking of the World Economic Forum Global Competitiveness Report. However, it can also be noted that even if Mauritius has moved from a middle-income to an upper middle-income country, its ranking in the innovation sub-index has not changed significantly (78th out of 140 in 2015/16).



The framework aims at promoting creativity in businesses and enhancing techno-entrepreneurship, through strong science and technology and research cast, to ensure the ability to innovate continually. It consists of a cohesive set of practices which inspires imaginative/creative teams to look beyond the obvious; explore a broad range of possibilities; identify significant opportunities; make informed decisions about the most promising paths to pursue; create a shared vision for growth; and define pragmatic action plans that will align their organisations with the requirements for success.

## **5 Policy implications and limitations of research**

The research has been instrumental in analysing the logical sequencing of major reforms in the SME sector of Mauritius. This can be used by African countries to take stock of important adjustments in the journey of improving SME efficiency. It should be stated that we are still very far from advanced countries. This compares sharply with the performance of Singapore.

SMEs in Singapore account for 99% of the overall enterprises, contribute around 49% of total enterprise value-add, and hire 67% of the workforce. However, SMEs often struggle with high business costs, financing difficulty and low-profit margin due to intense competition. In addition, SMEs as a group tend to be less productive than large companies. Consequently, the Mauritian economy has a long journey to make. It is also true that only the government may not shoulder for SME growth. There is a need to develop an entrepreneurial culture at the national level to boost up growth. There are also other traditional problems such as access to finance, marketing and above all, innovation.

The main policy implications of the research are that the restructuring of the SME laws has helped adapt to the changing economic situation. For example, the inclusion of medium enterprises in the definition of SME has been one step. In addition, the dismantlement of SEHDA has improved the operational functioning of SMEs. In addition, more functions and responsibilities have been added to the institutions. With more than 55% of employment from SMEs, it seems to be a highly buoyant sector. However, the changes in law may be seen as a political rebranding of the institution as no major changes in the roles and of functions has been observed. However, the creation of SME Mauritius and the ten-year master plan landmarks an important change for the entrepreneurs. However, it is recommended that any change in law should meet the expectations of the small entrepreneurs and should seek to reduce the market failures as explained in the literature review.

In terms of budgetary policy measures, the Mauritian Government has brought creative and innovative measures, including venture capital funding, e-platform and also subsidising electricity costs for small firms. However, there are no studies and assessment on the effective utilisation of funds. Hence, there is a need for more accountability and transparency, which may help in policy reforms.

However, it is difficult to assess the direct influence of the policy measures as there many factors which may influence growth. As the research is largely qualitative, the purpose is not to generalise. Some of the limitations are a lack of empirical data and the use of the deductive approach. The other limitations of the research are the lack of data given the large span of the research (20 years). There is a need to further investigate the

inter-relationships between the different variables. The lack of data on SMEs has been another impediment.

## **6 Future research directions**

There are many opportunities for further research concerning the impact of policy decisions on SMEs. The use of focus group and questionnaires could be used to further consolidate the existing findings. The implementation of the master plan for SMEs is another avenue for consideration. Empirical findings may help question the inertia and administrative bureaucracy outlined in the research. The research may also be conducted at micro-level, i.e., at the firm level where the different variables could be assessed and evaluated based on a pre-tested questionnaire. The research interest is highly stimulating and of significant importance for the decision-makers and especially the different institutions.

## **7 Conclusions**

The research arose from the interest to understand the rationale behind policy decisions taken for SMEs. It is also true that there is no good or bad decision, and it is important for an emerging economy like Mauritius to learn from the best practices to become a high-income economy. Mauritius has the ambition of having almost 60 to 70% of the contribution of SMEs to the overall GDP by the year 2030. Future research should also explore the use of digital technology for improving overall SME growth in the years to come. The main conclusions from the research are that subsequent governments had a clear ambition of improving the contribution of SMEs to the Mauritian economy. The different laws are also testimony to adaptation and constant change at the national level. Different budgets have come up with different incentive schemes. However, the problems are not simply with the institutional support but also with the overall culture. The new generation is risk-averse and consequently, prefer to take jobs than engage in entrepreneurship. Another problem relates to the lack of leadership and financial issues. Some positive changes have taken place with women entrepreneurship increasing over the years. Women are now fully integrated with the overall economic growth and development of the country.

The entrepreneurship journey is a long one and therefore, there is no need to focus on the new master plan, which is ambitious and which has the contribution of the government. In addition, Mauritius has also embarked on the National Export Strategy where SME integration for internationalisation is a major objective. The research has provided a holistic perspective of the overall government strategy to gear up towards a high-income economy. The efforts have been successful but need to be redefined with new challenges being faced with the digitalised economy and the thrust to become more sustainable. The government recently organised a conference on digitalisation and sustainability in the tourism sector so that stakeholders in this sector are better prepared for a world where customer expectations and the mode of operations are fast changing. As Mauritius does not have natural resources, it should tap the potential of the SMEs to achieve its overall macroeconomic objectives for the forthcoming ten years.

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