



Small Business Development and the Inclusive Business Concept

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ICBE-RF Research Report N0. 82/14

Investment Climate and Business Environment Research Fund

(ICBE-RF)

www.trustafrica.org/icbe

Dakar, January 2014

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1 Introduction

Trends in developing countries over the last two decades show that the involvement of small and very small enterprises makes a constructive contribution to building economies, especially during periods of economic recovery (Government of South Africa, Detea et al. 2012a). Small, Medium and Micro Enterprises (SMMEs) play a vital role in encouraging job creation and their successes are influenced greatly by their ability to enter the value chains of larger organisations, in both the private and public sectors.

Though valuable to the progression of African economies, the challenges facing SMMEs are many. Lack of access to capital, limited infrastructural capacity, limited access to markets and of resources to enable business activity as well as a lack of economic skills are some of the pervasive constraints faced by SMMEs.

This was the background that motivated the Southern Africa Trust to successfully submit a research proposal to Trust Africa's Investment Climate & Business Environment (ICBE) Research Fund, and in September 2012, the Southern Africa Trust undertook a research study entitled, "*Small business development in connection with the inclusive business concept*".

The International Finance Corporation (IFC) defines inclusive business as, "models (that) expand access to goods, services, and livelihood opportunities for those at the base of the global economic pyramid (BoP) in commercially viable, scalable ways" (IFC 2011:2).

As part of its core mandate through its Business for Development (B4D) Pathfinder project, the Southern Africa Trust seeks to contribute to social, human and economic development in Southern Africa through programmes that foster the growth of SMMEs that adopt inclusive business models. The Business for Development (B4D) Pathfinder Project of the Southern Africa Trust is underpinned by the ethos of inclusive business practices. B4D is responsible for the implementation of the research study.

2 Project Description

2.1 Project Purpose

The purpose of the research is to critically describe and examine the factors that either promote or hinder the growth of SMMEs in five African countries.

This includes the analysis of options to link smaller and micro-sized enterprises with larger firms, a concept which is known as inclusive business. In general, inclusive business means the profitable integration of the poor into the value chain of a company.

The overall objective of the project is to provide the necessary knowledge to improve the performance and competitiveness of SMMEs so that there are increased entrepreneurial and employment opportunities and, based on this, wealth creation.

The project has two components, namely:

- a comprehensive research study in five target countries, and
- the convening of multi-stakeholder dialogues at a country level and regional level (SADC) to discuss research findings with policy makers and key players.

The research examines the factors that have promoted or inhibited the growth of small businesses in the selected countries and how success stories can be replicated in the region. The following questions guided the research:

- How can the development of SMMEs be described in the five target countries?
- What kind of regulatory framework works best for business development?
 - To what extent is such a framework supportive of business development?

- What are possible hindering factors or factors that have not been implemented in practice?
- What kind of support structures exist to foster business development?
 - How functional and successful are these support structures?
- What are the major factors that hinder the development of SMMEs, in particular with regard to the regulatory framework and supporting structures?
- To what extent has the concept of inclusive business been introduced in the five countries?
 - Which (regulatory) factors promote or hinder inclusive business in these countries?
 - What options are available to promote SMME linkages with larger companies (inclusive business)?
- What are the challenges that need to be overcome to achieve this, and how can this be done?

Based on preliminary research undertaken by the Southern Africa Trust it is assumed that,

- a) Although SMME development is universally acknowledged as an effective instrument for employment generation and economic growth for development, and although governments and other key players have made various efforts to foster SMME development, countries still fail to support the enterprises in being successful and sustainable; and
- b) The concept of inclusive business currently only plays a secondary role in SMME development and thus in the growth and development of a country, however the stronger involvement of larger companies that implement Inclusive business practices can trigger SMME development and lead to economic growth and employment of a country.

2.2 Research Methodology

2.2.1 Research Scope

The research scope is focused on the development of SMMEs in the SADC region, analysing the enabling environment for SMMEs, and to deepen the study, examining the relationship between very small enterprises and larger organisations, and the enabling environment relevant to: (1) opportunities within the value chain for very small enterprises; and (2) the ability of very small enterprises to do business with larger organisations. This includes research on enabling agencies and organisations and findings on macro-economic conditions.

Consideration was also given to the sector focus as an indicator of where SMMEs are most likely to have access. In the target countries, the agriculture, manufacturing and retail sectors play an important role in the development plans of the countries – with the exception of Mauritius with regard to agriculture.

The studies were conducted in Malawi, Mauritius, Mozambique, South Africa and Zambia. These countries were selected on the basis of existing processes on SMME development in a country, or the absence thereof; and with regard to the research focus sectors, such as food and beverages, manufacturing and retail.

In two of the selected countries, South Africa and Mauritius, the promotion of SMME development has been under way for some time and it is possible to share long-term experiences:

- In Mauritius, a joint enterprise development approach involved government and other key stakeholders. Two of the four major strategies of the Mauritius Government since the independence of the country have been (i) to provide income earning opportunities through the creation of jobs, and (ii) to provide non-wage income opportunities through entrepreneurship, where the government functioned as a developmental state, facilitator, operator and regulator in promoting an enabling environment for SMMEs.
- In South Africa, various initiatives have been undertaken to foster business development by different stakeholders like government, the banking sector, companies from other industry sectors, SMME-related organisations and other players. In addition, several initiatives in the field of

inclusive business have been started in the country that will provide solid data on concepts, successes and obstacles in relation to SMME development.

These two countries were therefore selected to provide good practice examples and information on promoting and hindering factors for SMME growth and development, based on the experiences from long-term processes.

Malawi, Mozambique and Zambia were selected as they are characterised by extensive agriculture and the lack of proper infrastructure and wealth (as is the case in Mauritius). All three countries are targeted by retailer companies which, in South Africa, have commenced inclusive business activities, but still retain their former traditional business concept in the markets in Zambia, Malawi and Mozambique, importing their products from their home country South Africa.

However, SMME activities still play a role in Malawi, Mozambique and Zambia and concepts of SMME development exist. SMME-related organisations or business associations often implement these. Inclusive business approaches are being implemented but are still in their infancy at the broader national level. The study intends to provide a comparison of activities in countries with differing situations, frameworks and experiences in SMME development, including inclusive business.

2.2.2 Research Design

The research examined the factors that either promote or hinder the growth of SMMEs in five African countries, including the analysis of options for linking SMMEs to larger companies based on the inclusive business concept.

The qualitative research method was selected to obtain an in-depth understanding of political frameworks, policy decisions and other factors that determine the enabling environment for SMME development and inclusive business. In selecting a qualitative research method, of greater importance was the fact that the studies scrutinize mindsets, attitudes and reasons for the decisions that the various stakeholders made, as well as their perceptions of the enabling environment.

Box 1: Key aspects of the Research

The following five aspects that are relevant for SMME development and inclusive business formed the focus of the research:

- Macro-economic environment and status of SMMEs in the target countries
- Regulatory framework in the target countries
- Support structure in the target countries
- Factors based on the above three aspects that either promote or hinder SMME development
- Inclusive business and the enabling environment thereof
- Recommendations to improve the current situation

Based on these six key aspects, desktop research and qualitative interviews were conducted. The desktop study provided an overview of the political and economic processes that result in an enabling environment for SMME development and inclusive business and provided insights in the following ways:

- The situation in each of the five countries that impact on SMMEs, including macro-economic factors;
- The focus research sectors (agriculture, manufacturing and retail) in the target countries and the selected research provinces within these countries;
- The status and legal framework for SMME development and business linkages, including political intentions and historic developments
- Existing public and private structures that foster SMME development and business linkages (supporting agencies);

- Factors that either promote or prevent SMME development and business linkages, in particular those related to regulatory frameworks, supporting agencies and other aspects of the enabling environment;
- Examples of successful inclusive business activities; and
- Options to improve the current situation.

This overview provided the basis for further research on the enabling environment and a “reality check” as to whether and/or how the regulatory frameworks and the SMME-supporting agencies had improved the development of SMMEs and business linkages in practice. This information was obtained through interviews, using open-ended questions completed by sub-contracted local partners. The semi-structured interview guidelines addressed the following questions:

- What are the factors that advance or inhibit the growth of SMMEs in the target countries, and allow for SMMEs to start or extend an inclusive business approach?
- To what extent are SMMEs using supporting factors provided by the governments, SMME-related agencies, and the private sector to foster business linkages? Which limiting factors can be changed for short, medium and long-term impact?
- How strongly are SMMEs linked to larger firms, in particular related to food, beverages and manufacturing? What are the enabling and disabling factors?
- What conditions need to be in place for larger companies to co-operate more closely with SMMEs? Which of these factors can be realistically implemented or changed in the near future?
- What examples of good practice exist and what can be shared and replicated?
- Are there ways in which SMMEs can get better access to people at the Base of the Pyramid (BoP) by co-operating with larger firms?
- What needs to be changed to create an enabling environment for SMMEs to better establish themselves and serve these markets, as part of the value chain of a larger firm?

The aim of the interviews was to gain insight into the positions and perspectives of three key stakeholder groups on the subject matter and on the dynamics that will be practical for application within the Southern African context. The interviews also supported the desktop research with regard to knowledge on the implementation of laws, policies and strategies to support SMME development.

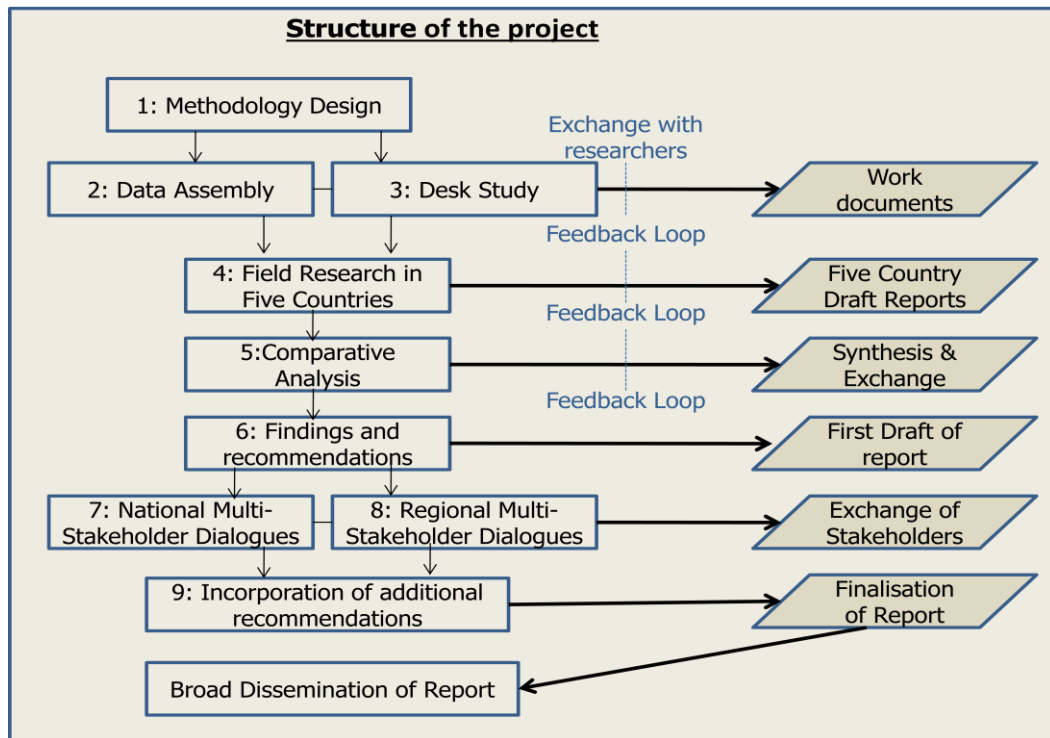
Of particular interest were the levels of awareness regarding inclusive business, as well as factors that hinder or support its expansion. The research also considered whether a parallel can be drawn between the views of larger organisations in the private sector, government officials and the experiences of the owners of very small enterprises.

The mixed methodology approach was selected to strengthen the validity of the data elicited and to overcome any weaknesses inherent in either method. It allowed the research to provide greater insights, interpretation and discovery in cases less suitable for hypothesis testing.

The basis for study findings and recommendations was the comparative results and recommendations at a general level (cross-country/regional level) and at the national level.

In a third step, the research findings and recommendations were discussed in multi-stakeholder policy dialogues in the five target countries and within one regional policy dialogue. While this step formed part of the distribution strategy, the additional recommendations of each policy dialogue were incorporated in this present study report. In the graph below the design and procedure of the project is summarised.

Figure 1: Structure of the Project



2.2.3 Data Collection Method

The desktop research consisted of national and international studies, publications on SMME development and inclusive business in the target countries, and analysis of documents about the regulatory framework, including White Papers, political strategies, policies, laws and guidelines.

The activities of the SMME-supporting agencies were analysed using public documents, the agencies' websites and direct communication with representatives of these agencies. Newspaper articles were included, for instance in the case of South Africa, so as to be updated on SMME development.² The sub-contracted local researchers, where applicable, also participated in workshops in which new developments of legal frameworks for SMMEs were discussed. In Mozambique, for example, the researcher took part in a workshop on the follow-up Strategy for the Improvement of the Business Environment (*Estratégia de Melhoria do Ambiente de Negócios EMAN II*).

In the second step, data was obtained through qualitative interviews using semi-structured interview guidelines exploring the opinions and experiences of different stakeholders. For each of the target countries selected, the sample of qualitative interviews included about twenty very small enterprise owners; eight representatives from larger organisations that influence procurement processes and policies; and four officials from national, provincial or local government that influence policy development with regard to SMME development and inclusive business. In South Africa, the sample also included one representative of a business chamber representing enterprises on a national level.

² In South Africa, in 2012, the Government announced its intention to significantly change the Codes of Good Practices for the Broad-Based Black Economic Empowerment (BBBEE) which will have an impact on SMME development in the country. The Government provided a draft of the new Codes of Good Practice which were discussed with key stakeholders, such as large businesses. These announcements and discussions received extensive media coverage that was taken into account by the South African researcher.

Geographical Focus

In the larger target countries (South Africa, Mozambique, Zambia), the research was conducted in geographical focus areas outside of the capital cities. For example, in Mozambique, the poorer region of Nampula was selected for interviews with SMMEs.

The geographical focus of the South African study falls on the so-called poverty nodes,³ incorporating the rural and urban poor areas or communities that have been described⁴ as the spatial manifestation of the second economy, and are characterised by underdevelopment, contributing little to Gross Domestic Product (GDP), and absorbing the largest proportion of the country's population.⁵ Therefore, the South African part of the study looked at provinces chosen because of the incidence of prominent rural nodes that are not close to any urban, metropolitan areas with their particular influences and because they share relatively high populations outside of the more urban and central Gauteng Province. They also have in common a high incidence of rural communities and high unemployment rates within those communities.

The study was mindful that, when focusing on specific geographical areas, a market-focused approach had to be adopted; so that the realities pertaining to local environmental conditions are taken into account (in order to avoid creating unrealistic expectations); that basic conditions in the specific rural area need to be in place first, such as transport infrastructure, electricity and institutional capacity; and that there is sound co-operation between the private and public sectors.

2.3 Data Analysis

The data were mainly examined using the method of content analysis. The input was not analysed for frequencies but rather according to categories. The main categories of the content analysis were based on the key research objectives described in the research design (see Box 1 in chapter 2.2.2), namely:

- The status of SMME development in the target countries, including the macro-economic situation;
- The regulatory framework for SMME development and linkages between SMMEs and larger companies;
- The support structure for SMME development and linkages between SMMEs and larger companies;
- The factors that promote or impede SMME development and inclusive business, with a focus on macroeconomics and linkages;
- Existing inclusive business activities; and
- Recommendations to improve the current situation.

As indicated in chapter 2.2.2., these five major research goals were sub-divided into more detailed research aspects and questions, as described in chapter 2.2.2 and used as sub-categories to analyse the results in a structured way.

2.4 Challenges of the Research Project

As is often the case with qualitative research, smaller but more focused samples are used and this brings an element of subjective interpretation into the study. The qualitative method investigates the 'why' and 'how' of decision-making, not only the 'what', 'where' and 'when', hence smaller but focused samples are more often needed than large samples. It is suggested that future research of this nature should be aimed at obtaining more data to improve statistical significance.

Even though guidelines to structure the desktop research and detailed interview questions covering guidance notes were sent to the local research partners, the results and quality of the studies varied

³ Previously referred to as Presidential Poverty Nodes: South Africa Department of Provincial and Local Government/Business Trust, 2007.

⁴ South Africa Department of Cooperative Governance (DECOG)

⁵ Previously referred to as Presidential Poverty Nodes: South Africa Department of Provincial and Local Government/Business Trust, 2007.

with regard to deciding on the country study focus (policy versus the macro economy), the length, extent of detail, style and quality. These aspects had an unavoidable impact on the comparability of the studies.

3 Summary of Desktop Study Findings

3.1 Literature Review

The Southern Africa Trust comprehensively gathered literature relevant to the project and also other sources such as websites. These are listed as Appendix II. During this phase of the research project, new literature published after the project began was also taken into consideration.

3.1.1 Literature review on SMME development in the target countries

The literature refers to SMME development including challenges, solutions, support agencies and the regulatory frameworks of the five target countries. Very few publications focus on only one of these issues. Most of the publications analyse the holistic picture of SMME development in a country. Recent publications that were released during the present research project are introduced first, followed by brief descriptions of the literature that was available before the project commenced.

It is important to note that the available literature on SMME development at national level varies significantly. While there is already comprehensive information in countries such as South Africa and to some extent in Mauritius and more recently in Malawi, the literature on recent processes of SMME development in Mozambique and Zambia is limited. Even in Mauritius and Malawi, there is a lack of statistics, especially with respect to the informal sector and business development many of the sources were published already in the beginning or mid-2000s. The same is true for Malawi, where many studies have become outdated, with the exception of the studies by the International Labour Organisation (ILO) and FinScope that are described below.⁶

Literature on the situation of SMME development in Malawi

In Malawi and Mozambique the recently created new key components of the legal framework for SMME development, in particular new SMME development strategies and policies, have not yet been fully implemented and can therefore not be properly assessed for this report.

SMME policies in Malawi have historically been strongly criticised. The International Labour Organisation, for example, which published one of the few more recent reports on SMME development observed that,

“Well-designed and clear regulations, including those that uphold labour and environmental standards, are good for the promotion of start-ups and enterprise development. They facilitate formalization and boost systemic competitiveness. The Regulatory Quality Index measures the ability of a government to provide sound policies and regulations for the promotion of the private sector. Malawi’s performance in this regard has been poor and below 0, shifting from -0.48 in 2005 to -0.70 in 2011, on a scale from -2.5 to 2.5, with higher values indicating better performance. The country scores poorly, having achieved a value lower than that of Mozambique, Tanzania and Zambia in 2011” (ILO 2013:31).

This observation refers to the period of time before the new SMME policy was implemented and it also highlights that the ‘Ease of Doing Business -ranking in Malawi has decreased. However, when large companies were asked to describe the regulatory environment as it affects their daily business, about 80% assessed it as “supportive” or “very supportive, whereas this picture significantly changes when SMMEs were asked the same question (ILO 2013:31).

⁶ FinScope (2012), for instance, has published a list of literature on SMME development in Malawi in the annex of their publication, indicating that most of the studies were published before the year 2006. This lack of current information was confirmed by the local researcher of the present study.

The report from the ILO focuses on the enabling environment for sustainable enterprises in Malawi (ILO 2013), analysing political, economic, social and environmental factors for SMME development in the country. It addresses, *inter alia*, good governance; trade; the regulatory framework; competition; access to finance; infrastructure; entrepreneurial culture; training and education, as well as responsible stewardship of the environment. The analysis is based on indicators for each of these aspects and draws comparisons between Malawi, Mozambique, Tanzania and Zambia as well as the Southern African median. The study does not, however, examine the regulatory framework and the support structures for SMMEs, including identifying their challenges. The findings of the ILO study supported to a large extent the findings of the Southern Africa Trust in the Malawi country study.

There have been other recent releases in this field in Malawi. For example, in 2012 FinScope, which is a FinMark Trust initiative, disseminated a series of survey results on SMME development in Malawi, via a survey that was supported by the Malawi Ministry of Industry and Trade and the Reserve Bank of Malawi as well as the United Nations Development Programme (UNDP) and the Department for International Development (DFID) (FinScope 2012). This survey provides an overview of the size and scope of SMMEs in Malawi, the profile of the small business owners, their financial capability and money management, constraints and support mechanisms and, in particular, reveals comprehensive knowledge about the current situation and options of financial inclusion in Malawi (FinScope 2012). Additional studies conducted in Malawi by FinScope focus on women in small business – analyzing the extent of their financial inclusion (FinScope 2012a), and the issue of education regarding the educational profile of business owners and the options of financial inclusion (FinScope 2012b).

Literature on the situation of SMME development in Zambia

In Zambia, more recent reports focus on specific aspects of SMME development, such as the mining and agriculture sectors. Relatively few recent publications analyse the situation of SMMEs in Zambia, including the regulatory framework of the country and its support structure for SMMEs. Based on specific projects, the ILO has published brief articles on business linkages in agriculture (ILO 2009) and the Broad Based Wealth and Job Creation Programme (ILO 2011). Chisala (2008) examined the SMEs performance in the country and identified practical lessons from South-East Asian countries that Zambia can draw on to facilitate industrial development through unlocking the potential of its SMEs sector.

Literature on the situation of SMME development in Mozambique

Mwanza (2012) prepared a review for USAID on the “Mozambique Support Program for Economic and Enterprise Development (SPEED)”⁷ which was established by USAID in Mozambique. The review refers to the Mozambican ‘flagship’ programmes of business linkages and business development that are called MozLink I and Mozlink II.⁸ Mwanza recommends stronger investment by the public sector in SMME development and calls for improvement of, and investment in, the manufacturing sector. The report also calls for more joint ventures between larger companies from neighbouring South Africa and SMMEs from Mozambique and recommends donor programmes to foster business linkages (Mwanza 2012).

In line with this comprehensive review by Mwanza, a number of publications on recent SMME-related processes focus on the approach and effects of MozLink I and MozLink II. For instance, there are brief overviews by MozLink (2013) and an online presentation by BHP Billiton (2010).

A recent publication on SMME development in Mozambique was released by UNCTAD in 2012 and focuses on Foreign Direct Investment (FDI) for SMEs in the country, the investment framework and

⁷ SPEED’s approach to improving the climate for private sector trade and investment divides into four broad topics: doing business, competitiveness, macroeconomics, and governance. (USAID/SPEED 2013)

⁸ Both programmes bridge the needs of a large company bound by business, operational, and technical standards with the needs of local SMEs striving for an opportunity to build their capacity and become competitive economic players. Whilst MozLink I was implemented by BHP Billiton’s Mozambican company ‘Mozal’, MozLink II was implemented by the four companies Mozal, Sasol, SABMiller and Coca Cola. Both programmes were supported by the International Finance Corporation (IFC) and the Mozambican Investment Promotion Centre (Centro de Promoção de Investimentos - CPI).

suggested strategy (UNCTAD 2012). The ILO survey (ILO 2013) also provides useful information on aspects of the regulatory framework in Mozambique and the SMME support structure. None of them, however, analyse these in depth as was done in the present research project. One study analysed the key governmental support agency of Mozambique, the Instituto Para a Promoção das Pequenas e Médias Empresas (IPEME). It analyses the capacity and activities of IPEME at an early stage after its establishment, the envisaged implementation matrix to support SMMEs in Mozambique, provides input with regard to international experiences that can be replicated and makes recommendations to improve the enabling environment for SMMEs in the country (GTZ 2009). Results of the study were used and compared to the actual state of IPEME's current activities and impact.

In the target countries of Mozambique and South Africa there were some political discussions on new movements regarding SMME development and inclusive business during the phase of the present research project. In Mozambique, public discussion on the new Strategy for the Improvement of the Business Environment (Estratégia de Melhoria do Ambiente de Negócios, EMAN II) commenced in August 2013 and, the relevant local research partner participated in related information workshops (Southern African IDEAS 2013; StarAfrica.com 2013).

Literature on the situation of SMME development in South Africa

In South Africa, current discussions focus on the call for more inclusivity and the change of the codes or regulations relating to Broad Based Black Economic Development which will foster a stronger involvement of SMMEs into the value chains of larger companies. Media releases were followed up and incorporated in the present studies (Fin24 2013; South African Government 2013; KMG Attorneys & Associates/ Klopper 2013).

A general overview on the situation of SMMEs in South Africa (basic data) was provided by FinScope (2010). The research project also covered the SME Toolkits by IFC and IBM for South Africa (IFC/IBM 2011), and Zambia (IFC/IBM 2013).

A recent report of the Small Business Project (SBP 2013) confirmed many findings of the South African desktop study calling for the reduction of bureaucratic processes related to the "compliance burden" for small scale companies (SBP 2013:43). In both the SPB study and the present study, small scale companies named their need to be "integrated into value chains in the broader economy, with a firm eye on firms' abilities to make a productive contribution" as their main concern (SBP 2013:45). The SBP highlighted that, "as a group, SMEs are frequently spoken about, but seldom spoken to" (ibid). Consequently, another strong hindering factor is the lack of knowledge of governments, supporting agencies and also larger firms regarding the specific needs and conditions of SMMEs, and this lack of knowledge can be the basis for failure of SMME development from the outset.

A recent study commissioned by the South Africa Small Enterprise Development Agency (SEDA) focused on the needs, state and performance of SMEs in various industry sectors in South Africa and provided a valuable resource (Mthente 2012). The study provides a comprehensive overview of the barriers that SMMEs face in the above sectors in South Africa and provides highly relevant recommendations for SEDA as the central governmental support agency for SMME development in South Africa. These recommendations include, amongst others:

- The establishment of more satellite offices of SMME supporting agencies to improve the reach of programmes, products and services;
- Improving the alignment of these agencies' support strategies with the context and needs of SMMEs operating in rural areas of the country;
- The use of other official languages in addition to English;
- The introduction of sector-specific business advisors, with expertise in designated sectors;
- Avoiding a numbers-driven approach that is only focused on the quantity of SMMEs;
- The provision of follow-up support services.

In addition, in South Africa, the Department of Economic Development, Tourism and Environmental Affairs of the Free State Province in South Africa (Detea), together with the ILO and the University of the Free State, published a series of reports titled “South Africa SME Observatory – Review of the efficiency and effectiveness of past and ongoing SME development initiatives in the Free State province” (Detea et al. 2012a). This synthesis report is accompanied by a Literature Review (Detea et al. 2012a) and an Annotated Biography (Detea et al. 2012b), as well as Field Work (Detea et al. 2012c).

These four reports were published only after the present research project had started, but were included in the desktop study for South Africa because research for this project had been undertaken in the Free State Province.⁹

The reports by Detea et al. focus on the following aspects:

- The literature review reflects on the most important service providers at national and provincial level, and on the role and context of SMEs in South Africa and the Free State in four selected industry sectors. This review also includes the key problems and challenges related to SMEs drawn from comparative research.
- The annotated biography summarises literature relevant to the SME and SMME sectors in South Africa.
- The fieldwork report analyses the efficiency and effectiveness of past and ongoing initiatives concerning Business Development Support (BDS) to SMEs that are taking place in two municipalities in the Free State province.
- The synthesis report provides an overview of the business development services, training and education, marketing and markets, administration and regulations, funding, entrepreneurial development as well as recommendations. It integrates the various findings of the three reports mentioned above and reflects on the key themes that run through the three reports.

Literature on the situation of SMME development in Mauritius

In Mauritius, recent publications on SMME development are scarce. The desktop study for Mauritius identified few publications in this field that were more recent than 2000, other than Jenders (2008) and local research partner StraConsult (2002). This may be because enterprise development in Mauritius has been implemented for about 35 years and policy changes are characterized by the involvement of various stakeholders. The publications do not analyse the regulatory framework for SMME development or the support structure in Mauritius, but rather focus on motivation of entrepreneurs and the youth in Mauritius to become more interested in entrepreneurship.

Literature on the situation of SMME development in the Sub-Saharan region

UNIDO et al. (2008) reveals five structural deficits of the Sub-Saharan region’s enterprise structure, namely rising informality; a “missing middle” and lacking upward mobility of enterprises; weak inter-company linkages; low levels of export competitiveness; and a lack of innovation capabilities. The publication also explains the characteristics of the regulatory framework. Its recommendations include:

- Reforms to ease business registration and the acquisition of licences;
- Property titling programmes; and
- Simplification of labour regulations.

These recommendations are supported with regard to the target countries by the findings of the present research project. The study by UNIDO et al. provides a series of recommendations that have been followed up in the present research project and have contributed to the recommendations in the research

⁹ For this reason, the ILO was also invited to present their study results within the national policy dialogue on SMME development and inclusive business in South Africa, which was part of the second component of the present research project.

studies in the five target countries (see Chapters 4 and 5). The specific suggestions made by UNIDO et al. (2008) are:

- Providing active government support for private sector development;
- Ensuring good practices of service delivery;
- Selecting policy interventions for private sector development;
- Improving state-business relations;
- Supporting innovative entrepreneurship, which has a strong relation to the inclusive business concept analysed in the five target countries in the present research project;
- Strengthening inter-firm specialization and linkages;
- Promoting exports; and
- Developing financial services for SMEs.

3.1.2 Literature review on inclusive business

Literature on inclusive business at the global level

There is an extensive list of literature and websites with regard to inclusive business. UNDP has published a series of more than 120 case studies on their websites that are linked with their Growing Inclusive Markets (GIM) initiative, initiated in 2006 (UNDP 2013). The case studies are classified according to sectors and countries, and the first publications became available in 2008, including the Heat Map Methodology.¹⁰

In addition, in 2010, UNDP and its African Facility of Inclusive Markets (AFIM) published various documents on inclusive business that connect Millennium Development Goals (MDGs) to the approach of inclusive business or support companies and other stakeholders to assess (inclusive) markets, (UNDP 2010a). The UNDP also moved towards providing guidance around brokering (UNDP 2010b) as well as a manual (UNDP 2010c). The UNDP publications also become more strongly sector-focused (UNDP 2010d). The recent publication of the UNDP's, "Realizing Africa's Wealth – Building Inclusive Businesses for Shared Prosperity" analyses the so-called 'ecosystem' of inclusive business in Africa and the role of enabling organisations for inclusive business (UNDP 2013a). This publication provides complementary information on support structures for SMME development.

All the recent UNDP publications illustrate that the concept of inclusive business can be regarded as a globally accepted approach and newer publications therefore focus on the "how to implement" aspects by developing tools and methodologies and sharing in-depths knowledge for specific industry sectors. In this regard, Wach (2012) published a summary of methods and tools that are related to the measurement of inclusive business.

The World Business Council for Sustainable Development (WBCSD) in alliance with the Netherland Development Organisation (SNV), is an important international publisher with a focus on inclusive business. Both organisations became closely involved in inclusive business activities in Latin America, and are now active globally. WBCSD and SNV have established a website that (amongst many others) provides the reader with case studies (categorised into industry sectors, events, advocacy, reporting) as well as regular updates on inclusive business activities and processes, recommended links and best practice (WBCSD & SNV 2013). In addition, WBCSD has published a comprehensive toolkit that includes case studies and a field guide for inclusive business: "Doing business with the poor - a field guide" (WBCSD 2010).

Connected to UNDP, WBCSD/SNV and many other organisations is the United Nations initiative Business Call to Action (BCtA), that has published a series of 13 case studies involving companies that are active in Africa, various briefs on inclusive business, and also convenes regular information webinars (BCtA 2013).

¹⁰ Heat Maps are an analytical tool that provides detailed information on the nature and composition of markets pertinent to human development. Their visually compelling combination of information allows for a quick read of market inclusiveness (UNDP 2008).

There is a strong link between WBCSD and the World Economic Forum (WEF) which has published documents on “The Next Billions”, emphasizing that the untapped markets will play an important role in promoting the growth of companies in the future (WEF 2009; WEF 2010). In addition, a specific online discussion forum called “Next Billion” was created by the World Resources Institute in partnership with the Acumen Fund (Next Billion 2013), bringing together business leaders, social entrepreneurs, civil society organisations, policy makers and academics for networking and knowledge sharing purposes.

Another internet platform, which is the world’s largest community of professionals who are “harnessing business for social impact” is provided by Business Fighting Poverty. This platform provides knowledge to about 11,000 members, of which 50% are from the private sector. The organisation sends out weekly newsletters to its members on specific topics in the field of social impact, and often provide information and updates on inclusive business activities (Business Fighting Poverty 2013).

The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has published sector-oriented studies on inclusive business activities such as agribusiness (GIZ 2012).

Literature on inclusive business in Africa

Kubzansky et al. (2011) had already identified in 2009 about 430 examples of inclusive business in nine African countries, the majority of them including SMMEs.

A recent publication by GIZ addresses value chain management and inclusive business in Africa (GIZ 2013) and GIZ also produced industry-specific factsheets in partnership with large companies.

Two main internet platforms provide comprehensive information on inclusive business in Africa. One was developed by the Business Innovation Facility (BIF) as an online forum, “The Practitioner Hub for Inclusive Business” that currently covers project descriptions of 48 inclusive business projects in Zambia and Malawi (Business Innovation Facility 2013b and 2013c). The other main African internet platform is provided by Business Action for Africa since 2005, “for harnessing the collective energy of business in support of Africa’s development (Business Action for Africa 2013), and appeals to business partners and development organisations to “advocate” for policy changes; encourage business-to-business partnerships to drive on-the-ground action on business issues; and share and disseminate practical knowledge including between practitioners.

The organisation Reciprocity provides case studies for the South African context and has produced 24 fact sheets of companies implementing inclusive business in South Africa (Reciprocity 2013).

In Mozambique, the Netherland Development Organisation SNV provides information in the field of agriculture, water and sanitation as well as renewable energy (SNV Mozambique 2013).¹¹

The focus of the study was on SMME development and therefore the Southern Africa Trust mainly used sources that were relevant for this issue. In summary, all local research partners were provided with sufficient information with regard to inclusive business at the national, regional and global level with the exception of the research partner in Mauritius, where the concept of inclusive business has not yet been fully adopted.

3.2 SMME Definitions

SMMEs are generally defined by revenue, assets or the number of employees (see table below). In Zambia, the Small Enterprise Development Act of 1996 does not provide the definition of medium enterprise, and even though there is specific legislation in place for SMME development, unlike the other four target countries, there is no nationally accepted definition for SMMEs in Zambia. In the

¹¹ Consequently, in the second phase of the present research project, SNV Mozambique also co-presented in the national policy dialogue on inclusive business in the country.

absence of an accepted national definition, many SMMEs are not able to access the financial and other services provided for in law, as their eligibility is not officially recognized.

Table 2: Definitions of micro and small enterprises in the target countries

Country	Micro enterprises / Employment	Micro enterprises / Income	Small enterprises / Employment	Small enterprises / Income
Malawi (Malawi's MSME policy)	Employs up to 4 persons.	--	Employs 5 to 20 persons.	--
Mauritius (Small and Medium Enterprises Development Authority (SMEDA) Act 2009)	It is important to note that the concept of micro-enterprise is not stated in the law and therefore all official reference to this sector relates to small and medium enterprises.		--	Annual turnover of not more than 10 million Rupees (USD 330,000).
Mozambique (Official Gazette - <i>Boletim da República</i> - BR No. 38 of 21st of September 2011)	Employs up to 4 persons.	Up to 1, 200 000 Meticais Mtn. (USD 41,551) annual turnover.	Employs 5 to 49 persons.	Annual turnover more than Mtn. 1,2 million and less than or equal to Mtn. 14,7 million (USD 509,002);
South Africa (South African Department of Trade and Industry (1996))	Part of the formal economy, use technology, employs less than ten (10) paid employees in agriculture and less than twenty (20) in manufacturing.	Turnover of less than R 500,000 (approximately US\$ 56,600) for enterprises in the agricultural sector, and less than R 5,000,000 (approximately US\$ 566,000) for businesses in manufacturing".	Depending on the industry sector: Agriculture: 11-50 persons Manufacturing: 21-50 persons Retail: 21-50 persons.	Depending on the industry sector: Agriculture: up to R 3 million (approximately US\$ 309,600) Manufacturing: R 13 million (approximately US\$ 1,301,800) Retail: R 19 million (approximately US\$ 2,150,800)
Zambia (Small Enterprise Development Act of 1996)	Employs up to 10 persons.	Total investment, excluding land and buildings, does not exceed ZMK 80 million (USD 16,000); annual turnover that does not exceed ZMK 150 million (USD 30,000)	Employs 11 to 50 people.	Total investment, excluding land and buildings: ZMK 80 to 200 million (approximately US\$ 16,000 to US\$ 40,000), for manufacturing and processing enterprises; and for trading and service enterprises: ZMK 150 to 250 million (USD 30,000 to USD 50,000).

3.3 Macro-Economic Environment and Status of SMME Development

3.3.1 Macro-Economic Environment

Africa is considered the second fastest growing continent in the world after Asia. Growth in Africa has been driven by the boom in minerals, agriculture, transport, telecommunication and retail. In Southern Africa, the continent's largest recipient of Foreign Direct Investment, the average real GDP for 2011 and 2012 was 3.5% and 4% respectively.¹² Desktop studies reveal that South Africa was the only country (of the five target countries) to perform below the average real GDP growth rates experienced in Africa

¹²African Economic Outlook (2013), Estimation for 2011 and projection for 2012.

at -1.5%,¹³ largely as a consequence of high exposure to the global economic downturn. None of the other target countries in the study experienced an economic recession. The macroeconomic indicators in the five target countries are presented below.

Table 3: Summary of macro-economic indicators

Country	GDP Growth (%) - 2011	GDP Growth (%) – 2012	Unemployment Rate (%) - 2012	SMME Contribution to GDP – 2012 (Estimate)	Agriculture (% Of GDP) - 2012	Manufacturing (% of GDP) - 2012	Retail (% of GDP) – 2012
South Africa	2.5	3.2	25.5	54	2.4	9	12%
Zambia	6.8	6.9**	14	Not known	20	9.1**	17.5**
Mauritius	3.8	4 ¹⁴ **	8	30.9	3.5	6	55
Mozambique	7.2	7.5	27**	Below 15***	30.9**	13.2**	17.9**
Malawi	4	5 ¹⁵ **	Not known	17	31.6 ¹⁶ **	11.3 ¹⁷ **	23.5 ¹⁸ **

*In cases where official data could not be found, the symbol (–) has been inserted in the table.

** statistics obtained from African Economic Outlook 2013c for Mozambique and African Economic Outlook 2013d for Zambia).

*** Data of World Bank found in SME World (2013).

Mozambique has the highest reported unemployment rate (27%) in the 5 target countries. However, its GDP growth rate was 7.5 in 2012, the highest of the 5 target countries. According to the Mozambique desktop study, GDP growth was largely driven by infrastructure spending and Foreign Direct Investment (FDI). In contrast, Mauritius experienced a GDP growth rate of 4% in 2012, the second lowest reported GDP growth rate. The unemployment rate was 8% in 2012 (lowest of all 5 countries), and the Mauritius desktop study indicates that the contribution of SMMEs to employment has been materially responsible for this relatively low rate. For example, the contribution of small and micro enterprises to employment increased by 17.5% between 2002 and 2007. The contribution of SMMEs to GDP is 30.9%. In contrast to Mauritius, South Africa, which experienced the second highest reported unemployment rate of 25.5% in 2012, had the highest reported contribution of SMMEs to GDP, estimated at 54%.

South Africa and Mauritius are similar in a sense that both countries are relatively exposed to the international economy in comparison with the other target countries. These two countries are therefore vulnerable to global economic growth cycles. Furthermore, both South Africa and Mauritius illustrate that the contribution of SMMEs to GDP does not automatically translate into real GDP growth, given the unfavourable global economic climate over the past few years. In addition, there was no direct correlation observed between the high GDP growth rate in Mozambique and the contribution of SMMEs to the economy.

In Zambia, official figures are not available on SMME contribution to GDP. Furthermore, Zambia was reported to have the second highest GDP growth rate (6.9%) of all the five target countries. However, unlike Mozambique, Zambia has attributed its growth in the economy to the increase in the growth of the SMME sector. A further driver of the 6.9% GDP growth was the agricultural sector, which contributed 20% towards GDP.

Malawi, on the other hand, whose agricultural sector has the highest reported contribution to GDP (31.6%) and is the country's main economic activity accounting for 80% of employment¹⁹ has the

¹³African Economic Outlook (2013)

¹⁴African Economic Outlook (2013b), Projection for 2012.

¹⁵African Economic Outlook (2013b), Projection for 2012.

¹⁶African Economic Outlook (2013a), Projection for 2012.

¹⁷African Economic Outlook (2013a), Projection for 2012.

¹⁸African Economic Outlook (2013a), Projection for 2012.

¹⁹African Economic Outlook (2013a).

second lowest recorded SMME contribution to GDP at 17%. Though the importance of SMME development is highlighted in government policy, the desktop study did not indicate a direct correlation between GDP growth and SMME contribution to GDP.

South Africa (which had the highest contribution of SMMEs to GDP) had the lowest level of agricultural sector contribution to the economy at 2.4%. The agricultural and manufacturing sectors are reported to have the highest multiplier effect of all the sectors in the economy.²⁰ The study also draws a direct correlation between agriculture and manufacturing, stating that a boost in the manufacturing sector, through agro-processing, could lead to further growth in the agricultural sector.

A further illustration of the correlation between agriculture and manufacturing is seen in Zambia, which experienced the second highest recorded GDP growth rate, and attributes its growth in the manufacturing sector of 9.1% of GDP to the agro-processing sector. In addition, continuous investment in the manufacturing sector is important to the country's long-term growth and employment strategy.

In direct contrast to Zambia, Mauritius does not consider the agricultural sector as a priority. Agricultural activity is therefore not recorded by the Census of Economic Activities. The study indicates that Statistics Mauritius has reported a consistent decline in most agricultural activities between 2010 and 2011, mainly due to the decline in the demand for sugar from that country. The growth in the manufacturing sector was largely due to the expansion of the textile industry, which grew by 7% in 2011; this was offset by a 6.8% contraction in sugar milling (agro-processing).²¹ The manufacturing sector in Mauritius contributes only 6% to the GDP. The experiences from these three countries are a clear indication that the correlation between the manufacturing and the agricultural sectors' contribution to GDP and their multiplier effect needs to be explored further.

The retail sector in Mauritius accounts for 55% of GDP, the highest sector contribution towards GDP of its category. Due to the country's export-oriented industry and exposure to the Euro Debt crisis from 2008 to 2012, GDP growth remained flat at 3.8% and 4% between 2010 and 2011 respectively. As a result, the retail sector had a minimal effect on positive economic growth. This is further illustrated by findings in Malawi in which the retail sector contribution to GDP was comparatively the second highest reported (23.5%), although mining and agriculture are reported as the key drivers of economic growth.²² In addition to Malawi, the Mozambique retail sector represents 17.9% (see Table 3) and has also not been mentioned as a key driver of economic growth. This trend is observed in all five target countries of the study. This indicates that relations between the positive economic growth of GDP and SMME development cannot simply be assumed. The same is true for the often assumed correlation between SMME expansion and a strong contribution of the labour-intensive sector of agribusiness to GDP.

3.3.2 The status of SMMEs in the target countries

There are significant differences in SMMEs and SMME development between the five target countries. For instance, there are differences in the entrepreneurial mindset, in the establishment of SMMEs, and also in the size. The Mauritian legal framework, for example, does not cover micro enterprises, yet a vibrant sector of small and medium-sized enterprises was established over decades.

Mauritius has seen a significant increase in SMMEs in the last decade. There have been notable increases in the wholesale and retail trade business and in transport, storage and communications. These and the business of personal and household goods top the list of sectors with 55% of business activity while manufacturing only has 6% of the sector.²³ However, leather and garments, food and beverages as well as the profession/vocation/occupation category are the subsectors where more enterprises have started operations. With the higher level of educational attainment in Mauritius, many entrepreneurs are

²⁰For instance, a R1 (R1 or \$0.1132) investment spending in the agriculture and manufacturing sectors will lead to more than a R1 value, R1.8 (\$0.20) and R1.13 (\$0.13) respectively in overall output (Manufacturing Circle of SA 2012).

²¹African Economic Outlook (2013b).

²²African Economic Outlook (2012a).

²³ Statistics Mauritius (2012).

opening offices to provide services to SMMEs such as consultancy, legal advice and company secretarial services.²⁴

The agribusiness sector does not play a significant role in Mauritius itself, in particular due to imports and the decline in sugar production. There is a strong culture of entrepreneurship, although this is not emulated by younger adults, who are particularly opposed to careers as planters or farmers. With the overall rise in the education level, people tend to aspire to 'white collar jobs'. There is also a net regression in the number of women who engage in entrepreneurship not as employees but as employers or own-account workers. In 2002 the proportion of women stood at 16.6% of total number of employers and own account workers; by 2007 this had fallen to a modest 6%.²⁵ The major challenges for SMMEs in Mauritius can be seen in the access to finance, in particular working capital, the availability of skilled labour and competition with foreign countries.

In Malawi, there were some 758,118 small business owners in the country, operating 987,480 enterprises in the year 2012 and creating jobs for about 1,050,320 people.²⁶ They are overwhelmingly involved in retailing, although almost 1 in 8 (13%) were involved in service provision. SMMEs generate revenue of some US\$ 2 billion. Due to Malawi's highly rural population, most SMMEs in Malawi are linked in some way to agriculture, and operate on small pieces of land. Some 30% of these businesses sell agricultural products, and a further 23% conduct general trade and vending. Many are rural, family-run, husband-and-wife firms that operate only on a part-time basis outside of the agricultural production cycle, and are largely stagnant, and used to provide subsistence income.²⁷ In contrast to many SMMEs in Mauritius, these people are driven by necessity. They are established mostly as a result of the decline in formal employment rather than as a response to opportunities in times of economic growth. Many such businesses have a short lifespan, and thus do not benefit from economies of scale and experience accumulated over time.

Previous efforts by government have fallen short and many Malawians thus remain in unprofitable businesses, while foreign investors dominate in larger, profitable firms, with a lack of vibrant businesses in the central space that could link and eventually upscale enterprises across the country.²⁸ Common barriers to the development and growth of SMMEs include the high cost of doing business; weak value chain integration; lack of specific policies aimed at women and the youth; limited access to credit and business development services; lack of a strong, coherent and organised MSME voice to represent the sector; inability to meet production standards; and few opportunities to engage in export.²⁹

In Mozambique, 86% of the companies are sole proprietorships (one owner only) and 89% are micro or small enterprises with less than 10 employees, whereas 14% are corporations. However corporations hire 65% of the workers and contribute to 69% of the annual turnover of the private sector. Large firms, with 100 or more employees, represent only 1% of firms in Mozambique but they provide 54% of the work positions and contribute to 44% of the annual turnover.³⁰

As in Malawi, most SMMEs in Mozambique, especially the informal ones, are created either as a response to a lack of well-paid formal employment or as a source of additional income. They appear when given market opportunities. These entrepreneurs usually have no prior knowledge about business management or entrepreneurship and generally avoid the risk of long-term investment that would result in quality improvement and structuring the enterprise.

The deficit of entrepreneurship and risk-taking exists also in Zambia, where many enterprises are primarily engaged in the supply of traditional goods and services to the domestic market. Many business owners in this category lack the self-belief, innovation and foresight required to envision a growth

²⁴ Ibid.

²⁵ Statistics Mauritius (2013).

²⁶ FinScope (2012).

²⁷ Ibid.

²⁸ Government of Malawi/ UNDP (2012).

²⁹ Ibid, as well as UNIDO et al (2008).

³⁰ Instituto Nacional de Estadística (2009).

trajectory for their enterprise that goes beyond the fulfilment of their basic income requirements. The lack of innovation also implies that the sector is challenged by inefficient business practice that does little to improve quality, reduce costs and improve their competitiveness.

Despite the SMME proliferation that resulted from economic liberalisation in 1991, the predominance of the informal sector in Zambia (approximately 90%) and the consequent lack of documentation, accounting and reporting makes it difficult to quantify the sector's contribution to economic growth and development. The majority of the SMMEs are active in the field of manufacturing, trading and services.³¹

In South Africa, on the other hand, the situation appears different at first glance. In its "rankings on the ease of doing business", the World Bank/IFC ranked South Africa 39 in the global comparison.³² Despite these relatively high rankings, the Global Entrepreneurship Monitor report for South Africa predicts that nine out of ten start-up initiatives in South Africa fail very quickly.³³ Thus the vast majority of SMMEs do not reach their full potential and fail to grow, resulting in lost jobs and diminished wealth for the region in which they are based. Nonetheless, South Africa is home to 5,979,510 small enterprises.³⁴ There has been a significant increase in the number of registered enterprises from the reported 800,000 that were originally recorded in 1995.³⁵

Similar to the above countries, other than Mauritius, the SMME environment is dominated by retail, which comprises 78% of the sector, and is mainly emerging enterprises that are not globally competitive or integrated into global manufacturing and supply chains, as well as poorly skilled, less innovative and under-capitalised enterprises, particularly in terms of technology and capital.³⁶ Limited beneficiation by the manufacturing, mining and agricultural sectors as well as the dominance of a few large firms in critical intermediate industries affects the creation of SMMEs downstream. However, there are potential markets such as, for example, the manufacturing sector, which currently represents over 76% of the country's exports and 13.4% of its GDP.³⁷

Scope for growth can also be found in the agricultural sector which currently represents about 9% of the country's exports and contributes 2.4% to its GDP³⁸. Although large areas of unutilized arable land are available and South Africa covers less than 4% of the African continent, the country has the most rapidly transforming food sector on the continent and is one of the six net food exporting nations in the world.³⁹

Regardless of other interventions that need to take place in South Africa, the spotlight falls on education as an aspect that deserves critical attention. The World Economic Forum, cited in the GEM 2012 report, indicates that, in terms of the quality of mathematics and science education, South Africa rates 143 out of 144 against other efficiency-driven economies.⁴⁰

3.4 Regulatory Framework in place to assist with SMME Development and Business Linkages

For most SADC countries, SMME development as a means of economic growth and job creation is a recent realisation. Having a regulatory framework in place to foster SMME development is characterised by:

- A specific government macroeconomic policy or strategy in place that has led to legislative and/or financial and/or non-financial interventions; and/or

³¹ Government of Zambia/Ministry of Commerce, Trade and Industry (2007).

³² World Bank/IFC (2013).

³³ Herrington et al (2012).

³⁴ FinScope (2010).

³⁵ Lloyd (2002).

³⁶ Herrington et al. (2012).

³⁷ World Bank 2011.

³⁸ See also Index Mundi (2013).

³⁹ International Trade Centre (2010).

⁴⁰ World Economic Forum (2011); see also Herrington et al. (2012).

- Specific legislation(s) in place that lead to financial and/or non-financial interventions.

The desktop studies reveal that the regulatory frameworks in place to foster SMME development in the target countries came into effect as a result of a new political dispensation or a country's increased level of involvement in the international economy.

Mauritius, for example, began its legislative interventions for the purposes of small business development with the Small Scale Industries Act of 1988 which was formed as a result of a 20-year industrialisation process and import substitution strategy. Even before this Act, SME development was promoted by government, starting in the 1960s and in 1976, the Small Scale Industry Unit (SSIU) was established under the aegis of the then Ministry of Commerce and Industry. The outcome has been a stable exporting country that is well integrated into the global economy.⁴¹

In keeping with the trend followed by Mauritius, albeit only to a certain extent, Zambia, which liberalised its economy in 1991, effected its Small Enterprise Development Act in 1996. Already in 1981 the Small Industries Development Organisation (SIDO) was created through the Small Industries Development (SID) Act. SIDO was charged with promoting the MSMEs sector by, *inter alia*, addressing the financing needs of small-scale companies as defined in the Act. In other words, the key issue of access to finance for small scale businesses was already discussed in Zambia before other target countries (except Mauritius) had established any significant legislation on SMME development at all. Notwithstanding all these efforts and pronouncements in the early 1980s, there was little impact on SMME development as significant gaps remained in the implementation, funding management of the supporting institutions.⁴²

There was furthermore the added constraint of a history of state dominance in productive enterprise that had, over a period of nearly three decades, inculcated a culture of state dependency into the population and resulted in a near complete lack of entrepreneurial spirit.⁴³ Following the liberalisation of the economy in Zambia in 1991, the Industrial, Commercial and Trade Policy was issued in December 1994 to encourage private enterprise.⁴⁴

In South Africa, however, though well integrated in the international economy today, the commencement of SMME development was heavily influenced by what happened during the apartheid era.⁴⁵ The change in the political landscape after 1994 led to more focused attention on SMME business development, and the National Small Business Act of 1996 was promulgated.

The end of the apartheid era also led to a concept that today is known as Broad-Based Black Economic Empowerment (BBBEE). The BBBEE Act aims at increasing the number of historically disadvantaged persons who have an ownership stake in, and control of, enterprises assets as well as their indirect empowerment through preferential procurement and enterprise development, mainly by government. The regulatory framework focusing on BBBEE has a significant impact on the SMME development in the country. It clearly fosters SMME development, but also leads to a more complex situation as legal approaches of BBBEE and SMME development might overlap. Whilst BBBEE leads to (indirect) empowerment through preferential procurement and enterprise development of SMMEs, the general concept of SMME development does not only address formerly disadvantaged persons, but all potential entrepreneurs. To properly understand and foster SMME development in South Africa, entrepreneurs, start-ups, larger companies and other stakeholders must be aware of the complex regulatory framework that can be synergic but may also present obstacles for entrepreneurs.⁴⁶

Although Mozambique and Malawi have no legislation specifically for the purpose of SMME development, there are government policies and strategies in place.

⁴¹ Lal/Peedoly (2006).

⁴² Mauzu (2013).

⁴³ SME World (2013).

⁴⁴ Government of Zambia/Ministry of Commerce, Trade and Industry MCIT (2007).

⁴⁵ Stanton/Polatajko (2001).

⁴⁶ Herrington/Overmeyer (2006).

In Malawi, the government approved a first Small and Medium Enterprise Policy in 1998. In 2012, the government introduced a new MSME policy for the period 2013 to 2017. This new policy was approved to better enhance policy implementation and integration; strengthen the capacity of the Ministry of Industry and Trade; foster business-to-business linkages and support high potential value chains in export promotion and import substitution crops; and promote an enabling environment for SMME development. The SMME Policy is one way of safeguarding government's role of promoting a market economy for SMME development by ensuring that there is less direct intervention. In this regard, the government of Malawi through its Ministry of Industry and Trade is in the process of reviewing all economic laws to ensure that the entire legal framework is business-friendly. This process will ensure that economic laws complement each other and are not in conflict. This development will go a long way to facilitate business activity in the country and augurs well for the MSME sector.

Mozambique has a Strategy for the Improvement of the Business Environment (Estratégia de Melhoria do Ambiente de Negócios EMAN I) which was approved in 2008 and terminated in 2012. EMAN II was approved in 2013 and focuses on the further reform of the legal and institutional framework and the refinement of the processes. In 2007 the Mozambican government approved a strategy for the development of Small and Medium Enterprises known as the "Estratégia para o Desenvolvimento das Pequenas e Médias Empresas em Moçambique" which provided the foundation for the creation of the Institute for the Development of Small and Medium Enterprises (Instituto Para Promoção de Pequenas e Médias Empresas IPEME). EMAN I and II complement this strategy. In 2010, Mozambique developed Procurement Act No. 15 that covers the legislation of public tendering from small scale enterprises.

In all the target countries, government macroeconomic policies and strategies have led to specific interventions in the form of legislation and/or financial support and/or non-financial support for SMMEs. Key government macroeconomic policies/strategies in the target countries include:

- South Africa: Integrated Small Business Development Strategy (2003)⁴⁷
- Zambia: Micro Small and Medium Enterprise Policy (2009)⁴⁸
- Mozambique: Strategy for the Promotion of Small and Medium Enterprises (2008)⁴⁹
- Malawi: Micro Small and Medium Enterprise Policy (1998, revised 2012)⁵⁰

The prevailing trend in the four countries mentioned previously is that, within the regulatory framework, an SMME development macroeconomic policy is generally followed by specific legislative intervention(s) put in place to foster SMME development. In Mozambique, for example, the creation of a solid tax regime for SMMEs was mentioned as an SMME development measure in the 'Strategy for the Promotion of Small and Medium Enterprises' (EMAN I) of 2007. In 2009, the Simplified Tax for Small Contributors (Imposto Simplificado para Pequenas Contribuintes (ISPC)) was introduced. The ISPC applies to some small and micro enterprises and constitutes 3% of turnover. Businesses that qualify for ISPC are also exempt from VAT and other taxes.

Tax incentives in Zambia are provided for by the Zambia Development Agency (ZDA) incorporated as a result of the ZDA Act of 2006. The ZDA also provides SMMEs with access to markets and financial support. The ZDA Act of 2006 is the main legal provision for development of the SMME sector in Zambia and is the principal legislation under which the SMME development policy is implemented.

⁴⁷The primary objective of this strategy is to create an enabling environment for the accelerated growth of small businesses following a history characterised by the dominance of large, capital-intensive firms and the continued neglect of small enterprises.

⁴⁸The primary objective of this policy is to create a vibrant, dynamic sector that contributes 20% towards GDP and 30% towards the creation of decent employment annually by the year 2015.

⁴⁹The primary objective of this strategy is to facilitate SMME development by (1) improving the business environment; (2) capacity building; and (3) the development of strategic support for SMMEs.

⁵⁰The primary objective of this policy is to create a conducive environment in which SMMEs can operate by (1) enhancing policy implementation and integration; (2) improving the operations of value chains; (3) improving business development services; (4) improving information, skills and technology standards; and (5) promoting an enabling environment.

Unlike Zambia, with one specific law pertaining to the implementation of SMME development, the legal framework for SMME development in South Africa under the Integrated Small Business Development Strategy (ISBDS) is relatively broad.⁵¹ For example, one of the key targets for development support in the ISBDS is the promotion of black-owned SMMEs. The proposed intervention to these is underpinned by at least 5 different laws: (1) Preferential Procurement Act of 2000; (2) Public Finance Management Act of 1999; (3) Broad Based Black Economic Empowerment (BBBEE) Act of 2003; (4) Co-operatives Act of 2005; and (5) Competition Act of 1998.

In contrast to the other four countries, the regulatory framework in Mauritius, a country in which SMME development contributes 30.9% of GDP, only makes use of specific legislative interventions that foster SMME development. The SMEDA Act of 2009 is the focal law in place for SMME development. It provides for the establishment of the Small and Medium Enterprise Development Authority (SMEDA) in Mauritius. Furthermore, the SMEDA Act provides for a number of strategic interventions similar to those in the Micro Small and Medium Enterprise Policy of Malawi. The SMEDA Act also provides for interventions similar to those in the Mozambican Strategy for the Promotion of Small and Medium Enterprises⁵² which has led to the establishment of over 500,000 SMMEs. The legal framework in Mauritius, which regulates business operations including SMME operation, is comprehensive and each piece of legislation serves a specific role with the SMME-related activities being regulated by only four major laws. The laws are complementary and clearly define the role of institutions in facilitating business operations.

The desktop studies on Malawi and Mauritius indicate that within a regulatory framework the macroeconomic policy specifically designed for the development of SMMEs does not necessarily need to precede a focal law for the development of SMMEs in order to yield positive results. The opposite is also true. The existence of a (comprehensive) regulatory framework does not necessarily mean that the framework in place is successful. In particular in South Africa, a country with an extensive network of plans, policies, strategies and laws in place, the challenge of limited capacity and proper implementation means that in spite of all efforts made and South Africa being ranked in the best 40 countries globally regarding the “ease of doing business”,⁵³ 70%-75% of the SMMEs have to close down again within the first years,⁵⁴ with most SMMEs being unaware of the strategies, policies and laws that are in place.⁵⁵

While there was no information on the exact number of failures of start-ups in the other target countries, it can be assumed that the failure rate of SMMEs in Mauritius is comparably low as SM(M)Es are regarded as an important component of the economy.

In Zambia, SMMEs have emphasised weaknesses and threats of the regulatory framework, but the relevant ministry, the Ministry of Commerce, Trade and Industry (MCTI) has responded to these concerns and developed a Strategic Plan addressing these issues. Thus, several instruments are up for review including the Zambian Development Agency (ZDA) Act, the Weights and Measures Act, the Standards Act and the Companies Act, all of which should have been reviewed by December 2012 in accordance with the timeframes contained in the MCTI Strategic Plan. Due to delays and challenges in implementing this Strategy Plan, and due to various factors including poor intra and inter-agency co-ordination, lack of policy alignment across institutions and sectors, deficiencies in implementation capacity and inadequate, or untimely, resource allocation, many of the benefits have not yet been felt “on the ground” by the small business owners and other stakeholders.

⁵¹The research partner identified over 20 laws pertaining to the legal framework for SMME development.

⁵²The SMEDA Act Provides for (1) the promotion of SMMEs; (2) the provision of support services; (3) the implementation of a registration scheme for SMEs; (4) facilitation of access to productive resources; (5) facilitation of networking among SMMEs and business linkages between SMMEs and large companies; (6) devising and reviewing policies relating to SMMEs; and (7) the co-ordination of public and private sector initiatives relating to SMEs.

⁵³ The newest World Bank Report ranks South Africa 39 (World Bank/IFC 2013).

⁵⁴ Herrington et al (2012).

⁵⁵ This has been confirmed through the interviews with SMMEs that were conducted by the local research partner in South Africa.

In Mozambique many parts of the regulatory framework are not known to the SMMEs, some of whom have indicated that they do not regard the framework as helpful. A significant exception to this applies to the more recent simplification of laws and regulations which have been well communicated by the government and thus are known and valued by SMMEs. This can be regarded as a success story which could also be replicated in other countries.

In Malawi, the current awareness of SMMEs about the regulatory framework is difficult to assess as the policies were recently reviewed with the intention of improving their implementation. Up to now the challenges of the regulatory framework have been perceived as being complex. The business development services and the lack of access to finance are also seen as being bureaucratic and costly and place MSMEs at a greater disadvantage than their counterparts that are larger in size. One example is the high cost of compliance with regulations which may discourage potential entrepreneurs from formally setting up a business, while driving some existing enterprises out of business and those working for them into unemployment.

In Mauritius, on the contrary, SMMEs are aware of the four main laws that affect them and concede the legal framework as important for them to operate but explained that business laws do not influence their decision-making about their business. These business laws are rather seen as entry points that allow SMMEs to be officially recognised and therefore to obtain access to grants, to loans and to market spaces dedicated to SMMEs or hawkers. SMMEs indicated that there are enough laws to regulate business operations and most of them stated that reforms of the Companies Act and the Business Facilitation Act are not necessary.

Support to the SME sector is ongoing. It is worth noting that, in his latest budget speech, the Minister of Finance and Economic Development viewed SMEs as crucial to the Government's resolve to democratise the Mauritian economy. The democratisation of the economy has been the motto of the government since coming into power in 2005. In that respect a series of measures to boost the SME sector was announced. These measures are a continuation of measures of previous government budgets:⁵⁶

- Banks will now loan an amount of 250 million rupees (USD 8,333,300) annually to micro and small enterprises with turnover under 10 million rupees (USD 333,300).
- The VAT registration threshold is increased from a turnover of 2 million rupees (USD 66,600) to 4 million rupees (USD 133,300) per annum, thereby allowing SMEs with turnover lower than 4 million rupees to forego administrative costs which accompany VAT computation.
- One of the main reasons why few SMEs do not participate in Government tenders is because of the need for performance bonds and other bank guarantees. Most SMEs do not have the necessary funds to obtain a performance bond. In that respect, government has decided that performance bonds for government tenders will not be required for contracts of up to 5 million rupees (approximately USD 166,667). The requirement to provide advance payment guarantees will also be considerably overhauled. This is meant to allow more SMEs to tender for Government contracts.

In all the other target countries the interviews revealed that SMMEs and the private sector feel excluded from the design and development of legislation and policies. The request is that governments should engage them more proactively in the process and communicate the legislation more clearly.

⁵⁶ Doubling the amount of refund to SMEs for participation in international fairs from 100,000 to 200,000 rupees and providing a grant for freight expenses of up to 20,000 rupees is yet another measure proposed by the Minister of Finance in his budget speech (Laporte 2012).

Table 4: Regulatory frameworks in the target countries

INDICATOR	MALAWI	MAURITIUS	MOZAMBIQUE	SOUTH AFRICA	ZAMBIA
Start of framework	1998	1976	2007	1994	1981
Type of core regulation that targets SMME development	Policy ⁵⁷	Law ⁵⁸	Strategies ⁵⁹	Laws, policies, strategies, plans and frameworks ⁶⁰	Law ⁶¹ but also a SMME Policy, a Strategic Plan and a Development Programme
Complexity of framework	Low	Low	Low	High	Medium
Awareness of SMMEs on framework (Based on interviews)	Low	High	Low in general, but medium-high with regard to simplifications	Low	Low, but this might be changed through the new Strategy Plan
Appreciation by SMMEs (Based on interviews)	Low until now	Mainly positive feedback	Low, but high with regard to simplification of administration	Varies, but due to lack of knowledge and failure rate ranked as low	Low up to now
Attempt for business linkages/inclusive business	For example the revised Policy from (2012)	Through the SMEDA Act (2009)	Through the Strategy of the Support for SMMEs (2007)	Through various regulations, e.g. the Integrated Small Business Development Strategy (2003)	Through the Zambian Development Agency Act & the new Strategic Plan
Success/impact (est.)	Low ⁶² until now, the new SMME Policy is only in place for a short time. The preceding regulatory framework was criticized due to the lack of implementation	High as the awareness of SMMEs of the regulatory framework is high and a significant number of (sustainable) enterprises have been created.	Low, changes might happen due to new Strategy Plan. Simplification for SMMEs can be seen as success that even can be replicated in other countries.	Varies, but low in terms of failure rate of SMMEs. Higher impact through Black Economic Empowerment, but also led to confusion on which framework is applicable.	Low until now, the new SMME Strategy is only in place for a short time. The preceding framework was criticized with regard to capacity issues and lack of policy alignment.

In terms of business linkages/inclusive business there are no specific laws in place although the regulatory framework in each target country offers opportunities mainly through the creation of supporting agencies.

It needs to be noted that the implementation of a given regulatory framework is often one of the major challenges in relation to SMME development and inclusive business. For example, though it is the legal mandate of SMEDA in Mauritius to create linkages between smaller and larger business, about half of the interviewed SMMEs in Mauritius prefer to link with the larger companies by themselves. In other

⁵⁷ Amongst others, this policy is embedded in growth strategies and poverty reduction strategies as well as laws that regulate the operational level (taxes etc).

⁵⁸ There are only 4 major laws covering SMME development, namely the Companies Act; the SMEDA Act (which regulates the major SMME-supporting agency of the government); Business Facilitation Act which covers administrative aspects such as registration or classification; and the Mauritius Revenue Authority Act which among others covers the issue of taxes.

⁵⁹ In Mozambique, laws are used to target specific issues such as taxes, procurement/tendering, single attendance counters, licensing, etc. For SMMEs these laws simplify administrative processes.

⁶⁰ In South Africa, there is a complex mix of White Papers, frameworks, strategies, policies and laws that regulate SMME development. In addition, SMME development is also strongly influenced by the Broad-Based Black Economic Empowerment Act (BBBEE 2003) and a related framework.

⁶¹ The law is embedded as National Development Plans, SMME policy of the year 2009 and accompanied by laws on funding and taxes as well as the Companies Act. Recent approaches also cover a new Strategic Plan by the Ministry of Commerce, Trade and Industry (MCTI) and a Private Sector Development Reform Programme.

⁶² Malawi and Mozambique were ranked lower in the current World Bank ranking "Ease of doing business" compared with the report from last year (World Bank/IFC 2012 and World Bank/IFC 2011).

countries, the approach of business linkages often requires a more co-ordinated effort from the stakeholders involved, in particular the SMME-supporting agencies.

3.5 Institutions in place to assist with SMME Development and Business Linkages

The establishment of public sector institutions specifically offering financial and non-financial support to SMMEs is based on the promulgation of specific legislation or the implementation of government policy. Private sector institutions⁶³ offering the same support take advantage of the regulatory framework in place for SMME development. Business development support initiatives should assist enterprises in overcoming hindrances to start-up, growth and survival.

South Africa

Legislation in support of SMMEs has made inroads in promoting change on the economic landscape. In 1995 a White Paper was published as a national strategy for the development and promotion of small business in South Africa. This paper addressed the establishment of a support framework in the form of enabling legislation, institutional reform and leveraging financial and other forms of assistance for small business development. SMME support structures were formed as a result of such national and provincial strategies. The landscape of the SMME support structure in this country is almost as complex as its regulatory framework.

The South African Departments of Trade and Industry (DTI) and the Department of Economic Development (EDD), as custodians of SMME development, play the most significant role in developing policy and support structures to grow enterprises in the country. The support structure in South Africa covers a variety of organisations, training institutions, facilitators, consultants and government departments at national, regional and local level. It is offered by public and private organizations in the form of a more general support, but also covering industry sector-specific support.

National and provincial departments and government agencies such as the Industrial Development Corporation (IDC), Small Enterprise Development Agency (SEDA, also see below) and the Small Enterprise Finance Agency (SEFA) offer support to SMMEs and facilitate access to markets and finance; beneficiation and value addition of products and services; promote regional production; equity and economic participation; and support knowledge-intensity and services integration. There is also the National Youth Development Agency (NYDA) which advances youth development and promotes the participation of youth in small business activities. The Development Bank of Southern Africa (DBSA) is another player that offers support to SMME development although this is done in an indirect way, namely through the financial support of governmental programmes such as the Jobs Fund,⁶⁴ the Development Fund⁶⁵ or third party projects of municipalities or other initiatives initiated by Government.

Again, as a result of the important development component of black economic empowerment, there is also the National Empowerment Fund (NEF) which supports BBBEE by anticipating future funding and investment requirements that may be needed to assist black entrepreneurs and communities to achieve each of the elements of the BBBEE codes of good practice, such as placing a focus on preferential procurement and broadening the reach of equity ownership.

Although each of these support agencies have as their core mandate the development of SMMEs, there is an overlap of activities which also leads to confusion for SMMEs. In addition, the landscape of support

⁶³ Private sector institutions include companies and non-governmental organisations.

⁶⁴ The objective of the Jobs Fund is to co-finance projects by public, private and non-governmental organisations that will significantly contribute to job creation. This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities which contribute directly to enhanced employment creation in South Africa (Jobs Fund 2013).

⁶⁵ The mission of the DBSA Development Fund is to capacitate municipalities and communities for effective and sustainable service delivery and economic development in order to improve the quality of life (Development Bank of Southern Africa 2013).

structures is barely known by SMMEs, in particular in rural areas, and also differs at local level with regard to the quality, engagement and capacity of local offices and SMME incubators.

The best known agency is SEDA, under the auspices of the Department of Trade and Industry, and one of the most important agencies supporting SMMEs in South Africa. Currently 80% of SEDA's support is targeted at start-up, very small and micro enterprises and only 20% is directed at what SEDA refers to as high-growth small and medium sized enterprises (SMEs). These are the enterprises that have been in business for more than three years and have the potential to create more jobs.

SEDA has nine provincial offices, 42 national branches and 30 incubators.⁶⁶ Compared to its international counterparts, the budget allocated to SEDA and its provincial offices is relatively limited and it is required to demonstrate the quantum of its successful interventions (such as formalising informal businesses), with less attention being given to the impact of these interventions. As with the financiers, the risk element influences the selection of ventures that SEDA supports, and their focus has recently shifted from very small enterprises to small and medium enterprises (SMEs). This is in line with the National Development Plan (NDP), the New Growth Path (NGP), and national government's Industrial Policy Action Plan (IPAP), placing increased focus on developing programmes and support products and services for SMEs in the high-growth agriculture, mining and beneficiation, manufacturing, green economy and tourism sectors.⁶⁷ The lack of resources and capacity of SEDA on the one hand, and the plethora of support agencies on the other hand, clearly reveals the need for a more co-ordinated and consolidated paradigm for SMME development in the country.

Malawi

A similar situation is seen in Malawi where a confusing number of organisations at national, and in particular at local, level aims at supporting SMME development in the country. Recently some of these organisations were merged at national level and as a result the Small Enterprise Development Institute (SMEDI), the new merger of three former support organisations, is now the responsible government agency providing training, starting and growing SMMEs, and also providing finance to trained SMMEs and related business advisory services. The focus of SMEDI will remain on the micro level of enterprises, particularly with regard to vocational training. As separate institutions there was excessive duplication of efforts⁶⁸ owing to their respective strategic drifts, but there were also gaps related to mentoring and business advisory services, amongst others. Furthermore, training service costs are unaffordable to potential clients.⁶⁹

Another merger in Malawi resulted in the Malawi Investment and Trade Centre (MITC) being set up with a mandate to promote investment and export in the agriculture, agro-processing, fisheries, forestry, manufacturing, mining and tourism sectors.⁷⁰ Furthermore, a variety of business associations support SMME development, such as the National Association of Small and Medium Enterprises (NASME); the National Association of Business Women (NABW); the Indigenous Business Association of Malawi (IBAM); and the Employers Consultative Association of Malawi (ECAM). All these organisations face limitations and constraints and thus support to SMMEs remains ineffective, often because the associations are not available at the national level to all SMMEs.

Finally, an almost similar situation was seen with regard to access to finance. There are several finance institutions and arrangements that have emerged in recent years, including in the Malawi Rural Development Fund (MARDEF), Malawi Rural Finance Company (MRFC), Youth Enterprise Development Fund (YEDEF) and BLUE Finance.⁷¹ It is of concern, however, that some of these finance institutions charge exorbitant interest rates.

⁶⁶ Mthente 2012.

⁶⁷ Ibid.

⁶⁸ ILO (2011a).

⁶⁹ Ibid.

⁷⁰ It needs to be noted that the political and economic climate has not been encouraging for investment and export promotion in the past five years.

⁷¹ See also ILO (2011a).

In Malawi and also in South Africa, a more co-ordinated effort is necessary to strengthen the work of the various agencies and make their efforts more effective. In other countries, the support structure is either more centralized, which means there is one central governmental organisation that offers a broad spectrum of support, or support tasks are clearly divided among a smaller group of organisations, thereby avoiding an overlap of support offers.

Mozambique

A more centralised approach was found in Mozambique. Based on the work of the Ministry of Industry and Trade of Mozambique that has focused its efforts on the improvement of the business climate and the promotion of SMMEs, the Institute for the Promotion of Small and Medium Enterprises (Instituto para a Promoção das Pequenas e Médias Empresas - IPEME) was established in 2008.⁷² Since 2010 there has also been support provided by the Netherlands Development Organization (SNV), the World Bank (PACDE-MESE and IFC), the International Labour Organization (ILO), the Japanese International Cooperation Agency (JICA), the United States Agency for International Development (USAID), the German International Cooperation Agency (GIZ), the European Union, and the International Trade Center (ITC). These organisations particularly promote the following activities:

- Business information targeted to meet the needs of entrepreneurs;
- Business consultancy provided through direct and customised monitoring of business owners and managers of SMMEs and their support through the training and development of strategies to grow their businesses;
- Business training through various courses (entrepreneurship, business management and skills, marketing, access to investments), and an entrepreneurship training model monitored by a team of professional trainers;
- Facilitating corporate financing by providing information on financial solutions;
- Creation of new businesses by providing support during the conception of the idea, business creation, financing and first steps of the company; and
- Promoting entrepreneurship.

IPEME has established three Entrepreneurs Guidance Centres (Centros de Orientação ao Empresário - CORE)⁷³ in Maputo, Chimoio and Tete provinces. In the course of 2013, three more COREs will open in Nampula, Beira and Pemba provinces. Even with the support of international donors, IPEME does not yet have the capacity to meet the commitment of providing a spectrum of services other than in Maputo.

Other SMME support organisations in Mozambique provide training through the IFC-SME Toolkit (the IFC-SME toolkit is offered in all target countries, always in collaboration with a local partner organization);⁷⁴ access to finance through the World Bank Mechanism of Business Grants (PACDE-MESE)⁷⁵ or the 3FP Programme of the organization Building Markets;⁷⁶ and information about quality and standards.

Mauritius

An example of shared roles and responsibilities can be seen in Mauritius. According to the country study, support to SMEs in this country has improved significantly and since 2005, the Ministry of

⁷² General information can be found at GIZ (2009).

⁷³ IPEME (2013).

⁷⁴ IFC/IBM/PACDE (2011).

⁷⁵ The Mechanism of Business Grants (Mecanismo de Subsídios Empresariais MESE) was launched under the World Bank Project to Support Competitiveness and Enterprise Development (Projecto de Apoio à Competitividade e Desenvolvimento Empresarial PACDE), Macamo/PACDE (2011).

⁷⁶ 3FP works with different financial instruments to catalyze financing to local suppliers in need of capital. 3FP may offer a number of different services, including invoice factoring to improve business liquidity through partial risk-sharing agreements.

for loans from local bank partners. In addition, 3FP promotes growth capital for qualifying suppliers (Building Markets 2013).

Business Enterprises & Cooperatives (Business Enterprise Division) has formulated policies pertaining to SMEs. The Ministry comprises three pillars: the Small and Medium Enterprise Development Authority (SMEDA); the Mauritius Business Growth Scheme (MBGS); and the Cooperatives Division of the Ministry. This division of responsibilities can be described as follows:

- 1) SMEDA is seen as the entry point for SMMEs including for business registration. The organisation offers general training on enterprise development, including grants (for training, counselling, mentoring services, business facilitation, marketing of local products); the development of linkages; the promotion of technological and managerial capabilities; the acquisition and modernisation of SMMEs' production equipment through leasing facilities; and finally co-ordination with other support organisations and stakeholders.
- 2) The Mauritius Business Growth Scheme (MBGS) aims at boosting growth support to SMMEs around innovation, creativity, higher productivity, value addition, and mentoring.
- 3) The organisation Enterprise Mauritius (EM) supports SMMEs with regard to markets and in particular exports, and therefore offers business assessment, consultancy and monitoring, market and competitor intelligence, assistance to access regional and international markets, the development of sector strategies, and information on technology and skills trends.
- 4) Whilst SMEDA is the primary organisation for SMME development, the Development Bank of Mauritius (DBM) is the reference in terms of financial help to SMMEs, and offers an array of financial support schemes to SMMEs with preferential rates and favourable repayment schedules.

More organisations became involved into the support structure and while the approaches of the above four organisations overlap to an extent, it is relatively easy to identify where to get which business development service.

Zambia

Whilst the approaches in Mozambique and Mauritius mainly highlight the involvement of one or two ministries, the Zambian concept includes the idea of an inter-sectoral, multi-agency approach, where the Ministry of Commerce, Trade and Industry (MCTI) has committed to collaborate with other government institutions and departments, local authorities and other stakeholders involved in the development of the SMME sector, currently leading to the co-operation of the MCTI with six other ministries. A similar approach was observed in Malawi (with the involvement of three ministries) and in South Africa (two departments in collaboration with the Department of Agriculture as well as provincial departments).

With regard to the main governmental agency for SMME development, the Zambian Development Agency (ZDA), the approach can be compared to the Mozambican model. ZDA is a centralised organization covering all the aspects of capacity building, business linkages, market development (local and export) and SMME facilitation services. There are, however, other agencies that also cover parts of this aspect, but in a specialised way – similar to the Mauritius model. For example, the organisation TEVETA offers technical education, vocational and entrepreneurship training, and the Zambia Chamber of Small and Medium Business Associations (ZCSMBA) also offers capacity building and acts as a SMME intermediary organisation. Further financial inclusion is offered by the Bank of Zambia and the Citizens Economic Empowerment Commission (CEEC).

Compared to these three models, the concept in Malawi advocates for a district-oriented model rather than a provincial approach, where central government resources are channelled directly to the district administration structure with oversight by a district commissioner. Consequently, village development committees, area development committees and district development committees are responsible for executing development projects, including provision of support for SMME development at district level. SMME issues receive attention under the Deepening Enterprise Development initiative of the Local Development Fund which is implemented by the Government of Malawi at district level under the supervision of sector ministries, including the Ministry of Industry and Trade, the Ministry of Local Government and Rural Development, the Ministry of Agriculture and the Ministry of Finance. This approach, however, also leads to the negative effect of an unmanageable, less formal and fragmented

group of business service providers that struggles in terms of individual capacities and may be drawn into unhealthy competition to attract membership.

All the models in the target countries provide for governmental agencies to address the issue of business linkages, supported by the regulatory framework and the relevant ministries. This does not appear to be implemented effectively as yet, with the exception of Mauritius where, for example, government integrates SMME interests into all aspects of work by all the ministries.

In Malawi it was observed in the desktop study that there is a deficit in linking larger firms with SMMEs. This might be changed through the new merger of the government agency for SMMEs, SMEDI. However, SMEDI tends to focus on micro-enterprises and will face challenges in linking these with larger companies. A similar challenge is faced by the South African SEDA that focuses on formalisation of start-ups rather than on linking these with business. This might change as SEDA shifts towards a stronger focus on small businesses and reduces its interest in micro level business in the future. In South Africa, but also in Mozambique, Zambia and Malawi, enablers such as TechnoServe, Solidaridad and others offer their support in linking micro and small-scale enterprise with business. In South Africa, while organizations like the National Business Initiative (NBI) have created tools for business linkages that are also offered by the provincial agencies, overall efforts remain scattered and insufficiently coordinated.

In Mozambique it is expected that the newly created Council for Inclusive Business, with a focus on the promotion of inclusive business, could be a useful partner to more effectively link SMMEs with larger companies. In Zambia, the Zambia Development Agency has the clear mandate of promoting business linkages but will need support and innovative ideas, such as the inclusive business approach, to convincingly engage the larger firms.

Promoting business linkages requires a shift in mindset of agencies and ministries with regard to the selection of entrepreneurs, in particular for start-ups. Successful business linkages require a foundation of strong entrepreneurial spirit. However, in 4 of the 5 target countries it has been established that small-scale enterprises are often set up only because formal employment is not available rather than as an outcome of individual entrepreneurial will and mindset. It is thus likely to be difficult for the governmental SMME agencies to link those “entrepreneurs-by-chance” with large businesses.

The work of the various government agencies for SMME development is summarised below.

Table 5: Key public sector institutions in the target countries

COUNTRY	INSTITUTION	TYPE OF SUPPORT	IMPLICATIONS
South Africa	Small Business Development Agency (SEDA)	Non financial	SEDA (and other development initiatives) promoted by the government are not well communicated to SMMEs. Entrepreneurs are therefore often not aware of all the services available to them and how these services can be accessed. Due to issues of finance and risk management, SEDA meanwhile shifts away from focusing on micro and very small enterprises. A bigger challenge is based on the lack of a co-ordinated effort of involved support agencies and the overlap in activities.
Zambia	Zambia Development Agency (ZDA)	Financial and non financial	ZDA has (at least partly) succeeded in fulfilling its mandate. According to the interviews with SMMEs, ZDA is known by formal enterprises but not known by the informal ones. The organization did not satisfactorily manage to support SMMEs in their desired access to markets. In addition, access to finance remains a major challenge. A specific concern noted with respect to ZDA was the apparent trade-off between its investment promotion and MSME development responsibilities due to limited funding (and staffing) which may also impact the quality of ZDA's negotiations with foreign investors.
Malawi	Small Enterprise Development Institute (SMEDI)	Financial and non financial	It should be noted that SMEDI is a recent merger of 3 former organisations. It is thus too early to assess the work of SMEDI. As three separate institutions, there has been much duplication of efforts owing to the respective strategic goals of these three organisations. The focus was and still is on the micro level of enterprises, particularly with regard to vocational training. Gaps included business support services such as mentoring and business advisory services. It is expected that the new institution will provide services to enterprises at all levels. In addition, the new institution is expected to fill the identified gaps including business support services as training service costs are unaffordable to potential clients. Until now Malawian support organisations lack necessary investment to provide up-to-date services and consequently, do not satisfy the SMME development needs in industrial development. Some of the challenges include limited human resources, centralized presence of these institutions, and use of obsolete technologies. Thus SMMEs in Malawi cannot compete favourably on the national and international markets.
Mozambique	Instituto para a Promoção das Pequenas e Médias Empresas (IPEME)	Non financial (but providing information on financial solutions)	IPEME is a comparatively young organization. Although the programme of IPEME seems appropriate, it has not had yet a wider impact. The biggest challenge of IPEME lies in the lack of capacity. Therefore its work is focused on Maputo at the moment. As a result, IPEME is not known by all the SMMEs that have been interviewed. These SMMEs do not know about the mechanisms that can benefit or complicate their operations. Currently, only a few of the interviewed SMMEs feel supported by (all) the supporting institutions, but complain about too much bureaucracy, lack of activity and transparency (corruption). There is a demand for more technical assistance. The main concern of the interviewed SMMEs are about the lack of support with regard to access to markets.
Mauritius	Small and Medium Enterprise Development Authority (SMEDA)	Non financial	SMEDA is the central, public sector body for SMME development and the entry point for small-scale businesses. Since its inception there has been a consistent increase in the registration and contribution of SMMEs to the economy and employment. In an interview with SMEDA it was mentioned that some 20,000 SMMEs are registered and benefit from its services. The general positive feedback is also valid for the predecessor models of SMEDA. In the interviews with SMMEs it was suggested that SMEDA should be more involved in following up with start-ups once the phase of starting the enterprise is over, and that SMEDA should be more readily available to provide advice.

In South Africa there is a large number of SMME supporting agencies in both the public and private sectors, as well as donor organisations, civil society organisations and consultants. There is a comprehensive regulatory framework in place, and a broad network of supporting agencies. This does not, however, necessarily result in significantly successful SMME development. In other words, the almost confusing number of public and private agencies has not contributed to reducing the failure rate of start-ups in South Africa. One major reason is the lack of follow-up activities and support by these agencies once the SMME has been established and its people trained. This lack of follow-up was confirmed through interviews in other target countries such as Mauritius.

Similar to government departments, supporting agencies tend to operate in silos, strategies are not aligned, and communication with SMMEs and with other supporting agencies requires improvement. Duplication of the efforts of supporting agencies should be minimized and the resulting cost savings should be utilised in a co-ordinated manner to assist SMMEs in a more comprehensive way.

A more important challenge, particularly in the rural areas, is that services of supporting agencies are not well communicated to entrepreneurs and entrepreneurs are thus often not aware of all the services available to them and how these services could be accessed. In South Africa, for example, this was confirmed by a study commissioned by SEDA in 2012⁷⁷ and also by the interviews conducted in South Africa and other target countries. The interviews reveal that many small and micro enterprises in the peri-urban or rural areas are not aware of most parts of the regulatory framework that underpins their initiatives, and there is a view that these regulations are excessively complicated and may constitute barriers to success rather than drivers of success amongst SMMEs.

In Malawi, the desktop study revealed that the relevant Ministry lacked data and human resources, and that the SMME policy required revisions to be more current. Consequently, Government has recently undertaken measures to improve the institution's performance including revision of the SMME policy and collecting better data on SMMEs. These are recent initiatives and their impact is yet to be seen.

The challenges of not having sufficient data on SMMEs and thus on the impact of supporting agencies is also in evidence in Mauritius, Zambia and Mozambique. This led to challenges within the desktop studies to properly assess current situations and interventions by government and other stakeholders. While supporting agencies in Mauritius and Zambia seem to be relatively successful, information is lacking as to whether the SMMEs are doing well or not. Apart from this concern, the Zambia report acknowledges the positive role of the Zambia Development Agency in helping SMMEs to obtain incentives and access to finance, although access to finance and markets remain key challenges for SMMEs.

3.6 Challenges Faced By SMMES Based on the Regulatory Frameworks and Support Structures

The United Nations Development Programme has identified five global challenges that resonate with SMMEs and also with the concept of inclusive business (UNDP, 2008). These global challenges relate to the lack of (market) information, skills, resources and infrastructure, as well as existing regulatory frameworks. The purpose of the present study was not to examine these five challenges, but rather to analyse the challenges of the SMMEs based on the existing regulatory frameworks and support structures, taking these five challenges into consideration in that process.

Not surprisingly, the desktop studies and interviews indicated that the challenges SMMEs face in the five target countries are similar, with some differences in Mauritius, perhaps also because the focus of the Mauritius study was on small-scale enterprises rather than micro-enterprises or informal entrepreneurs and hawkers. It should also be noted that inclusive business is a relatively new concept in Africa and there is little distinction made between key challenges hindering SMME development and growth and inclusive business challenges faced by SMMEs.

⁷⁷ Mthente 2012.

In all target countries, the full potential of the SMME sector has yet to be tapped due to the existence of a number of constraints that hampering the development of the sector:

1. The regulatory framework, including its benefits and constraints, is not (fully) known by SMMEs.

The interviews in all target countries except Mauritius gave a clear indication in this regard. This indicated that the SMMEs are not aware of possible benefits that could support them in their activities. As a representative example, the country study stated that: “Practically all of the small business owners interviewed in Zambia showed little understanding of the legal provisions affecting their businesses and were not able to describe the implications and consequences of the various laws for their decision-making”. This speaks to the need for a programme of legal sensitisation and awareness promotion around the rights and obligations attached to the operations undertaken by SMMEs and the products and services they deliver. This should also serve to strengthen contract enforcement and, hence, help promote a culture of excellence by raising the bar of expectations on the demand side.

2. The regulatory framework and, in particular its implementation is often seen as an obstacle rather than a support.

The existing regulatory frameworks are not well implemented and in Malawi are regarded as (partly) unfavourable because they result in overly complex, bureaucratic, non-transparent and costly procedures and processes, as indicated in the interviews. The high costs for SMMEs were also mentioned in the Zambia country study. The cost of compliance with regulations may discourage potential entrepreneurs from formally setting up their businesses, while driving some existing enterprises out of business and those working for them into unemployment.

In Mozambique, SMMEs responded in the interviews that the regulatory framework is “not helpful”, where the framework was known at all. Bureaucratic hurdles were mentioned in interviews with SMMEs in all the target countries.

In South Africa, the majority of interviewees from all sectors shared the view that government legislation and policies are “world class”; the challenge lies, however, in the implementation thereof. Similarly, SMMEs in Zambia pointed to the lack of implementation of the regulatory framework. The same feedback was given in the country study in Malawi. It needs to be noted that especially in Malawi, Mozambique and Zambia new policies, strategies and strategic plans have recently been approved and may yet be amended. In South Africa, the discussion about the new BBBEE codes of good practice that incorporate more directly the concept of inclusive business might lead to stronger implementation of relevant steps, including SMME development.

A good first example to address these issues was implemented in Mozambique where significant simplifications were made regarding licensing, taxes and multi-purpose services. This example was strongly welcomed by SMMEs as well as larger firms in Mozambique.

3. There is a need to improve business development services in terms of the:

- Insufficient human resource and technical capacity of the supporting agencies to serve SMMEs (desktop studies and interviews in all target countries);
- Scattered information that SMMEs receive on the available institutional support (this was indicated by desk studies and interviews in all target countries except Mauritius). A survey on SMMEs in Malawi from 2012 showed that nearly two-thirds of small businesses (62%) were unaware of institutional support.⁷⁸ Similar results were confirmed by the interviews conducted with SMMEs in South Africa as part of the present project. In Mozambique, SMMEs interviewed partly knew of the (few) supporting agencies and the majority felt that the support was inadequate.

⁷⁸ FinScope (2012).

- Duplication of functions and activities, especially by government institutions involved in SMME development in Malawi, South Africa, and partly in Mauritius;
- Ineffective and poorly co-ordinated institutional support, in particular in countries with a complex support structure (South Africa, Malawi, Zambia and Mauritius). In South Africa and Malawi, in particular, the efforts of the numerous support agencies require a more consolidated approach, or as recently happened in Malawi, the merging of institutes. The need for better co-ordination of institutional support was also mentioned in the desktop study in Mauritius although the tasks of the organisations are relatively clear and do not overlap too much. In Mozambique, in contrast to the other target countries, one agency, IPEME, is in a central position with regard to SMME development. The challenge, however, is that this organisation is strongly under-capacitated.
- In addition, a more co-ordinated effort among support agencies and also third parties (enablers, educational institutes) is required to address the issue of lack of proper workforce. This challenge was explicitly mentioned in all country studies.
- In all countries, decision-making structures for both the public and private sectors are often located at national offices and not in the rural locations; this makes the co-ordination of institutional support even more important since it presents obstacles and challenges in all countries except the small country of Mauritius.
- On the lack of a more co-ordinated and joint effort towards SMME development, the challenge of limited technical and business skills, business management capacity and financial training being provided through the support agencies was noted in all country studies. This is because (i) the issue of formalisation of start-ups often is more the focus of the consultation rather than specific training; and (ii) the type of entrepreneur who receives the training varies (see below the distinction between “entrepreneur-by-chance” and entrepreneur from choice and passion. This broad spectrum of entrepreneurs makes it difficult for training to be provided that covers a wide range of needs.
- The focus on the initial phase of start-ups and the lack of follow-up and support within the first five-year life cycle of these start-ups was noted as a concern in all 5 countries;
- In Malawi, Mauritius and Zambia the lack of competitiveness against foreign companies or imports was mentioned as a challenge. This may be as a result of inadequate support structures on the one hand and the regulatory framework on the other hand. The Mozambican country study does not explicitly identify this aspect even though this was perceived as a challenge. In South Africa this challenge is also related to specific industry sectors, in particular agriculture, because small-scale farmers are not able to compete with the highly advanced commercial farmers of the country nor with imported subsidised agricultural products.
- Transparency of supporting agencies, in particular with regard to access to finance, and the bureaucracy of institutions was criticised in the interviews with SMMEs in all five countries. SMMEs also mentioned corruption (Mozambique), nepotism (Mauritius), and undue political influence where an entrepreneur is required to be a member of a certain political party in order to obtain support (South Africa). General turnaround times were also identified as a barrier in the process of allocating financial support.

4. Access to finance remains the main challenge for SMMEs.

The lack of working capital was mentioned in each country study as the main barrier to SMME development. An important logistical consideration is that many SMMEs do not have easy geographical access to financial services. This is particularly the case for rural-based enterprises. Government would need to step in to provide incentives, such as tax breaks, to banks and other financial service providers for expanding their branch network into rural areas. Innovative approaches should be considered and encouraged including greater adoption of mobile phone banking to take advantage of the unlimited potential for financial product and market development offered by the convergence of the telecommunications and financial services industries.

In Malawi, due to insufficient competition and inadequate information on the credit markets, banks are discouraged from lending to SMMEs. The 2012 SMME survey of the country revealed

that 59% of SMMEs were excluded from financial services, as opposed to 31% that are formally served by some type of financial system, with the balance relying on informal services. Only 22% are banked.⁷⁹ Over three-quarters do not borrow funds, primarily because they doubt their ability to repay loans. Of those who borrow, informal credit systems tend to be the primary source of credit.⁸⁰ In 2007 the United Nations Capital Development Fund (UNCDF) started a project, “Financial Inclusion in Malawi” (FIMA) that “seeks to broaden access to financial services, particularly in rural areas where demand for services often goes unmet”.⁸¹ There is also a National Financial Inclusion Strategy.⁸² Meanwhile, the Malawi government is working on a Financial Inclusion and Financial Education Programme. This programme will lead to the development of a Financial Inclusion Strategy. When this is implemented it will also contribute to business inclusion since access to finance is one of the key constraints that the MSME sector in Malawi encounters.

The Zambia country report suggests an apparent trade-off between ZDA’s investment promotion and MSME development responsibilities due to limited funding and staffing. In addition, micro businesses are, by definition, excluded from bank credit by the turnover thresholds defined by the banks. Certain legislative provisions will have the effect of pushing bank credit further out of reach of MSMEs. Even though the Companies Act No. 26 of 1994 provides the beneficial protection of limited liability for MSME owners, from the banks’ perspective, however, limited liability introduces an element of moral hazard and potentially increases risk for the lender. The banking sector’s response to this potential exposure is to require physical collateral in the form of fixed plant and buildings.

In South Africa, as in Malawi, Mozambique and Zambia, most developmental public funding institutions and also private funding institutions require surety or collateral. Such collateral as well as the interest rates charged to SMMEs reflect their risk profiles rather than the developmental agenda of the funding institutions.

In Mauritius SMMEs experienced problems obtaining funds and loans. They blame the banks and government for not offering them loan facilities which are suitable to their small size. Access to finance is also connected to high bureaucracy. The Development Bank of Mauritius intends to set up a SMME banking institution to address the barriers to access to finance. In Mozambique, access to finance is impacted on the one hand by a high level of corruption and on the other hand by the lack of capacity of the supporting agency.

5. Inability to access local and international markets remains a constraint.

This challenge was mentioned in four country studies (except Mauritius), in particular as a result of the interviews with SMMEs, even though the regulatory frameworks are in place and a support structure exists in each of the target countries, in some cases with a partial mandate to foster business linkages. In Mauritius, however, entrepreneurs often bypass the support agencies and engage the larger firms themselves. It should be noted, however, that the concept of inclusive business is hardly known or practiced in Mauritius and a clear distinction is made between formally registered small scale businesses and informal (micro) entrepreneurs. SMMEs in the other countries emphasized the lack of willingness and interest of larger companies to collaborate with them.

In Zambia, the VAT regime is cited as the most challenging barrier to market access for SMMEs, who

⁷⁹ FinScope (2012) notes that already in 2007, a perception study on SMMEs development in Malawi was done by USAID. Of particular relevance was that over 70% of firms rated access to finance as a major constraint while over 40% of formal firms stated that it was a severe constraint to the operations and growth of their business. Cost of finance was ranked as the second concern. Since the time of the survey in 2005, the cost of finance and the macro-environment have seen considerable improvements, with the Reserve Bank of Malawi (RBM) base rate falling to 20% and expectations of further falls. However, in terms of access to finance, the most commonly repeated issue in the survey for this study is that banks require stringent collateral, often at levels in excess of 120% of the loan. This is very restrictive if the level of the loan is well below the value of the asset pledge, such as a property, as this asset cannot then be used for collateral for another loan (USAID 2007).

⁸⁰ Ibid.

⁸¹ United Nations Capital Development Fund UNCDF (2013).

⁸² FinScope (2013).

explained that the threshold of K800,000 (about USD 15,650) for eligibility for VAT registration (recently increased fourfold from K200,000) excludes the majority of MSMEs from opportunities to bid for business with public sector organisations and large private sector and civil society organisations. Effectively, these SMMEs can only compete for small contracts, mostly with smaller private companies. The high VAT registration threshold also has the effect of confining the majority of small business operators to the informal sector where they do not have to face constraints on the ability to supply goods or services of any quantity to any client. The high VAT registration threshold thus has the unintended effect of discouraging formalisation in the SMME sector.

6. The lack of infrastructure remains a problem.

While the lack of infrastructure presents a range of challenges for SMMEs, it was noted that activities by the public and private sectors that address this challenge were in evidence in all the country studies except Mauritius, due to its small size and relative wealth, where the challenge might rather occur with regard to trade between Mauritian SMMEs and companies with suppliers from Madagascar, Zambia and elsewhere. It needs to be mentioned that the issue of infrastructure was not a key aspect of analysis in the present study and in any event, the deficit in infrastructure throughout the SADC region is well known.

The country studies also identified that some of the challenges lie within SMMEs themselves. The studies on South Africa, Malawi and Mauritius highlighted that SMMEs demonstrate a lower demand for business development services such as training even where this is offered, counselling, advising and consultancy due to cost considerations, opportunity cost concerns and lack of knowledge on the benefits of external services in improving competitiveness. SMMEs observed that leaving their businesses to attend a workshop becomes very challenging, especially “when you are a one-man show or do not have reliable employees to keep the business running during this time”. Challenges due to language barriers and the lack of ability to understand and speak English were also identified, especially since most of the training courses are offered in English. Furthermore, most of the training workshops were of a general nature and do not address industry-specific training needs.

In all countries other than Mauritius, the studies revealed a lack of entrepreneurial mindset. Here it clearly needs to be distinguished between the entrepreneur who starts an enterprise because of will and passion (the opportunity-driven entrepreneur) and the entrepreneur who starts an enterprise due to the lack of a job as an employee (necessity-driven entrepreneur). There is a higher likelihood of failure within the latter group. SMMEs are often under the impression that opportunities will be given to them because of promises made by government. They often have a lack of persistence if opportunities do not open up immediately and may not be familiar with the hard work required to establish and grow a business. On the other hand, the institutes of the target countries like Malawi, South Africa, Mozambique and Zambia try to support both types of entrepreneurs, which, while it is correct and understandable, will continue to contribute to the high rate of failure. This links to the different survival needs of the various entrepreneurs and contributes to the challenges experienced by support agencies in attempting to meet a diverse range of training and support requirements. There is thus a need for the support agencies to review their approach to the different SMMEs and to provide more targeted services.

The lack of business management skills also leads to cash flow problems, for example through not separating personal and business expenses. Interviews with companies in all the target countries also revealed that the majority of SMMEs do not have a high level of commitment to quality assurance. The main challenges to SMME development and growth shared by the five target countries are highlighted below:

Table 6: Summary of SMME development and growth challenges in the 5 target countries

CHALLENGE	COUNTIRES EXPERIENCING THIS CHALLENGE	PRIMARY SOURCE OF THE CHALLENGE
Limited access to finance and working capital	Mentioned in all target countries	<ul style="list-style-type: none"> - High commercial bank lending rates - SMMEs' lack sufficient collateral - Inconsistencies in cash flows of SMMEs - Limited financial literacy
Inadequate levels of Skills	Mentioned in all target countries	<ul style="list-style-type: none"> - Inadequately educated workforce - Many SMMEs lack basic management skills and need training in that aspect. - There is not enough training in business, management and financial literacy skills, with poor knowledge of available opportunities or the benefits of such skills by many rural entrepreneurs. - Training of employees is not seen to be a priority by SMMEs
Limited access to markets	Mentioned in Mozambique South Africa, Zambia and less explicitly in Malawi	While in Mozambique and Zambia it is possible that opportunities are not always available, whereas in South Africa, though these opportunities are available, there is a lack of awareness that they exist.
Lack of entrepreneurial development	Mentioned in Malawi, Mozambique, South Africa, and Zambia	Lack of business planning and an entrepreneurial mindset/ entrepreneurial spirit
Insufficient regulatory framework and public sector support	Mentioned in Malawi, Mozambique, South Africa and Zambia	<ul style="list-style-type: none"> - Inefficient government departments - Duplication of functions - Lack of co-ordination of support agencies (also mentioned in Mauritius)

3.7 Status and Framework for Inclusive Business

The UNDP (2010b) observed that, "...inclusive businesses include low-income people on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points in the value chain. They build bridges between business and the poor for mutual benefit. The benefits from inclusive business models go beyond immediate profits and higher incomes. For business, they include driving innovation, building markets and strengthening supply chains. And for the poor, they include higher productivity, sustainable earnings and greater empowerment...". Another definition holds that the term "inclusive business" refers to profitable core business activity that also tangibly expands opportunities for the people at the base of the economic pyramid (BoP). Such business ventures engage poor people as producers, suppliers, workers, distributors, consumers and even as innovators".⁸³

Though inclusive business is a relatively new concept on the African continent and more specifically in the SADC region, the concept of incorporating SMMEs into the value chain of any larger organization is enhanced by the current frameworks in place for SMME development. Research within the framework of the current research project indicates that none of the five target countries has a policy framework specifically addressing inclusive business. As a result, the framework in place for SMME development was interpreted as the enabling framework for inclusive business.

Inclusive business is primarily driven by the private sector, with the public sector supporting the concept through the creation of an enabling environment. It can also be regarded as a new option for to SMME development while the efforts from the public sector that often gets stuck based on the lack of capacity, resources and implementation.

The frameworks and the inclusive business activities in the 5 countries are briefly introduced below.

⁸³ Business Innovation Facility (2013a).

Mauritius

In Mauritius, inclusive business is linked to Corporate Social Responsibility (CSR), which in Africa is often understood as ‘corporate giving’. The Government has established a policy with the overall objective of mandating registered companies to pay 2% of their net profit to a CSR Fund to finance programmes that contribute to the social and environmental development of the country. This would include various socioeconomic development programmes that deal directly with poverty alleviation and the creation of small enterprises.⁸⁴

Though there is little evidence that most of the CSR programmes in Mauritius qualify as inclusive business, the country study identified a few companies that have incorporated inclusive business activities into their operations based on the CSR Fund. The following examples for inclusive business are acknowledged:

- 1) The “Chantefrais” franchise whereby the Food and Allied Group gives training to small entrepreneurs with a proper shop that sells chicken and chicken products. These entrepreneurs then become part of the group’s value chain and source the chicken from the Food and Allied Group to sell to the general public as well as to hotels and large restaurants.
- 2) The Medine Group, which is involved in the tourism sector, supports craftsmen on the West of the island to become professionals and enables them to derive an income from their products through facilitating their access to hotels and specialised shops linked to tourism where they can sell their products more easily.

Malawi

The Malawi desktop study noted that the SMME Policy of August 2012 highlighted key strategies to encourage inclusive business if implemented. These include: (1) access to finance; (2) improving product certification and standards; (3) knowledge and skills development; and (4) infrastructure and technology advancement. Furthermore, the Malawi Ministry of Industry and Trade is in the early stages of implementing a business-to-business programme that will help link SMMEs to large enterprises. This has been interpreted by the research study as an important mechanism to promote an inclusive business environment.

There are already some companies implementing the inclusive business concept:

- 1) Bakhresa Grain Milling Malawi Limited, a flour producer, sells packaged wheat flour to commercial bakeries, small bakeries, retailers and supermarkets. The company approaches poor communities in the rural areas and small towns and offers to supply them with affordable flour and assist them to launch small bakery businesses. It offers its flour in small packages, which makes it affordable for small scale retailers. “The company uses vans to reach remote rural areas and distribute its products to bakeries, women selling home-baked goods in remote areas, and branch sales offices. The company helps individuals, many of whom are women, launch their own micro-businesses, offering training programmes and workshops on the business” (IFC 2012:10). Bakhresa was the only firm in the (southern) African region that won the G20 Challenge on Inclusive Business Innovation Award in June 2012.
- 2) RAB Processors in Malawi focuses on the export of legumes, notably to Asia, and is now also manufacturing products such as tea, flour, rice, roasted ground nuts and baby foods. In this regard, RAB Processors has engaged a number of SMMEs in the supply of both raw and semi-processed materials for use in the manufacture of its various products. The company has now set up an additional production facility in Lilongwe and SMMEs supplying various types of inputs now have an assured and guaranteed price for their supplies. The company has created a supply chain including enterprises that grow, supply, partly process and transport inputs. Numerous micro and small businesses such as hawkers, restaurants and tea rooms have been established as part of the downstream and forward linkages arising from the RAB Processors operations.

⁸⁴ National Empowerment Foundation (2013).

- 3) Carlsberg Malawi Limited, one of the few branches of Carlsberg of Denmark in the world, supports numerous SMMEs engaged in the distribution and retailing of its products. The company has a unique distribution and selling model which includes the provision of free cooling units to all its retailers thereby empowering entrepreneurs engaged in the business of running grocery stores, shops, and bars. This model removes the cost of acquiring a specialised beer refrigerator and thereby is able to incorporate a large number of entrepreneurs into the value chain.
- 4) Universal Industries manufactures a range of products including biscuits, sweets, potato crisps and bottled water. Since its formation, Universal Industries has been producing crisps using potatoes largely imported from South Africa. Over the last ten years the country has been facing shortages in foreign exchange, making it difficult for manufacturing companies to import raw materials. It therefore began engaging local smallholder farmers to produce potatoes for use as input into the manufacture of potato crisps. The company provides the farmers with seeds, fertilizers and chemicals in addition to providing the potato producers with extension services focusing on good farming practices which have led to increased yields per hectare of high grade potatoes. Universal Industries has also engaged numerous MSMEs as distributors and agents of all its products in both the urban and rural areas. Thousands of SMMEs have set up shops that stock a considerable number of products from Universal Industries, providing numerous opportunities for self-employment.

In addition, Malawi is one of the five BIF pilot countries of the project “Business Innovation Facility” (BIF) located in London and financed by DFID, which focuses on inclusive business activities (see below). BIF draws on a global network to identify technical experts who can assess routes to market, develop supply chains, “stress test” a business model, and take on a host of other bottlenecks that companies face.⁸⁵ The facility also supports knowledge exchange on inclusive business at the international level. A wide variety of inclusive business activities is supported by BIF in Malawi, including:⁸⁶

- 5) MicroVentures smallholder market linkages which supports women to improve farming and productivity. MicroVentures will now support the development of a market-linkage enterprise which will broker linkages between the farmers and other buyers, enabling women farmers to sell into value-added markets. The market linkages will target smallholder farmers, Malawian wholesalers, retailers and food processors.
- 6) Afri-Nut will be established to process Malawian groundnuts and aims to be a benchmark business that focuses on food safety, particularly in relation to aflatoxin control of peanuts produced for domestic, regional and international markets. It has the potential to positively impact on the health status of millions of people. It will be financed and co-owned by shareholders from the commercial and development sectors: the National Association of Smallholder Farmers of Malawi (NASFAM), TWIN, Ex-Agris (a commercial agricultural company with interests in Malawi), Cordaid (a Dutch donor organisation) and the Waterloo Foundation (based in Wales).

In this context there is also a Malawi Network of Practitioners that aims to share updates on projects and provide a space for practitioners working in Malawi to connect and discuss the particular challenges, innovations and opportunities facing inclusive business in the country.

Zambia

Apart from the comparatively recent policy measures of the government in Zambia, such as a new policy for SMME development, the private sector has also responded. For instance, a strategy was created addressing the credit culture and creditworthiness of SMMEs which have to some extent acquired an unfortunate reputation for poor governance, inadequate record-keeping and accounting, and failure to repay loans. As part of the effort to address this concern, the central Bank of Zambia has championed

⁸⁵ Business Innovation Facility (2013).

⁸⁶ Business innovation Facility (2013b).

the issuance of the National Strategy on Financial Education for Zambia, which is a framework for improving the financial education of the population in the country in particular with regard to knowledge, understanding, skills, motivation and confidence. The intention is to secure positive financial outcomes by 2017.⁸⁷ These policy measures have received support from co-operating partners.

Similar to Malawi, Zambia is one of the five pilot countries in which the Business Innovation Facility (BIF) supports inclusive business activities and the Zambia Network of (inclusive business) Practitioners. This has resulted in a series of inclusive business projects based on this work in Zambia.⁸⁸

The following examples illustrate inclusive business activities in Zambia:

- 1) The Coca-Cola Company (TCCC) is replacing traditional product delivery methods (i.e. periodic large stock delivery by trucks) with a network of Micro-Distribution Centres (MDCs) that are independently owned and operated by local entrepreneurs. The Sales and Marketing Division of regional TCCC bottlers such as Zambian Breweries recruits, trains and assists local entrepreneurs as they establish MDCs and develop distribution methods appropriate to the context in which they operate (BCTA 2013). The Coca-Cola/SABMiller value chain is estimated to have supported around 3,741 formal and informal jobs in Zambia. The local entrepreneurs that own MDCs realise an average monthly salary of USD 1,000 (Oxfam et al. 2011).
- 2) The Bank of Zambia has set “financial inclusion” as a key strategic objective and regards it as a process which seeks to get more Zambians banked and more SMMEs accessing financial products.⁸⁹ The central bank is fully aware, however, that financial inclusion is a two-sided coin and is taking appropriate measures. On the supply side, the central bank has taken several measures to encourage the banking sector to make credit more accessible to SMMEs, including the introduction of the policy rate together with a cap on lending margins above it in order to create downward competitive or ‘moral’ pressure on lending rates. The bank is also actively discouraging predatory lending practices. On the demand side, the bank is addressing the issues of credit culture and creditworthiness in the MSME sector. In short, the bank is taking a combination of short- and long-term measures on both the supply and demand sides of the market for commercial credit, which will serve to end the traditional impasse between SMMEs and the banking sector.
- 3) The Netherland Development Organisation, SNV, in collaboration with the North-Western Beekeepers Association (NWBKA) and Mpongwe Beekeepers Enterprise (MPE), introduced modern top-bar beehives that can be installed close to the household and are easily managed by women. The initiative promoted women’s participation in bee-keeping through technological innovation, where previously bee-keeping was (i) a predominantly male occupation; and (ii) limited value addition was being realised in prevailing beekeeping practices. Linked to this, SNV facilitated awareness-raising on the importance of enhancing women’s involvement in the sector and supported the two associations to mobilise women beekeepers to form groups to facilitate access to credit as well as technical and management support.

South Africa

It is the view of the South African government that in order to reduce poverty, engagement of business and other organs of civil society is required. Some initiatives supporting this view have received attention whereby economic development agencies, financiers and the private sector have been engaged. Whilst some advances have been made, clear initiatives supporting this governmental view have yet to be developed. This is in line with SEDA’s new strategy, “the client journey approach”, working together with private sector to develop and implement a three-year and longer growth strategy for SMEs in their supply chain.⁹⁰

⁸⁷ Bank of Zambia (2012).

⁸⁸ Business Innovation Facility (2013c).

⁸⁹ Bank of Zambia 2012.

⁹⁰ Interview with SEDA’s then acting CEO, Mr Koenie Slabbert, 23/01/12.

Many more recent regulations, like the New Growth Plan (which aims to significantly reduce the high rate of unemployment), the new Broad-Based Black Economic Empowerment (BBBEE) scorecards, as well as sectoral charters of the private sector (the Financial Sector Charter and codes of conduct in the mining industry) are all providing better options for the commencement and implementation of inclusive business activities.

As a result of a multi-stakeholder dialogue under the facilitation of the UNDP, the “Johannesburg Declaration on Engaging the Private Sector in Furthering Africa’s Agribusiness, Food Security and Nutrition Agenda” was signed on 19 October 2011, supported by the Institute of Food and Agricultural Sciences, the UN Global Compact, UNDIDO, COMESA, FAO, NEPAD, the World Food Programme and various civil society groups, development agencies and private sector members.⁹¹

Unlike in the other target countries, there has been a growing awareness among large companies in South Africa about the substantial benefits of applying inclusive value chain practices, although the evidence indicates a high level of resistance to risk, whether financial or otherwise, when participating in such practices.

South Africa and Kenya can be seen as one of the strongholds for inclusive business in Africa.⁹² There are many examples of this approach, and a non-exhaustive lists of companies that have incorporated inclusive business activities in their core business includes Anglo American/Anglo Zimele; Rio Tinto, Coca Cola and bottlers of Coca Cola such as ABI and Coca Cola Shanduka Beverages; SAB Miller; Vodacom; MTN; Massmart; Woolworths; Tiger Brands; Nestlé; Pick n Pay; Spar; Nandos; TSB Sugar; Hollard Financial Group; Vodacom; Standard Bank; Absa Bank; First National Bank; Nedbank; Capitec; Eskom; Mondi Paper; SAPPI; Nampak; Aspen and Imperial, amongst a wide range of leading companies.

Mozambique

Mozambique has made significant progress in the creation of a framework specifically for inclusive business. The “Declaration of Maputo” pledges to give more policy support to Inclusive Business initiatives and to make investments more inclusive.⁹³ In addition, the National Council for Inclusive Business,⁹⁴ a public-private partnership, which was launched in December 2012 as a result of the Declaration of Maputo and comprises the private sector, public institutions and civil society organisations. The entity has the potential to significantly drive and promote inclusive business processes.

Furthermore, in April 2012, a Memorandum of Understanding between the Confederation of Business Association (CTA) and the Netherland Development Organisation (SNV) was signed with the of creating a favourable business environment in Mozambique through the integration of communities and SMMEs along the value chain in different sectors of the economy, thereby helping to reduce poverty in all its dimensions by supporting employability and higher income.

Launched in September 2012, the ‘Best 100 SMMEs in Mozambique Award’ is a joint initiative of key organizations in the field of SMME development and inclusive business as well as a media group⁹⁵ to identify the 100 best SMEs in Mozambique. The award is designed to:

⁹¹ UNDP (2011).

⁹² Southern Africa Trust (2013).

⁹³ A national conference held in October 2011 in Maputo and organised in partnership with the United Nations Development Programme (UNDP), the Investment Promotion Centre (Centro de Promoção de Investimentos -CPI), the Directorate for the Promotion of Rural Development (Direcção Nacional de Promoção de Desenvolvimento Rural do Ministério da Administração Estatal - DNPDR), the Confederation of Business Associations Mozambique (Confederação das Associações Económicas de Mocambique - CTA) and the Dutch Development Organisation - SNV, confirmed the potential for inclusive business in Mozambique. The outcome was the “Declaration of Maputo”.

⁹⁴ Conselho de Negócios Inclusivos (2013).

⁹⁵ These are the Institute for the Promotion of Small and Medium Enterprises (Instituto para a Promoção das Pequenas e Médias Empresas - IPEME), the Mozambique Media Group ‘Society of Independent Communication’ (Group Soico), the Dutch Development Organisation - SNV, BDO Accountants Mozambique, and commercial bank Banco Mercantil e de Investimentos (BMI) and others (SNV 2013a).

- publicly recognize good business practices;
- establish a research tool and guidance for policy measures;
- put in place a mechanism to standardise the classification of SMMEs;
- promote the development of Mozambique's business environment;
- stimulate the integration of communities and/or low-income people in the business value chain; and
- acknowledge the 100 best SMMEs in Mozambique.⁹⁶

Positive examples can be found in the fields of agriculture, tourism and mining, supported by engagement of third parties, such as SNV in agriculture and tourism, and USAID in the field of mining:

- 1) OLAM, one of the world's largest cotton companies and a universal supplier of cotton to the world's textile markets, is working together with 70,000 small-scale farmers in the production of cotton. Having started as a trading company, OLAM evolved into a fully integrated company ('from seed to shelf') and has started to upstream and downstream their products involving the SMME sector. OLAM has also integrated SMMEs into the value chains of several other commodities, such as edible oils and cashew.
- 2) Other edible oil companies, such as Corridor Agro and Maeva Mozambique, also include small-scale farmers in their value chain – like OLAM, they do this in co-operation with SNV.
- 3) Mozal is an aluminium smelter developed near Maputo, Mozambique, in a USD 2 billion joint venture with BHP Billiton, Mitsubishi, the Government of Mozambique, and the Industrial Development Corporation (IDC) of South Africa. The process of the MozLink SME development programme has been implemented by Mozal and IFC in association with the Mozambican Investment Promotion Center (CPI). MozLink bridges the needs of a large company bound by business, operational, and technical standards with the needs of local SMEs striving for an opportunity to build their capacity and become competitive economic players. It trains local SMMEs and provides one-on-one mentoring to enable them to bid, win, and deliver on construction contracts that meet Mozal standards.
- 4) Rio Tinto operates a large coal mine in the region of Tete and in 2012 it opened a Business Centre to ensure that local suppliers can increasingly benefit from business opportunities provided by the company. The centre provides a space for local suppliers to present their products and services to Rio Tinto and to acquaint themselves with the company's needs. The centre also helps in the registration of suppliers in Rio Tinto's procurement system, as well as developing a training programme to help new suppliers to succeed.

These examples for each target country demonstrate the importance of integrating the private sector, in particular larger and medium sized companies, into the development of SMMEs. The inclusive business approach provides an important opportunity to extend the discourse around SMME development in a way that will promote expansion, sustainability and meaningful growth.

It should be noted that the focus for inclusive business activities differs. Whilst in Malawi, Zambia and Mozambique, inclusive business projects are often related to agriculture, retailers, food and beverages, tourism and mining, in South Africa a broader spectrum of industry sectors is active in this field, covering the whole banking, finance and insurance sector, pharmaceutical products, and ICT solutions. In Mauritius the focus of inclusive business will in the future be based on where the country imports from and what it exports to the region, and the extent to which supply from and distribution to other countries can be undertaken more inclusively.

With the exception of Mauritius, inclusive business practices indicate a growth trend, with some variations in evidence in the different countries. In Malawi and Mozambique, and partly in Zambia, activities are strongly supported by third parties and donors, such as SNV or the BIF project, whereas in South Africa it is clearly driven by the private sector even though third parties are involved. Governments in these 4 countries has started to create enabling environments for inclusive business.

⁹⁶ 100 Melhores PME (2013).

However, challenges remain, largely due to the current regulatory framework, the limited human capacity and the methodologies of the supporting agencies.

3.8 Inclusive Business Challenges

As a result of the linkages between the SMME development framework and the inclusive business framework discussed in the previous sections, the desktop studies generally did not distinguish between SMME development challenges and inclusive business challenges. This means that the barriers to inclusive business do not significantly differ from those that affect SMME development. However, one aspect plays a bigger role: inclusive business is still not widely known to policy makers of regulatory frameworks and support agencies, nor is it regarded as the same concept as SMME development or business linkages (or, as in the case of Mauritius, regarded as CSR activity). It is therefore important to raise awareness of inclusive business practices and clearly differentiate between a pure SMME development concept and the approach of inclusive business. In other words, specific inclusive business characteristics that make the implementation of this concept more likely to succeed, such as innovations, the development of new products, and the long-term profitability of inclusive business need to be better communicated to governments and support agencies.

Inclusive business remains limited and is not consequent to a national process or consciousness in the business community, with few exceptions such as the envisaged BBBEE codes good of practices in South Africa. Mainstreaming inclusive business is not yet among the identified government policy objectives for the SMME sector and there are few legal imperatives, policy requirements or incentives to ensure or promote the adoption by large organisations and for-profit corporations of inclusive business practices. On the other hand, however, the concept of inclusivity is becoming more strongly recognised and accepted. This is encountered in government trends in South Africa⁹⁷ as well as in the announcement that one of the post-2015 Millennium Development Goals (Sustainable Development Goals) will be inclusive growth.⁹⁸

While governments and their agencies in the majority of cases are in the forefront of SMME development, it is still the private sector that drives inclusive business practices whilst the government and the support structures assist and facilitate the processes.

There are also barriers to the participation of large companies in supporting SMMEs, with the challenges largely being identified as the following:

- lack of interest and/or opportunity of companies;
- perceived risk of working with SMMEs;
- competing priorities;
- low level of internal support;
- lack of necessary experience; and
- lack of information on informal markets.

These findings from the country study in Malawi were also reflected in the South African desktop study, where it was noted that Enterprise Development (ED) and Socio-Economic Development (SED) programmes were often not aligned to the company's core business or industry sector.⁹⁹

Similar challenges were revealed by the Lopcal research partners in Zambia and Mozambique. In Mozambique all interviewed companies stated that, in general, SMMEs do not have the ability to supply on time to the desired quality or the quantity agreed, thus making them unattractive as suppliers. In the view of these large firms, SMMEs require stronger support in business management and also access to viable financing options.

⁹⁷ Fin24 2013; South African Government 2013; KMG Attorneys & Associates/ Klopper 2013.

⁹⁸ Centre for International Governance Innovation/Korea Development (2012).

⁹⁹ Impact Amplifiers/NYU Center for Global Affairs (2013).

In Mauritius the position of many large companies towards empowering the vulnerable to help them set up their own businesses is that, since they are already contributing 2% of their nett profits to the CSR Fund, they are not in a position to support further initiatives, and that the development of micro-enterprises is the responsibility of government via the CSR Fund. This suggests that the key aspect of inclusive business, the business case, is not yet fully understood in Mauritius, and inclusive business is interpreted as ‘just another CSR or corporate giving initiative’ rather than a legitimate business opportunity to increase both profits and markets.

This may be influenced by the fact that the country’s size and location compels Mauritius to supply from and distribute to other countries, rather than sourcing and distributing locally and expanding local markets. There is no bigger national market in Mauritius that can be explored by including the poor in the value chain, since the island and the size of the population are limited, and poverty and unemployment are not the most pressing issues in this country.

The challenges to inclusive business in each country clearly indicate that there is a need for multi-stakeholder dialogues to address inclusive business challenges and start the process of raising expectations and addressing the implementation gaps.

4 Recommendations for SMME Development and Inclusive Business

4.1 Recommendations from the Five Research Studies

The recommendations presented below were drawn from the five research studies as well as the five national and one regional policy dialogues.

There is significant scope for better aligning policies, laws, regulations, and, in particular, support structures towards common objectives for strengthening the SMME sector in recognition of its strategic importance as an engine for job growth, poverty alleviation and social stability. Support for the provision of business development services to SMMEs has been popular with donors over a number of decades. However, early interventions often involved donor and implementing agencies supplying business services directly to SMMEs. The sustainability of interventions was not given priority, since subsidies were regarded as investments in the future, and little consideration was given to the questions of impact, effectiveness and efficiency. Assessments of business services interventions identified that most had failed to provide affordable, high-quality services to a large proportion of the target population of SMMEs.

Recommendations, especially with regard to the implementation of new policies, strategies and the alignment of these with support agencies, are diverse and present a number of ideas. These are presented in some detail below.

4.1.1 Regulatory Frameworks

With regard to the regulatory framework, in three of the five target countries — Malawi, Mozambique and Zambia — essential new central policies and strategies have been developed and approved only recently. In these countries it is important that the new concepts are implemented and supported by the key stakeholders in the sector, in particular support agencies and larger businesses. Policy and institutional alignment is necessary to strengthen goal congruence towards SMME development. The same is needed in the case of South Africa where new developments aim to incorporate inclusive business into the regulatory framework through the aspirational BBBEE codes of good practice. In Mauritius, by contrast, the regulatory framework is established and effective.

The support to SMMEs and inclusive business development should be developed comprehensively, from the creation of frameworks to market access. SMME policy and status need to be revisited and clear goals for the SMME sector and inclusive business disseminated. This includes the revision of an implementation plan and the development of a detailed framework for Monitoring and Evaluation that outlines goals, implementation timelines and provisions for periodic evaluation and reporting. It should

also provide guidance on the alignment of the regulatory framework with existing (or required) support agencies.

Revisions should include the simplification of laws similar to the successfully implemented process in Mozambique with regard to licenses, taxes and administrative procedures for SMMEs. It is important to strengthen the national Supplier Development Programmes in each of the target countries to strengthen comprehensive and effective mechanisms for SMME development. These programmes would specifically include and emphasize the concept of inclusive business.

4.1.2 Support Structures

Capacity

All country reports revealed that the key support agencies are under-capacitated. Thus support agencies need to be strengthened in terms of budget, staff retention, employment, number of existing staff and qualified personnel, and extend the reach of the organisation not only geographically, but also as regards activities to bring these in line with global best practice (such as road shows, exhibitions and seminars). Staff of the support agencies themselves need to be better trained and have more knowledge on technical and management skills. This will help to alleviate the challenges of inadequate education that are experienced in all the target countries with the exception of Mauritius.

More field offices, or even more enterprise development hubs, are required in order to reach remote entrepreneurs. While the strengthening of support agencies will require a higher budget and more staff, the outcomes are likely to be more effective and target-oriented developmental approaches that will be able to provide value for money.

Understanding and selecting SMMEs

Support organisations need to build a real understanding of the needs of SMMEs. This can be achieved by engaging with SMMEs and developing support programmes that talk to specific needs. Of greater importance is the goal-setting and implementation plans of support agencies that work with SMMEs. It was mentioned in all the country studies that there are two types of start-ups — there is the entrepreneur who willingly starts an enterprise, whereas the other type of entrepreneur does this because of a lack of employment. It is the tendency of the government support agencies to support both types of entrepreneurs. Consequently, the high failure rates of SMMEs are not unexpected. The present report recommends a more strategic approach to focus on the growth of “healthy enterprises”, namely those that are business-driven rather than needs-driven.

As well as developing a comprehensive understanding of the conditions of entrepreneurs, support agencies should establish a screening phase of candidates who will receive support before the business development process commences. This selection would also reduce the larger companies’ risk of failure when working together with SMMEs. In particular, with regard to inclusive business, entrepreneurs should be identified who have a strong understanding of business and entrepreneurship principles in the way that these are understood and implemented by the larger firms. Support agencies that aim to create business linkages will then enjoy greater credibility with both the large companies and the start-ups.¹⁰⁰

In addition to the appropriate selection of entrepreneurs from the outset, a stronger communication and information campaign targeting potential entrepreneurs and also companies is required, so as to communicate industry-specific training solutions rather than generic approaches.

Training and education

The business development content (training), quality and capacity building of SMMEs requires review in all five countries in order to provide SMMEs with a broader range of necessary business knowledge. The content needs to cover a stronger focus on business skills, managerial skills and financial literacy.

¹⁰⁰ According to the local research partners from Mauritius, Mozambique and South Africa, currently the most central support organisations are not considered as valuable partners or enablers. In Mozambique, businesses indicated that they do not often work together to support organisations and in Mauritius the study revealed that half of the interviewed SMMEs bypass the support organisations and engage the companies directly.

In Mauritius, while organisations are already addressing different aspects of enterprise development, there is scope for improvements.

Entrepreneurial thinking should ideally be initiated at primary and secondary school level. This was strongly identified in some target countries, especially in the national policy dialogues. This approach would target younger people who are not highly motivated to become entrepreneurs. Support agencies can liaise with departments of education to jointly carry out a sensitization campaign.¹⁰¹ Education curricula could then be expanded and enhanced accordingly.

Communication and dissemination of information

Information on existing laws, support programmes and the general offer of supporting agencies should be communicated more broadly and accessibly, especially in Malawi, Mozambique, South Africa and Zambia. It was noted that in Mauritius the regulatory framework is relatively well known to entrepreneurs. A joint information campaign that includes SMME fairs and road shows should ensure that information is also provided in relevant local languages.

A communications framework is required to build confidence in society regarding government policies, and related support mechanisms. It should provide accurate and relevant information about factors related to SMMEs development, such as:

- Regulations and policies that impact SMMEs.
- Support mechanisms including donor-funded programmes.
- Training and other business services available through the private sector.
- Markets including market assessments, demand analysis, value-chain studies to give SMMEs a better idea of the demand they should be responding to.
- Market opportunities should also address tender distribution so SMMEs are aware of specific opportunities, and provide assistance in preparing their offers and tenders.
- Buyers' access to information about viable suppliers.

Different communication channels should be utilised including radio, community radio, public service television, social media such as SMS or Twitter via cell-phone, and field teams going door-to-door.

Simplification

Support structures should establish one-stop shops, which then need to be decentralized. Administrative barriers and transaction costs should be minimized in all countries, including Mozambique. There are a number of viable options for simplifying administrative processes for SMMEs.

Alignment

For all countries, as well as Mozambique where a central organization is responsible for SMME development, institutional alignment is important but will differ from country to country. It can be implemented in the form of a one-stop shop or SMME centres or local hubs in where SMMEs can obtain information and support from a range of supporting agencies. This one-stop-shop would also be responsible for the dissemination of information to SMMEs and to other stakeholders about the creation of enterprises, and ways to help in the development of micro-enterprises and start-ups. Information can be shared and opportunities publicised that would be of use to the SMME sector.

In this context, the support of the agencies should focus not only on the start-up phase and registration of the SMMEs. It has been clearly identified that SMMEs experience a high failure rate in their first 3-5 years, a direct correlation with the lack of follow-up support identified in the interviews in all 5 countries. There is thus a need for support agencies to strongly follow-up and support, monitor and evaluate, strengthening the linkages between SMMEs and other supporting agencies, especially with regard to different industry sectors. Co-ordinating public and private support agencies would place the variety of support agencies at different stages of the "life cycle" or "value chain" of the SMMEs. Such

¹⁰¹ A pilot had already been initiated in a project of the ILO in South Africa (verbal information from Mr Jens Dyring Chistensen, ILO South Africa, during the national workshop on SMME development and inclusive business within the framework of the present research project (May 22, 2013, Midrand, South Africa).

support would then be done “hand-in-hand”, sharing the input around the first five to six years of a specific SMMEs’ development.

A start has been made by SEDA in South Africa: its new strategy, “the client journey approach”, proposes collaboration with the private sector to develop and implement a minimum three-year growth strategy for SMMEs in their supply chain.¹⁰² Even so, it must be recognised that shared work alongside the ‘value chain’ of SMMEs requires a stronger effort involving all the public and private support agencies including a communication programmes that will ensure SMMEs know where to go for training and assistance.

In Mauritius, a more co-ordinated effort is already in place, since when the support agencies were established they were given specific mandates within the ‘value chain’ of SMME development. However, there is some degree of overlap between these mandates and related responsibilities that requires a more streamlined and coherent approach.

It is important to note that not only support agencies need to be co-ordinated: there is also a need for a consolidated approach by governmental programmes as well as the inter-linkage of bi- and multilateral programmes with national programmes, such as in access to finance. This co-ordination of programmes is an important point for countries in which donors and multilateral organizations may intervene to boost SMME development, as it the case in Mozambique or Zambia.

4.1.3 Access to Finance¹⁰³

One of the major problems faced by SMMEs in all 5 target countries is the lack of access to financing solutions. Apart from high interest rates, lack of creditworthiness and the request for collateral which is hard to comply with, there are also legal constraints. In Zambia micro businesses are, by definition, excluded from bank credit by the turnover thresholds defined by the banks. However, SMMEs clearly need access to accessible finance options because many do not have properly audited financial statements and/or sufficient assets and collateral. In general, governments need to provide incentives to larger organisations to encourage loan funding at reduced interest rates. Governments should also provide funding at more affordable rates, which will give SMMEs a better chance of survival.

In Mauritius, the current approach is the creation of a dedicated ‘SME Bank’ by the Development Bank of Mauritius, with the intention of reducing existing bureaucratic practices and onerous lending requirements.

It is necessary to coach SMMEs on financing tools and make them more credit-worthy. This can be done by the support agencies within specific training courses, as is envisaged by IPEME in Mozambique. The following steps are recommended to foster improved access to finance for SMMEs:

- Lobby the banking and financial service sectors to develop innovative products for SMMEs;
- Mitigate risk provision of financial services;
- Provide low-cost grants and co-financing.

Related mentoring programmes and financial literacy courses are crucial in promoting support for SMMEs and strengthening their ability to meet their loan obligations. The concept of inclusive business can play an essential role in access to finance, where large companies (after a careful selection of SMMEs) could provide support in accessing finance based on the possibility of future contracts with the company. Jointly with their partnering SMMEs, the companies also could apply for third party funding for inclusive business practices, for example, the funding of innovative processes.

¹⁰² Interview with SEDA’s then acting CEO, Mr Koenie Slabbert, 23/01/12.

¹⁰³ Although they are linked with the regulatory framework and the support structure, access to finance and access to markets are treated as independent points as these two factors are seen as the key challenges by all interviewed SMMEs and also by other key stakeholders.

4.1.4 Access to Markets

One of the biggest challenges for SMMEs is market access. Support agencies have the task of creating business linkages but often encounter the challenge that companies do not want to carry the risk of bad quality, insufficient quantity, interrupted supply and unreliable deliverables. After support agencies have promoted SMME development for some decades, companies tend to demonstrate a certain fatigue and may have had bad experiences in their involvement with SMMEs.

This lack of interest was raised in interviews with large companies in all five target countries. It is clear, therefore, that the trust and motivation of the larger companies to extend their interest in business linkages with SMMEs needs to be renewed. Inclusive business provides such an opportunity as the concept that does not follow the same pattern as the approaches of the past. Companies are not asked to involve micro- and small-scale enterprises into their value chain as part of their contribution to social development but because it makes business sense to them.¹⁰⁴

Moreover, a key component of inclusive business is the ‘innovation’ factor, which is about new ways of supplying, new products, new services and new ways of distributing and selling these products and services and thus expanding markets and making profit.

It makes business sense for governments to champion the concept of inclusive business by promoting and facilitating the approach. Support organisations should actively promote the concept to SMMEs on the one hand, and to the companies (business linkages) on the other hand. This might give support agencies a new impetus when linking SMMEs with larger firms that focus on the business case.

There was a critical view on the general promotion of clustering SMMEs into organization type. Whilst clustering of SMMEs is often regarded as a solution (for example, support services can then work with an SMME group on how to negotiate better), SMMEs in all countries have indicated that they prefer not to work together. This is based on the lack of trust towards the persons in the cluster and the wish to act at the individual level. In fact, initiatives by supporting agencies to cluster SMMEs in Zambia and Mauritius failed, while in South Africa, attempts by government to promote the creation of co-operatives in the agriculture sector have met with little success.¹⁰⁵

4.1.5 Business Services by the Private Sector

Donors and implementing agencies can develop a more effective approach based on the view that achieving improved enterprise productivity and competitiveness, job creation and poverty reduction are more likely to happen by also relying on the private sector to provide business services. This will require that SMMEs are viewed as customers, and by judiciously targeting subsidies to avoid market distortion. It is also important that SMMEs begin to view such support as being an entitlement that carries little value, as has sometimes been the case in the past.

In this context, some reflection is needed as to whether and to what extent business services can be provided on a commercial basis even for low-income SMMEs, while acknowledging that appropriate product design, delivery and payment mechanisms must be developed. It is important to avoid a process whereby consultants are commissioned to develop business plans for – and not with – subsidized start-ups that do not understand these business plans and in the worse-case scenario, may not be in a position to utilise them at all.

¹⁰⁴ See examples for inclusive business above by companies such as Coca Cola (Zambia), Olam (Mozambique), Chantefrais/Food and Allied Group (Mauritius), RAB processors (Malawi) and various examples in South Africa, for instance the profitable distribution of micro-insurances by Hollard Financial Services.

¹⁰⁵ This was mentioned in national and regional policy dialogues in the framework of the present research project.

4.2 Policy Dialogues – Recommendations and Action Plans

In the second part of the project, knowledge accumulated on the regulatory frameworks and support structures, together with the key challenges and recommendations of each target country were disseminated to stakeholders in the field of SMME development and inclusive business, and a regional dialogue was convened in South Africa. In almost every target country the participation of media representatives was arranged, including national TV representatives in Zambia and Mauritius. The national policy dialogues were convened jointly with the local research partners, and the extent of participation is listed in Table 7 below.

In all policy dialogues the participants were informed about:

- Inclusive business;
- The regulatory framework in the target country;
- The SMME support structure in the target country;
- Challenges around SMME development and inclusive business;
- Successful examples of inclusive business in the target country; and
- Recommendations.

The participants of each policy dialogue discussed possible action steps based on six key recommendations in each target country. The agreed action steps are provided in chapter 5).

The recommendations were brought to the regional level meeting that included representatives from the SADC Directorate's Trade Industry Finance & Investment (TIFI), responsible for the Programme "Industry Productive Competitiveness". In this context, an additional concept note was shared to inform the discussions around recommendations proposed for the SADC Industrial Development Policy Framework (IDPF). This concept note is included as Appendix III.

In the regional dialogue, all five local researchers presented their results and recommendations based on their research studies and the national policy dialogues. In this context and with regard to the above concept note, the Senior Programme Officer- Industry Productive Competitiveness from the SADC Directorate: Trade Industry Finance & Investment (TIFI) presented the SADC Industrial Development Policy Framework (IDPF). The local researchers were requested to present positive lessons that were learned from their country and that could be replicated in other countries or even at the regional level; and to propose recommendations for the SADC region. The input from the five country studies and national policy dialogues is provided in detail in Tables 7, 8 and 9 below. The country presentations broadly encompassed:

- Major challenges for SMME development, based on the existing national regulatory framework and the support structure;
- Major recommendations to improve SMME development and inclusive business activities in each country;
- Lessons learnt that can be replicated; and
- Recommendations that can be elevated to the regional level.

It must be noted that the inputs on "lessons learnt" and on "recommendations for the regional level" were not based on additional research but on the finalized research studies in each target country.

Table 7: Overview on the national policy dialogues within the framework of the project

Date & Place	Participants	Agenda topics
<p>Port Louis, Mauritius May 15, 2013</p> <p>Hosted by StraConsult & Southern Africa Trust</p>	<p>12 delegates, amongst them representatives from</p> <ul style="list-style-type: none"> • the Mauritius Ministry of Business, Enterprise, and Co-operatives; • Development Bank of Mauritius • Small and Medium Enterprise Development Authority (SMEDA) • Enterprise Mauritius • University of Mauritius. 	<ul style="list-style-type: none"> • Presentation of research objectives and inclusive business by Southern Africa Trust • Presentation of study results and recommendations • Discussion of required activities to implement the study's recommendations
<p>Midrand, South Africa May 20, 2013</p> <p>Organised and implemented by Tushiyah Advisory Services & Southern Africa Trust and hosted by the South Africa National Youth Development Agency (NYDA)</p>	<p>45 delegates, amongst them representatives from</p> <ul style="list-style-type: none"> • South Africa Department for Trade and Industry; • Department of Economic Development; • Small Enterprise Development Agency (SEDA); • NYDA; • Afrikaanse Handelsinstituut;¹⁰⁶ • ILO; • Massmart • ABSA; • South African Institute of International Affairs (SAIIA); • Mthente; • University of Pretoria and GIBS; as well as a larger group of SMME representatives. 	<ul style="list-style-type: none"> • Presentation of research objectives and inclusive business, by Southern Africa Trust • Keynote Speech by NYDA • Presentation of study results and recommendations • Discussion • Presentation of study results by Mthente¹⁰⁷ • Presentation by ILO¹⁰⁸ • Presentation by SAIIA¹⁰⁹ • Discussion on presentations • Discussion of required activities to implement the study's recommendations in working groups • Discussion of the outcomes of the breakaway session
<p>Lusaka, Zambia May 22, 2013</p> <p>Hosted by Munich Advisors Group & Southern Africa Trust</p>	<p>28 delegates, amongst them representatives from</p> <ul style="list-style-type: none"> • Permanent Secretary of the Ministry of Commerce, Trade and Industry (MCTI); • Zambia Development Agency (ZDA); Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA); • Zambia Institute for Policy Analysis and Research (ZIPAR); • SeedCo; • ZANACO Bank Plc.; <p>as well as a larger group of SMME representatives.</p>	<ul style="list-style-type: none"> • Presentation of research objectives and inclusive business, by Southern Africa Trust • Keynote speech by the Permanent secretary of MCTI¹¹⁰ • Presentation of study results and recommendations • Discussion of required activities to implement the study's recommendations in working groups • Discussion of the outcomes of the breakaway session
<p>Blantyre, Malawi, June 6, 2013</p> <p>Hosted by Employers Consultative Association of Malawi (ECAM) & Southern Africa Trust</p>	<p>20 delegates, amongst them representatives from</p> <ul style="list-style-type: none"> • Ministry of Industry & Trade; • Ministry of Justice; • National Association of Business Women (NABW); • Unilever South East Africa; • RAB Processors Limited; • Carlsberg Malawi Ltd. 	<ul style="list-style-type: none"> • Presentation of research objectives and inclusive business, by Southern Africa Trust • Keynote Speech by ECAM • Presentation of study results and recommendations • Discussion of required activities to implement the study's recommendations in working groups • Discussion of the outcomes of the breakaway session
<p>Maputo, Mozambique June, 10, 2013</p> <p>Hosted by Avril Consulting & Southern Africa Trust</p>	<p>20 delegates, amongst them representatives from</p> <ul style="list-style-type: none"> • Ministry of Industry and Trade, the Investment Promotion Centre (CPI) of the Ministry Planning and Development; • Institute for the Promotion of Small and Medium Enterprises (IPEME); • Confederation of Business Associations (CTA); • Finance Institute of Development (GAPI); • UNIDO; • ILO; • Netherland Development Organization (SNV); • Building Markets, • Vodacom; • Sasol <p>as well as a larger group of SMME representatives.</p>	<ul style="list-style-type: none"> • Presentation of research objectives and inclusive business, by Southern Africa Trust • Presentation of study results and recommendations • Discussion • Presentation by SNV¹¹¹ • Presentation by CPI¹¹² • Discussion on presentations • Discussion of required activities to implement the study's recommendations in working groups • Discussion of the outcomes of the breakaway session

¹⁰⁶ "The Afrikaanse Handelsinstituut (AHI) is a multi-sectoral business organisation and one of four major chamber organisations in South Africa, actively involved in all sectors of the economy, except primary agriculture." <http://led.co.za/organisation/afrikaanse-handelsinstituut-ahi-0>

¹⁰⁷ The presentation was about "Reporting back on Support Needs of SMMEs and Related Recommendations" by Mr Andre Le Grange from Mthente South Africa.

¹⁰⁸ The presentation was about "Creation of an Entrepreneurial Ecosystem in the Free State" (which was one of the research areas of the present research project in South Africa). The presentation was held by Mr Jens Dyring Christensen from ILO South Africa.

¹⁰⁹ The presentation was about "SMME Development and Inclusive Business – Enabling Environment for successful Entrepreneurship" by Mrs Lesley A Wentworth from SAIIA.

¹¹⁰ The keynote speech was about "Inclusive Growth through Inclusive Business: Three I's for a Successful Transition Towards MSME-Led Growth in Zambia". It was presented by the Permanent secretary of the Minister of Commerce, Trade and Industry, the Honourable Mr Emmanuel Chenda (Annexure IV).

¹¹¹ The presentation was about "Negócios Inclusivos – A experiência da SNV" ("Inclusive business – the Experience of SNV"), by Mr Rik Overmas from SNV Mozambique.

¹¹² The presentation was about "Desenvolvimento das PMEs e dos Negócios Inclusivos – ambiente propício para um empreendedorismo bem sucedido" and "Development of SMEs and inclusive business – enabling environment for successful entrepreneurship" by Mr António Luis Macamo from CPI Mozambique.

Table 8: Overview on regional policy dialogue within the framework of the project

<p>Regional Dialogue</p> <p>Sandton, South Africa June 28, 2013</p> <p>Hosted by Southern Africa Trust</p>	<p>22 delegates from seven countries, amongst them representatives from the:</p> <ul style="list-style-type: none"> • SADC Secretariat ; • Ministries of Trade and Industry, e.g. from Mauritius, and South Africa; • governmental support agencies for SMME development from Mozambique, Zambia, Malawi and South Africa; • Investment Promotion Centre (CPI) of the Mozambican Ministry of Planning and Development; • NEPAD Business Foundation • Trust Africa; • all local research partners; and • others 	<ul style="list-style-type: none"> • Presentation of research objectives and inclusive business, by Southern Africa Trust • Presentation by SADC on the SADC Industrial Development Policy Framework (IDPF)¹¹³ • Discussion • Presentations on the results and recommendations of the research studies and national policy dialogues in the five target countries, by the local researchers: <ul style="list-style-type: none"> ○ Mauritius; ○ Malawi; ○ Zambia; ○ Mozambique; and ○ South Africa • Discussion • Presentation on commonalities and differences in the target countries • Discussion of required activities <i>at the regional level</i> to implement the recommendations of the study’s and national policy dialogues - in working groups • Discussion of the outcomes of the breakaway session • Ranking of the required activities at the regional level
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¹¹³ The presentation was about “SMME Development and Inclusive Business in the SADC Region – Enabling Environment for successful entrepreneurship - Enhancing support to SMMEs” and was presented by Mrs. R. Alisoa Vololoniaina - Senior Programme Officer- Industry Productive Competitiveness (SADC).

Table 9: Challenges, recommendations, and lessons learnt for the regional policy

Country/ Issue	Malawi	Mauritius	Mozambique	South Africa	Zambia
Challenges	<p>Lack of capital.</p> <p>Poor access to finance.</p> <p>Lack of awareness.</p> <p>Limited support in enabling environment.</p> <p>Lack of information/ poor marketing information.</p> <p>Lack of networking.</p> <p>Lack of skills.</p> <p>Limited attention given to quality assurance.</p>	<p>Poor managerial capacity.</p> <p>Lack of access to information about latest technology.</p> <p>Fear of co-operation to improve capacity – clustering.</p> <p>Lack of platforms for interaction between SMMEs and larger companies.</p>	<p>Absence of Local Content Tool.</p> <p>Lack of incubators.</p> <p>Lack of access to information and markets.</p> <p>Difficult access to finance.</p>	<p>Lack of information on marketing support and lack of marketing and selling skills.</p> <p>Lack of access to finance, (high interest rates; SMMEs are seen as high risk; professional support is lacking from support structures).</p> <p>Lack of operational funding and cash flow. SMMEs struggle to manage cash-flow.</p> <p>High import costs (textiles) and no joining of forces to buy in bulk (silo mentality).</p> <p>Availability and affordability of skilled labour</p> <p>Lack of entrepreneurial education as well as technical and business skills.</p> <p>Inability to deliver on time, at the right price, quality and quantity, (including stock and raw material shortages).</p> <p>Strict labour laws that hinder SMMEs from employing staff.</p> <p>Doing business (recent economic recession; bureaucracy and corruption; registration processes; and strict tax regulations).</p>	<p>Inability to access local and international markets.</p> <p>Barriers to entry into some industries.</p> <p>Inability to secure start-up or working capital finance.</p> <p>Human capital: Poor motivation, inadequate skills and weak stewardship.</p> <p>Poor technology and lack of innovation and value-addition or processing based on high cost, poor quality or non-availability of raw material and other inputs.</p> <p>High costs of doing business.</p>
Recommendations & actions	<p>Better functioning of value chain - national export strategy.</p> <p>Create incentives for the private sector- tax considerations.</p> <p>Educate SMMEs.</p> <p>Strengthen SMME business support infrastructure.</p> <p>Financial inclusion through the banks.</p>	<p>Need for training in industrial development such as managerial, entrepreneurial and technical skills.</p> <p>Need for special schemes for provision of management support.</p> <p>Awareness and Information.</p> <p>Support for acquisition of technical capacity.</p> <p>Government and its agencies should encourage clustering efforts so that SMEs do not work in isolation and take advantage of horizontal integration.</p> <p>Organising a series of buyer-seller meetings to facilitate supply chain linkages between SMMEs and large enterprises.</p>	<p>Improvement of access to information about support programmes.</p> <p>Business services market development (including fees for professional consultations).</p> <p>Quality improvement for SMMEs products and services to be competitive.</p> <p>Access to finance.</p> <p>Local Procurement and Local Content.¹¹⁴</p> <p>Accelerating of administration.</p> <p>Co-ordination and knowledge sharing.</p> <p>Organising buyer-sellers meetings to facilitate linkages between SMMEs and large enterprises.</p>	<p>Urgently strengthen the abilities of the South Africa Small Enterprise Development Agency (SEDA).</p> <p>Work on incentivising BEE scorecards¹¹⁵ to reward companies who make an effort to conduct inclusive business.</p> <p>Better co-ordinate the efforts of the supporting agencies and Institute communication programmes that ensure SMMEs know where to go for training and assistance.</p> <p>Arrange urgent intervention in the South African education system.</p> <p>Address skills shortages in all tiers of government.</p> <p>Communicate the importance of inclusive business to the corporate sector in a way that gives credence to its merits and do so creatively.</p> <p>Improve access to finance.</p>	<p>Goal congruence – Build policy and institutional alignment to strengthen goal congruence towards SMME development.</p> <p>Institutional capacity – Strengthen institutional capacity towards MSME development.</p> <p>Investment and innovation – Promote innovation through partnerships and teaming to realise economies of scale and scope.</p> <p>SMME capacity – Facilitate capacity building in financial literacy, entrepreneurship and eliminate administrative barriers and minimise transaction costs.</p> <p>Value addition – Leverage international agreements, such as the recent bilateral agreement with China to promote entry into value addition and high-end services for domestic and export markets.</p>

¹¹⁴ Since the aim of increasing local procurement is to create jobs in Mozambique, then the procurement must relate to products that are produced in Mozambique (creating manufacturing jobs) or services that are delivered in Mozambique (creating service jobs). This relation is known as “Local Content”.

¹¹⁵ B-BBEE stands for Broad-Based Black Economic Empowerment. The objective of B-BBEE is to ensure that the majority of South Africans who are defined as being black people across all socio-economic levels, are able to participate in the positive benefits of empowerment. The concept of Broad-Based BEE was introduced by the Codes of Practice. 7 B-BBEE Elements are now used to measure a company’s commitment to transformation. The B-BBEE Codes of Good Practice can be seen as the BEE rule book. The Codes provide universal standards for the implementation and measurement of BEE initiatives, with the aim of providing consistency, transparency and clear direction on BEE. Through the use of a BEE Scorecard, the Codes have thus seen BEE become an objective discipline with quantifiable and defined criteria and rules (BEE 123: 2013).

Country/ Issue	Malawi	Mauritius	Mozambique	South Africa	Zambia
Learning for replication	<p>For Malawi, not much information on lessons learnt was given, due to the fact the new SMME policy still needs to be implemented. Lessons on the preceding policies are about the improvement of its implementation.</p> <p>Several companies are already involved in inclusive business and companies from the other target countries can learn from their experiences.</p>	<p>Diverse financial Instruments made available:</p> <p>(a) Equity as well as non-collateral based loans;</p> <p>(b) Acquisition of equipment;</p> <p>(c) Factoring; and</p> <p>(d) Export insurance guarantee.</p> <p>Support for export</p> <p>(a) Preparation for export readiness;</p> <p>(b) Carry on for overseas promotion; and</p> <p>(c) Subsidy on travel & accommodation costs.</p> <p>Support for process and product improvement.</p> <p>Ease of doing business: cut down formalities without compromising on due diligence.</p>	<p>Simplification of procedures: tax, the creation of the company, the attribution of licences.</p> <p>Public-private dialogues, e.g. done by the Confederation of Business Associations in Mozambique (CTA).</p> <p>Creation of the Inclusive Business Council.</p>	<p>The lessons learnt from South Africa are already covered in the recommendations. Relevant regulations need to be communicated more effectively.</p> <p>The high number of SMME-support agencies results in the need to better co-ordinate these organisations and their efforts.</p>	<p>For Zambia, the lessons learnt were based on inclusive business case studies. Important learning can comprise:</p> <p>(a) Entrepreneur selection;</p> <p>(b) Capacity building – training and mentoring;</p> <p>(c) Partnership for capacity building financing;</p> <p>(d) Evidence-based approaches;</p> <p>(e) Appropriateness and affordability of technologies; and</p> <p>(f) Social inclusion and advocacy.</p>
Relevance for SADC	<p>Inclusive business models.</p> <p>Increasing access to finance through value chains.</p> <p>Providing incentives to companies.</p> <p>Tax reform for SMMEs.</p> <p>Registration of businesses/formation of associations.</p> <p>Reforming regulations.</p> <p>More publicity/buyer-seller meetings.</p> <p>Access to markets.</p> <p>Collecting and disseminating reliable data.</p> <p>Infrastructure development.</p> <p>Certification.</p>	<p>National and regional procurement preference in favour of SMMEs.</p> <p>SMME Development Fund – diversified instruments.</p> <p>Activate through willing commercial banks and other financial partners.</p> <p>Management capacity support through in-house management placement.</p> <p>Fiscal incentives for MNCs to source from SMMEs.</p>	<p>Simplification and harmonization of laws.</p> <p>Access to finance.</p> <p>Access to information and markets.</p>	<p>Provide a common platform where legislation can be accessed - avoid duplication of support - develop a shared portal where support provided to SMMEs is documented.</p> <p>Cluster industry-specific training and support together.</p> <p>Financial support:</p> <ul style="list-style-type: none"> • Reduce red tape in applying for finance; • Reduce interest rates; • Increase turnaround time with approval of loans; • Provide a combination of grant and loan funding especially for start-ups; and • Timely payment of invoices (preferably 50% payment upfront / 7 day payment from date of invoice). 	<p>Provide strong market knowledge on pricing and volumes and bundle products where possible.</p> <p>Provide services to bundle produce of SMMEs and support in negotiating frame contract.</p> <p>Negotiate financing scheme for SMMEs and provide collateral not available by most SMMEs.</p> <p>Provide on-the-job capacity building training to empower SMMEs and ensure financial literacy and practical tools are available.</p> <p>Provide affordable ICT solutions to access knowledge, markets and finance to SMMEs.</p> <p>Empower support organisations in lobbying for decreased cost with focus on SME needs.</p>

4.3 Discussion of the Recommendations

In every target country access to finance is one of the major challenges for SMMEs. It makes sense, therefore, for governments to encourage the investment sector and foreign investors to reduce the negative impact of one of the key challenges of SMME development in Southern Africa. For instance, it was estimated that in Malawi about 90% of the SMMEs might not have a bank account. In Mauritius, as a positive example, government has approached the leasing companies to give loans to SMMEs while government shares the burden of the concessionary rate (leasing equipment modernization scheme). The Mauritian government has also encouraged the banking sector to promote better access to finance. Finally, within the framework of the Mauritius Youth Employment Programme, graduates can be involved to assist SMMEs in creating their business plans and the government contributes with 50% of the cost of using these graduates.

With regard to the lack of information on markets and opportunities, including the lack of information on a regulatory framework of a country or the available support for SMMEs, the idea of having an online portal was discussed in various policy dialogues, and in particular in the regional policy dialogue. This approach still requires reflection on how to reach the SMMEs, especially in the rural areas. In Mozambique, for example, there are challenges in terms of internet access and net coverage. In addition, there is a need to continuously update the information on the portal. It was suggested that the business sector should be approached to partner in addressing such technical challenges. In this context, it should also be mentioned that, for example, the information of SADC is often highly complex and not readily accessible to SMMEs. It should be adapted and simplified. Moreover, businesses need information that is specific rather than general and information could be provided in conjunction with the various industry sectors. It was suggested that a Challenge Fund be set up to build up effective sector-related information services implemented by companies and facilitated by the governments.

In Mozambique the Centre for Investment Promotion (CPI) started a programme to improve SMMEs' access to information and created an online platform that includes information on services, buyers, assessments and financial systems. In South Africa, the commercial bank ABSA has introduced a procurement portal, a virtual marketplace that the company has developed for buyers and suppliers. The project is managed by the Enterprise Development Unit of ABSA and users do not need to be ABSA clients.¹¹⁶ At the regional level, SADC plans to establish a similar online portal.¹¹⁷

4.4 Commonalities and Differences

This chapter provides a summary of results and recommendations from the five target countries that were presented at the regional policy dialogue in South Africa in June 2013. The Southern Africa Trust summarized the studies and the national dialogues. As a starting point, in all countries global challenges for inclusive business that had been defined by the UNDP (2008) were confirmed. These were the lack of market information; limited skills, limited access to financial services and a disabling regulatory environment. Based on these global obstacles for SMME development, the research studies then revealed country-specific challenges and solutions.

a) Commonalities of challenges in the five target countries

For all target countries, the following issues were mentioned in addition to the general challenges which UNDP had already identified in 2008. These are:

- Lack of working capital
- Lack of skilled employees
- High costs of doing business
- Non-co-ordinated efforts by support structures, where:
 - SMMEs get disparate information
 - Awareness of what support is available is limited

¹¹⁶ Absa (2013).

¹¹⁷ This portal was discussed during the regional policy dialogue of this research project in South Africa in June 2013.

- Reliable data are missing
- Monitoring (beyond pure figures) is missing.
- Challenges regarding the role of governments (and support structures)
- Regarding inclusive business, there is:
 - Mistrust (between SMMEs and larger firms as well as between SMMEs themselves)
 - Excessive bureaucracy, nepotism, depending on political party, poor turnaround time
- Lack of entrepreneurial education at an early stage of life.

b) Recommendations to overcome these challenges

For some challenges, very similar solutions and recommendations were proposed by the researchers. For example, with regard to the unco-ordinated efforts of the support agencies, the researchers proposed the following approaches:

- Create a co-ordinating platform(s)/hubs;
- One-stop shops;
- Service for life cycle (meaning that at different stages of the development of an SMME differing agencies shall be responsible rather than all agencies only focusing on the start-up phase). This approach would include the strong requirement of improved communications and working together between the support agencies.
- Involvement of relevant chambers; and
- Decentralized training.

Regarding the role of the state in promoting inclusive business, it was recommended that governments should:

- Facilitate;
- Champion;
- Promote;
- Monitor;
- Incentivise; and
- Simplify the processes.

Regarding the lack of access to financing of SMMEs, the majority of recommendations covered the approaches of establishing lower interest rates and the creation of an SMME-Bank.

In relation to the point about instituting earlier entrepreneurial education, programmes for primary and secondary school were recommended by the researchers as an outcome of the five national policy dialogues.

c) Additional suggestions resulting from the five national policy dialogues

The following common ideas were captured in at least two policy dialogues (and were also mentioned in some research studies):

- Introduce a screening process rather than support every start-up.
- Offer services according to industry sectors.
- Build enterprises operating in demand-driven markets.
- Use Public-Private Partnerships (PPPs) to improve the infrastructure of a country.
- Discuss whether adequate fees for services shall be introduced.
- Discuss the lack of innovation and value addition rather than have continuous predominance of trading issues.

5 National Action Plans

In each policy dialogue the participants discussed the key recommendations of the research studies. They were divided into working groups and were requested to propose activities (action plans) on how

to implement these recommendations. These actions are summarized below for the one regional and five national policy dialogues.

5.1 The Action Plan for Malawi

Box 2: Recommendations & Action Plan - SMME development and inclusive business in Malawi

<u>Recommendation 1</u>
Business Development Service Providers (BDSPs) shall improve their service deliveries to SMMEs particularly in the areas of: their accessibility/availability nationwide; the cost of services; and the quality of services. BDSPs shall include training, marketing, registration, technology, and financial institutions.
Required Action
<ul style="list-style-type: none"> • Sensitize BSDP's. • Strengthen governance and linkage with member companies of business associations (provide "real" services). • Engage stakeholders and in particular BDSPs in dialogues to develop a more profound support to SMMEs. • Coordinate BSDP's to create one stop shop (e.g. using better ICT). • Decentralize BSDP's services. • Start a paradigm shift in operations (client oriented).
<u>Recommendation 2</u>
Ministry of Industry and Trade shall improve the implementation of the SMME policy and avoid a repeat of the challenges faced during implementation of the reviewed SMME policy.
Required Action
Lobbying and advocacy: <ul style="list-style-type: none"> • Taskforce to draft a paper to lobby the policy in the cabinet. • Stakeholders meeting to review the current SMME policy. • Lobbying for launch of SMME Policy. • Then launch reviewed SMME Policy.
<u>Recommendation 3</u>
Government must ensure accurate data to make informed decisions for SMME development.
Required Action
<ul style="list-style-type: none"> • Re-defined research. • Harmonisation & validation of data to create an enhanced database.
<u>Recommendation 4</u>
Large companies should develop internal policies on inclusive business.
Required Action
<ul style="list-style-type: none"> • Awareness and sensitisation of companies so that companies will reflect on the option of using the inclusive business model/more integrate SMMEs in their business activities to improve profitability. Companies will develop strategies how to best implement inclusive business ideas. • Government policy to incentivise companies. In order to comply, companies will reflect the options of inclusive business practices. • Monitor and evaluate mechanisms to be built into the policy that companies will be able to assess and realise the benefits but also the risks of inclusive business activities.
<u>Recommendation 5</u>
Improving the operations of value chains by strengthening business to business linkages.
Required Action
<ul style="list-style-type: none"> • Provide assistance in finance, technical know-how and distribution models to assist in developing skilled and capacitated SMMEs. • Revisit the cooperative development policy to focus on inclusive business to foster SMME aggregation and more effective SMMEs. • Development of marketing systems – to create a linkage strategy / access to market information • Create regular networking events for businesses and SMMEs. In particular establish inclusive business market places and improved business linkages.
<u>Recommendation 6</u>
Strategies for strengthening standards and quality consciousness among SMMEs as a key component of inclusive business.
Required Action
<ul style="list-style-type: none"> • Create awareness and understanding of standards which might lead to better quality by: <ul style="list-style-type: none"> ✓ Training program and an awareness campaign of standards (including information of benefits of having the right standards) ✓ Build a productivity center for to maintain quality and standards. This should include skills building programs & accreditation • Tax reduction on equipment required by SMMEs for increased capacity of SMMEs to achieve quality standards. • Source and share SMME models from other countries. • New approaches for standard development and knowledge about pitfalls.

Based on the findings of the research study, the following six key recommendations were discussed by the participants to develop an action plan. The participants were split into two working groups to discuss

the most necessary steps to implement these six recommendations. After the group work, the teams were then given the opportunity to present back to the full delegation.

5.2 The Action Plan for Mauritius

The recommendations of the study in Mauritius were added by participants' suggestions:

- Mainstream the policies from government, which would include the involvement of the inclusive business concept in the next budget speech of the Finance Minister.
- Support agencies shall assist SMMEs in implementing inclusive business practices. There is also a need for training in industrial development such as managerial, entrepreneurial and technical skills as well as a need for special schemes for provision of management support. In addition, there should be support for the acquisition of technical capacity.
 - Awareness needs to be raised in larger companies that inclusive business is a profitable approach and not a CSR initiative. Opportunities shall be demonstrated by Government and the support agencies, e.g. with regard what can be sourced locally.
 - An in-depth discussion with SMMEs is required that they understand the Supplier Development Programme. SMMEs have to be trained accordingly.
 - The banks should be involved, e.g. with regard to an export-import guarantee scheme. The mainstreaming could be done by the envisaged SMME bank by DBM.
 - Government and its agencies should encourage clustering efforts so that SMEs do not work in isolation and take advantage of horizontal integration.
 - Organising a series of buyer-sellers meetings to facilitate supply chain linkages between SMMEs and large enterprises.

Based on the above first ideas, the participants discussed the issue of the Supplier Development Programme and how to get larger firms more involved. For example, it was suggested that non-sensitive issues can be addressed by Companies' Supplier Development Programmes in direct exchange with SMMEs that means at an individual level. Sensitive business items, such as quality, quantity, reliability, regularity and thus sustainability require strong coordination and possibly a cluster approach – although it was also mentioned that Mauritian entrepreneurs dislike being clustered. Still, there are examples where the idea of clustering worked out well, for instance the collective marketing of craft-persons from Rodriguez who exported their products to France.

However, companies need to develop a long-term relationship to gain the trust of the SMMEs. Currently, it is not clear whether and how many larger companies are willing to (more) collaborate with SMMEs and vice versa. Awareness needs to be created at different levels, in particular with regard to mutual benefits. The research study and some findings from the present universities indicate a great willingness of SMMEs to be integrated in the companies' value chains, but technical and business skills are lacking.

Awareness creation shall include a clear picture on what inclusive business is about because the concept still often is confused with corporate giving. The Southern Africa Trust was asked to bring in expertise on inclusive business and provide clarity based on the five research studies of the project.

Box 3: Recommendations & Action Plan - SMME development and inclusive business in Mauritius

The participants agreed on the following Action Plan:

- 1) With the help of the B4D Pathfinder Barometer a survey shall be done with some 40-50 companies to be able to evaluate whether and in how far companies in Mauritius are inclusive. The B4D Pathfinder Tools shall bring clarity on the issue of inclusive business and lead to willingness of companies and SMMEs to be more inclusive. Priority sectors for this survey will be the supermarkets / retailers, hotels and the IRS sector (Integrated Resort Scheme¹¹⁸) and lead to a “reality-check on the ground”. The survey shall be supported by the Ministry of Business, Enterprises & Cooperatives. The involvement of the Ministry for Ministry of Business, Enterprises & Cooperatives is the key for the acceptance of the Barometer by the companies and thus crucial for the success.
- 2) The results will lead to a baseline for inclusive business and SMME development in the country.
- 3) After the companies will have filled in the B4D Pathfinder Barometer, a dialogue with the private and public sector will be started on the benefits of inclusive business, again with the support of the above ministry championing inclusive business rather than regulating the approach. This dialogue will also lead to acceptance of the inclusive business concept and its incorporation in the Mauritian Supplier Development Programme. This cannot be done by the support agencies but shall be brought in by third parties.
- 4) The outcome will result in ways how to drive the processes of inclusive business and SMME development differently, on condition that inclusive business is profitable and processes are innovative.
- 5) Based on the further developed Supplier Development Programme the support agencies shall assist the SMMEs in a coordinated form. It was suggested to establish fairs for business linkages and innovation to foster processes, facilitating by the universities.

5.3 The Action Plan for Mozambique

Based on the findings of the research study, the following six key recommendations were discussed by the participants to develop an action plan. The participants were split into three working groups to discuss the most necessary steps to implement these six recommendations. The groups were requested to only list three priority actions but were allowed to divide these into short term, medium term and long term measures.

¹¹⁸ Currently a landowner’s permit from Government is needed to use former sugar cane areas to construct upscale villas.

Box 4: Recommendations & Action Plan - SMME development and inclusive business in Mozambique

<u>Recommendation 1</u>
Better access to information.
Required Actions
<ul style="list-style-type: none"> • Develop a package on fiscal incentives and an overview on the legal framework for different sectors / fiscal obligations that affect SMMEs. • Create a databank profiling local SMMEs for large companies to be (more) aware of the local offer. • Dissemination of information through TV, radio, etc. • MOU with institutions (given support structure) and necessity of using/establishing local institutions in the various areas/provinces in the country. • Necessity to disseminate information through “Janela Única Electrónica”¹¹⁹ (the Mozambican electronic customs system) and the “e-tributação” (the electronic taxing system).
<u>Recommendation 2</u>
Simplification of administration.
Required Action
<ul style="list-style-type: none"> • The one-stop-shop shall be combined with business development services such as IPEME-Gazeda. • Verification of compliance of established simplification regulations. • Technology transfer. • The one stop shop shall be combined with the payments of taxes. • Implementation of only one identification number for citizens.
<u>Recommendation 3</u>
Business services market development (incl. market information).
Required Actions
<ul style="list-style-type: none"> • Promotion of the demand through business development services (understanding of the demand). • Support of service providers for SMME development that create new services (such as services to support SMMEs to apply for up to date technologies and technical assistance) and improve the quality of the suppliers. • Establishment of a fund for technical assistance, e.g. 'group purchasing' with the participation of companies.
<u>Recommendation 4</u>
Access to finance.
Required Actions
<ul style="list-style-type: none"> • Integration of banks that have a linkages program with the active participation of large companies; direct engagement with large companies to support them bringing SMMEs to the banks to get a adequate credit • Integration of MPESA in the existing finance mechanisms. • Establishment of a ‘catalytic’ fund for SMMEs. • Integration of the stock market in the national (SMME) programme.
<u>Recommendation 5</u>
Quality improvement.
Required Actions
<ul style="list-style-type: none"> • Necessity of creating an atmosphere of mutual confidence between the government, doners and the private sector. • Improve the access to information, in particular information on quality schemes / methods of technical improvement. • The Government and the private sector need to improve the national infrastructure. • Certification schemes for products and services. • There is a need to create instruments of mediation. • Necessity to introduce standard norms at a national level. • Technical assistance can be improved by using resources from the Dutch PUM Programme.
<u>Recommendation 6</u>
Local procurement and Local Content.
Required Actions
<ul style="list-style-type: none"> • The Government and the private sector shall discuss a form of legislation that companies must buy a certain percentage of products that is produced in the country. That also will lead to improved skills within SMMEs. • Companies shall contribute to education of the local working force. • The larger firms could create a list of potential categories of goods and services which they will need in the coming two to five years that SMMEs can prepare themselves to be able to deliver according to this demand. (There should be an aggregated demand for the next five years). CPI, Building Markets and the consultant ICC will jointly launch this study in the year 2013.

It was suggested and agreed that the stakeholders continue their exchange and sharpen the above steps. A loose network of key players is already working together in the field of Supplier Development Programme as well as business linkages. However, it seems likely that two or three more policy dialogues will be required to achieve and agree on concrete joint steps. One platform to further continue the dialogue could be the recently established Center for Inclusive Business (CNI) and many members

¹¹⁹ Known as the Single Electronic Window, the new tool comprises two computer systems – the integrated customs management system and the operators’ mechanism. Via the Single Electronic Window importers are able to submit the customs declaration and pay all fees via a retail bank before the actual unloading of the goods, which will reduce their processing time (<http://mpoverello.com/2011/12/12/new-mozambique-customs-system-will-reduce-processing-time/>).

of the CNI participated in the present policy dialogue or were informed about it. In addition, an internet portal will be set up to enable a continuous dialogue between stakeholders.

5.4 The Action Plan in South Africa

Based on the recommendations of the research study in the national dialogue in South Africa, and amendments which were made based on the input of the additional presentations and participants' contributions, the following questions were selected and discussed in 2 groups.¹²⁰

Box 5: Key questions & Action Plan - SMME development and inclusive business in South Africa

Group questions 1
How can government or agencies improve co-ordination between the supporting agencies to avoid duplication? What else can government do to support companies? Who should make an effort to conduct inclusive business?
Required Actions
<ul style="list-style-type: none"> • Analyse the gaps and infrastructure. • Involve the business chambers. • Map/matrix (who, what, where, when of supporting agencies). • National co-ordinating platform. • One-stop shop (Business Place, ILO), including all players after a diagnostic first check. • Clear communication to SMMEs on which agency is responsible for which support. • Providing support for SMMEs in a life cycle, i.e. not all the involved agencies should focus on the start-up phase of SMMEs but some shall be responsible to do the follow-up after different time intervals. • Dual-zone centres (SMME support in townships and villages) need to be analysed and strongly capacitated. The reach of the various support agencies needs to be improved. • Tertiary education better linked to supporting agencies.
Group questions 2
What should a supplier development programme look like? What are the key factors needed to make it successful? How can companies develop a mindset change with regard to inclusive business?
Required Actions
<p><u>Short-term:</u></p> <ul style="list-style-type: none"> • Electronic database per region. • Role of the chambers not fully utilised - Local procurement policy - strengthen initiatives at local level. • Incentivise big business – incentives do not necessarily have to be monetary. <p><u>Mid to long-term:</u></p> <ul style="list-style-type: none"> • Consolidated database national, provincial and local – with custodians at local level. • Let chambers play a role in facilitating inclusive business and supplier development and support.

Ongoing dialogue is required to jointly develop these activities, increase inclusive business practices and strengthen the support organisations for SMME development. A high-level discussion platform of agencies was suggested to be established and involve key players such the Presidency, the Department of Trade and Industry and the Department of Economic Development as a co-ordinating unit as well as other involved players. In their “SMME Economic Society” which is a colloquium of important players of SMME development, the Department of Economic Development will identify partners for ongoing policy dialogue. This Department has indicated its interest in working with the Southern Africa Trust on the issue of SMME development.

5.5 The Action Plan for Zambia

Based on the findings of the research study, the following six key recommendations were presented to the participants for their further discussion. These are summarized in the figure below.

¹²⁰ It needs to be noted that some participants had left the event by this stage.

Figure 2: Recommendations from the research study in Zambia

Recommendations		Description
1	Goal Congruence	<ul style="list-style-type: none"> o Build policy and institutional alignment to strengthen goal congruence towards MSME development
1	Institutional Capacity	<ul style="list-style-type: none"> o Strengthen institutional capacity towards MSME development
2	MSME Capacity	<ul style="list-style-type: none"> o Entrepreneurship, financial literacy and level the playing field for MSMEs by eliminating administrative barriers and minimising transaction costs
2	MSME Inclusion	<ul style="list-style-type: none"> o Mainstream cultural re-orientation and introduce requirements for financial and value chain inclusion
3	Investment & Innovation	<ul style="list-style-type: none"> o Promote innovation through partnership and teaming to realise economies of scale and scope
4	Value Addition	<ul style="list-style-type: none"> o Leverage bilateral agreement (e.g. China) to promote entry into value addition and high end services for domestic and export markets

The participants were divided into three working groups to discuss the most necessary steps to implement these six recommendations. The group work resulted in some overlaps and not all groups divided the recommended steps of action into short, mid and longer term activities. Not all working groups responded exactly on the given recommendations but discussed improvements for SMME development more broadly.

Box 6: Recommendations & Action Plan - SMME development and inclusive business in Zambia

Recommendation 1
Build policy and institutional alignment to strengthen goal congruence towards SMME development; Strengthen institutional capacity towards SMME development.
Required Actions
<p>Challenge: Due to the fragmentation of institutions, there is differing understanding of policy guidelines that contributes to poor SMME development practices. It results in a lack of harmonisation of research and policy and a low level of collaboration between supporting agencies. Channels to disseminate information on the existing policies are lacking.</p> <p>a) For the short term it was recommended to:</p> <ul style="list-style-type: none"> • Establish improved co-ordination among the key ministries. • Immediately implement the dissemination of information on which support agency is offering which services. • Create actionable ideas and get back to people who are involved. <p>b) For the mid-term it was recommended to:</p> <ul style="list-style-type: none"> • Monitor and evaluate whether policies in place are implemented. • Disseminate information that is harmonized involving key SMME institutions. <p>c) For the longer term it was recommended to:</p> <ul style="list-style-type: none"> • Form a “mother body” for the support agencies that co-ordinates the activities. • Decentralize governmental support services. • Reform skills training for SMMEs.
Recommendation 2
Promote innovation through partnership and teaming to realize economies of scale and scope.
Required Actions
<p>Challenge: SMMEs are unable to innovate due to a lack of investment. The required investment cannot be attracted due to lack of trust and contracting capacity.</p> <p>a) For the short to mid-term it was recommended to:</p> <ul style="list-style-type: none"> • Build legal capacity of SMMEs through training them in contracting, legal documentation, negotiation, and arbitration. Implement self-policing and contract enforcement mechanisms through local arbitration and related mechanisms. • Strengthen government support: (i) underwriting markets for new products developed by SMMEs; (ii) creating a national database of SMME products and services to enable local sourcing, equipment/capacity sharing. Use on-site and virtual business incubation support e.g. by Empretec.¹²¹ • Strengthen financial support for SMMEs through effective, constructive engagement by the banks with the SMME sector leveraging financial co-operatives or associations formed by the SMMEs. <p>b) For the longer term it was recommended to:</p> <ul style="list-style-type: none"> • Change the culture of reliance on government to one of self-reliance and community-level co-operation. • Change the culture of disdain for products that are “Made in Zambia”. • Change the structure of incentives in the public sector to condition SMMEs on achieving results in the private sector. For example, ‘Cluster A’ should innovate a specific amount of new products in a given year as a condition for specific incentives for staff of the relevant government support agency.
Recommendation 3
Entrepreneurship, financial literacy and levelling the playing field for SMMEs by eliminating administrative barriers and minimizing transaction costs. Mainstream cultural reorientation and introducing requirements for financial and value chain inclusion.
Required Actions
<ul style="list-style-type: none"> • A Business Facilitation Programme should be established to reduce administrative barriers (regarding online registration, simplified tax compliance, registration, licencing). This will also promote ease of doing business. • One-stop shops and/or joint road-shows are required for the support agencies to jointly train entrepreneurs. • Support agencies need to train entrepreneurs in keeping records (financial literacy) and on how to transfer these records into a financial format. SMMEs and start-ups should make a financial contribution to such services as there is added value and the benefit of better returns. Support agencies also need to train entrepreneurs to re-invest their profits (financial literacy). • Transaction costs need to be reduced for SMMEs, bringing in a flat rate, one pay-point approach. The proposed fees should be staggered based on the specific SMME. It was suggested to include learning from other countries with regard to transaction costs. • With regard to the lack of entrepreneurial culture, stronger sensitization is required. Pupils should already be learning about entrepreneurship in primary school. SMMEs should be invited to schools to give talks about success stories. Families should talk about how money is earned (as people in Asia do). • There should be regulation of beneficiation to create opportunities for SMMEs (according to various stages of processing). • The Supplier Development Programme needs to be further developed to avoid financial illiteracy, but should first be implemented by government as a pilot. • One financial requirement for inclusivity includes that the Government must champion it but not subsidize it. Government will promote inclusive business. • Companies must understand what is meant by social licence, and this must be properly explained when a concession/lower electricity costs or similar are requested or expected. • It was suggested to monitor companies on their way to more inclusivity.

¹²¹ Empretec is an UNDP Programme under which entrepreneurs are given financial training and are required to market and sell all their (new) products within a certain timeframe as a condition for obtaining certification (UNCTAD, 2013).

Recommendation 4
Leverage bilateral agreements to promote entry into value addition and high-end services for domestic and export markets.
Required Actions
<p>Due to the identified lack of innovation, selected SMME sectors shall be mentored through bilateral agreements and transfer technology.</p> <p>a) For the short term it was recommended to:</p> <ul style="list-style-type: none"> • Indicate to the public what entrepreneurship and innovation really mean and what should be done to integrate the SMMEs/entrepreneurs in the value chain. Identify people who can support these activities. • Identify technology products (through stakeholders) that are ready for market. Obtain information and knowledge about markets. • Identify the raw materials that are available - how can value be added through beneficiation? <p>b) For the mid-term it was recommended to:</p> <ul style="list-style-type: none"> • Maintain continuous awareness. • Create incentives, employment creation. • Aim at value addition in the copper sector (e.g. specific parts required for innovative products manufactured in Japan), and at qualifying the human capital. <p>c) For the longer term it was recommended to:</p> <ul style="list-style-type: none"> • Implement technology transfer. • Inform and create awareness of the segmentation of markets. • Create incentives (e.g. taxes) for companies that include SMMEs in their value chain.

5.6 Recommendations for Actions at the Regional Level

In the regional workshop, all five research studies were presented. In addition, the SADC Industrial Development Policy Framework (IDPF) was presented by a SADC representative. Recommendations from all five target countries were presented and discussed and a summary of commonalities and differences regarding challenges and solutions in the five countries were shown. The participants were divided into five groups to discuss the following question:

“What needs to change or be improved in the policy environment at the regional level to better equip the private sector to be a more effective enabler of inclusive business?”

The results from the groups were clustered and ranked by the participants. This resulted in a priority list of activities to improve the policy environment at the regional level so as to better equip the private sector to be a more effective enabler of inclusive business.

Box 7: Key priorities for SMME development and inclusive business at the SADC level

<p>The 4 key priorities ranked the highest by the workshop participants were:</p> <ul style="list-style-type: none"> • Cluster 1 (16 points): Improve SMMEs’ access to finance through a: <ul style="list-style-type: none"> ○ Regional common bank for SMMEs; ○ Regional fund for finance (working capital); ○ Regional Fund of Foreign Direct Investment (FDI) for SMME support; ○ Guarantee fund + non-bank mechanisms for SMME finance; ○ Provision of non-collateral-based finance and diversified financial instruments facilitated by SADC. • Cluster 2 (10 points): Co-operation and co-ordination of support structures for SMME development through: <ul style="list-style-type: none"> ○ Co-operation and capacity building amongst the public institutions with the same remit; ○ Regional Body for SMME development for information; financial instruments; practice, research. • Cluster 3 (9 points): Regional Learning Centres for skills, such as regional integrated skills development centres being implemented in a joint effort by governments and the private sector. • Cluster 4 (7 points): Information Portal developed and facilitated by SADC, in particular with regard to information on availability and sources of raw material.

It was agreed that these four priority areas should be addressed first at the regional level.

It was also suggested that an annual meeting should be convened with relevant chambers and associations that represent SMMEs to (i) discuss the national regulatory framework and the conditions of doing business at regional and national level; and (ii) to discuss (develop) programmes that respond

to the demands of the private sector. The roles, responsibilities and co-ordination requirements were not addressed.

Further recommendations covered regional tax tariffs and the development of a regulatory framework for inclusive business.

6 Conclusions

This project enabled the Southern Africa Trust to gather comprehensive knowledge on the following:

- The macro-economic environment and status of SMMEs in the target countries Malawi, Mauritius, Mozambique, South Africa and Zambia;
- The regulatory frameworks in these five target countries;
- The support structures in these five target countries;
- The factors that promote or impede the growth of SMMEs in relation to the three points above;
- The inclusive business and enabling environment;
- The recommendations to improve the current situation.

The general conclusion of the desktop studies is that both the public and the private sectors will have to be engaged in conversation to find ways to overcome resistance to doing business with SMMEs. Extraordinary efforts will be required to address their objections and what they see as factors that impede the inclusion of SMMEs into their value chains.

In particular, there is a need for support agencies to better co-ordinate their activities and become more effective in SMME development and the promotion of inclusive business activities. The study results and policy dialogues emphasised that a screening of entrepreneurs should be done before the support of SMMEs starts to focus more on entrepreneurs that are driven by opportunity rather than by necessity (who are, in reality, looking for employment).

The results of the research studies in the target countries was disseminated and discussed with key stakeholders in both SMME development and inclusive business. Recommendations were made with regard to action plans and options to follow up the initiated processes. The policy dialogues that were based on the present project can only be regarded as a first step in the right direction and need to be continued.

The Southern Africa Trust has been approached in Mauritius, Mozambique and South Africa as well as by the SADC Secretariat to continue the processes that have been initiated.

As much as small enterprises need to be educated and skilled and governmental support needs to be reflected, the procurement functions of large companies should be sensitised to the vital role they can play by finding creative ways in which to reduce risk and build small enterprises. More importantly, buy-in is needed from top management, as well as from other organisational operational levels. Inclusive business practices can be the key for this change as it offers the profitable expansion of markets based on innovative processes, products and services.

Moreover, governments, support agencies and larger firms as well as donor and multilateral organisations should involve inclusive business in the policies, strategies, programmes and action plans for SMME development.

APPENDICES

APPENDIX I

STANDARISED TABLES FOR DESKTOP STUDIES

(REGULATORY FRAMEWORK, SMME SUPPORTING AGENCIES, BARRIERS TO SMME DEVELOPMENT)

GENERAL GUIDELINES FOR DESKTOP STUDY

Small Business development in connection with the Inclusive Business concept

This is a general guideline for the required desktop study of small business development in connection with the inclusive business concept. The following research objectives are required to be fulfilled:

- Identify the status of and the framework for SMME development in the five target countries;
- Identify and analyse new options, in particular the extent to which the concept of inclusive business can be applicable to SMMEs in the target countries; and
- Identify success stories which can be replicated in the other target countries.

A. REQUIRED CONTENT

The table below provides a guideline for the expected content of the desktop study.

SECTION	GUIDING NOTES
REPORT INTRODUCTION	This section should summarise section 2 -8 of the report.
RESEARCH PURPOSE SCOPE AND DEFINITIONS	This section should describe the research parameters including research objectives, key definitions and methodology.
STATUS AND FRAMEWORK FOR SMME DEVELOPMENT	This section should outline the environment in which SMMEs operate. A good way in which to start this section is to describe the macroeconomic environment i.e. include key statistics that are applicable to SMME development.
National	
Provincial	Subsection 3.1 should describe: National government policies and/regulations that are in place to assist in SMME development. National government institutions (including Developmental Finance institutions and Enterprise development agencies if any) and/or incentives in place for SMME development. It is very important to mention the effect (success or failure) of (a) and (b) mentioned above. Subsection 3.2 should describe: Provincial government policies and regulations that are in place to assist in SMME development. Provincial government institutions (including Developmental Finance institutions and Enterprise development agencies if any) and/or incentives in place for SMME development.

It is very important to mention the effect (success or failure) of (a) and (b) mentioned above.

Please note that section 3.1 and 3.2 should have a bias towards the fields of food & beverages (agriculture), retailers and manufacturing.

STATUS AND FRAMEWORK FOR INCLUSIVE BUSINESS

National

This section should describe the enabling environment for inclusive business. A good way in which to start this section is to define inclusive business and the benefits thereof.

Subsection 4.1 should describe:

National government policies and regulations that are in place and can assist with the implementation of inclusive business.

National government institutions (including Developmental Finance institutions and Enterprise development agencies if any) and/or incentives in place and can assist with the implementation of inclusive business.

It is very important to explain how (a) and (b) create an enabling environment for inclusive business.

Subsection 4.2 should describe:

Provincial government policies and regulations that are in place and can assist with the implementation of inclusive business.

Provincial government institutions (including Developmental Finance institutions and Enterprise development agencies if any) and/or incentives in place for SMME development.

It is very important to explain how (a) and (b) create an enabling environment for inclusive business.

Please note that section 4.1 and 4.2 should have a bias towards the fields of food & beverages (agriculture), retailers and manufacturing.

Provincial

INCLUSIVE BUSINESS CHALLENGES

SMME

This section should describe the challenges in linking SMMEs to larger companies (implementing inclusive business).

To make the section more country specific:

s

Subsection 5.1. should briefly describe the challenges SMMEs in the country face in working together with larger firms

Companies

Subsection 5.2. should briefly describe the challenges companies in the country face working together with SMMEs

National and Local Government

Subsection 5.3. should briefly describe the challenges national and provincial government to assist the small and large companies in implementing inclusive business

Please note that sections 5.1, 5.2 and 5.3 should have a bias towards the fields of food & beverages (agriculture), retailers and manufacturing.

Sections 5.1, 5.2 and 5.3 will be deepened through the interviews.

INCLUSIVE BUSINESS SUCCESS STORIES

This section should include success stories on the implementation of inclusive business practices given the environment described in sections 3 – 5 of the report.

RECOMMENDATIONS

This section should include recommendations on how inclusive business practices can be further implemented in the country including:

what can be done at government level (both national and provincial),

what can be done at a company level

what can be done by civil society organisations.

CONCLUSION

This section should draw conclusions based on sections 2-7 of the report.

B. ANALYSIS COMPONENT OF THE REPORT

The desktop report should be able to provide an initial answer to the following questions:

- What are the promoting and hindering factors that lead to or inhibit the growth of SMMEs in the target countries? What are the promoting and hindering factors for SMMEs to start or extend an inclusive business approach?
- To what extent are SMMEs using supporting factors provided by the governments, SMME-related agencies, and the private sector, including the aspect of access to finance? Which limiting factors can be changed at the short, medium and long-term level?
- To what extent are SMMEs linked to larger firms, in particular in the field of food, beverages and manufactured products? What are the promoting and hindering factors? What conditions need to be in place for larger companies to co-operate more closely with SMMEs? Which of these factors can realistically be implemented or changed in the near future? What good practices are in evidence? What can be learnt and replicated?
- Are there options for SMMEs to have better access to people at the Base of the Pyramid (BoP) by co-operating with larger firms?
- What needs to be changed to create an enabling environment for SMMEs to better establish themselves and serve these markets as part of the value chain of a larger firm?

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APPENDIX III - CONCEPT NOTE

“SMME Development and inclusive Business in the Region of SADC – Enabling Environment for successful entrepreneurship”

Small, medium and micro enterprises (SMMEs) are universally acknowledged as effective instruments for employment generation and economic growth. However, their high failure rate in Africa is indicative of the many challenges small businesses face. Policy frameworks and supporting agencies are requested to improve the enabling environment for SMME development in the SADC region and beyond.

Currently, the SADC Industrial Development Policy Framework (IDPF) includes a Key Intervention Area “**Enhancing support to small and medium-sized enterprises**”. SADC regards the regional approach to SMME support and development as important and therefore emphasizes the necessity of “efforts to facilitate SME access to market and industrial information; participation in joint investment and export promotion initiatives; improved access to SQAM services, improvements in the quality and meeting conformity requirements”. This will enable SMMEs to participate in regional trade and global supply chains. Specific actions under this key intervention area will include:

- (i) Developing a portal for SMMEs as a tool to provide access to trade and industrial information and for use as a marketing tool;
- (ii) Facilitating joint investment and export promotion initiatives for SMMEs;
- (iii) Finalising development of an SMME component in the IUMP pilot program to improve industrial competitiveness of SMMEs in agro-food processing, mineral beneficiation and pharmaceutical sectors; and
- (iv) Organising a series of buyer meets seller to facilitate supply chain linkages between SMMEs and large enterprises.

The question arose whether this framework is sufficient and will be sufficiently implemented to foster SMMEs being part of local, national, regional and global value chains. In particular, at the international level “production has undergone significant shifts with an increase in the scope and scale of fragmentation, characterised by distinct stages of production occurring in different locations (KDI & OECD, 2013), leading to complex and interconnected production processes that are often referred to a Global Value Chain. These Global Value Chains can have important implications for developing countries, e.g. in form of greater opportunities for firms and SMMEs to enter into certain segments in the value chain. However, according to KDI & OECD (2013) regional integration and value chain activity remain relatively limited in Africa, concentrated mainly in the export of natural resources and agricultural products, limiting their opportunities for value chain insertion, instead of possible rapid growth and development.

In this context, the Southern Africa Trust, commissioned by the Trust Africa’s Investment Climate and Business Environment (ICBE) Research Fund, undertook a research study with local partners to analyse SMME development and possible options in five countries of the SADC region (Malawi, Mauritius, Maputo, Mozambique, South Africa and Zambia). The research focussed on the enabling environment for SMME development on the one hand, particularly analysing the existing regulatory frameworks and support structures for SMMEs. On the other hand, it was also examined in how far SMMEs are linked and integrated into the value chain of national and international companies. This concept is known as inclusive business and can be defined as the *profitable* integration of the poor into the value chain of a company.

Apart from the common knowledge about hindering factors for the integration of entrepreneurs into value chains, such as the lack of access to finance, market information, skills and infrastructure (UNDP 2008) the studies also reveals in-depth knowledge on obstacles caused by the current regulatory frameworks and support structures for SMME development. For example, currently, support structures often lack a coordinated approach to assist SMMEs in their growth and sustainability. There is an overlap of service offers and a focus on the initiation of start-ups rather than a structured collective concept that addresses the life cycle of SMMEs and supports them when they face the major challenges. In addition, regulatory frameworks often are complex and not known or understood by SMMEs – just to mention two challenges that more or less occurred in every target country. In all these countries recommendations were discussed in the form of National Policy Dialogues.

As one of the solutions Supplier Development Programmes and the alignment of SMME support were and will be discussed. Supplier Development Programmes can be regarded as a broad concept aiming at strengthening the performance of subcontracting firms not only by enabling them to acquire the skills and capacities required of them by the main contracting enterprise but also by raising their awareness and assisting them in reducing their costs. A Supplier Development Programme as suggested by UNIDO can, for example cover the factors of cost control, pricing policy, technological improvements, quality management, certification, internal enterprise organization, logistics and the environment (UNIDO 2003).¹²²

On June 28, 2013, a Regional Policy Dialogue was held to analyse the commonalities and significant differences of hindering factors, recommendations and steps for actions plans that were revealed and discussed in the five countries, also with regard to the above described SADC Industrial Development Policy Framework (IDPF). The discussion will also include a mutual learning from success stories of the involved countries. The regional Policy Dialogue will go beyond a pure discussion of hindering factors for SMME development but will, in particular focus inclusive business activities and the relevant enabling environment to implement this concept as part of national, regional and global value chains. The above SADC Policy and required instruments for an implementation that is positively impacting on the SMME will be discussed with representatives from SADC, governments, SMME-supporting agencies, larger firms, SMMEs, regional and national business associations, civil society organisations, academia and other players.

The Regional Policy Dialogue shall also be seen as starting points for more inclusive growth and the discussion to improve value chain insertion in SADC countries.

¹²² UNIDO therefore works with so called Industrial Subcontracting and Partnership Exchanges (SPXs) that facilitate “contacts between subcontractors and main contractors”, and also offer “services for ensuring the effective operation and continuity of partnerships, such as solving enterprises’ problems regarding quality, delivery times, etc. or providing investment advice”.

Furthermore, “an SPX possesses databases on enquirers for and suppliers of work and has a good knowledge of the members” (UNIDO 2003).

APPENDIX IV – KEY NOTE SPEECH IN ZAMBIA

INCLUSIVE GROWTH THROUGH INCLUSIVE BUSINESS: THREE I'S FOR A SUCCESSFUL TRANSITION TOWARDS MSME-LED GROWTH IN ZAMBIA

Keynote Speech by Hon. Emmanuel Chenda, Minister of Commerce, Trade and Industry, to the “*Policy Dialogue on MSME Development and Inclusive Business in Zambia*”, at the Radisson Blu Hotel, Lusaka, 22 May 2013.

- My colleagues from the Ministry of Commerce, Trade and Industry and other government ministries;
- Representatives from the Zambia Development Agency (ZDA), Zambia Revenue Authority (ZRA), Citizens' Economic Empowerment Commission (CEEC), Technical Education, Vocational and Entrepreneurship Training Authority (TEVETA), Competition & Consumer Protection Commission (CCPC), Zambia Bureau of Standards (ZABS) and other government agencies;
- Representatives from the Bank of Zambia;
- Cooperating partner representatives;
- Representatives of the Private Sector Intermediary Organisations (PSIOs);
- Private sector representatives;
- Ladies and Gentlemen.

It is my pleasure to be here with you today on the occasion of this topical **Policy Dialogue on MSME Development and Inclusive Business**. I wish to extend my thanks to the organisers of this event, the Southern Africa Trust and Munich Advisors Group, for inviting me to contribute to this important workshop as keynote speaker.

Ladies and Gentlemen, let me begin by commending the organisers for their initiative in undertaking the research that has culminated in this workshop. From a quick perusal of the participants here today, and the organisations represented, I also wish to applaud the organisers for such an “inclusive” invitation list, I do understand that it would not have been possible to include all stakeholders in MSME development. I am satisfied, however, that each key stakeholder group is adequately represented here today. Having said that, let me be quick to caution that the subject of MSME development has been researched and debated extensively and that many good ideas are already on the table. My hope is that today's workshop will be instrumental in helping to create or increase the momentum towards implementation.

Ladies and Gentlemen, as you know, my Ministry's stated mission is “*To facilitate and promote the growth, development and competitiveness of (the) commercial, trade and industrial sectors in order to enhance socio-economic development*”. Thus, the role of the Ministry is to “facilitate” and “promote”. The sector outcomes expected from the Ministry's interventions are “growth”, “development” and “competitiveness”. It is clear from the many assessments of the small business sector in Zambia by different observers that MSMEs represent the greatest potential for this growth and increased competitiveness.

Zambia's record of consistent GDP growth, year-on-year, over the past ten years has been impressive from a distance. A closer inspection, however, reveals that this growth has mainly been driven by the large companies in our mining sector and that, across the board, MSMEs have been left behind and have not benefited sufficiently from this economic progress. Thus, the perennial imperative to diversify the economy has had, at least, three dimensions; namely, (1) increasing agricultural production (thus reducing reliance on mining); (2) promoting a shift towards processing and away from trade in primary products; and, (3) stimulating MSME participation and growth.

Depending on one's perspective, the lack of growth and profitability among MSMEs has been caused by, or is the cause of, their exclusion from the extraordinary growth recorded by the large operators in mining and other sectors. Others may point to the social, cultural and structural constraints on entrepreneurship and employment in Zambia, including issues such as low skill levels, poor work ethic, the challenges of health to productivity, lack of access to finance, administrative barriers; and, perhaps most damningly, Zambia's landlocked status. I want to suggest,

however, **Ladies and Gentlemen**, that there is another, more empowering, perspective that sees the problem-solving, job-creating, and value-creating potential of innovation. The old adage, “**necessity is the mother of invention**” speaks to this view in that the problems and disadvantages I have just listed are the “necessity” which must give birth to the “innovation” required to bring about the growth, development and competitiveness we all wish to see in the MSME sector.

Ladies and Gentlemen, against this backdrop I wish to suggest that perhaps the real question, therefore, is whether we are not hurting badly enough yet to feel the need to invent, re-invent or innovate. This is because, my conviction is that it is through innovation that we will be able translate our self-view from one of:

- “low employment” to “high labour supply”;
- “poor skills” to “good opportunities for education and training”; and,
- being a “land locked” country, to a “land-linked” country with all the opportunity and potential that that represents.

Earlier, I expressed my hope that today’s workshop will be instrumental in helping to accelerate the momentum towards implementation. That is because, apart from innovation, another important missing link in our march towards economic and social welfare has been timely or adequate implementation of MSME policies.

My Ministry issued the MSME policy in 2009 to provide a framework for MSME policy coordination and inter-agency cooperation. The policy was among the latest in a series of policy interventions that begun in 1981 with the enactment of the Small Industries Development (SID) Act. The Industrial, Commercial and Trade Policy of 1994 attempted to improve the business environment for MSMEs through improvements to laws and regulations aimed at reducing constraints and increasing incentives for MSME growth while improving service delivery and enabling infrastructure for the sector. In 1996, the Small Enterprise Development (SED) Act, superseded the SID Act and included various provisions aimed at better enabling the sector. This sequence of interventions partly fell within the context of the Fourth National Development Plan 1988-1993. As noted in the MSME policy, however, most of the incentives contained in these instruments were never implemented because the necessary supporting institutions, procedures and systems were never put in place.

As part of the effort to strengthen implementation arrangements related to interventions affecting the business environment, the government embarked on Phase I of the Private Sector Reform Programme 2006-2009 (PSDRP I), which closed in March 2009. The on-going PSDRP II is a 5-year programme running from 2009 – 2014. The aim of PSDRP I & II is to accelerate various private sector reforms and, hence, create a highly competitive business environment in several key sectors of the economy. The programme played an important role in the development of the MSME Policy and in the creation of the Citizen’s Economic Empowerment Commission (CEEC) and the Zambia Development Agency (ZDA) and in the roll out of a Credit Guarantee scheme (CGS) for MSMEs. As you can see, there have been concerted efforts to strengthen implementation but there is still a need to better focus and sustain this momentum beyond 2014.

A substantial portion of the industrial policy interventions I alluded to earlier have had the unfortunate effect of undermining opportunity and participation in various areas of business for small business and for Zambians generally. Partly in response to these concerns, Statutory Instrument No. 36 of 2011 was issued to prefer bidders who were CEEC registered companies—or who were in partnership with such CEEC registered companies—in public procurement. The government’s emphasis on the inclusion of Zambians in business enterprise is a key component of its policy priorities for promoting job growth, decent work and higher incomes. The quality of support services to MSMEs is also high on the policy agenda including the need for a more focused and streamlined SME Division at the ZDA. The government’s focus on the inclusion and empowerment of MSMEs is further evidenced by the release of USD20 million in Eurobond money to the Development Bank of Zambia for on-lending to 100 MSMEs in all sectors of the economy. Additionally, the government has placed strong downward pressure on commercial bank lending rates through the introduction of the Policy Rate by the Bank of Zambia and the capping the margins commercial bank may charge above the Policy Rate. There are also on-going policy initiatives aimed at encouraging a more creative and less constraining approach to requirements, by the commercial banks, for collateral.

Ladies and Gentlemen, let me conclude by noting that the MSME sector is the key to a more sustainable growth path for the country. MSMEs possess the highest potential for creating job opportunities for the largest socio-economic stratum of the population. They offer the greatest potential for adding to the national store of intellectual capital through entrepreneurial and value addition skills and offer Zambia's greatest asset for leveraging its unexploited export potential. There are clearly many areas of adjustment and improvement in policy and practice that must be made to better position the MSME sector for growth and competitiveness. The fulcrum for this process of continuous improvement in our MSME development framework constitutes the "***three I's for a successful transition towards MSME-led growth in Zambia***"; namely, Innovation, Implementation; and, Inclusion.

I am pleased to note this workshop's focus on "Inclusion" and it is my pleasure and honour to declare the workshop officially open.

I thank you for your attention.