TDB
TRADE & DEVELOPMENT BANK

EMPOWER SMES AS KEY TO ECONOMIC GROWTH AND JOB CREATION

LESSONS FROM SOUTHERN AFRICA

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THE CASE FOR EMPOWERING SMES

- SMEs constitute the seedbed of entrepreneurship development
  - They contribute immensely to economies' productivity and, consequently, their competitiveness and aggregate economic growth
  - SMEs currently account for approximately 90 percent of Africa's private sector businesses outside the agricultural sector.
- For Southern Africa, SMEs contribute significantly in terms of their shares especially with respect to:
  - Number of enterprises established
  - Level of employment generation
  - Production and value addition
  - Enhancement of regional dispersal of industrial activity

THE CHALLENGES HAVE REMAINED REAL

- In spite of the clear case for empowering SMEs, they have continued to face considerable levels of barriers to their progress. Key challenges have included:
  1. Unsupportive business regulations and restrictions.
  2. Inadequate access to financing and funding opportunities due, in part, to policy biases and inefficiency of African capital markets in supporting SMEs.
  3. Limited/restricted access to product markets.
  4. Constrained access to financial information and technology.
  5. Low technical and managerial capacity.
  6. Absence of supportive and sustained government-led SME strategies.
  7. Inadequate access to public procurements mainly on account of corruption.
  8. Ineffective regional integration among African countries.
  9. Political instability in some cases

UNSUPPORTIVE BUSINESS REGULATIONS AND RESTRICTIONS

- Unsupportive business regulations continue to dog the sustainability of SMEs in Southern Africa. These include:
  - Complex legal and regulatory frameworks
  - Protracted bureaucracy
  - Excessive taxes

INADEQUATE ACESS TO FIANANCING: Demand-side

- Demand-side barriers to SMEs access to finance in Africa can be grouped into three key clusters
  1. the capacity cluster includes barriers that affect the ability of SMEs to use financial services effectively such as the absence of collateral, or their levels of financial illiteracy;
  2. the social cluster, which includes cultural and traditional barriers constraining the way formal financial services are perceived or accessed by SMEs
  3. the landscape cluster includes environmental barriers that obstruct access to and use to financial services, such as the low level of development in rural areas or the weakness of value chains or general connectivity issues.

INADEQUATE ACESS TO FIANANCING: SUPPLY-SIDE

- Supply-side barriers could be labelled as "the invisible ones" because their existence and effects tend to go unnoticed
  1. the institutional cluster includes barriers that affect the capacity of public actors, like central banks, to effectively create a more enabling environment
  2. the regulatory cluster, which includes barriers preventing the development, implementation and enforcement of an adequate regulatory framework to promote financial inclusion;
  3. the motivation cluster, which includes barriers, such as the high yields on T-bills, affecting negatively the incentives of formal financial institutions to expand the outreach of their services; and
  4. the cost cluster, including barriers with a direct impact on the high costs of financial services, such as the high interest rates.

LOW TECHNOLOGICAL CAPABILITIES

- Access to the right technology is fundamental for SMEs acquiring core competency and innovation in their activities. Improvement of employees' technological capabilities secured higher profitability. It is clear that new technologies are continually emerging, which should assist small firms to enhance their production

LACK OF DIGITAL INFRASTRUCTURE

- Many SMEs in Southern Africa lack access to reliable electricity, internet connectivity, and other basic infrastructure that are key to their business activities.
- Reaching out to new customers and new markets is essential for them to grow their businesses.
  - SMEs often rely upon expensive alternatives such as generators, private transport, and satellite communication systems
    - These are alternatives that have escalated their operating costs.
- Reliable digital infrastructure for SMEs is, therefore, key for them to stay competitive in both the local and global markets.

LOW TECHNICAL AND MANAGERIAL CAPACITY

The human resources base of SMEs is generally weak especially with respect to:

- the required skills in market analysis
- marketing and product innovation
- business planning and financial management
- Inadequate qualified personnel to manage their activities

- Consequently, SMEs are unable to possess the same quality of financial information as those for big firms.
  - many are unableto provide audited financial statement, which is one of the requirements for accessing credit.

INAQEQUATE ACCESS TO PUBLIC PROCUREMENTS

- Inadequate access to public procurement is one of the top challenges of SMEs in Africa.
  - Public procurements presently constitute the main source of revenue for many enterprises in Africa.
    - But bigger companies have the technological know-how and financial resources that SMEs cannot afford
    - this has reduced theirchances of receiving government contracts.
    - Acts of corruption and bribery in some countries have also distorted competition, resulting in further marginalisation of SMEs as most of them lack the required liquid capital to participate in such vices.

INEFFECTIVE INTEGRATION

- The ineffectiveness of sub-regional integration (SADC, COMESA) is another difficulty that SMEs in the region must face.
  - There are still barriers to the free movement of products, services, and people within the existing regional economic integration schemes due to a host of reasons.
    - Entering a market other than one's own is a difficult challenge for a small business, which has resulted in a significant drop in SMEs' income and profitability.
    - SMEs in Africa often struggle to access regional and international markets due to various factors, including trade barriers and lack of information. Limited market access means that SMEs are unable to compete with larger firms, limiting their growth and potential.

GOING FORWARD: EMPOWERING SMES

1. Opening up more financing channels and creating stronger partnerships and trust between the banking sector and SMEs.
2. Governments in Africa need to prioritize infrastructure development.
3. Governments and like-minded organizations should come together to provide training programmes that help SMEs learn new skills and technologies, such as business process management, digital marketing, e-commerce, and supply chain management
4. There is need to upscale the education level of the entrepreneurs
5. Nurturing entrepreneurial mindset among entrepreneurs is key to the success of SMEs
6. Securing easy start-up and business-friendly regulatory environment is key
7. Promotion of digitalisation is essential as it offers new and more cost-effective opportunities for SMEs to participate in the global economy

THANK YOU!