Making Access Possible SME

Eswatini

Diagnostic

2018

PARTNERING FOR A COMMON PURPOSE

Making Access Possible (MAP) is a multi-country initiative to support financial inclusion through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recom mended action. Through its design, MAP seeks to strengthen and focus the domestic developmentdialogue on financial inclusion. The global project seeks to engage with various other international platforms and enti ties impacting on financial inclusion, using the evidence gathered at the country level.
This report was produced by the FinMark Trust as part of the larger MAP diagnostic work.

THIS REPORT WAS PRODUCED FOR THE CENTRE FOR FINANCIAL INCLUSION AND FINMARK TRUST.

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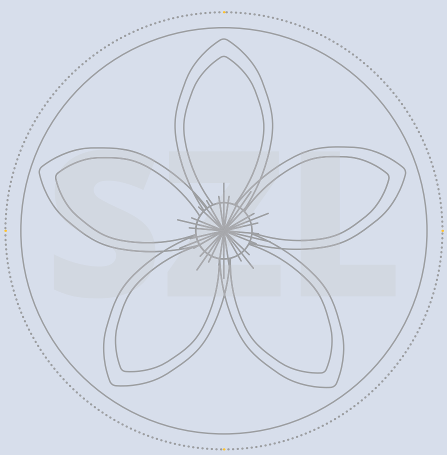
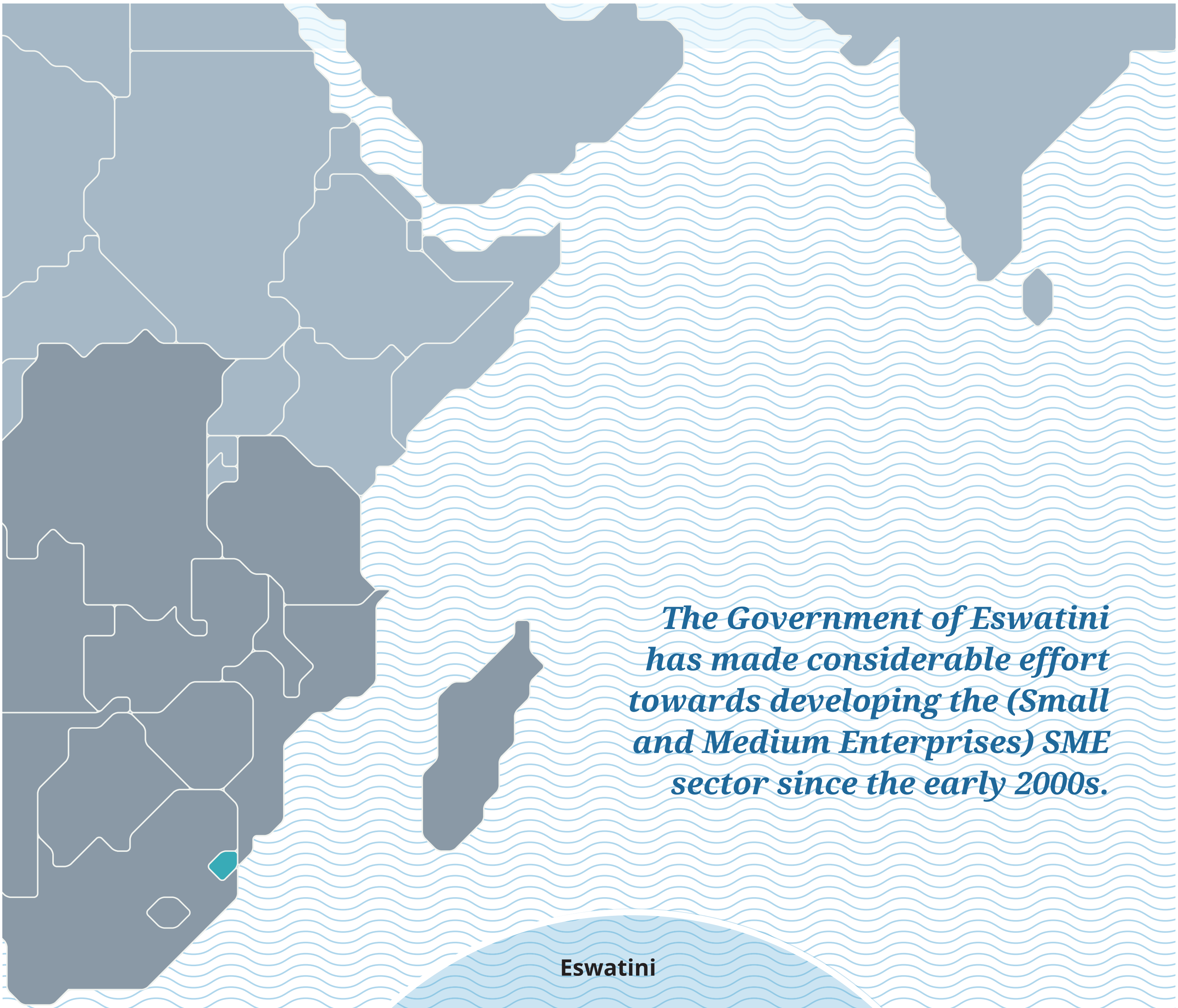
The cover symbol and artwork

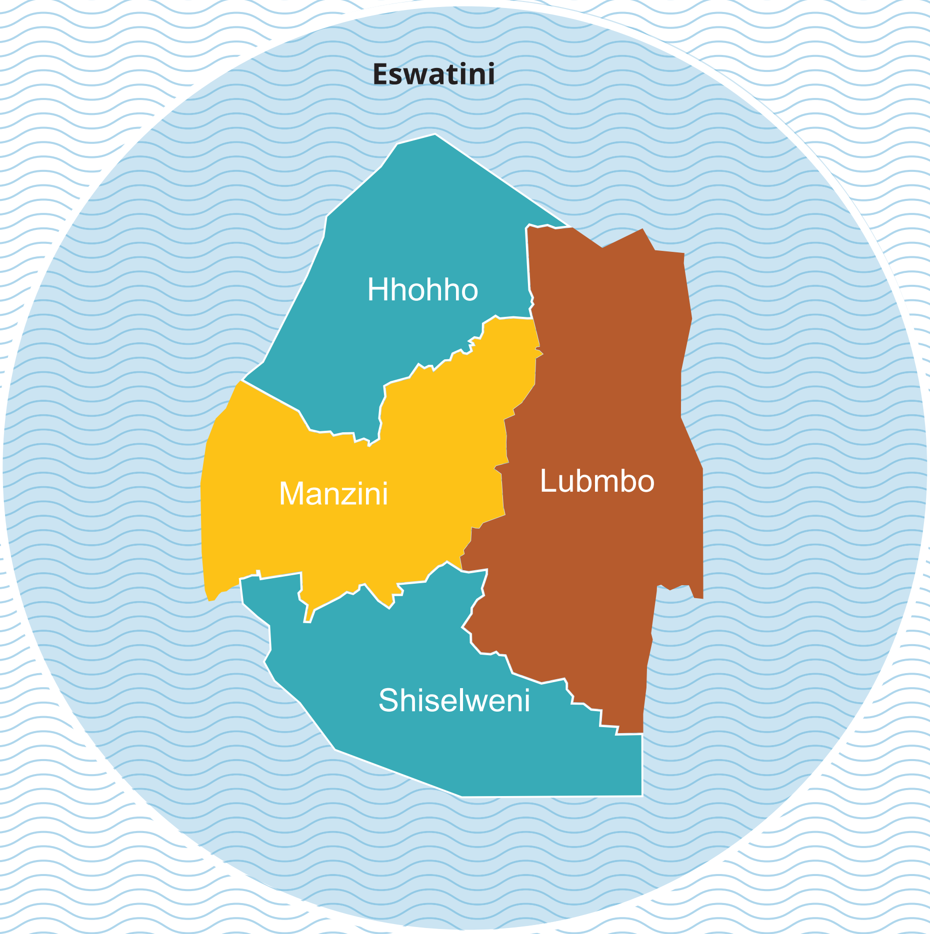
Through the MAP programme, we hope to effect real change at country level and see the impact of financial inclusion on broader national growth and development. The cover graphic features the Adenium, a flower synonymous with Eswatini. The flower symbolises growth and development while the circle represents inclusive growth. Each flower is an example of the successful growth in a unique environment.

For MAP SME we considered the small business owners, who do not fit into a standard mould and thus need individually tailored solutions regarding business and financial inclusion. To reflect this personalisation, we have created a design using the human fingerprint. Fingerprints are detailed and unique, and they convey the idea of going in-depth to investigating at a detailed level. There is also something important in the impression they leave - metaphorically they can have an impact. The pattern and circle follow the theme throughout previous covers. Including the flower and colours this links back to family of MAP work that has already been done.





The Government of Eswatini has made considerable effort towards developing the (Small and Medium Enterprises) SME sector since the early 2000s.



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List of Acronyms

AGOA	*Africa Growth Opportunity Act*
AU	*African Union*
BDM	*Business Development Measure*
CAADP	*Comprehensive Africa Agriculture Development Programme*
CFI	*Centre for Financial Inclusion*
CMA	*Common Monetary Area*
CPI	*Consumer Price Index*
SEC	*Eswatini electrical Company*
EU	*European Union*
FAO	*Food and Agricultural Organisation*
FMT	*FinMark Trust*
GDP	*Gross Domestic Product*
GOS	*Government of Eswatini*
HDI	*Human Development Index*
ILO	*International Labour Organisation*
LFPS	*Labour Force Participation Survey*
MAP	*Making Access Possible*
MCIT	*Ministry of Commerce Industry and Trade*
MFU	*Micro Finance Unit*
MSME	*Micro Small and Medium Enterprises*
OECD	*Organisation for Economic Co-operation and Development*
SACU	*Southern Africa Customs Union*
SADC	*Southern Africa Development Community*
SDG	*Sustainable Development Goals*
SME	*Small and Medium Enterprises*
SMME	*Small Micro Medium Enterprises*
SRA	*Eswatini Revenue Authority*
SNL	*Swazi National Land*
TDL	*Title Deed Land*
SWADE	*Eswatini Water and Agricultural Development Enterprise*
SWIFT	*Eswatini Fair Trade*
UNDP	*United Nations Development Programme*
USAID	*United States Agency for International Development*

Definitions

TERM	DEFINITION
Access Strand	A measurement of financial inclusion across the formal-informal institutional provider continuum.
Banked	Individuals using one or more traditional financial products supplied by commercial banks.
Business Development	Refers to any activity which serves to 'develop' the business in some way. It entails tasks and processes to develop and implement growth opportunities for businesses.
Credit	Obtaining funds from a third party with the promise of repayments of principal and, in most cases, with interest and arrangement charges in exchange for the money.
Demand-side barriers	Barriers to access financial services and business development support related to characteristics inherent to the individuals within the business
Formal products	Products provided by government regulated financial institutions including but not limited to commercial banks, insurance companies and microfinance institutions.
Formally included	SME owners using formal financial products supplied by institutions governed by a legal precedent of any type. This is not exclusive usage, as these individuals may also be using informal products.
Formal SME	SME owners that have either registered their business with an authority such as the Ministry of Commerce, Industry and Trade or have a license to operate from an authority such as the municipality.
Financial Access Landscape	A measurement of usage of both formal and informal products across the four main product groups: transactions, savings, credit and insurance.
Financially served	SME owners using one or more formal and/or informal financial products/services.
Financially excluded	SME owners who are not using any formal or informal financial products/services.
Financial inclusion	The extent to which the adult population in the country engages with financial products and services, such as savings, transaction banking, credit and insurance, whether formal or informal.
Insurance	A financial service where payment is made as a premium for risk of an event happening, where payout is made if or when the event occurs.
MSME and SMME	MSME and SMME are used inter-changeably in this report. This is mainly because until recently, policy documents refer to the sector as SMMEs. MSME or SMMEs are defined by the number of employees (according to the Eswatini SMME Policy of 2009) who employ less than 50 employees, have assets of up to E5 million and an annual turnover of up to E8 million.
Other formal	Financial products/services supplied by formal financial institutions which are not banks.
SME	Small and Medium Enterprises (SME) are defined by the number of employees (according to the Eswatini SMME Policy of 2009) who employ 4 to 50 employees, have assets of E50 000 to E5 million and an annual turnover ranging from E60 000 to E8 million. For the purposes of the study, only number of employees and turnover were used to segment the sector.
Supply-side barriers	Barriers to access to financial services and business development support related to factors inherent to providers that prevent individuals from using their services.
Youth	Youth are defined as people aged 18 to 34 years, in line with the definition used in the Eswatini Finscope MSME 2017 survey

Note: Some graphs add up to more than 100% due to multiple mentions or overlaps, i.e. the respondent could give more than one answer or belong to more than one category. As such, the graph includes overlaps in responses and cannot be added to 100%.

MAP MSME (2018) partners in Eswatini

About FMT

FMT is an independent trust whose purpose it is to 'make financial markets work for the poor by promoting financial inclusion and regional financial integration'. FMT does this by conducting research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of research findings. Thus, FMT has a catalytic role, driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.

FMT
FINMARK TRUST

About Centre for Financial Inclusion

The Ministry of Finance established the Centre for Financial Inclusion (previously Micro-Finance Unit) in September 2010 to facilitate the development and sustainability of the microfinance sector in the country. The unit facilitates the provision of efficient and effective financial services on a sustainable basis; the development of an enabling and enhanced environment for business development in rural areas; and the establishment of micro- and small-scale enterprises as well as business services in rural areas.

cfi
ENHANCING REACH TO FINANCIAL SERVICES
Centre for Financial Inclusion

Executive Summary

The Government of Eswatini has made considerable effort towards developing the (Small and Medium Enterprises) SME sector since the early 2000s. Government has run programs ranging from capacity building to setting up developmental institutions providing financing and business development support to encourage performance of the sector. Despite this support, the performance of SMEs has fallen short of expectations of making meaningful impact on the socio-economic development of the country. This is mainly due to the many challenges that compromise the ability of SMEs to function and to contribute optimally to the economy. This Report seeks to provide a deeper understanding of the SME sector in Eswatini, using a variety of tools and methodologies to gain in-depth knowledge of the sector: policy, regulatory and supervisory landscape, demand-side data analysis and supply-side data analysis. The analysis seeks to facilitate the development of a Roadmap to stimulate the economy through SME development. The Roadmap will focus only on SMEs that have the highest potential for driving national growth, especially those in manufacturing, agriculture and services, which have been identified as key drivers to economic growth in the National Development Strategy (NDS) 1997 - 2022[1].

To gain a deeper understanding of the characteristics and needs of SMEs, SMEs were segmented into three target groups: 'high impact', constituting enterprises with a turnover of E250 000 to E8 million and employment of 4 to 50 people; 'medium impact' constituting enterprises with a turnover of E250 000 to E8 million and employment levels of less than 4; and 'low impact' enterprises with a turnover of E60 000 to E250 000[2]. These target groups were further segmented by the main sectors that have been identified by the Eswatini National Development Strategy as key drivers of economic growth; being agriculture, manufacturing and services. The following insights were gained from the analysis:

Manufacturing, wholesale & retail and public administration are the largest contributors to Gross Domestic Product (GDP). In 2016, manufacturing contributed 31.4% to GDP. The contribution of the agriculture sector to GDP has been declining over the years from a high of 23% in 1980 to an estimated 9% in 2016. There is no data specific to the contribution of SMEs to GDP, an area that needs improvement in future to monitor and track the effectiveness of SME development initiatives.

Ewatini's private sector is relatively small and dominated by micro-enterprises. The Eswatini Finscope Micro, Small and Medium Enterprises (MSME) Survey estimated a total of 59 283 business owners employing approximately 93 000 people. However, only 8% of total MSMEs are small and medium enterprises.

Number of enterprises in the high impact target group are minimal. The majority of enterprises are micro businesses and individual entrepreneurs. High impact enterprises account for only 4% of SMEs, with low impact SMEs accounting for 79%. Most of the enterprises are in community & household, construction, retail and agriculture sectors.

Most businesses are located in rural areas. 78% of businesses in the high impact target group are in rural areas while 66% and 70% of the medium impact and low impact target groups are located in rural areas respectively.

Youth participation is good. Most of the SMEs are owned by people aged 35 to 50+ years while 26% of businesses are owned by the youth aged between 18 and 34 years. Youth (18-34 years) participation in high impact businesses stands at 22%.

[1] The NDS has been developed under the leadership of the Ministry of Economic Planning and Development, and maps out Eswatini's development path for the period 1997 to 2022
[2] The use of the term Impact here refers to the potential ability of the SMEs to impact on the national agenda, e.g. by contributing to national GDP, transformation, growth, jobs and exports

Participation of women in high impact enterprises is limited compared to men. Participation of women is skewed towards low impact and medium impact businesses. The distribution amongst sectors shows that an overwhelming majority of businesses in manufacturing, agriculture and business services in the high impact target group are owned by men.

Most SME owners have secondary education and higher: Nearly two-thirds of SME owners have secondary education (FinScope MSME Eswatini 2017 Survey). Generally, there is a positive correlation between education and business success. This mainly emanates from the ability of the educated to grasp key business imperatives and improve their entrepreneurial skills.

Most business owners are dependent on their businesses for livelihood. 77% of the business owners reported that business is their only source of income, while 23% have other sources of income.

Most businesses in the medium impact and low impact target groups are not registered. Most businesses (87.1%) in the high impact target group are registered. However, 65.9% and 76% of businesses in the low impact and medium impact target groups are not registered respectively.

Access to finance, space to operate, competition and lack of local and regional/international markets for locally produced products are the top constraints to business growth. Growth of SMEs and any other business depends on a conducive business environment. Of all the constraints, business owners identified access to finance as the biggest constraint in all target groups (FinScope MSME Eswatini 2017).

The majority of SME owners are banked. Overall, 84% of SME owners are banked while only 5% are financially excluded. It must however be noted that some business owners use personal accounts to do business.

Only a few SMEs have access to credit, whether formal or informal. An overwhelming 84% of SMEs do not borrow from the bank while very few borrow from informal mechanisms, friends and family. Limited access to credit prevents SMEs from capitalizing on economic benefits, including higher productivity, the opportunity to upgrade to higher value-added production, and greater demand for products.

Cash is the dominant form of payment across target groups. SMEs are often seen to process large numbers of payments and can have a surprising amount of money flowing through them. On average 93% of businesses in all target groups use cash for their transactions. There is limited use of more modern forms of payment such as electronic transfers, online banking, mobile money and cell phone banking.

Insurance is very expensive and therefore treated as optional expenditure by SMEs. Only 20% of SMEs in the high impact target group have some kind of business insurance while 99% and 97% of enterprises in the medium impact and low impact target groups do not have business insurance.

Enterprises are aware of business development support services offered by various providers. According to the FinScope MSME Eswatini Survey 2017, on average, 55% of enterprises in all sectors are aware of business support infrastructure. Despite this usage of business development support infrastructure is very low.

Generally, enterprises lack business leadership and business management skills. Many of the respondents to the qualitative survey lacked adequate management skills to run their businesses.

Local and international market linkages are a major impediment to business growth. Most SMEs enterprises are dependent on Government tenders for survival. It is very difficult for SMEs to meaningfully penetrate supermarkets and have access to shelf space. A few companies, especially in the agriculture sector (vegetable and fruits), agro-processing, and arts and crafts sector have successfully penetrated international markets. However, the volumes involved are still low.

Except in the insurance sector, the financial services landscape has had limited changes over the years. The major providers of credit are still the four major banks: Standard Bank, Nedbank, First National Bank and Swazi Bank and the two DFIs, Fincorp and Swazi Industrial Development Corporation. Only three insurance companies offer business insurance.

Credit supply is skewed towards banks. Enterprises have a heavy reliance on commercial banks for funding.

The total supply of credit to SMEs was E1.3 billion over the past year. Commercial Banks are the largest suppliers of SME financing, accounting for 63% to total SME credit. The main credit facilities available to SMEs are asset financing (property and vehicle), overdraft facilities, business loans, agricultural loans, bridging finance and invoice financing for short-term credit to finance contracts.

Several barriers inhibit access to credit. The ease with which enterprises can access credit is still a major challenge in Eswatini. Identified barriers include the risk associated with SMEs, affordability of credit, lack of access to collateral and strict lending terms that require SMEs to produce records that show previous performance of the business.

Provision of business development support is uncoordinated and unstructured. There are many institutions (Government, donor-funded and private) providing business support services in Eswatini. However, the provision of business support is uncoordinated and does not address the needs of more advanced businesses.

Limited usage of capacity building programmes. The 'one-size-fits-all' kind of program offering and lack of an integrated approach to BDS were found to hinder the effectiveness of capacity building programmes.

The roadmap proposes three intervention areas to stimulate SME growth through a variety of policies, promotion of access of finance, especially the used of blended finance, access to tailor-made capacity building and the use of Government interventions such as buy local and citizen economic empowerment strategies to promote local production and consumption.

Three Key Priority Intervention Areas for MAP for Growth Strategy:

Stimulate SME Growth

- Improving policy level support to SMEs
- Identifying and developing action plans around priority value chains and ecosystems to grow target SMEs, creating market linkages and platforms that will help transform the economy.

Improve Access to Finance

- Improving access to finance especially by ensuring appropriate credit mechanisms from a range of providers throughout the life cycle of target SMEs.
- Digitizing payments across value chains where SMEs participate to increase operational efficiency and generate digital transaction history.

Improve Business Development Support

- Providing high quality and coordinated business development support to target SMEs in key sectors that will transform the economy.
- Addressing barriers for women and youth to promote their high growth enterprises.

1 Introduction

The Micro Small and Medium Enterprises (MSME[3]) sector plays a pivotal role in the contribution to livelihoods and economic development globally and importantly in Africa. According to the Southern African Development Community (SADC) Industrialisation Strategy and Roadmap[4] Small and Medium Scale Enterprise (SME) development has been placed at the core of the developmental integration agenda of SADC. The SADC Industrial Policy Framework[5] outlines as a broad cross cutting and sector specific intervention, the need to improve support for SMEs. It emphasises the central role of the private sector as the driver of industrialisation and in particular, the contribution of SMEs to employment growth and national development as a prerequisite for industrialisation. Amongst the 13 Strategic Interventions proposed, is to prioritise strengthening SMEs through an integrated strategy for SME development, focusing on increasing the small business survival rate through training programmes, access to information, financing, favourable fiscal policy environment and assistance in accessing modern technology.

Since the early 2000s, the Government of Eswatini has made considerable effort towards developing the MSME sector. Government has run programs ranging from capacity building to setting up developmental institutions providing financing and business development support to encourage growth of the sector. Despite the support given to the sector, the performance of MSMEs has fallen short of expectations of making meaningful impact on the socio-economic development of the country. This is mainly a result of challenges that compromise the ability of SMEs to function and contribute optimally to the economy. Most challenges experienced are normally attributed to lack of access to finance, poor production techniques, lack of market linkages, lack of managerial skills, inadequate financial controls and poor financial management.

Recognising the potential contribution of the sector towards economic growth, job creation and poverty alleviation, MSME development is being spearheaded through the Eswatini Small, Micro and Medium Enterprises (SMME) Policy of 2009, which is currently being reviewed to improve effectiveness.

The main objective of the proposed revised policy, referred to as the MSME Policy, is to create a modern, comprehensive, targeted and coherent framework that will create a highly profitable and entrepreneurial sector, characterized by innovative, competitive and sustainable businesses and supported by an enabling institutional and regulatory environment. The Policy also seeks to align MSME development with the National Development Strategy (NDS). This project has been conceived in support of the revised MSME policy, in furtherance of which a roadmap will be developed which will form part of the implementation masterplan for the MSME Policy. The Roadmap will support the following pillars of the MSME Policy: (1) increasing access to financial products and services; (2) strengthening business support institutions and structures; (3)

strengthening the legislative and regulatory framework for the development of MSMEs; (4) strengthening the domestic and international competitiveness of MSMEs; and (5) developing and improving the position of and support of MSMEs owned by women, youth and disadvantage group..

To facilitate the development of the Roadmap, a diagnostic assessment, which sought to provide in-depth knowledge of the sector using a variety of tools and methodologies, was conducted, culminating into this SME Diagnostic Report. The analysis focuses on the assessment of the policy/regulatory and supervisory landscape, demand-side data analysis and a supply-side data analysis to identify constraints that inhibit SME growth. For proper rationalisation of implementation resources, the Roadmap will focus only on SMEs, at the exclusion of micro enterprises. This was in recognition that even though micro enterprises are critical as a major contributor towards livelihoods, they are unlikely to bring about meaningful impact in economic growth, hence the focus on SMEs. Target SMEs are those that have the highest potential for growth, especially in manufacturing, agriculture and service sectors, which have been identified as key drivers of economic growth in the NDS. For purposes of this report, the terms ‘company’, ‘enterprises’, ‘firms’ and ‘businesses’ represent the same thing and will be used interchangeably.

[3] MSMEs and SMMEs are used inter-changeably in this report. This is mainly because until recently, policy documents in Eswatini refer to the sector as SMMEs.
[4] SADC Industrialisation Strategy and Roadmap, 2015-2063, Approved by Summit 29 April 2015, accessed at http://www.ilo.org/wcmsp5/groups/public/---africa/---ro-addis_ababa/---ilo-pretoria documents/ meetingdocument/wcms_391013.pdf
[5] The SADC Industrial Policy Framework 2013 – 2018, available at https://www.sadc.int/files/2013/8969/0505/Final_SADC_Industrial_Develeopment_Policy_Framework.pdf

1.1. Methodology

The methodology is premised on the Making Access Possible (MAP) methodology, a process of evidence-based country assessment and stakeholder dialogue, leading to the development of a national roadmap that identifies key drivers of change and recommends an action plan for the achievement of set objectives. The methodology as applied here identifies the different needs in the target SME market and the main products and services provided by service providers to eventually develop a set of interventions that align products/services supplied by providers with the demands of the market. SMEs are segmented into groups of enterprises with similar profiles and needs that could form discrete target markets for development. With the target markets in mind, the analysis identifies institutions that serve the various SME groups and supply-side barriers to SME development.The diagnostic analysis is based on the approach described below and summarised in Figure 1.

Quantitative demand-side research. The analysis draws heavily on the FinScope MSME Eswatini Survey 2017. FinScope is a nationally representative demand-side survey that was implemented by FinMark Trust, Centre for Financial Inclusion and Ipsos SA. FinScope MSME surveys are nationally representative surveys of how small business owners source their income and how they manage their financial lives. The survey looks at owners of MSMEs, as well as individual entrepreneurs. The Eswatini MAP for Growth analysis uses quantitative data from this survey to obtain insight into the SME sector, the realities, needs and profiles of various target market groups.

Qualitative demand-side research. The analysis utilises qualitative demand-side research that was conducted by the author in January to February 2018. Individual interviews were conducted with sampled enterprises and group discussions were held with groups of enterprises to get insights into the nature of operations of SMEs and their views on key constraints to their development. The findings are not representative of the population at large but complemented the quantitative survey results to provide a deeper level of insight into attitudes and other drivers of SME behavior and their usage of financial services and business development support.

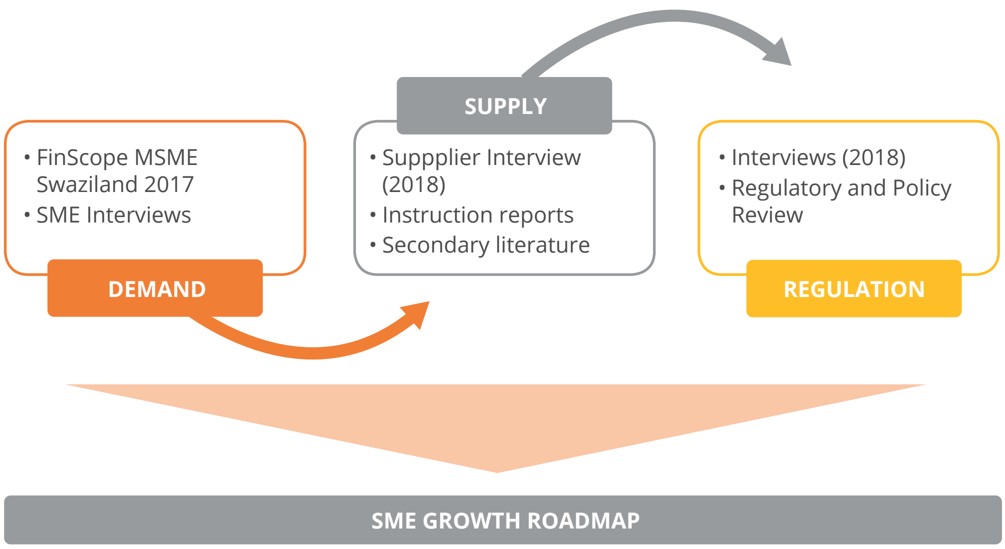


Figure 1: MAP for SME Growth Approach

Supply-side data analysis. Interviews were held with major suppliers of financial services and business development support in January to February 2018. Main stakeholders interviewed included providers of financial services and business development support, regulatory authorities, Government departments and parastatals, business organisations and development partners (donor organisations). The purpose was to understand the provision of support to SMEs and constraints restricting the provision of such services.

Policy and regulatory analysis). Supply-side consultations were accompanied by in-depth analysis of information obtained from suppliers and regulatory institutions. Various institution's annual reports and literature on the country, policy and regulatory environment were analysed.

Synthesis: The information derived from the demand-side, supply-side and policy and regulatory analysis were synthesized to develop key priority areas for the Eswatini SME MAP for Growth Roadmap

1.2. Timelines

The timelines for the project are provided in Figure 2. The project followed the completion of the Eswatini Finscope MSME survey, which was undertaken in 2017. The qualitative demand-side survey and the supply-side interviews were conducted in January and February 2018, after which the diagnostics analysis and development of a roadmap were done.

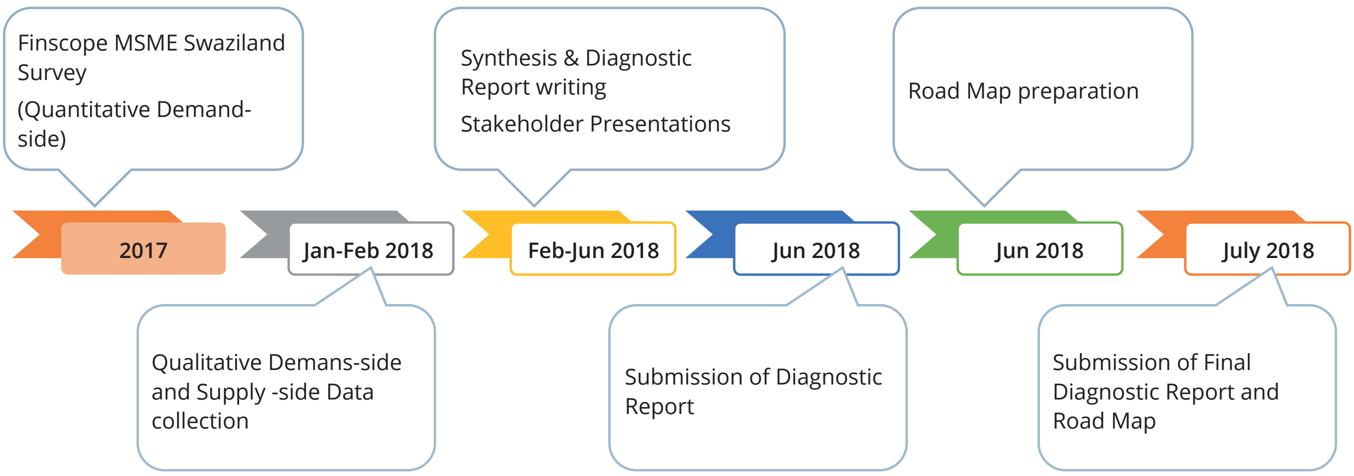


Figure 2: Timelines: MAP for SME Approach

2 Country Context

The Kingdom of Eswatini is a small, landlocked, open economy bordering Mozambique and South Africa. The country enjoys a total land area of about 1.7 million hectares, out of which 54% is categorized as Title Deed Land (TDL) and 46% is Swazi National Land (SNL). The TDL is land that is privately owned through a freehold or concession agreement whereas SNL is customary land held in trust by the King through the Chiefs. SNL land may not be sold, leased or mortgaged. The country has close trade and financial ties with South Africa, which absorbs about 60 percent of Swazi exports and provides 80 percent of imports, including most of the electricity. The majority of Eswatini's population is based in rural areas, with livelihoods predominantly dependent on subsistence agriculture. The Swazi economy is mainly driven by its membership of the South African Customs Union (SACU) and the Common Monetary Area (CMA). Membership to SACU is a key determinant of the Eswatini economy, with SACU revenues representing more than half of the government revenue and around 17% of GDP.

2.1. Key Context Drivers

Furthermore, during this SNFI implementation period, the banking agent model developed by microfinance banks emerged, offering real opportunities for a better financial inclusion of the Malagasy people and the MSMEs.

The main drivers of SME development in Eswatini are illustrated in Figure 5. Among these drivers are economic, social, regional as well as political drivers. The drivers are in the broader sense key in propelling the Eswatini economy into the next economic frontier but are also of particular relevance in setting the context for robust SME development. Amongst key challenges being faced by the country includes high unemployment rates and social exclusion for the majority of its citizens. To achieve growth and address these challenges, Eswatini developed a National Development Strategy, spanning a 25-year period from 1997 and Vision 2022, whose purpose is to map a vision with appropriate strategies for socio-economic development and provide a guide for the formulation of development plans and equitable allocation of resources. Through this vision, Eswatini wishes to diversify its economy, both within and outside agriculture, as well as bring about improved quality of life for its people. To achieve the aspirations enshrined in the NDS, Eswatini subscribes to the SADC Industrialization Strategy and Agenda 2063 of the African Union. These Strategies emphasize pursuit of targeted and selected industrial

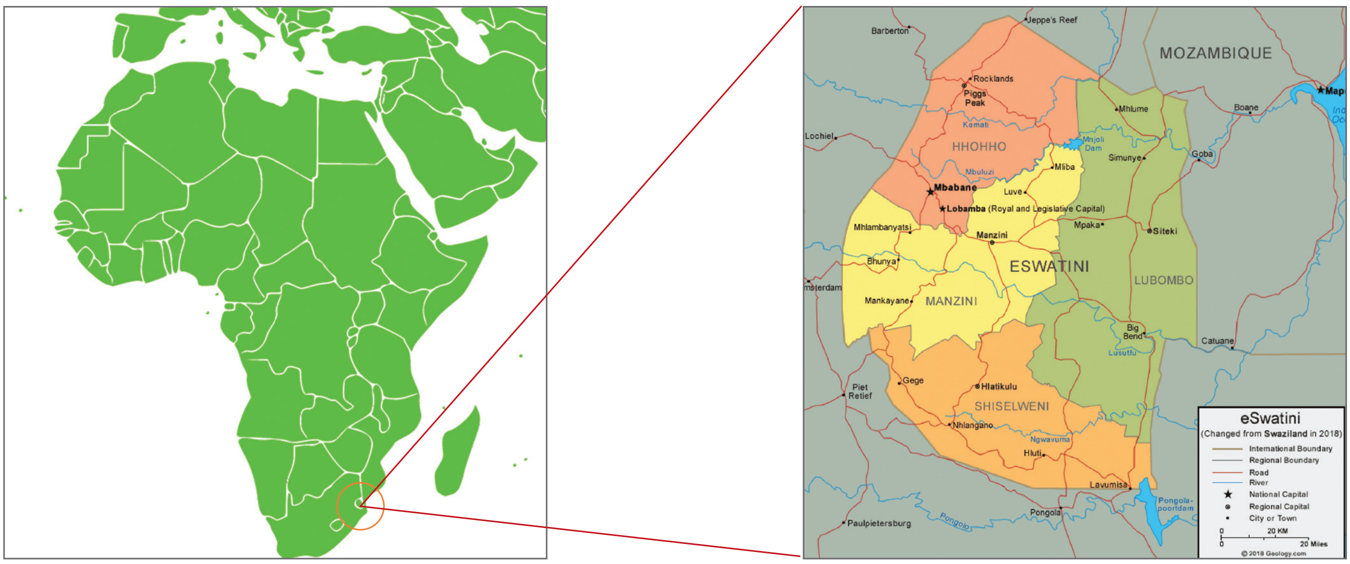


Figure 3: Map of Eswatini

Source: Geology.com, 2018

policies and view industrialization as a key driver of economic development through the development of sectorial value chains. Agenda 2063 envisions a prosperous Africa based on inclusive growth and sustainable development.

Eswatini views highly the implementation of Sustainable Development Goals (SDGs) and its predecessor, the Millennium Development Goals (MDGs). In this regard, Eswatini achieved mixed results in terms of its progress towards achieving the MDGs. According to the final MDG report, the country made good progress towards achieving primary education (Goal 2), gender equality (Goal 3), environmental sustainability (Goal 7), and global part¬nerships for development (Goal 8). In association with the United Nations, the Government officially launched the SDGs on 30 June 2016. To begin the process of domesticating them, the country is aligning the SDGs with national devel-opment policies and plan. Among the key SDGs that Eswatini aims to achieve include decent work, economic growth, poverty alleviation and gender equality.

2.2. Macroeconomic Context

Economic Growth. The economy grew by 1.9 percent in 2017 from 1.4 percent in 2016 mainly due to recovery in crop production on both Swazi Nation Land and individual tenure farms. According to the 2018 Budget Speech, maize and sugarcane production returned to pre-drought production levels. As a result, crop production grew by 17.2 percent in 2017. However, the livestock population was significantly reduced due to the drought, leading to low output in 2017. On the overall, Eswatini's growth in GDP has been positive over the last 8 years as shown in Table 1.

Table 1: GDP (% Growth)

Year	*2009*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*
Growth Domestic Product	1.6	3.8	2.2	4.7	6.4	1.9	0.4	1.4	1.9

Source: *Eswatini Statistics (Central Statistics Office)*

Economic outlook:

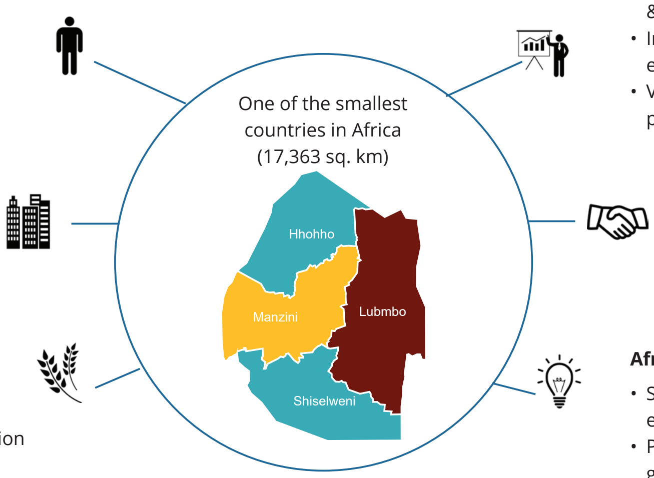
- GDP of US$3.8 Billion
- GDP per Capita of US$ 2770
- Unemployment rate is 28.1%
- Women unemployment rate is 32.2%
- Youth unemployment rate is 51%
- Exports worth E23 Billion

Urbanisation:

- Urban population is about 21.3% of total population
- Rural unemployment more than 15% of Urban

National Development Strategy & Vision 2022:

- Agricultural land as a percentage of total land is 71% with >70% of population involved in Agriculture
- Diversify economy within agriculture (high value crops & livestock) and outside agriculture (imdustrialisation)
- Improvement in quality of life (poverty eradication, employment creation, gender equality, social integration & environmental protection)



SADC Industrialisation Strategy (2015 - 2063):

- Strategy empahsise pursuit of targeted & selected industrial policies
- Industrialisation is a champion of economic transformation
- Value Chain Development eg. agro processing

Sustainable Development Goals:

- Decent Work & Economic Growth
- Reduced inequalities
- No poverty
- Gender equality

African Union Agenda 2063:

- Strategic framework for the socio-economic transformation
- Prosperous Africa, based on inclusive growth & sustainable development

Figure 4: Key Context Drivers

Source: Author's Illustration

With a GDP per capita of US$2 770, Eswatini is considered a lower-middle-income country. Nonetheless, the country continues to face important social challenges. Poverty remains widespread, especially in rural communities, with an estimated 63% of the country's population living below the poverty line and an unemployment rate of about 28.1%. Inequality is also high. According to the Human Development Report (HDR), the GINI coefficient stands at 51.1, with huge regional disparities.

Sectorial Contribution to GDP. Manufacturing, wholesale & retail and public administration are the largest contributors to GDP. In 2016, manufacturing contributed 31.4% to GDP. Agriculture has been declining in importance over the years from a high of 23 % in 1980 (World Bank, 2013) to an estimated 9% in 2016. Despite this, the agriculture sector still plays a major role in the economy, with 75% of adults depending on agriculture for livelihood.

Exchange Rate Dynamics. As a member of the CMA along with South Africa, Lesotho, and Namibia the local currency (lilangeni) is pegged to the South African Rand. Therefore, monetary policy is influenced to a greater extent by developments in South Africa. The move by two of the big three credit ratings agencies to downgrade South Africa's credit sovereignty had a profound knock-on effect on the local exchange rate.

Inflation. According to the Central Bank of Eswatini, the annual consumer inflation as measured by the growth rate of the Consumer Price Index (CPI) eased in 2017. Annual inflation closed at 6.2% down from 7.8% in 2016, just slightly above the Southern African Development Community (SADC) convergence target of 3% to 6%.

Challenges in competitiveness. According to the IMF, Eswatini has experienced low levels of competitiveness, fiscal challenges, low investment, and high cost of doing business. The World Economic Forum identifies inefficient government bureaucracy, corruption, access to finance and inadequate supply of infrastructure (Figure 6) as the most problematic factors for doing business in Eswatini. Consequently in 2017/2018, Eswatini was ranked position 122 out of 137 countries in terms of the Global Competitiveness Index. The World Bank Ease of Doing Business Index ranked Eswatini 112 out of 190 countries. The country was ranked 158 out of 190 on starting a business, which means there are challenges with the ease with which companies can start a business.

Figure 7 shows the most problematic factors for doing business in Eswatini. Government bureaucracy, corruption and access to finance are rated as the top most constraints. Eswatini made improvements in the areas of 'Getting credit' and 'Trading across borders' over the past year.

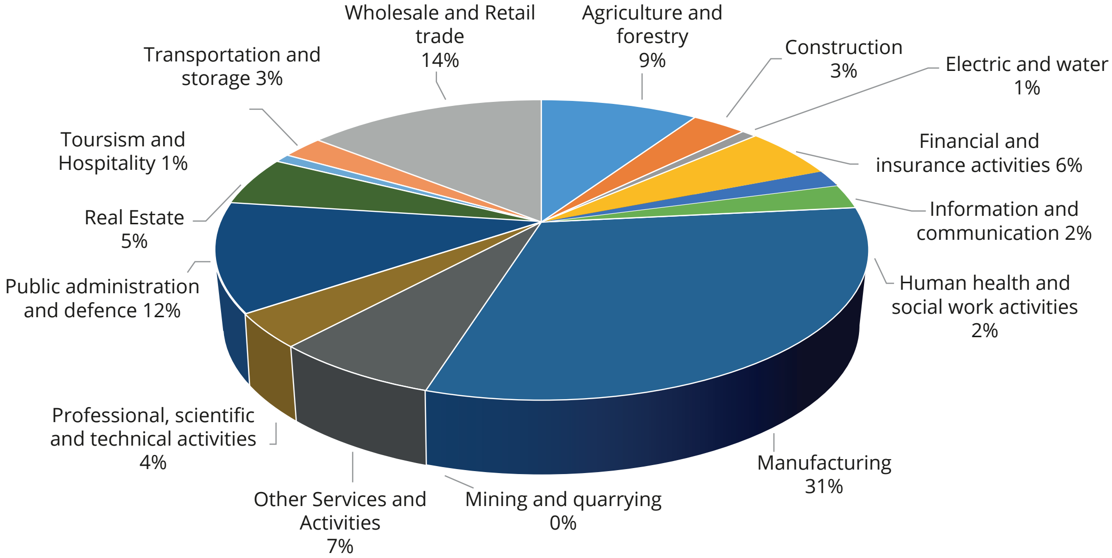


Figure 5: Percentage Contribution to GDP by Economic Activity (2016)

Source: *Eswatini Statistics (Central Statistics Office)*

Most Problematic Factors for Doing Business in Eswatini

Inefficient government bureaucracy	16.1
Corruption	11.3
Access to financing	10.4
Inadequte supply of infrastructure	9.8
Insufficient capacity to innovate	8.4
Restrictive labour regulations	7.9
Tax regulations	7.0
Poor work ethic in national labour force	5.4
Tax rates	4.2
Inadequateky educated workforce	4.0
Foreign currency regulations	3.9
Poor public health	3.4
Government instability	3.4
Crime and theft	2.3
Policy instability	2.2
Inflation	0.5

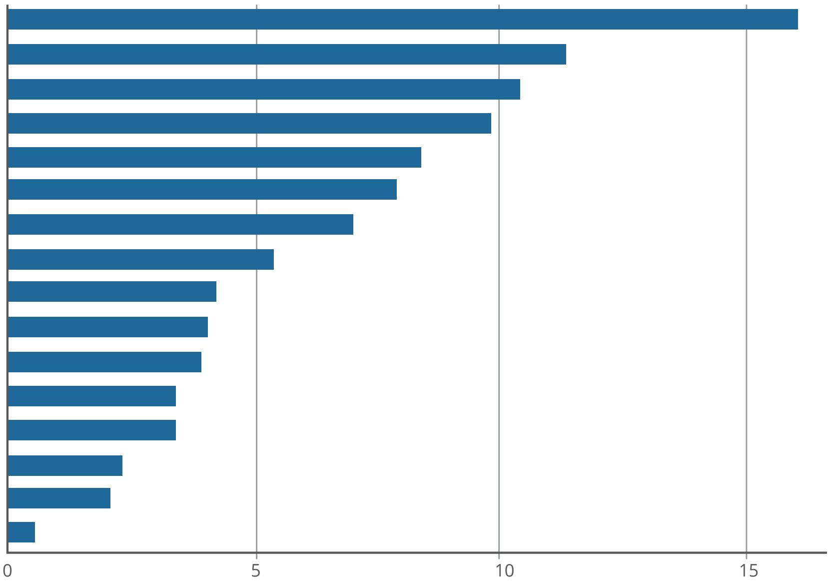


Figure 6: Most Problematic Factors for Doing Business in Eswatini

Source: *World Economic Forum's Global Competitiveness Report 2017/18*

Note: *From the list of factors, respondents to the World Economic Forum's Executive Opinion Survey were asked to select the five most problematic factors for doing business in their country and to rank them between 1 (most problematic) and 5. The score corresponds to the responses weighted according to their rankings.*

The improvements emanated from adopting a law that guarantees borrowers the right to access personal data and making it easier to trade across borders by implementing a web-based customs data management platform, ASYCUDA. How¬ever, dealing with construction permits became harder following the introduction of a requirement to register all new construc¬tion projects with the Construction Industry Council. Eswatini also scored low on enforcement of contracts (169), getting electricity (159), and starting a business (158).

Eswatini's private sector is relatively small and characterized by low levels of entrepreneurship and a constraining business environment. In response, the Government intervenes in the economy by means of state-owned enterprises (SOEs), majority of which operate in many economic sectors, including agriculture, manufacturing, transport, finance, tourism etc. That notwithstanding, the Government is making efforts to enhance competitiveness and improve the business climate. As part of implementation of the national development policy, Government is developing an industrial estate to alleviate the shortage of land available to investors.

2.3. Socio-Economic and Demographic Context

Population Structure. According to the 2017 Population and Housing Census Preliminary Results launched in November 2017, Eswatini has a population of 1,093,238 people, with Manzini being the most populous region with about 355,945 inhabitants, followed by Hhohho with a population of 320,651. Lubombo has a population of 212, 531 and the least populated region is Shiselweni with 204,111 inhabitants. The United Nations Development Programme (UNDP) estimates the percentage of population residing in urban centres to be 21.3%.

Poverty Structure: According to the World Bank, three in four Swazis live in rural areas making agriculture their main source of livelihood. Furthermore, the Gini coefficient, which is a measure of the extent of inequality stood at 49.5. According to the UNDP Human Development Report 2016, Eswatini is ranked position 149 out of 188 in the Human Development Index. It is therefore important for the country to develop strategies aimed at alleviating poverty.

Unemployment and Labour Force Participation: According to the 2013/14 Labour Force Survey (LFS), an estimated 585,872 persons were in the working age population of whom 53 % were females and 57 % were males.The results of the 2013/14 Survey revealed that the unemployment rate stood at a high of 28.1 percent, with an even higher youth (age group 15-34) unemployment rate, estimated at 38.5%. Given these unemployment statistics and the predominantly rural, female and young population structure, it is important that any strategy to develop SMEs should have youth and women entrepreneurship as a key area of strategic focus.

2.4. Infrastructure Context

Limited infrastructure to facilitate domestic and international trade. As a landlocked country, intermodal linkages are important for integration and linkages with the rest of the region. In this regard, the 301km railway network in Eswatini is essential for movement of goods to neighboring countries particularly South Africa, who is the main trading partner. According to the Global Competitiveness Report (WEF, 2017/18), Eswatini ranked 81 out of 137 countries in the overall quality of its infrastructure, which renders the country as "inadequate in the supply of infrastructure". The quality of roads and the railroad ranked highly at 39 and 48 out of 137 respectively. Quality of port, air and electricity supply ranked 87, 80 and 98 respectively. Eswatini has a road network more than 4 000km out of which over 65% is paved.

Eswatini's Ease of Doing Business

SWAZILAND		**Sub-Saharan Africa**		**GNI per capita (US$)**	**2,830**
Ease of doing business rank (1–190)	**112**	**Overall distance to frontier (DTF) score (0–100)**	**58.82**	**Population**	**1,343,098**

Starting a business (rank)	158
DTF score for starting a business (0–100)	74.35
Procedures (number)	12
Time (days)	30
Cost (% of income per capita)	16.4
Minimum capital (% of income per capita)	0.3
✘ **Dealing with construction permits** (rank)	102
DTF score for dealing with construction permits (0–100)	66.72
Procedures (number)	14
Time (days)	116
Cost (% of warehouse value)	3.6
Building quality control index (0–15)	7.0
Getting electricity (rank)	159
DTF score for getting electricity (0–100)	47.24
Procedures (number)	6
Time (days)	137
Cost (% of income per capita)	753.7
Reliability of supply and transparency of tariffs index (0–8)	0
Registering property (rank)	115
DTF score for registering property (0–100)	57.40
Procedures (number)	9
Time (days)	21
Cost (% of property value)	7.1
Quality of land administration index (0–30)	16.0

✔ **Getting credit** (rank)	77
DTF score for getting credit (0–100)	55.00
Strength of legal rights index (0–12)	4
Depth of credit information index (0–8)	7
Credit bureau coverage (% of adults)	44.2
Credit registry coverage (% of adults)	0.0
Protecting minority investors (rank)	138
DTF score for protecting minority investors (0–100)	41.67
Extent of disclosure index (0–10)	2
Extent of director liability index (0–10)	5
Ease of shareholder suits index (0–10)	6
Extent of shareholder rights index (0–10)	6
Extent of ownership and control index (0–10)	3
Extent of corporate transparency index (0–10)	3
Paying taxes (rank)	63
DTF score for paying taxes (0–100)	77.27
Payments (number per year)	33
Time (hours per year)	122
Total tax and contribution rate (% of profit)	35.2
Postfiling index (0–100)	83.15

✔ **Trading across borders** (rank)	32
DTF score for trading across borders (0–100)	92.92
Time to export	
Documentary compliance (hours)	2
Border compliance (hours)	2
Cost to export	
Documentary compliance (US$)	76
Border compliance (US$)	134
Time to import	
Documentary compliance (hours)	4
Border compliance (hours)	3
Cost to import	
Documentary compliance (US$)	76
Border compliance (US$)	134
Enforcing contracts (rank)	169
DTF score for enforcing contracts (0–100)	36.72
Time (days)	956
Cost (% of claim)	56.1
Quality of judicial processes index (0–18)	7.5
Resolving insolvency (rank)	114
DTF score for resolving insolvency (0–100)	38.90
Time (years)	2.0
Cost (% of estate)	14.5
Recovery rate (cents on the dollar)	37.4
Strength of insolvency framework index (0–16)	6.0

Figure 7: Eswatini's Ease of Doing Business

Source: *World Bank Group 2018*

Limited electrification with significant supply shortages leading to greater imports. Eswatini has an overall electrification rate of about 30% and an annual electricity demand of 175 MW, and a combined installed generation capacity of 60.4 MW, with the rest imported largely from South Africa and Mozambique.

Limited ICT penetration in Eswatini: Eswatini's telecommunications sector is characterized by the existence of monopolies in both the mobile and fixed telephone networks, which has resulted in high tariffs and the slow introduction of new technologies. Compared to other countries in the region, Eswatini lags with respect to fixed line telephone penetration, according to International Telecommunications Union (ITU), Eswatini has 3 fixed lines per 100 inhabitants compared to 8 in South Africa and Botswana. The mobile phone penetration ratio was 74 per 100 inhabitants in 2016, compared to 157 for Botswana and 147 for South Africa.

2.5. Political Context

Eswatini enjoys a dual political and governance system comprising of modern and traditional systems. The modern state comprises democratic parliamentary system modeled along the British system (a judiciary and an executive) and a traditional monarchy based on chiefdoms. The 2005 Constitution provides for the separation of powers between the executive, the legislature and judiciary.

The traditional governmental structure consists of districts divided into 55 Tinkhundlas or administrative sub-districts, which in turn consists of 385 Chiefdoms.

3 Regulatory Framework to Promote SME Development

This section outlines the structure, policy and regulatory framework for SME development in Eswatini. It discusses key regulatory issues/constraints impacting the efficient functioning of SMEs. In this regard, the section provides an overview of the policy framework, focusing on business development support and access to financial services.

3.1. Regulatory Context and Structure for SME Support

The regulatory framework for SMEs in Eswatini is relatively emergent and is premised on the National Policy on SMMEs adopted in 2004 and revised in 2009. The Policy is currently at advanced stages of a further review. A summary of relevant policy framework is provided below.

Proposed Revised National Policy on MSMEs - The Proposed MSME Policy sets out the vision, intention and strategy for MSME development in the country. It aims to create a modern, comprehensive, targeted and coherent framework that will create a highly profitable and entrepreneurial sector, characterized by innovative, competitive and sustainable businesses and supported by an enabling institutional and regulatory environment. The MSME sector in Eswatini ranges from rural women working on their own in a limited part time capacity through to successful Swazi entrepreneurs with influence throughout the region and beyond.

Proposed Citizens Economic Empowerment Bill: The proposed Citizen Economic Empowerment Bill aims to promote economic empowerment of targeted citizens and companies, gender equality, encourage an increase in broad-based effective ownership and meaningful participation of citizens, promote equal opportunities for all and harmonize existing organizations responsible for economic empowerment. Once approved, the bill will go a long way in developing a solid framework for meaningful participation of citizens in high impact enterprises.

National Financial Inclusion Strategy (NFIS): The strategy supports and represents a "...commitment of the Government, particularly the Ministry of Finance (MoF) to transform the local financial system to be more relevant to the needs of the wider segments of the Swaziland society." The strategy entails making appropriate and quality financial services accessible to individuals and MSMEs.A financial inclusion technical committee co-ordinates and monitors the implementation of the strategy. It must be noted that the strategy by design has a heavy emphasis on households and microenterprises as opposed to SMEs, despite specific activities and targets to increase access to credit in the MSME and agriculture finance sectors[6]. Its broader objective is to increase the "percent of adults with access to two or more products from 43% (FinScope Swaziland 2014) to 75%" by 2022, and simultaneously to reduce the percent of excluded adults from 27% to 15%. This SME strategy supports and is in synergy with the NFIS, however the focus is on the small proportion of SMEs likely to transform the economy rather than the broad group of all MSMEs in Eswatini. The implementation of the two strategies will be harmonized by ensuring a common implementation coordination platform and joint action plans.

Investor Roadmap: The Eswatini Investor Roadmap was developed in 2005 with support and assistance from USAID and re-launched in 2012 to improve the business climate to attract FDI and promote local investment. Key to SMEs were initiatives to improve turnaround times for business registration (3 days), business licensing (3 days), improve quality and standards of products/services, and to have 50% of targeted MSMEs having access to credit. This policy improvement enabler is still very key in ensuring SME growth.

Financial Institutions Act and the Central Bank Order- The Central Bank of Eswatini regulates and supervises all financial institutions. All commercial bank operations are regulated and supervised by the Central Bank through the Central Bank Order.

e-Money Regulation - The Central bank of Eswatini adopted Minimum Standards for Electronic Payment Schemes (MSEPS) in September 2010, cognizant of the need to develop viable alternatives to cash whilst providing suitable risk mitigated electronic payment options for those with no or limited access to financial services. E-money schemes could prove to be a useful instrument in facilitating payments in the SME sector.

Financial Services Regulatory Act - The Financial Services Regulatory Authority (FSRA) was established through the Financial Services Regulatory Act, No. 2 of 2010. It regulates non-bank financial institutions, including the insurance sector.

[6] The specific actions in NFIS that are related to credit for MSMEs and agriculture include: Improved consumer protection measures; Interest rate caps; Credit reporting mechanisms; Strengthening / capitalizing DFIs; Alternative credit evaluation methods; Savings group strategies; and focusing more on fundamentals of MSME development as this strategy attempts to do.

Regulatory gaps: There is need for Eswatini to continue to strengthen its regulatory framework to address the contribution of SMEs in economic development. Eswatini has a small market size of only 1.3 million people and to address this concern, the country is party to numerous market access agreements occasioned by the regional integration efforts. However, there is no national export strategy to drive exports and benefit from trade agreements. Eswatini has a policy on entrepreneurial development in the NFIS, whose aim is to drive entrepreneurship in Eswatini. However, such a policy has not been implemented and needs to be implemented. Implementation of such a policy will have to take into cognizance the entrepreneurial ecosystem by cultivating skills in business leadership, value chains, marketing etc. Additionally, another major concern relates to the low quality and number of exportable products and services. A number of SMEs desire training, mentoring and development of exportable products to take advantage of export markets. Currently, the regulatory framework does not provide for an exporter development programme.

3.2. SMEs Institutional Landscape

There are many institutions (Government, donor-funded and private) that deal with SME development. These institutions provide amongst others business development and financial services support. However, the provision of such support is currently uncoordinated, leading to efficiency and resource losses. Below is a summary of the SME institutional framework in Eswatini.

Ministry of Commerce, Industry and Trade (MCIT): The MCIT is the overall coordinator of SME development in Eswatini. The Ministry provides SME support through the SMME Unit, which was established in April 2001 to promote SMME development through the provision of an enabling environment that encourages SMMEs activities. The SMME Unit aims to promote and stimulate the creation of SMME development and growth through effective service provision and establishment of a legal and institutional framework to achieve competitiveness. The Unit has the overall responsibility of:

- Coordinating the implementation of the SMME Policy Objectives:
- Foster economic growth and development
- Increase employment opportunities
- Alleviate poverty by creating access to sustainable livelihoods
- Increase levels of ownership in the economy for indigenous Swazis

Despite the critical importance played by the Ministry, there remains lack of the capacity and inadequacies in the legal framework to fully support SME development. The SMME Unit, which is the key driver of SMME development, lacks capacity with only two personnel manning the office. In light of this, there is need to consider better capacitating the Unit to adequately drive initiatives towards SMME development. An SMME legislation could be developed to further support implementation of the MSME Policy.

Ministry of Finance (MoF): The Ministry of Finance is responsible for ensuring macroeconomic stability in Eswatini by formulating and implementing fiscal and financial policies that optimize economic growth and improve the welfare of the Swazi nation. The ministry strives to:

- Provide a sound regulatory framework for the country's financial sector;
- Maintain fiscal discipline by providing government with effective financial and fiscal advice;
- Improve the social well-being of the nation at large by effectively participating in the allocation of financial resources in line with identified national priorities;
- Create an environment which will promote private sector development; and
- Supervise and monitor the nation's public enterprise portfolio

To enhance its role of promoting private sector development, the Ministry established a parastatal organization, the Micro Finance Unit, recently renamed Centre for Financial Inclusion to facilitate access to financial services for individuals and SMMEs.

Centre for Financial Inclusion (CFI)): CFI is a semi-autonomous body under the auspices of the Ministry of Finance (MoF). The MoF has the mandate to formulate and implement fiscal and financial policies that optimize economic growth and improve the welfare of its citizens. This policy imperative is partly being delivered by the CFI. CFI therefore aims to facilitate access to financial services for SMMEs and the unbanked population through the creation of an enabling environment for the sector. The

Centre plays a facilitative role through its engagement with financial regulators, policy makers and the financial sector in the implementation of the country's national financial inclusion agenda. Among the key focus areas for CFI are: building rural entrepreneurial capacity, deepening the financial services sector and the financial inclusion agenda.

Small Enterprises Development Company (SEDCO): SEDCO is a public enterprise under the Ministry of Commerce, Industry and Trade established in 1970 to promote and support entrepreneurial talent within the SMME sector. SEDCO is responsible for business development services, notably training, coaching and mentoring of SMMEs. Currently, SEDCO has been established as a private company, which does not provide it with the legal muscle it would otherwise have had it have been established as an Authority, as is the case in many other countries. SEDCO has very good infrastructural network, with offices in all the four regions of the country

Eswatini Investment Promotion Authority (SIPA): The Eswatini Investment Promotion Authority (SIPA) was established in 1998 through an Act of Parliament to attract, promote and facilitate foreign and local investment and trade in Eswatini. Its main objective is to create the wealth necessary to enhance the social and economic development of the country, and its people.SIPA is renowned for supporting enterprises, including SMEs, advising them on available and potential regional and international export opportunities, and advocating for a conducive business climate, including improvements to the cost of doing business in each sector.

National Agricultural Marketing Board (NAMBOARD): NAMBOARD was established under the enabling Act No.13 of 1985 and acts as production aggregators. NAMBOARD works with various farmers, providing technical support, transportation and storage facilities and marketing of agricultural produce. NAMBOARD is also charged with the responsibility of;

- regulating imports and exports of scheduled agricultural products;
- facilitating the production, processing, storage, transportation and sale of scheduled agricultural products;
- advising Government in all matters related to the availability and demand for scheduled products; and
- facilitating in the establishment of markets and marketing of locally produced products in the domestic (national) and international markets

Small Scale Enterprise Loan Guarantee Scheme (SSELGS): The SSELGS was established in 1990 to support SMEs to obtain financing from commercial banks by reducing the financial risk to be taken by the banks through guarantees. The EESLGS is currently being reviewed to make it user friendly and more effective in providing collateral for SMEs. The central bank is responsible for administering the SSELGS. The implementation of SSELGS by Central Bank creates a potential conflict of interest. The central bank is generally a risk adverse institution while it is the essence of a guarantee scheme to take calculated risk. It has been recommended that the SSELGS should be run and managed outside of the Central Bank either as a stand-alone company or integrated in a parastatal existing company.

Central Bank of Eswatini: The Central Bank of Eswatini (CBS) is the central pillar in the regulatory environment for financial services. Currently, the Bank regulates the services of four big banks in Eswatini notably First National Bank, Standard Bank, Nedbank and Swazi bank. The Central Bank also regulates the DFIs, as well as the payments sector, both of which offer important services to SMEs.

Financial Services Regulatory Authority (FSRA): The Financial Services Regulatory Authority (FSRA) is an integrated regulatory and supervisory authority for all non-bank financial services providers in Eswatini. FSRA provides regulation of insurance related services. Its mandate includes fostering regulation and prudential supervision of financial services providers.

4 Target Market Overview

The target market section provides an analysis of the demand-side characteristics of SMEs. The analysis uses both quantitative[7] and qualitative information derived from the FinScope MSME Eswatini 2017 Survey and qualitative demand interviews conducted in 2018. It unpacks the nature, needs and realities of the target market for SMEs. The section covers the profile of SMEs and provides and overview of the usage of financial services. The section also discusses the barriers to uptake of financial and business development services. The target market is divided into distinct segments to allow a more granular understanding of usage, needs and barriers to financial and business development services.

4.1. Segmenting the Market

Market segmentation is critical in understanding the parameters of SME groups and identifying target groups for targeted growth interventions. These parameters are key in assessing and defining the appropriateness and effectiveness of services provided by financial services and business development support institutions to SMEs. The main market segmentation tools used are the size of the business (turnover), employment levels and sectors. The objective is to identify SME that have the highest potential of contributing significantly to the economy. Recognising that most of the existing micro enterprises that provide much needed livelihoods are unlikely to support significant economic growth, for example GDP, exports, national budget and employment, the subsequent analysis below as well as the envisaged Roadmap will focus only on SMEs who are more likely to significantly impact the economy. For this reason, it is recommended that a separate Strategy/Roadmap for the development or improvement of micro enterprises be developed as part of the broader implementation of the Masterplan for achieving the objectives of the MSME Policy. This is in recognition that even though micro enterprises are unlikely to contribute to the broader economic agenda such as contribution to GDP, exports and national fiscal policy, they have a big social impact and are a main source of livelihood for many Swazi people.

According to the official definition of SMEs in Eswatini, SMEs are defined as businesses with employment levels of between 4 and 50 employees, a turnover of E60 000 to E8 million and a value of assets of between E50 001 and E5 million (Table 2).

4.1.1. Segmentation criteria

Data from the Eswatini Finscope MSME survey shows that when the official Eswatini definition is applied, there are only approximately 5400 SMEs in Eswatini. However, the analysis also revealed that there are many more businesses who are not classified as SMEs as defined by the set thresholds of a combination of turnover, employment and asset as set out in the Eswatini MSME Policy, but that make significant contribution to the economy especially in terms of turnov. When turnover alone is used to classify businesses, the data shows that there are 25 947 businesses with a turnover of E60 000 to E8 million. To enable a selection of businesses from a broad base, the segmentation process utilised turnover alone to select the pool of businesses to be used as a starting point (population) for the segmentation. To extract the key factors impeding SME growth, the 25 947 businesses were segmented into three target groups using a process elaborated below.

Firstly, turnover was used to categorise the target market into 'high turnover potential and low turnover potential enterprises. A minimum turnover of E250 000 was used as a cut-off point for 'high turnover potential' SMEs while the remaining SMEs with a turnover of E60 000 to E249 000 were classified as 'low turnover potential' SMEs. Secondly, employment was used to further segment the market. With

Table 2: Eswatini's Official Definition of Enterprises

Category	*Sub-category*	*Employees*	*Value of Assets*	*Turnover*
Micro-Enterprise	Formal & Professional	0	Under E50,000	E60,000
Micro-Enterprise	Informal	0 to 3	Under E50,000	E60,000
Small Enterprise	Formal	4 to 10	Over E50,000 to E2 million	Up to E3 million
Medium Enterprise	Formal	11 to 50	Over E2 million to E5 million	Up to E8 million

Source: *Revised SMME Policy 2009 (Eswatini)*

[7] The Eswatini Finscope MSME Survey 2017 covered all MSMEs while the focus of this diagnostics report is specifically on SMEs.Nevertheless, the information from the Survey is very useful and is used here to define and better understand the characteristics of SMEs in Eswatini.

the employment qualifier, as noted above it was realised that there was a substantial number of enterprises that had a relatively high turnover (of E250 000 to E8 million) but that did not have the requisite employment levels of 4 to 50 employees to qualify them as SMEs as per the official definitions used in the MSME Policy. These businesses represented 79% of the total 25 947 enterprises with a turnover of E250 000 to E8 million. Given the significant numbers in this group, the 'high turnover potential' SMEs were further divided into two groups: the 'high impact' and 'medium impact' target groups, where the 'high impact'[8] target group comprised businesses with a turnover of E250 00 to E8 million and employment levels of 4 to 50 and the 'medium impact' group' comprised businesses with a turnover of E250 000 to E8 million and employment levels of less than 4 people. The 'low turnover potential' target market was retained but renamed 'low impact' target group to reflect their impact on the economy.

These target groups were prioritised by sectors.The objective was to focus on sectors that are able to create strategic linkages with other sectors of the economy, promote value-addition to raw materials, achieve industrialization and create more job opportunities. The agriculture, manufacturing and services sectors were found to fit this objective (additionally these sectors are highlighted in the NDS). Even though the retail/wholesale sector plays a major role in employment creation and linkages with other sectors, it does not achieve as much in terms of value addition and industrialization.

The segmentation exercise therefore rendered three distinct target groups as shown Table 3.

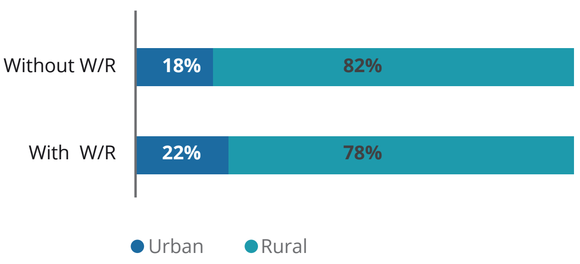
Although marginal, the wholesale/retail sector adds more business to urban areas, more established and mature businesses, and registered businesses as can be seen in Figures above, hence its importance in value

Table 3: Target Groups

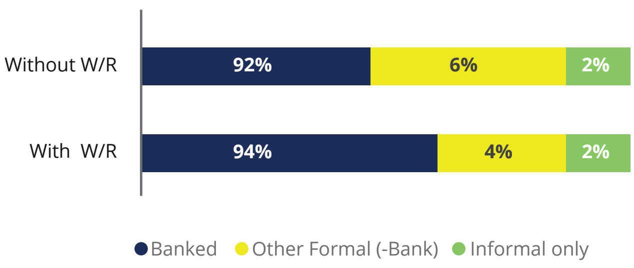
Target Group	*Total No of SMEs*	*No of SMEs in target sectors*	*No of SMEs in wholesale/ retail Sector*	*No of SMEs in target sectors as % of total SMEs*	*No of SMEs in target sectors as % of total MSMEs*
High impact	1144	902	242	78%	1.5%
Medium impact	4240	1921	2319	45%	3.2%
Low impact	20574	12449	8125	61%	21%

Box 1: Comparison of Target Groups, with and without Wholesale/Retail

Area



Financial Access Strand



Although marginal, the wholesale/retail sector adds more business to urban areas, more established and mature businesses, and registered businesses as can be seen in Figures above, hence its importance in value chain development, which is a key innovative way of building strong market linkages between SMEs and larger enterprises. However, it has few youth owners.

[8] *Target sectors include agriculture, manufacturing, tourism, business services, construction and community & household*

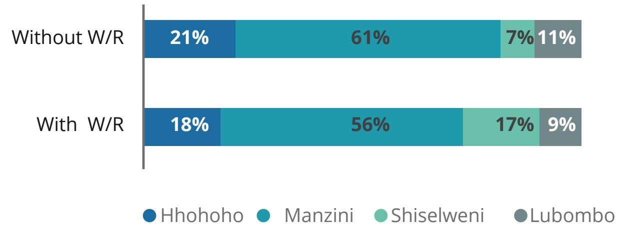
chain development, which is a key innovative way of building strong market linkages between SMEs and larger enterprises. However, it has few youth owners.

4.2. Target Market Demographics

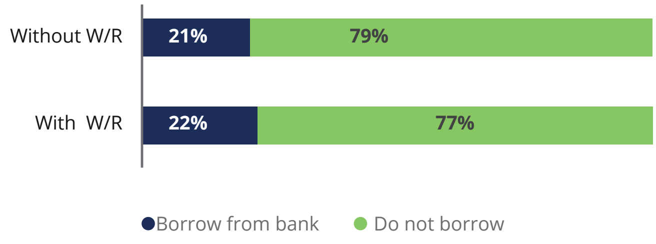
4.2.1. Social Context of the Target Groups

The participation of all social groups in businesses is critical for any economy. The Draft Revised MSME Policy aspires to improve the participation of women, youth and other disadvantaged groups in more meaningful enterprises. Most of the SMEs in Eswatini are owned by people aged 35 to 50+ years (Figure 8). An average of 26% of businesses across all three target groups are owned by youth aged 18 to 34 years. Youth participation in high impact businesses is substantial at 22%. Fostering entrepreneurship amongst the youth is a key policy goal for Government. Involvement of youth provides an opportunity to groom them to become future business leaders and enable them to participate in bigger and more meaningful businesses. In recognition of this, the Government of Eswatini has made attempts to assist youth SMEs to set-up businesses through a special youth fund. The Youth Fund seeks to empower youth through entrepreneurship by providing seed capital to start-up businesses and providing business development support services. Development of youth businesses has the potential to alleviate youth unemployment and contribute to the Government's effort of promoting economic empowerment of the youth in the country.

Region



Credit Strand



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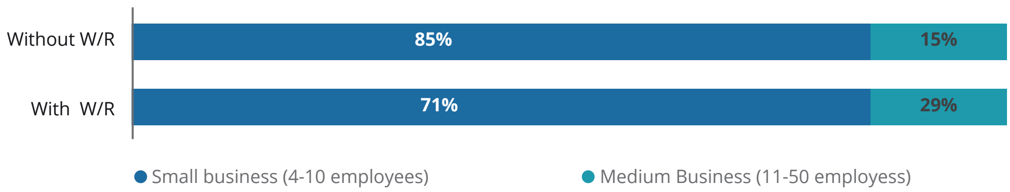


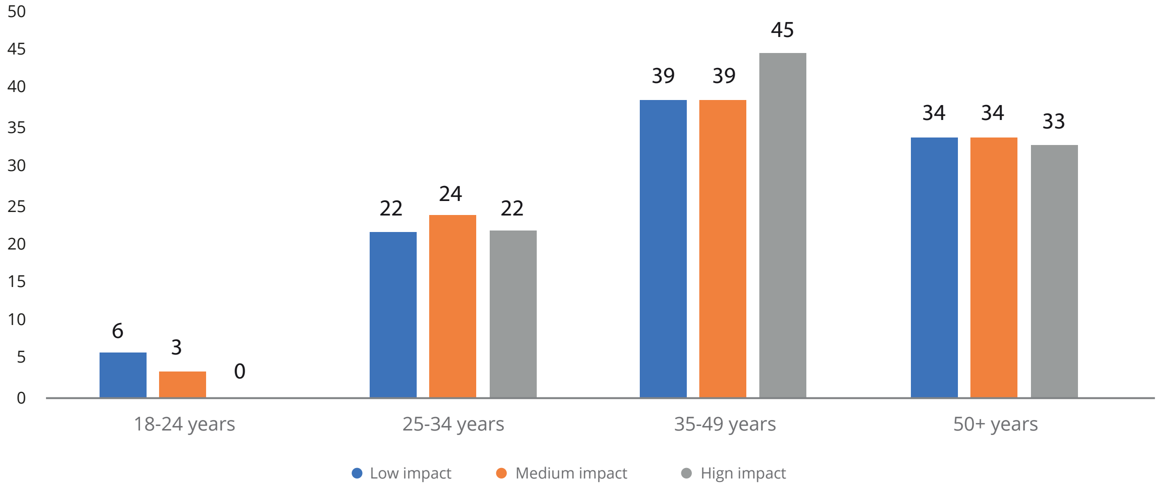


Figure 8: Distribution of businesses by Age

Source: *FinScope MSME Eswatini 2017 Survey*

Participation of women in high impact enterprises is limited compared to men. Participation of women is skewed towards low impact and medium impact businesses. The distribution amongst sectors shows that an overwhelming majority of businesses in manufacturing, agriculture and business services in the high impact target group are owned by men. It is important to identify major constraints limiting women from participating in more impactful businesses. Traditionally, women are normally faced with several challenges that limit their involvement in business. Firstly, women tend to go into business to enhance family income, but not necessarily to build wealth and contribute to the economy. Secondly, traditional gender norms normally inhibit women's participation. Furthermore, women generally tend to be skewed towards ownership of smaller businesses as they are more risk averse than men. However, their contribution towards household income and poverty alleviation is normally enormous. The high level of involvement of women in the lower levels of business in Eswatini indicates a possibility to propel them to more impactful businesses by identifying key constraints and developing specific interventions address their needs.

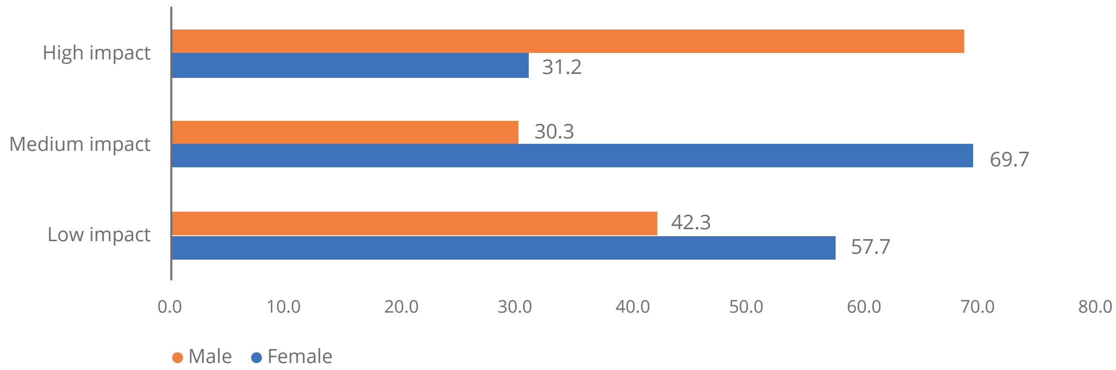


Figure 9: Distribution of businesses by Gender

Source: *FinScope MSME Eswatini 2017 Survey*

Most SME owners have secondary education and higher: Nearly two-thirds of the SME owners have secondary education (FinScope MSME Eswatini 2017 Survey). This is important because generally, there is a positive correlation between education and business success emanating from the ability of the educated to grasp key business imperatives and improve their entrepreneurial skills.

Most business owners are dependent on their businesses for livelihood. 77% of business owners reported that business is their only source of income, while 23% have other sources of income. One of the major challenges facing SME development is the inability to segregate personal finances from business finances, which is imperative for the successful running of a business. Prudent financial management is critical to efficiently manage the business. Many of the respondents from the qualitative survey were lacking in financial management skills and this impacted their management of cashflows and overall financial prudence. Many are not able to separate business income from personal income.

Entrepreneurship influenced starting of businesses. 70% of businesses in the high impact target group reported that entrepreneurship was their biggest motivation for starting a business. Most of the respondents in the qualitative surveys also cited entrepreneurship as the greatest motivation for starting their businesses. Entrepreneurship is one of the most important attributes for business growth. An entrepreneur is a person who normally looks for business ideas and puts them into action. Nurturing entrepreneurship therefore often results in successful businesses.

Entrepreneurship was a less important factor for the other two target groups, with only 52% and 62% of respondents citing it as a motive respectively. This in a way implies that the motivation for starting the business, along with other important factors such as entrepreneur aspiration and length of time in business could potentially be used as an indicator of likely future contribution of the business to the economy, and thus to prioritise the support offered especially on subsidised basis[9].

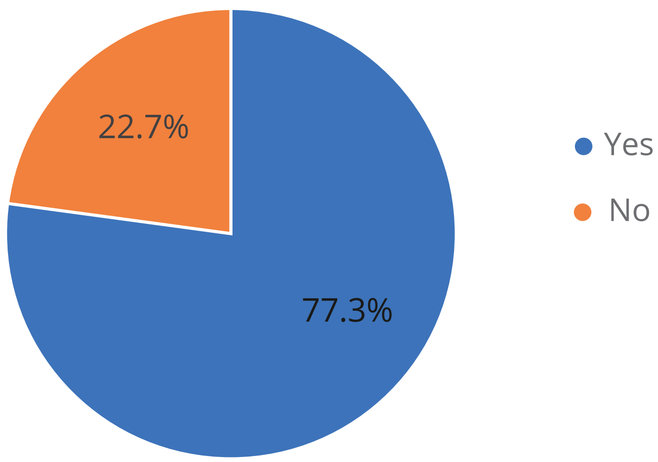


Figure 10: Is your Business your only Source of Income

Source: *FinScope MSME Eswatini 2017 Survey*

"My main motivation emanated from the desire to start a business as soon as I completed university. My research led me to identify processed pork products as a viable business idea. But then I realized there was a shortage of pigs to supply the processing sector, hence the decision to go into piggery farming".

(Respondent, qualitative survey 2018).

[9] For an example ofsuch an approach, see http://blogs.worldbank.org/developmenttalk/what-are-business-aspirations-worth-developing-countries which argues for better targeting of business aid programs based on entrepreneur aspirations for growth.

Nurturing entrepreneurship: Entrepreneurship plays a critical role in any economy, activating and stimulating economic activity. The economic success of nations worldwide is the result of encouraging and rewarding the entrepreneurial instinct. An economy is prosperous only to the extent to which it rewards and encourages entrepreneurial activity because it is the entrepreneurs and their activities that are the critical determinants of the level of success, prosperity, growth and opportunity in any economy. The most dynamic economies in the world are the ones that have the most entrepreneurs, coupled with economic and legal structures to encourage and motivate entrepreneurs to greater activities.

In recognition of the importance of entrepreneurship in economic development, Eswatini established SEDCO in 1970 to promote and support entrepreneurial talent required to grow SMEs, create jobs and contribute to sustainable economic growth. To date, the institution has undertaken educational initiatives through training and mentorship. However, the country needs to redouble these efforts, as FinScope indicates room for improvement: the country entrepreneurship score[10] (Figure 12) averages 55%, although the SME category had a higher entrepreneurship score of 62%.

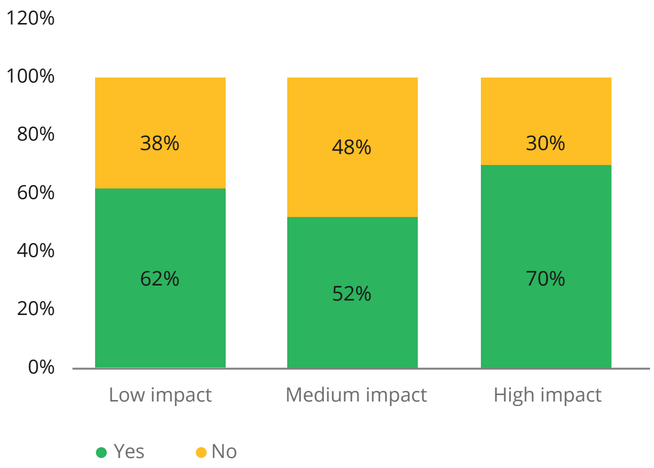


Figure 11: Started Business with Entrepreneurship Motive

Source: *FinScope MSME Eswatini 2017 Survey*

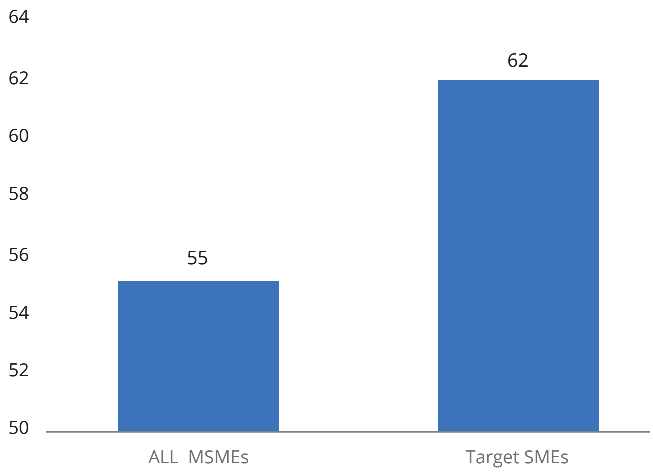


Figure 12: Entrepreneurship Score

Source: *FinScope MSME Eswatini 2017 Survey*

"My desire to start the business was motivated by the possibility of working with communities… In 2010, I decided to start this business with my husband, using our strong branding expertise as our major competitive edge"

(Respondent, qualitative survey 2018).

[10] The Entrepreneurship score has been developed as a tool under MSME FinScope to assess the level of Entrepreneurship in a country. 100% score is excellent, while 0% means there is poor level of entrepreneurship

4.2.2. Overview of the Target Groups

This Section provides information on the characteristics of the target groups. The analysis uses data from the FinScope MSME Eswatini 2017 survey and qualitative analysis. Data limitations constrained the use of in-country data to assess the impact of the SME sector on the economy[11]. SMEs in Eswatini vary in size and they are represented in all sectors of the economy, including agriculture, manufacturing, tourism, services etc.

Participating in high impact enterprises is low. Enterprises in the high impact target group account for only 4% of target enterprises, with low impact target group SMEs accounting for 79%. Most of the enterprises are in community & household, construction, retail and agriculture sectors (Figure 13).

Table 4: Number of Businesses per Sector

Target SMEs	*High impact*	*Medium impact*	*Low impact*
Manufacturing	25	414	2085
Agriculture	189	660	4663
Tourism	20	40	797
Business Services	90	58	268
Wholesale/Retail	204	2309	6508
Construction	240	143	525
Community & Household	338	606	4381
Other	38	10	1337
TOTAL	**1144**	**4240**	**20563**

Source: *FinScope MSME Eswatini 2017 Survey*

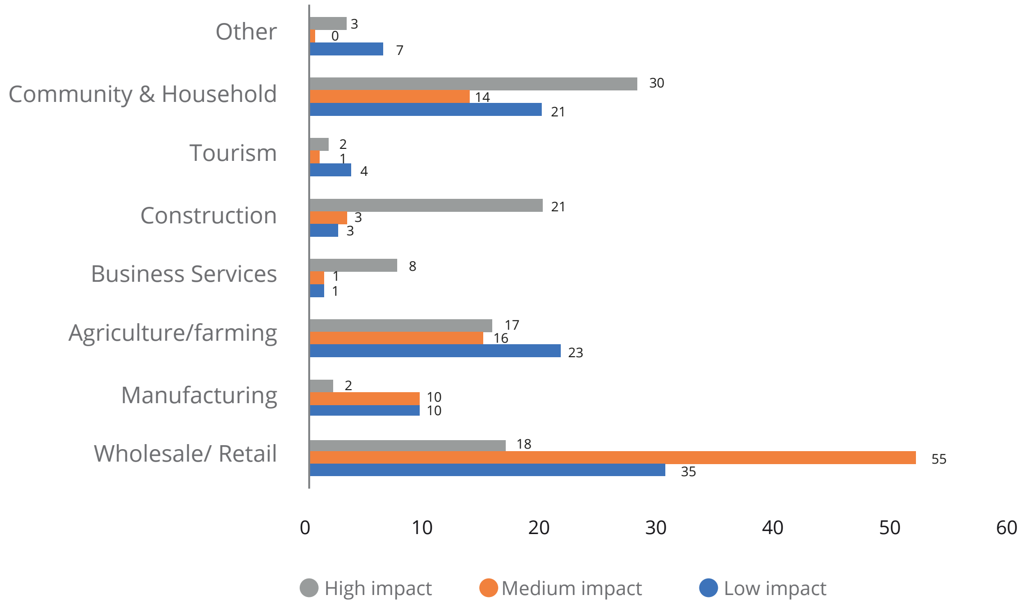


Figure 13: Enterprises by Sector

[11] SMEs are expected to make significant contribution to the economy in terms of employment, contribution to exports, entrepreneurship and general economic activity as measured by GDP. Lack of data on SMEs on these parameters inhibited a detailed analysis of contribution of SMEs to the economy.

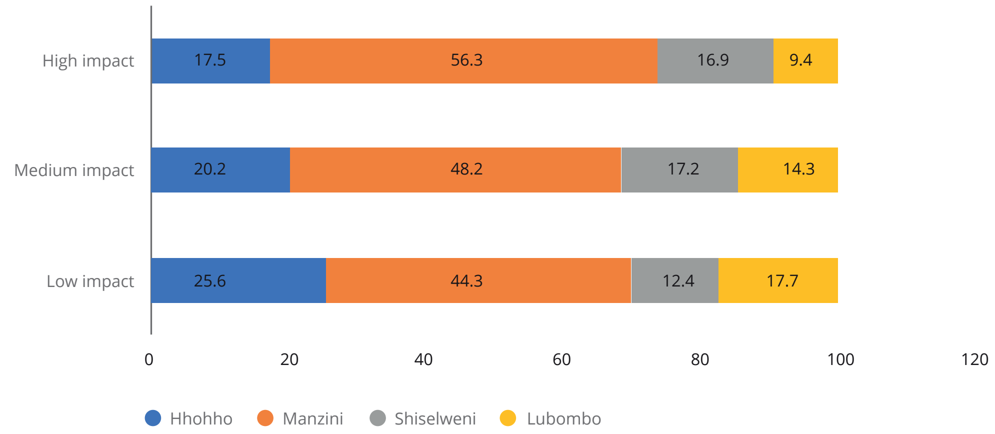


Figure 14: SMEs by Region

Source: *FinScope MSME Eswatini 2017 Survey*

Businesses are spread across all four regions. Most of the businesses are located in Hhohho and Manzini. Manzini and Hhohho have the highest population distribution, accounting for around 62% of the Swazi population. With more economic opportunities in the two regions, they also account for the highest number of the working population and therefore provide a bigger market for enterprises.

Most (72%) businesses are located in rural areas. The development of balanced and sustainable growth across regions and between the urban/rural divide is critical to spread the benefits of economic development and curb rural/urban migration. It is important for Government to ensure that every area of the country has the opportunity to participate in the nation's growth and prosperity. It is interesting to note that 78% of businesses in the high impact target group are in rural areas. This is probably influenced by the fact that most businesses in the high impact target group are in community & household, construction and retail sectors, which have broader market concentration in rural areas[12], with 75% of the population living in the rural economy.

Enterprises in tourism and business service sectors are mostly concentrated in urban areas while manufacturing and agriculture businesses are concentrated in rural areas. Respondents from the qualitative survey cited access to infrastructure, access to markets and availability of factory/ industrial space as major determinants for locating in urban areas while the pulling factor in rural areas is mostly access to land. The tourism sector mainly comprises lodging facilities, hence their location in urban areas, where most business tourists are located.

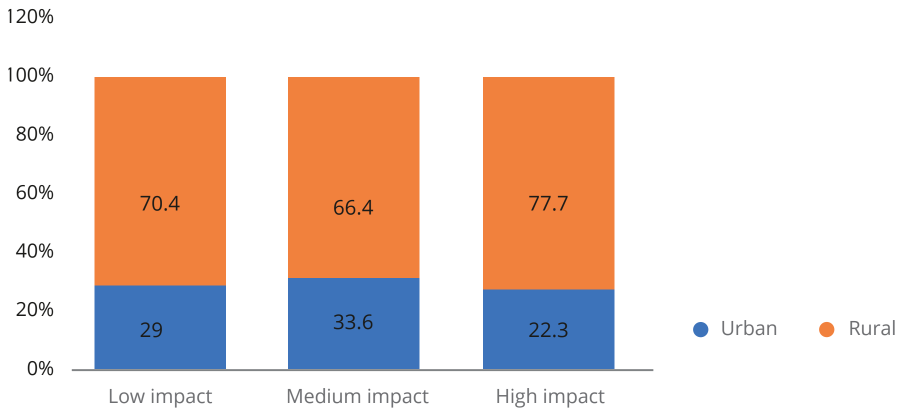


Figure 15: Location of SMEs (Urban/Rural)

Source: *FinScope MSME Eswatini 2017 Survey*

[12] *A rural area is defined as a geographic area located outside towns and cities. Eswatini is a very small country and therefore some of the rural areas are adjacent to the cities.*

Businesses operating in rural areas have limited access to infrastructure. Productivity of businesses in rural areas is hampered by a number of factors, including difficult road access, poor linkages to market, limited availability of critical services and in the case of agriculture: limited availability of commercial land, irrigation water and vulnerability to climatic changes. An enterprise operating a bed and breakfast facility in Shewula village, located 15km from the tarred road noted accessibility challenges due to the road network, especially during rainy seasons. They also do not have access to the internet, a major marketing and management tool for their type of business. Access is further limited by lack of information on alternative products such as mobile phone data packages offered by mobile operators.

Most businesses in the high impact target group are established and mature. 70% of businesses in the high impact target group have been in existence for more than 6 years while half of the businesses in the other two target groups are either at start-up or growth stages. Generally, there is a positive relationship between maturity of businesses and performance. More mature businesses are likely to have the ability to meet bank requirements for credit financing and are better placed to keep records and to show business performance over a period.

Most businesses in the medium impact and low impact target groups are not registered. Most businesses (87.1%) in the high impact target group are registered. However, 65.9% and 76% of businesses in the low impact and medium impact target groups are not registered respectively. There is a need to stimulate business registration, especially in the medium impact target group, who have a higher probability of growth, to ensure these businesses are formally integrated into the economy. A study commissioned by ILO and Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH in 2016 concluded that the transition from a large informal economy to a large formal economy can have positive effects on various levels:

- Formal enterprises tend to perform better than informal enterprises. At macro level, an increase in the number and/or size of formal enterprises translates into higher GDP levels and growth rates.
- Many employees will benefit from such a transition. Because of higher labour productivity, higher wages and better working conditions are possible.
- An increase in the country's tax revenues, which in turn can be used for various public programmes.
- A transition from an informal to a formal economy could improve the general attitude towards government, which would in turn have a positive effect on the intention to comply with regulations.

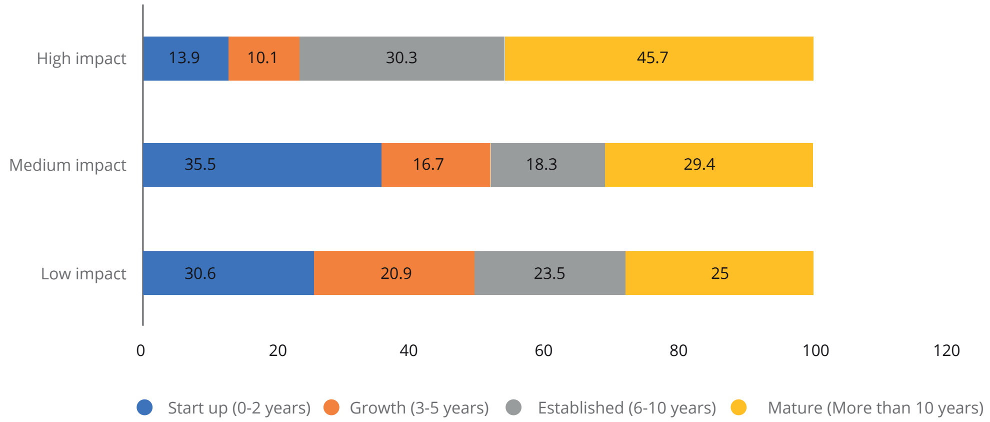


Figure 16: Business by Maturity (%)

Source: *FinScope MSME Eswatini 2017 Survey*

"We are depended on the internet to communicate with our clients. However, internet access is three hours away from our business. To access the internet, we require six hours travelling time for a return trip"

(Respondent, qualitative survey 2018).

A campaign towards formalisation of businesses could thus have positive impact on the economy.

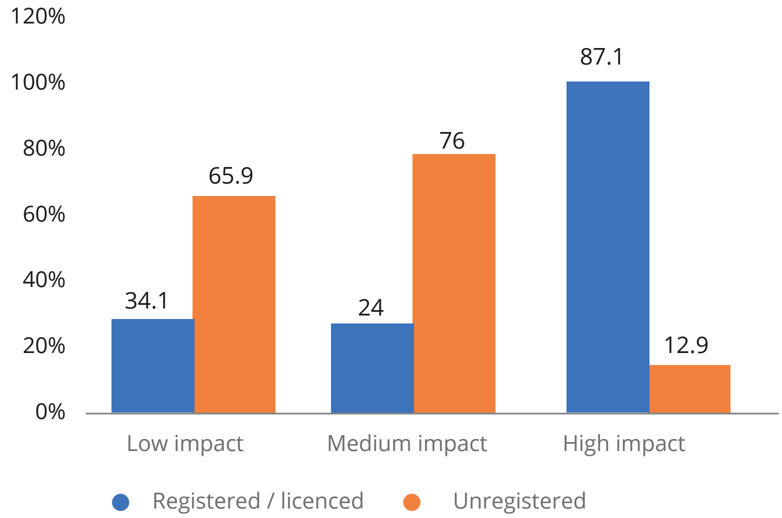


Figure 17: Business Registration

Source: *FinScope MSME Eswatini 2017 Survey*

Access to finance, space to operate, competition and lack of market linkages are the top constraints to business by SMEs. Growth of SMEs and any other businesses depends on a conducive business environment. Understanding factors affecting the growth of enterprises enables effective recommendations to policymakers in a quest for a faster and healthier growth of businesses.Business owners identified access to finance as the biggest constraint in all target groups.A re-engineering of lending schemes by Government and financial institutions is needed to enable access to credit for the target SMEs. Lack of space to operate also ranks high as an obstacle to growing a business. The figure below provides a list of the top obstacles to growth for SMEs in the target groups.

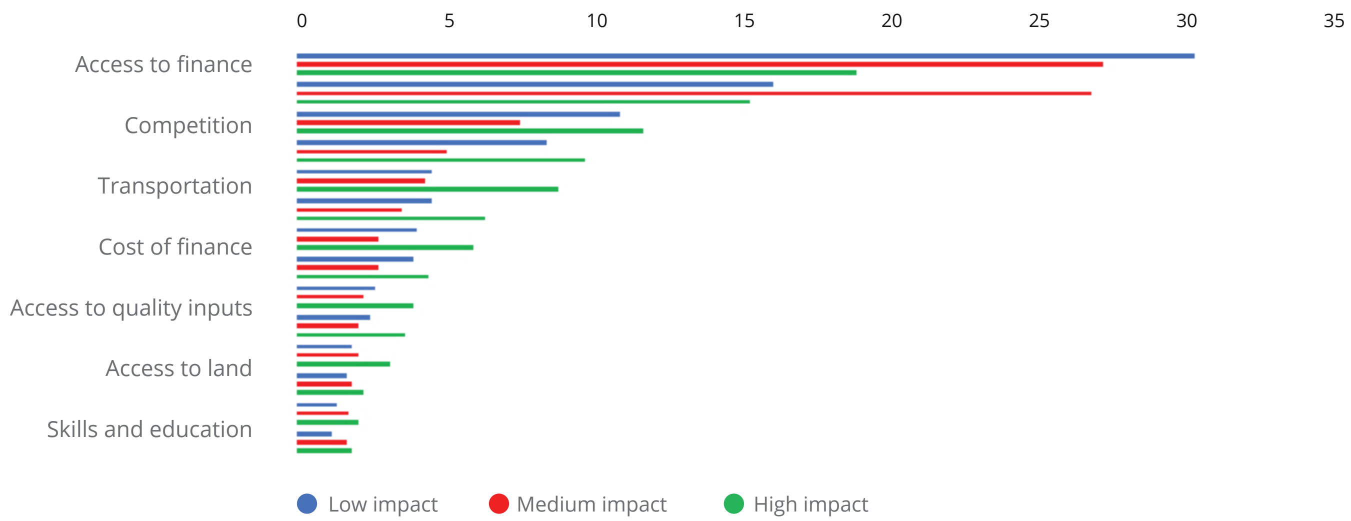


Figure 18: Obstacles to Growing Business in Eswatini

Source: *FinScope MSME Eswatini 2017 Survey*

The mean annual turnover of SMEs in the target groups is low. The maximum turnover as defined by the SMME Policy is E8m. However, the mean turnover for all target groups and all sectors is very low in relation to the turnover ceiling of E8 (Table 5). This is an indication that most SMEs, including high impact SMEs, are operating way below the E8 million turnover level. Scaling up production, improving efficiencies and access to credit to enable further investment into the business, including investment in more technologically advanced production processes, could improve business performance and turnover.

Table 5: Mean Annual Turnover of Target Group (E)

	High impact	*Medium impact*	*Low impact*
Manufacturing	1,672,014.97	422,982.86	92,396.74
Agriculture	960,143.72	523,955.89	91,539.89
Tourism	450,000.00	537,885.50	98,782.35
Business Serv.	749,496.12	401,250.11	89,585.80
Construction	783,182.63	888,288.12	149,587.78
Community & Household	896,785.27	638,013.37	119,320.34

Source: *FinScope MSME Eswatini 2017 Survey*

4.2.3. Take-up of Financial Services

Access to financial services remains severely constrained in many developing countries, restricting business growth. This section discusses the up-take of financial services by target enterprises in Eswatini. It utilises information from the quantitative and qualitative surveys to provide insights on the uptake of credit, savings, insurance and payments.

The majority of SME owners are banked. Overall, 84% of SME owners are banked while only 5% are financially excluded. It must however be noted that some business owners still use personal accounts to do business. Additionally, access to banking services has not translated to access to credit for those who are banked.

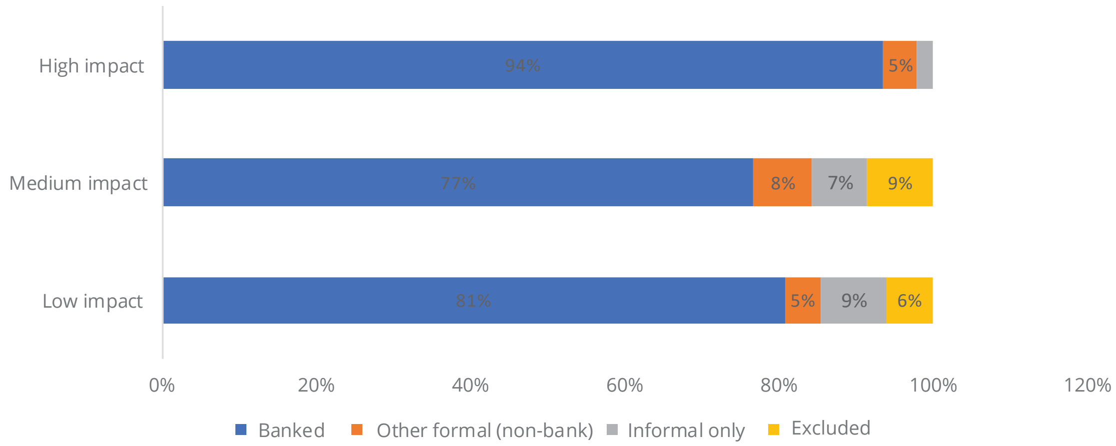


Figure 19: Financial Access Strand (%)

Source: *FinScope MSME Eswatini 2017 Survey*

Only a few SMEs have access to credit, both formal and informal. An overwhelming 84% of SMEs do not borrow from the bank while very few borrow from informal mechanisms, friends and family. Limited access to credit prevents SMEs from capitalizing on economic benefits, including higher productivity, the opportunity to upgrade to higher value-added production, and greater demand for products. Generally, there are three primary sources of financing for businesses: accruals from the business (profit), owner's equity and external borrowing. While all sources are vital, the importance for loans, especially for small businesses cannot be overstated. Availability of loans helps businesses tide over short-term funding constraints and helps in planning long-term capital structures that can help maximise returns for the business.

Insights from the qualitative survey shows that most businesses start-up with their own finances and only access credit once their businesses are running.

"Initial capital was self-funded to the tune of E100 000. I raised E80 000 while my mother raised E20 000. To raise the E80 000, I started a small business selling drinks, snacks and sweets. The enterprise now turns over E2.3 million per annum. We started operations in 2007 but only got a commercial loan after three years of operation."

(Respondent, qualitative survey 2018).

Credit Strand (%)

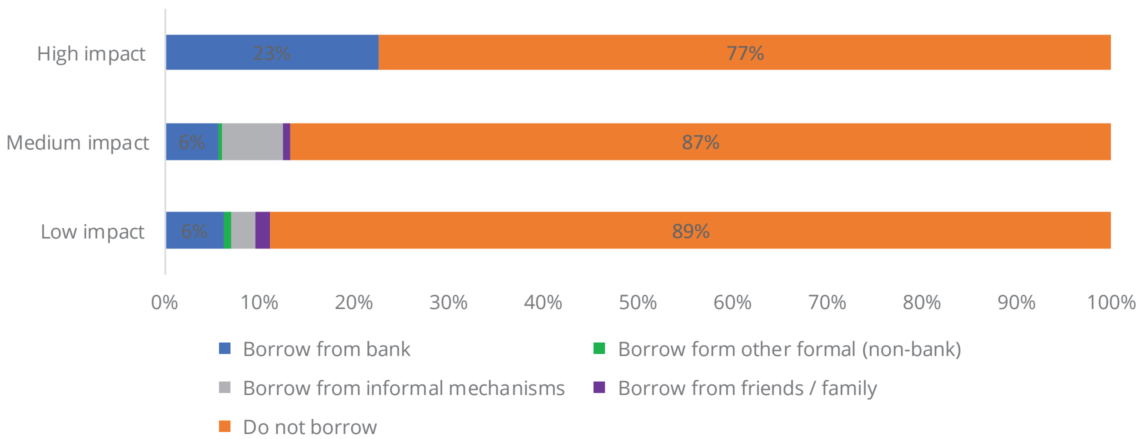


Figure 20: Credit Strand (%)

Source: *FinScope MSME Eswatini 2017 Survey*

High impact enterprises have better access to credit from banks. 23% of enterprises in the high impact target group have borrowed from the banks, compared to 6% for the other target groups. This could be attributable to that high impact enterprises are more mature and therefore more likely to meet financial institution's viability assessment criterion.

Access to finance is limiting the growth of enterprises. Many of the enterprises in the qualitative survey were operating below capacity due to financial constraints. Many respondents cited lack of collateral as the biggest constraint to accessing credit. Most of the businesses with land operate on Swazi Nation Land. The land tenure system for Swazi Nation Land prohibits ownership of title and therefore the land cannot be used as collateral. There is a need to bridge the collateral constraint through enabling policies. Government needs to play a catalytic role to bridge this gap and facilitate for financial institutions to cater to the needs of the SME sector.

Many of the respondents to the qualitative survey were either not aware of the credit guarantee scheme or just heard of it but never got details of the scheme. Those who had inquired about the scheme believe that it is still very difficult to access due to commercial bank requirements.

The assessment criteria used by commercial banks still requires enterprises to show viability through past financial performance, which is a major issue, especially for green-field and small-scale businesses wanting to expand their portfolio, as they normally do not have the requisite financial records.

Interest rates charged by commercial banks are relatively high. High interest rates make it prohibitive for enterprises to successfully manage the loan without impacting on the working capital cycle. Qualitative respondents cited interest rates ranging from prime + 3% to prime + 8.5%.

"Interest rates are very high. The first loan we got from Nedbank was at 19.5%"
(Respondent, qualitative survey 2018).

Cash is the dominant form of payment across target groups. This presents an opportunity for targeted interventions towards digitization of payments, especially targeting critical value chains that could hasten economic development. SMEs are often seen to process large numbers of payments and can have a surprising amount of money flowing through them. At the same time, their need for payment and transactional services are not always well served by traditional banks. They do not always find it easy or cost effective to adopt a full-featured package of banking services as a larger business might (Dylan Higgins, Jake Kendall, and Ben Lyon (2012).

"In 2010, the business raised a loan of E1.5 million from FinCorp. The loan was for a period of 5 years at an interest of prime + 5%. The company also has a E200 000 credit facility with Standard Bank at an interest rate of prime + 3%. The loans are not paid off yet. Sometimes the company faces challenges with repayments but all in all we are paying to satisfactory levels as agreed with the banks."
(Respondent, qualitative survey 2018).

Table 6: Payments by Target Group

	High impact	*Medium impact*	*Low impact*
Cash	81	98	99
Mobile money/E-wallet	4	4	7
Cheque	29	5	6
Bank transfer	33	4	6
Cell phone banking	4	1	2
Other	0	0	2
Direct debit	6	0	1
Internet banking / Electronic Fund Transfer	11	1	1
Payment in kind	0	1	0
Point of Sale/ Speed point / Swiping machine	4	0	0

Insurance is very expensive and therefore treated as optional expenditure by enterprises. Only 20% of SMEs in the high impact target group have some kind of business insurance. Most enterprises believe that given their already strained working capital challenges, insurance is unaffordable. Those in the agriculture sector have very high-risk businesses due to unpredictable weather conditions. Generally, insurance, especially for the agricultural insurance is very expensive in Eswatini.

"The farm used to have an insurance policy but has since stopped the policy. To cover baby vegetables is very expensive. I was paying E350 000 per annum to cover baby vegetables. We were hit by hailstorm twice and they doubled the insurance premium and we had to stop as it was too expensive for the farm. To reduce insurance premium in the agricultural sector, there needs to be cooperation from all banks to ensure that agriculture insurance is compulsory for loans taken with them. In this way, the number of farmers taking up agriculture insurance will go up and premiums will be reduced"

(Respondent, qualitative survey 2018)

Business has some kind of insurance (%)

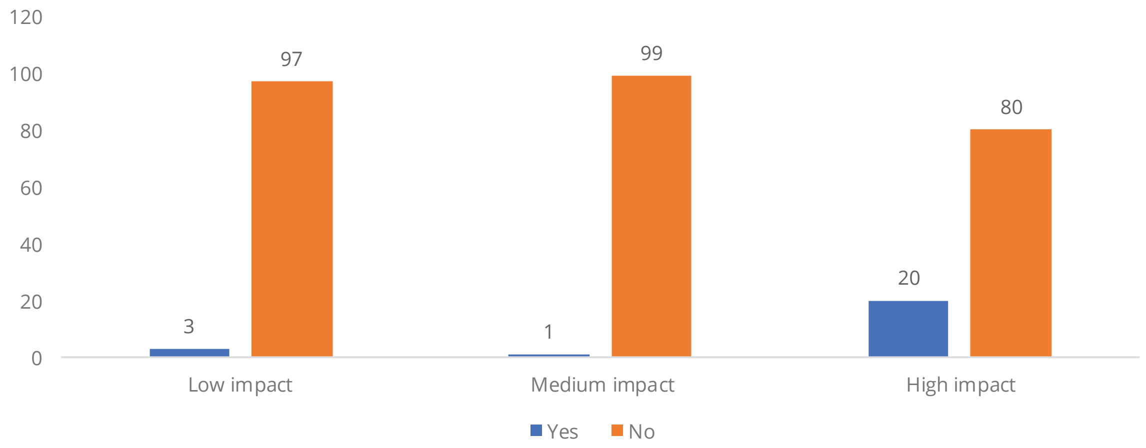


Figure 21: Business has any kind of Insurance

Source: *FinScope MSME Eswatini 2017 Survey*

The main key business risks are floods, rain damage and theft. Several businesses have already experienced these risk as shown in Table 7 below: 14% and 15% of businesses in the high impact target group have experienced risks of flood and theft. The main risk mitigation factors are through sale of assets, use of savings and investment, postponing payments and use of cash or other assets

Table 7: Main Business Risks and Actual Risk Experienced (%)

	High impact		*Medium impact*		*Low impact*	
	Main Risk	*Risk Experienced*	*Main Risk*	*Risk Experienced*	*Main Risk*	*Risk Experienced*
Flood, fire or natural disaster	25	14	8	5	12	8
Rain damage	5	2	12	10	14	11
Theft of business equipment	21	15	6	4	7	4
Theft of business stock	7	6	8	8	14	10
Business equipment failure	1	1	3	3	5	5
Drought	13	7	9	9	13	12

Source: FinScope MSME Eswatini 2017 Survey

SMEs are not able to make adequate short and long-term savings. Savings and investment play an important role in any economy. Savings plans that are geared towards future investment are necessary to boost SME development. Enterprises that save and invest a fraction of their income tend to have rapid business growth. Less than half of enterprises in low impact and medium impact target groups save at a formal financial institution, of which banks play an important role. The rest of the enterprises either save informally or do not save at all (Finscope MSME Eswatini 2017). A large proportion (76.6%) of enterprises in the high impact target group save at a bank. It must be noted that since most businesses are not able to afford insurance, short-term savings could help mitigate unforeseen business risks.

The qualitative survey revealed that even though enterprises do have savings accounts with commercial banks, they are not able to save, citing lack of sufficient profits to enable savings. Most respondents had a good understanding of the role of savings in their enterprises.

"Even though the company has a savings account, it has not been able to save due to lack of excess funds".
(Respondent, qualitative survey 2018)

Savings Strand (%)

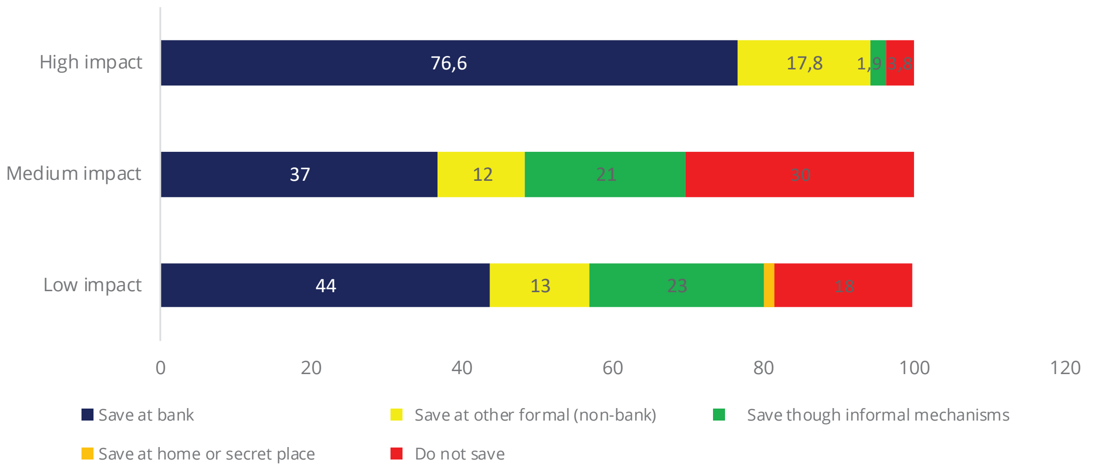


Figure 22: Savings Strand (%)

Source: *FinScope MSME Eswatini 2017 Survey*

"The company has a savings account, but it is difficult to save most of the time. The nature of the business makes it difficult to save sometimes".
(Respondent, qualitative survey 2018)

4.2.4. Take-up of Business Development Services

Entrepreneurship is influenced by several factors, ranging from the regulatory framework, business culture and access to capital, to specific business operatives such as leadership and management, production processes and cycles, market conditions, distribution and financial management. Effective delivery of entrepreneurship training and mentoring should lead to improved levels of business knowledge and efficiency. The qualitative survey provided insights on how enterprises manage the various areas of business and shed light on the current usage of business development support services and their demand imperatives. This section combines findings from the quantitative and qualitative surveys to establish the usage and effectiveness of business development services in Eswatini. In the context of this report, BDS services are defined as non-financial services and products offered to entrepreneurs at various stages of their business cycle. These services are primarily aimed at skills transfer, business advice or business facilitation.

Enterprises are aware of business development support services offered by various service providers. According to the FinScope MSME Eswatini Survey 2017, on average, 55% of enterprises in all sectors are aware of business support infrastructure. Responses from the qualitative survey revealed that knowledge of business development supports varied amongst respondents, especially between enterprises operating in rural and urban areas. Respondents in the rural areas were generally not aware of specific services offered by various Government departments and institutions. However, there were aware of various support/specific interventions provided by donor-funded institutions such as SWADE, VISION and Technoserve or privately-owned organisations such as Swift, who have been active in rural entrepreneurship development.

Usage of business development support infrastructure is low. It is worrisome that businesses across all sectors do not make use of business development support infrastructure even though those who have utilised it found it useful. Business development support is important as business owners acquire knowledge required to run their business more effectively. If appropriately applied, this knowledge can act as an enhancer of access to finance. While the Government has offered strategic direction in terms of its intentions for SMME development through setting up specific institutions to deal with such, the qualitative survey revealed that there is yet no coherent and focused delivery of such support. Responds from both the supply-side and qualitive demand-side interviews believe programmes currently being offered are a ‘one-size-fits-all’ kind of business development and therefore do not adequately and efficiently address specific needs of enterprises, especially more advanced enterprises.

“There are many different institutions with duplicating roles and this leads to inefficiencies. Lack of information on what these institutions offer to SMEs is another major constraint. There are new institutions such as the Competition Authority and even older ones such as SIPA but most of us are not aware of the services they offer. For example, SIPA works with companies to expose them to markets and other investment opportunities, but you must be visible to them for them to see and enroll you into their programmes. Some businesses fall along the way not because there are no opportunities to get help but because of lack of information on services and assistance available to them. There is a need to strengthen research in the country and develop appropriate interventions that would help develop SMEs.”
(Respondent, qualitative survey 2018).

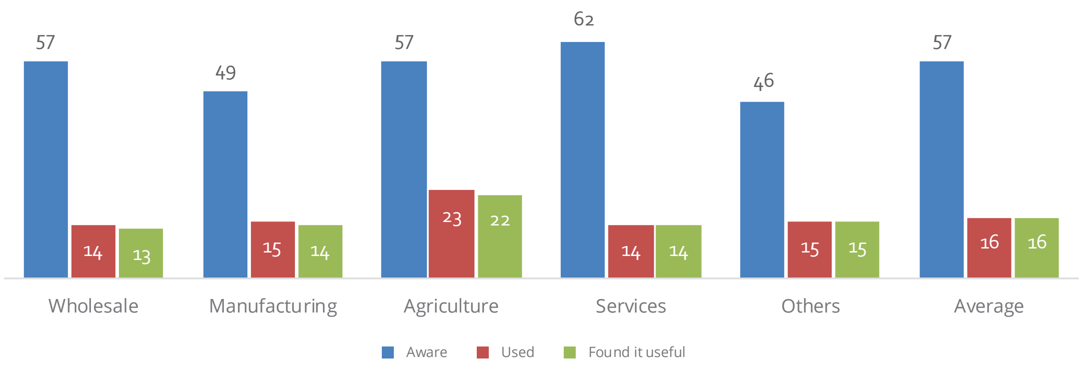


Figure 23: Awareness and Usage of Business Development Support Infrastructure (%)

Source: *FinScope MSME Eswatini 2017 Survey*

Enterprises in the high impact target group make significant use of BDS. Usage of business development support infrastructure amongst the high impact enterprises is very high, with 100% of enterprises in tourism, business services and manufacturing having used BDS. Insights from the qualitative survey show that enterprises that have found BDS services to be useful are those that have utilised BDS from donor funded or private institutions. These were deemed to be relevant and targeted towards enterprise needs. The content of BDS offered by SEDCO was found to be general and very basic, better suited to start-up and small businesses and therefore not addressing the needs of more advanced enterprises. The agriculture and community & household sectors remains highly unserved even for the high impact target group.

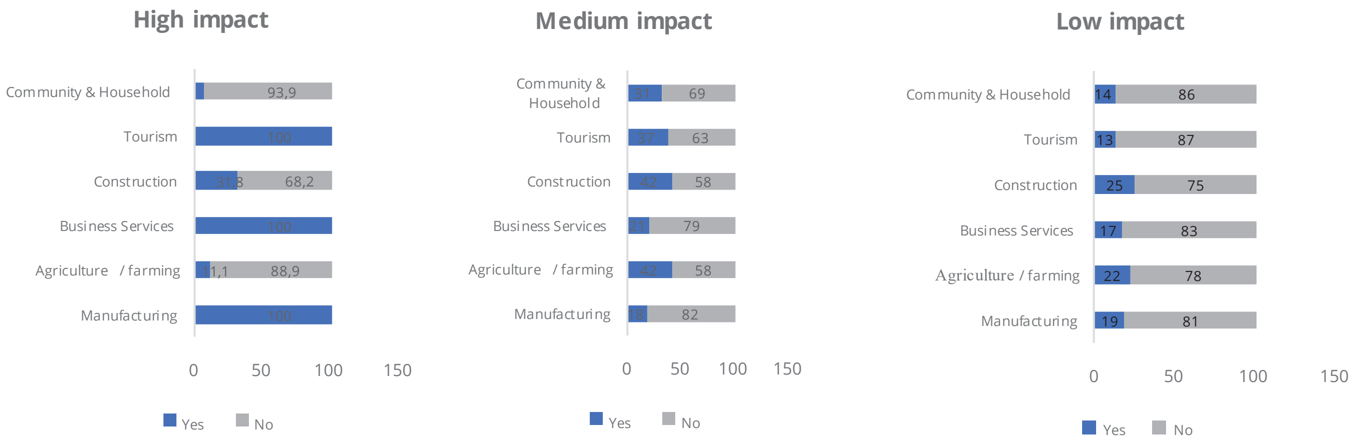


Figure 24: Usage of Business Development Support by Target Group (%)

Source: *FinScope MSME Eswatini 2017 Survey*

Donor agencies such as the EU and USAID have played a key role in entrepreneurship development. Institutions such as SWADE, SWIFT and Technoserve, funded by donor agencies and private sector initiatives, have played a key role in entrepreneurship development by providing programmes that impart specific business skills to enterprises. SWADE has played a major role in the success of small farmers in the agricultural sector. SWIFT, a private initiative, in the arts and craft sector and Technoserve, in a variety of sectors. Respondents who have gone through these programmes demonstrated a good understanding of business concepts and portrayed good understanding of various aspects of business management.

"When the business was growing there was Technoserve, who helped mentor my business for 12 months". Their business mentoring was more suited to the requirements of businesses. Technoserve understood business requirements and therefore their interventions were more suited to businesses. Donor agencies provide more relevant and focused interventions as opposed to Government agencies. For example, the training that is provided by SEDCO is normally standard and does not address specific needs of businesses."

(Respondent, qualitative survey 2018)

A group session with sugar cane farmers revealed vast knowledge and understanding of business skills by sugar cane farmers. Respondents were knowledgeable on key management areas such as production techniques, financial management, management of respective sugar cane clusters and corporate governance. The group revealed that SWADE had taken them through numerous training and mentoring sessions, helping them develop structures to manage their clusters. Each cluster includes a supervisor to manage production and a Board of Directors to oversee operations of the business on behalf of the shareholders. The group however lacked understanding of issues such as tax and insurance. The statement below by the farmers shows a clear lack of understanding of the various tax components.It is therefore critical for Swaziland Revenue Authority (SRA) and other stakeholders to undertake targeted awareness initiatives to educate the business community on tax issues and any other issues impacting SME development. This would not only enable understanding of tax issues but would also stimulate tax registration and compliance by businesses.

"SRA is killing our businesses. When we pay dividends, we pay SRA 10%, the miller deducts 14% from our income before paying us and we have to pay 27% of our profits to SRA again. 51% is too much and we don't know why the miller is deducting 14%"
(Focus Group, qualitative survey 2018)

Generally, there is limited knowledge of business leadership and management amongst business owners. Many of the respondents to the qualitative survey lacked adequate management skills to run their businesses. Business owners who possessed some level of business management skills are those who had gone through formal tertiary training. Although people can exhibit a natural inclination towards entrepreneurship, running a successful business in the current technologically advanced age with challenges relating to access to finance and advancements linked to financial inclusion requires possession of business management skills acquired through some form of formal education or through specialised trainings. Some of the respondents who had good business skills acquired the skills from on-the-job mentorship from previous employers.

"I was employed by the initial owner, who originated from Europe. He is the one who mentored me on all production techniques and taught me how to market and export products into Europe."
(Respondent, qualitative survey 2018).

Enterprises were also found to be lacking in financial management. Financial management is one of the most critical elements of running a successful business. Good financial management is a good indicator of the health of the company and it plays an important role in managing business growth. Whether growth is attributable to a larger market capitalization, a new product offering, or a new market opportunity, good financial management is the enabler of such opportunities. Many of the respondents cited financial management as a serious challenge. Under capitalization of businesses and working capital challenges are very evident, with business owners forced to use personal finances for business and vice-versa. Any intervention to grow SMEs needs to deal with this challenge.

It was interesting that the sugar farmers who were supported by SWADE had a much better understanding of financial management. The developmental programme adopted by SWADE seems to have been successful and could be used a model for building capacity going forward. SWADE could work very closely with Government business development support institutions such as SEDCO, who have a wider outreach infrastructure, to build more technical capacity to support businesses.

Enterprises require technical expertise to improve quality of their products and adhere to industry standards. Even though enterprises portrayed a good understanding of production processes, most enterprises do not follow any production or operational standards. Only those targeting the export market have accreditation to international standards such as Hazard Analysis Critical Control Point (HACCP) and Food Safety System Certification 22000 (FSCC 22000), which are mandatory for the export market. The Eswatini Standards Authority is not yet recognized regionally and internationally, raising the cost of compliance by local enterprises due to the use of SABS and international accreditation experts for compliance.

We spend E50 000 per audit for the Food Safety System Certification 22000 (FSCC 22000) standard and accreditation. The audits are carried out by SABS, but the company needs to cover costs for auditors from Europe, hence the large expenditure, which adds to production costs. (Respondent, qualitative survey 2018).

Market penetration is a major impediment to business growth. The SME sector faces a major challenge in accessing markets. Currently, most SMEs are dependent on Government tenders for survival. However, with dwindling Government revenues, it is increasingly becoming difficult for SMEs to cope with reduced sales and profitability due to reduced demand from Government. The private sector market is dominated by foreign owned retail stores, who are currently not as supportive to businesses. It is very difficult for SMEs to meaningfully penetrate supermarkets and have access to shelf space for their products. A few companies, especially in the agriculture sector (vegetable and fruits), agro-processing, and arts and crafts sector have successfully penetrated international markets. However, the volumes involved are still low.

SIPA is responsible for marketing locally manufactured products regionally and internationally. Some companies have benefited from this support. However, a lot more still needs to be done to improve accessibility to markets. Domestically, there seems to be not much assistance on marketing, especially helping local companies penetrate local retail stores.

"There needs to be a policy for preferential treatment for local products, or even legislation. For example, Taiwan protects local companies. Protection of the local business environment is key to the development of SMEs".
(Respondent, qualitative survey 2018)

"All the farm's produce is for the export market. The company exports products to Europe, Switzerland and South Africa. The company does not sell any products locally because 'these products' are a niche market product and therefore not suitable for the local markets. There is a huge opportunity to expand products to the export market, both in terms of quantity and product range. The company sometimes struggles to meet export quantities, which shows an enormous potential for expansion of production within the country. (Respondent, qualitative survey 2018)
"Our main markets are UK (30%), Local (30%), Germany (20%), RSA (15%), other international markets (5%). However, production is limited due to market constraints. We are currently producing at 50% capacity".
(Respondent, qualitative survey 2018)

There is a general 'fear' of SRA by SMEs. There seems to be hostility between the business community and SRA emanating from lack of education and understanding of incomes tax processes and requirements. Respondents believe SRA is quick to demand tax, even when businesses are not making profit. There is a clear need for education on the role of tax in an economy, the processes, procedures, applicable requirements and different taxes by SRA. Some businesses are reluctant to formalise due to fear of SRA. The misconceptions around SRA has led many businesses to not register as a way of avoiding the hassle involved with SRA compliance. There is a general believe amongst smaller companies that registration with SRA will lead to closure of their businesses because SRA is not interested in business growth.

Company registration and business licenses are problematic for small companies but less of a problem for more mature companies. Respondents in the qualitative survey had mixed reactions on the regulatory environment and the ease of operating businesses. All registered companies interviewed require a business license and company registration to operate. More experienced businesses were of the view that the application and license renewal requirements were easy to meet while small and newer companies felt the requirements were cumbersome. All companies however decried the bureaucratic procedures involved in application and renewal processes.

"The general business environment has made progress in some areas but not in others. The Trading License has been made easier over the years and it is accessible at regional level. However, the bureaucracy and administration of the licenses is problematic and cumbersome".
(Respondent, qualitative survey 2018)

"We have good support from Government. However, there are huge delays in the renewal of permits. At some point, we had to wait for 4-5 months to get our permit renewed. Town council has to inspect business premises, and this takes a long time.
(Respondent X, qualitative survey 2018).

"Licensing requirements are fine for as long as they are understood".
(Respondent, qualitative survey 2018).

4.3. Conclusion – Target Market Overview

The above analysis established the key business needs, which are summarised in the Table below.

Table 8: Target Group Needs

Identified Need	*Motivation*	*High impact*	*Medium impact*	*Low impact*
Credit to match the different business life cycles Inception stage (0-2 years) - Capital and operating expenses for businesses Expansion stage (3-5 years) – long term debt or equity investment, credit that addresses finance gaps of the business, liquidity management Mature stage (> 6 years) – credit to enable business to maintain return on investment (RoI)	Credit that recognizes the various needs of businesses in various business cycles.	☑	☑	☑
Insurance products to suit various sectors	Business insurance, asset insurance, sector specific insurance	☑	☑	☑
Digitised Payments Methods	Payments that are more secure and efficient payment method	☑	☑	☑
Targeted Business Development Support	Skills development and mindset change to transform businesses • Basic business skills • Advanced business skills; strategy, leadership, product design & development, marketing, financial management, business ethics, business innovations (e.g. value chain development)	☑	☑	☑
Market Linkages	Market linkages locally, regionally and internationally	☑	☑	
Formalisation of businesses	• Business registration, especially for high growth potential enterprises to derive more economic value from this target group		☑	☑

5 Supply-Side Analysis (Provider Overview)

SME development can only be achieved if the needs of SMEs are met with appropriate products and services. Even though Government has a formal definition of SMEs through the SMME Policy, financial institutions do not have a standard definition for SMEs. Standard Bank defines SMEs as enterprises with a turnover of up to E8m, Swazi Bank defines SMEs as enterprises with a turnover of between E5000 and E16m, Nedbank uses a turnover of up to E5 million while FinCorp uses definitions as per the SMME Policy definition. Financial institutions however noted that the definition does not hinder their support to the SME sector. What is key to SME development is the provision of all rounded support to businesses.

Currently, SMEs face a number of barriers to growth, including small market, competition from cheap imports and lack of innovation, hence the need to stimulate SMEs as proposed in this strategy. SME development reforms should be supported by an appropriate framework in the form of an enabling environment (policies and legislation), institutional reforms and leveraging financial & business development support. This section provides information on the providers of business development support and financial services in Eswatini and the various distribution channels for the services. Data was collected from financial service providers, Government Ministries/Institutions and BDS providers and from further analysis of information and literature in the public domain.

Box 2: Provision of BDS and Financial Services

Key issues: Provision of BDS and financial services

Provider overview

- There are several institutions providing BDS in an uncoordinated manner, leading to duplication of efforts and duplication of limited resources.
- It is not always possible to separately bank customers by size of SME (i.e. micro, small and medium) due to the lack of information held in bank systems. As a result, banks do not differentiate services provided to SME groups.
- There are very few providers of credit and insurance services.
- Commercial banks are the largest suppliers of financial services.
- SMEs are not serviced by the informal sector.
- Micro lenders do not provide financial services to SMES. However, individuals can source funding from micro lenders to finance their businesses.

Financial services infrastructure: capital markets

- Growth of SMEs restricted by limited availability of capital financing, particularly funding of DFIs.
- Infrastructure: distribution channels
- Most BDS and financial services infrastructure is in urban areas
- The small size of the country makes distance to BDS and banking physical infrastructure relatively short.
- Bad rural infrastructure makes travelling time to urban areas to access services longer

5.1. Provider Overview

SME Development has always been an important imperative for Government. SEDCO was established in the formative years of Eswatini (1970) to promote and support entrepreneurship development and create sustainable jobs within the MSME sector. Over the years, a number of organisations have proliferated: NAMBOARD (1985) to promote the agriculture sector; SWADE in 1990 to promote the agriculture sector; Fincorp in 1995 to finance and promote the development Swazi enterprises, SMME Unit, CFI etc. All these efforts are a sign of commitment to MSME development by the Government.

The Table below provides the landscape of business development support and financial services providers in Eswatini. To understand the evolution of BDS and financial service in the country, the Table below provides a timeline of the BDS, financial service providers and regulations for the provision of these services in Eswatini.

Table 9: Evolution of Providers of Financial and Business Development Support Services

Year Established	Institution
1970	SEDCO
1971	Swazi Dairy Board
1973	SRIC
1974	Central Bank Order Swazi Bank
1985	NAMBOARD
1990	SWADE
1991	Credit Guarantee Scheme Money Lending and Credit Financing Act
1995	FINCORP FNB
1997	Nedbank Standard Bank
1998	SIPA
2005	Insurance Act
2007	Metropolitan Life Insurance
2010	Youth Development Fund Financial Services Regulatory Act (FSRA)
2011	National Clearing and Systems Act
2014	Consumer Credit Bill
2015	Phoenix Assurance Eswatini
2018	Revised Incomes Tax Bill

Source: *Eswatini MAP Diagnostics Report 2014, Websites (FSRA, SRIC, Phoenix Assurance Eswatini, Metropolitan Life Insurance*

Except in the insurance sector, the financial services landscape for MSME has had limited changes over the years.

- The major providers of credit are still the four major banks: Standard Bank, Nedbank, First National Bank and Swazi Bank and the two DFIs, Fincorp and Swazi Industrial Development Corporation. There is however lack of targeted sector-specific financing products e.g. for the agriculture sector.
- DFIs have become risk-averse to sectors such as manufacturing and agriculture, particularly start-up business, which are deemed to be very risky. Only the sugar cane industry benefits from credit from both DFIs and commercial banks due to its blended finance operational model, resulting in reduced risk.
- Microlending institutions do not serve SMEs due to their risk profile. Loans are only provided to person's in employment who in-turn finance their businesses. A major challenge in SME funding is that SMEs require funding that is relatively too large and risky for microfinance institutions.
- Only three insurance companies offer business insurance[13]. One of the insurance companies has targeted agriculture insurance. However, this product has not been accessible to farmers due to high premiums. Since it was introduced in 2009, only one farmer has utilized it.

The Government has a Small-Scale Enterprise Loan Guarantee Scheme to facilitate access to credit. The objective of the credit guarantee scheme is to assist businesses with collateral required by commercial banks as a way of boosting access to credit. Of the E100.5 million loan guarantees extended as at 2016, only 4.7% was towards manufacturing and 1.7% towards the agricultural sectors. The bulk of the guarantee scheme was channelled towards the retail sector at 50.1% and business services at 28.9%. Despite that manufacturing and agriculture contribute more to the economy in terms of value addition, industrialisation and employment, these sectors tend to be riskier than sectors such as retailing and business services.

[13] There are thirteen insurers registered with FSRA. Only three provide business specific insurance i.e. insurance against business interruptions, while the remaining ten specialize in Group risk solutions such as life and health insurance. The 10 insurers however provide risk solutions for employers to insure their employees

Table 10: Providers of Financial and Business Development Support Services

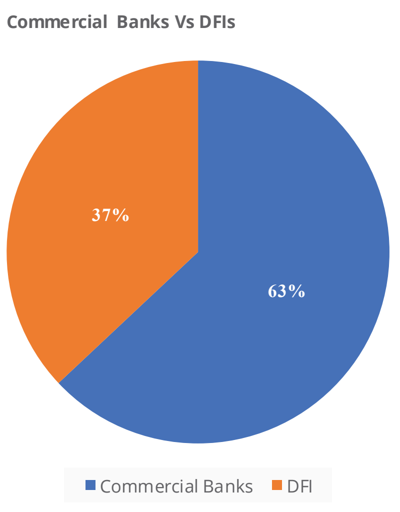
Providers of Financial and BDS Services	*Type of Institution*	*Suppliers of*	*Regulator*
Standard Bank, FNB, Nedbank	Commercial Bank	Banking, credit, savings	Central Bank of Eswatini
Swazibank	Commercial Bank/DFI	Banking, credit, savings	Central Bank of Eswatini
FinCorp, SIDC	DFI	Credit	Central Bank of Eswatini
EU, COMESA	Development Partner	Grants	Not coordinated
Eswatini Royal Insurance Corporation, Metropolitan Life Insurance, Phoenix Assurance Eswatini	Insurance	Business insurance	Financial Services Regulatory Act
SEDCO, SIPA, FinCorp, Youth Fund, SWADE, SWIFT, NAMBOARD, Dairy Board, CFI, FSE &CC, >13 Govern. Department	Business Development Support	BDS services	Not coordinated

Source: *Supply-Side Interviews 2018*

Most BDS and financial services infrastructure is in urban areas. Fortunately, the small size of the country makes distance to BDS and banking physical infrastructure relatively short although bad rural infrastructure makes travelling time to urban areas to access services longer.

5.1.1. Credit Overview

Heavy dependence on Banks and DFIs for Access to credit. SMEs in Eswatini have a heavy reliance on commercial banks for their formal funding needs[14]. The total supply of credit to SMEs was estimated at E1.3 billion in 2017. Commercial Banks are the largest suppliers of SME financing, accounting for 63% to total SME credit. The main credit facilities are asset financing (property and vehicle), overdraft facilities, business loans, agricultural loans, bridging finance and invoice financing for short-term contracts.



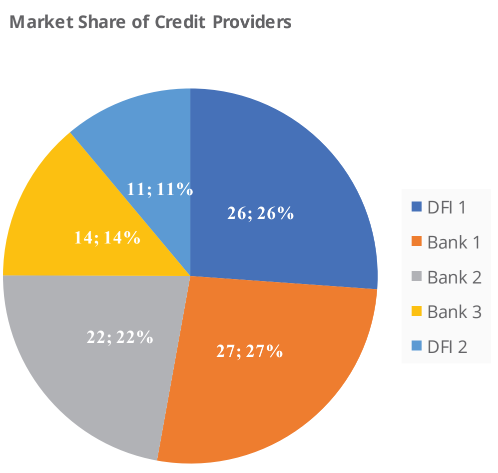


Figure 25: Market Share of Credit (%)

Source: *Supplier Data, interviews*

[14] Even though Swazi Bank is a Development Finance Institution, it is also classified as a commercial bank.

Financial institutions have a limited appetite for SME funding, particularly high-risk sectors such as agriculture (other than sugar cane) and manufacturing. One financial institution noted that they provide negligible funding to agriculture (other than sugarcane) and manufacturing sectors, while another reported that agriculture and manufacturing account for only 1% of their total loan portfolio. Financial institutions view these as risky and they are currently the most defaulting sectors. The main client groups are currently transport (especially haulage), retail, construction, government orders (invoice discounting clients) and sugar cane farmers.

To be considered for bank financing, SMEs must have a company bank account. Application requirements include certificate of incorporation, memorandum, form J, trading license, lease agreement, director's identity documents and proof of resident. Depending on the financing applied for, financing institutions accept bonds, land title, cash, insurance, SSELGS, equipment and stock as collateral. Commercial banks generally do not accept movable collateral as collateral. An opportunity therefore exists to explore the use of movable collateral to enhance SME funding.

SMEs require credit for start-up capital, asset financing and working capital. Access to start-up capital has been identified as one of the major impediments to SME growth in both the qualitative and quantitative surveys. Figure 28 shows that only 10% of start-up businesses use formal credit to finance their businesses. The majority (85%) use either own funds or funds from family and friends. This leads to businesses being under capitalised, limiting prospects for future growth and meaningful contribution to the economy.

SMEs use credit for business expansion. Most of the enterprises in the qualitative survey cited own funding as their start-up capital. Some businesses have been able to acquire credit to finance expansion of their businesses.

SMEs use credit to service contracts. Occasionally, some SMEs win contracts that require immediate short-term financing (e.g. invoice financing). Some of the financial institutions offer invoice financing as part of their suite of services to SMEs.

Farmers require specialised agricultural financing. Farmers in the horticulture business require specialised financing to meet their market needs. For example, some small farmers grow baby vegetables for the export market, which is very expensive. The working capital cycle is such that exporters, who currently have overseas contracts, are paid after five weeks. However, they need to pay their sub-contracted farmers on a frequent basis to enable them to meet daily working capital needs and ensure the quality of produce is not compromised. However, financial institutions have no specific products for such.

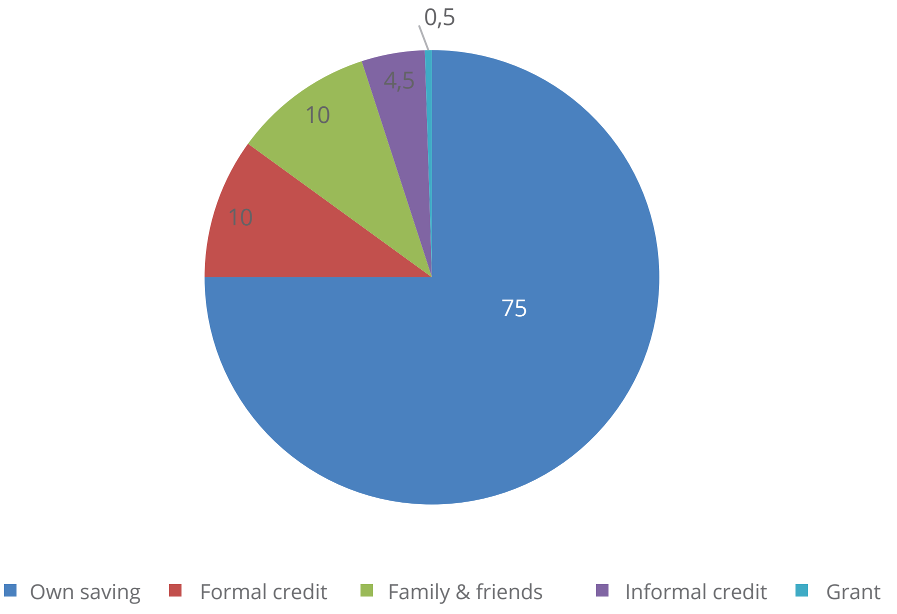


Figure 26: Sources of Start-up Capital

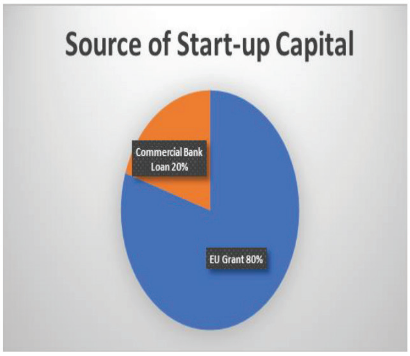
Source: F*inScope MSME Eswatini 2017 Survey*

Several barriers inhibit access to credit for SMEs. The ease with which enterprises can access credit is still a major challenge in Eswatini. The demand-side analysis showed that an overwhelming majority of SMEs do not borrow for their businesses, leading to inefficiencies resulting from under capitalisation of businesses and limited working capital. The following summarize the main barriers to SMEs credit.

- *Financial institutions do not provide appropriate credit products to target SMEs, especially those in manufacturing and agriculture businesses:* The SME sector is still highly undeveloped with low entrepreneurial skills and lack of collateral. Financial institutions view it as a high-risk sector, particularly start-up businesses with no performance track record. Furthermore, financial institutions allude to the inability of businesses, especially those manufacturing and agriculture, to submit bankable businesses proposals, leading to low approval rates.
- *The SSELGS does not provide the intended collateral support to encourage lending by financial institutions.* Inefficient structuring of the SSELGS prevents the scheme from achieving its set objective of providing collateral for SMEs. Currently, the scheme is only limited to commercial banks, with the exclusion of DFIs who are likely to take more risk than commercial banks. The current claims procedure for defaults is also a major deterrent for credit providers, as the claims procedure can take many years to conclude.
- *Affordability:* The high cost of borrowing impacts on the accessibility of credit. Data from the commercial banks shows that interest rates range from prime rate to prime +5, depending on the risk profile of the loan. SMEs quoted interest rates of up to prime plus 8.5%.
- *High Default rates:* Current SME bank default rates are high, ranging from 12% to 40%. Interviews with credit providers revealed business failure as the main factor leading to default. Financial institutions noted that lack of entrepreneurial skills and relevant business & management skills resulted in inappropriately structured businesses and poor management of the business, leading to business failure. Lack of market was also mentioned as a key contributor to business failure.
- S*trict commercial lending terms:* Commercial banks apply stringent viability assessment criteria due to the risk profile of the sector. They require businesses to have operated over a period, with proven records to show satisfactory performance of the business. Most SMEs do not keep records, are not profitable and therefore do not qualify for bank credit.

Box 3: Access to Credit: What has Worked for Eswatini?

Access to finance	Access to market	Business Development Support



SUGAR CANE MILLERS (3 millers provide guaranteed market to farmers)

SWADE

Making a difference

- Millers act as financial aggregators, hence reducing risk to creditors and enabling commercial banks to provide credit to farmers

- Work with clusters of farmers who operate as a single business with corporate governance structures (Board of Directors and a Supervisor for the cluster)
- Provide training and mentoring on all business development skills (management, production, financial management)
- Provided on site technical support to farmers

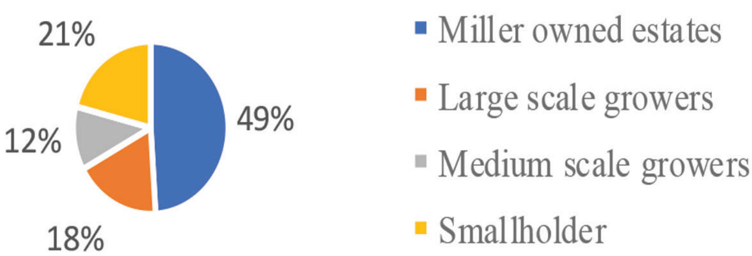
Outcomes: Small ad medium scale farmers account for the largest share of farmers and 33% of total output; Farmers in the sugarcane industry demonstrated considerable business development knowledge

Lessons:

- The EU is scaling down support to the sugar industry after , can the industry survive without EU support, is Government sufficiently capacitated to take over the industry, particularly in terms of business development support?
- Is there an opportunity to replicate this model to other sectors and learn lessons from the sugarcane industry?
- The EU has committed to support the horticulture sector in the same way and work is already underway to kick-start the support

The contribution of Swazi smallholder farmers to sugar production has grown greatly since independence. EU support to facilitate improved production and sugar market has led to increased sugar cane production by smallholders and improved livelihoods. Sugar cane forecasts show that production will increase by about five percent to 5,200,000 metric tonnes in the 2017/18, from 4,973,571 metric tonnes in the 2016/17, based on normal weather conditions (GAIN Report 2017). The sugar industry has remained Eswatini's pre-eminent economic activity. By 2014/15 it accounted for almost 60 per cent of agricultural output, 35 per cent of agricultural wage employment, and contributed about 18 per cent to Eswatini's GDP. Sugar processing also dominates the manufacturing sector, accounting for over 42 per cent (Alan Terry and Mike Ogg 2017

Figure 27: Contribution to Sugarcane Production by Grower Category



Source: GAIN Report 2017

Box 4: Access to Credit: What has not Worked in Eswatini?

Small Scale Enterprise Loan Guaranteed Scheme

Despite the good intentions of the SSELGS, its modus operandi has not yielded the intended benefits. In its current form, it does not have a clearly defined goal to support the achievement of the National Development Strategy, particularly objectives of economic diversification and industrialization. As a result, the scheme has not supported sectors with a high potential for diversification, value-addition and industrialisation. The scheme has mainly benefited consumptive sectors such as wholesale/retail and transport. Moreover, the operational model has resulted in its limited use by qualifying financial institutions, due to lack of credibility on the claims procedure.

The guarantee scheme also includes an Export Credit Guarantee component, that is currently not is use due to lack of utilisation by the business community.

Best Practice for SME guarantee schemes:

The World Bank and First Initiative have launched a tool to help Governments to implement public credit guarantee schemes for SMEs entitled: Principles for Public Guarantee Schemes for SMEs (2015). The following have been identified as critical components for the effective management of credit guarantee schemes:

- Appropriate legal and regulatory framework for the scheme
- Good corporate governance and risk management
- An effective operational framework
- Clearly define eligibility criteria for SMEs, lenders and credit instruments
- Ensure the guarantee delivery balances outreach, additionality and sustainability
- Set a transparent and consistent risk-based pricing policy
- Define an efficient, clearly documented and transparent claim management process
- A monitoring and evaluation framework
- Set rigorous financial reporting requirements and externally audit financial statements
- Publicly publish non-financial information regularly
- Systematically evaluate the CGS performance and publicly disclose the findings

The SSELGS seems to be lacking on the operational framework (that supports clearly defined objectives) and does not have an effective monitoring and evaluation mechanism. The Government is currently in the process of reviewing the SSELGS to make it more effective and user friendly. An opportunity exists for the revised SSELGS to be adoptive of best practice and for better alignment with the National Development Strategy objectives.

In summary, for Eswatini to industrialize, businesses in agriculture and manufacturing have a large role to play. However existing commercial bank debt and existing DFI instruments are not serving them due to high risk resulting from the following:

- Lack of skills, high exposure to environmental risk and the long-term nature of returns
- Banks are focusing on profit, only financing less risky operations mostly in retail/wholesale, business services and secured agriculture (sugarcane)
- DFIs are unable to play the developmental role due to constrained funding
- SSELG is not very operationally efficient and heavily underutilized

Thus, the need for innovative approaches to stimulate SME development, including using new blended finance instruments combining normal debt, grants, and other patient capital, and coupled with skills development. Without such an intervention Eswatini will likely not industrialise in the short to medium term. In order to better support the achievement of this industrialisation objective, some strategies for expanding the credit supply to SMEs are suggested:

1. Improve SSELGS operationally, especially its target SMEs criteria, and refund procedure in case of losses;
2. Encourage banks and DFIs to focus less on profit and take on increased social mandate in respect of these sectors; Also work with banks to find ways to roll out skills development in the sector without over burdening them, and to improve their existing offerings;
3. Introduce a range of new blended finance instruments for agriculture and manufacturing, coupled with skills development from existing players in the sector, and combining grants, patient debt instruments and commercial debt; and
4. Where programmes are led by donor agencies, such as the case with the sugarcane industry, ensure capacitation of relevant Government departments/institutions for continuity beyond the donor programme.

5.1.2. Payments Overview

Banking infrastructure is largely adequate. Eswatini ranks second after South Africa in terms of number of bank branches per thousand square kilometres, although accessibility to bank branches is still a challenge for SMEs operating in rural areas due to undeveloped infrastructure (road and ICT). As seen on the demand-side analysis, access to banking facilities is high, and all target markets have a high number of business owners who are banked. Therefore, accessibility to banking facilities is not a major concern, usage is.

5.1.3. Insurance Overview

The small market size limits the provision of insurance services to SMEs. Insurance is a business of probability and economies of scale. Due to the small economies of scale, insurance premiums are high, making it unaffordable for most SMEs. The agriculture sector is the hardest hit due to its high probability of risk. One of the insurance providers developed a specific product targeted to the agriculture sector (livestock and crop) in 2009. Since inception of this product, only one farmer has ever used the product due to the cost involved.

There are currently three insurance providers providing business insurance and at least one insurance company with specialised insurance for agriculture, even though it is still unattainable to farmers due to high costs.

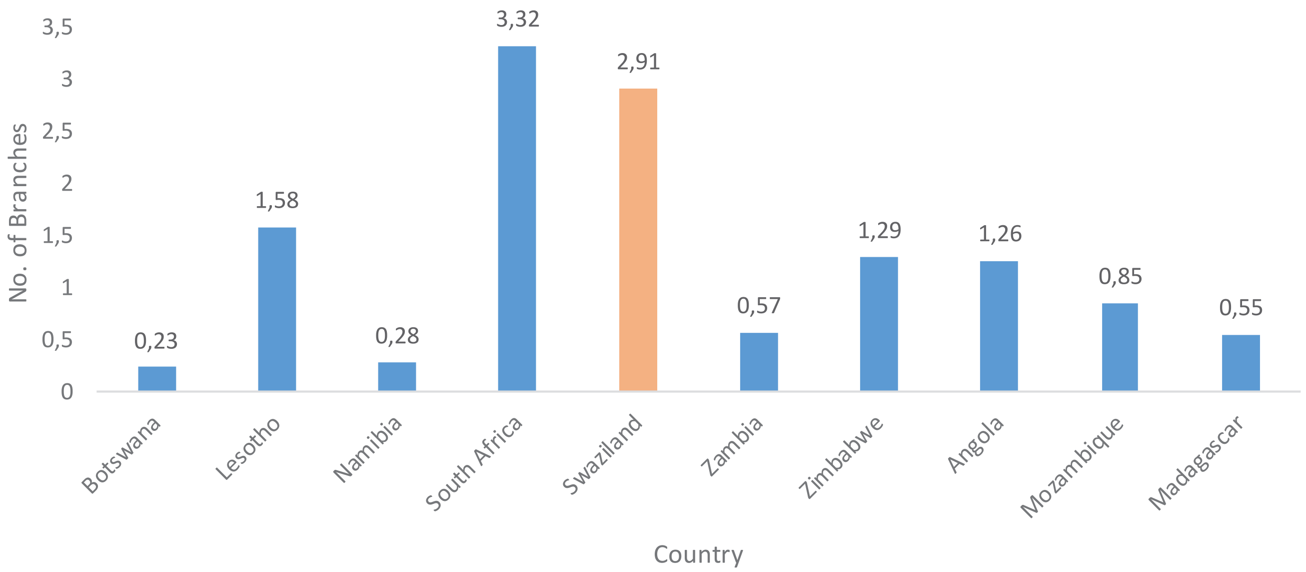


Figure 28: Number of Bank Branches per 1000 km2

Source: *IMF Financial Access Survey 2017*

5.1.4. Business Development Support Overview

Provision of business development services is not structured. There are many institutions (Government, donor-funded and private) that are providing business support services in Eswatini.

However, the provision of business support is uncoordinated. The SMME Unit is responsible for coordinating the implementation of the SMME Policy objectives and in effect coordinating initiatives aimed at growing the SME sector. However, the SMME Unit has insufficient capacity to drive the SMME Policy objectives. As a result, various Ministries, organisations and the private sector have implemented initiatives, leading to duplication of efforts and inefficient utilisation of financial resources at a national level.

BDS Programmes that are supported by donor/private agencies are more effective than those provided by Government institutions alone. This calls for initiatives within Government institutions to facilitate capacity building from donor/private providers.

Lack of awareness of programs is a major constraint to usage of BDS. The 'one-size-fits-all' kind of program offering and lack of an integrated approach to BDS were found to hinder the delivery of BDS.

Several donor-funded and private organisations provide business development support. SWADE is a Government institution formed in 1999 to facilitate large water and agricultural development projects. It is currently supported through donor funding, mainly from the EU. SWADE programmes have extended to training, mentoring and providing technical support to farmers supported through their programmes. Technoserve is a non-profit organisation funded by USAID. It works with enterprises in developing countries to build businesses and industries through the provision of BDS. Technoserve is closing offices in Eswatini. Their departure from the BDS landscape leaves a gap in the provision of BDS. SWIFT on the other hand is a purely private initiative that brings together companies targeting the Fair-Trade overseas market. They provide business development training to their members and expose them to markets.

Box 5: Business Development Support Services Matrix

	Topic areas					
Type of services	**Sales and marketing**	**Production, operations, ICT**	**HR management**	**Financial management**	**Strategic management**	**Legal issues and regulations**
General information	• Market overview • Foreign markets • Procurement • Exhibitions • Trade fairs	• Suppliers • Warehousing • ICT • Technology suppliers	• HR management good practice • Labour regulation • Training options	• Grants • Export financial support • Financing opportunities	• First assessment of business feasibility	• Standards (Certification, quality, export regulations) • Legislation (Patents, copyright, IP rights)
Training	• Sales and marketing positioning • Presentation and networking skills • Export intelligence	• Process re-engineering • ICT training • Energy/resource efficiency	• Leadership training • Career progress • Team building	• Financial planning • Credit orientations • Trading	• Business plans • Business development • Policy advocacy	• Bookkeeping and accounting standards • Quality / safety standards • Export regulations
Mentoring & consulting	• Advertising & PR • Design • Pricing • Packaging • Distribution • Access to clusters	• Quality management • R&D • Engineering solutions • ICT	• Recruiting techniques • Workforce skills development • Reward plans	• Short, medium, long term finance • Auditing • Loan applications • Investment • Tax advice	• Long term business strategy • Market entry • Customer relationship management	• Analysis of policy constraints and opportunities
Physical infrastructure	Technology parks and business incubators providing a mix of services					

Basic services typically provided by **public business support network**

Advanced services typically provided by **private sector / third parties**

Source: *OECD Eurasia Competitiveness Programme (2017)*

Consideration should made to harness expertise and experience brought about by donor/funded institutions, to ensure continuity beyond the lifespan of these programme. Apart from the departure of Technoserve, the EU is in the process of withdrawing support currently provided to the sugar cane industry. Is Eswatini ready to provide further support beyond the donor programmes? Will the enterprises and industries that were supported by these institutions survive without the donor support?

Box 6: Lessons from Other Countries

What other countries are doing to ensure effective delivery of BDS -UNDP Africa Facility for inclusive markets

1. UNDP Supplier Development Programme (SDP) (sustainable development goals objective)
   - To build capacity and capability of SMEs – the programme is in recognition that even where the policy environment is pro-SMME development, programmes have been put place to support SMME, businesses still fail. Most of the failure is attributed to the failure to penetrate supply-chains of big companies that are dominating value chains in the country. The programme is designed to build capacity and technical capability of small businesses to be suppliers of big companies.
   - Programme has worked very well in South America and the methodology is being replicated in other parts of the world.
   - In RSA, the programme started with 40 SMEs in Gauteng province and trained 18 SDP specialists to work with companies (some partners, Department of small business, ABSA Bank, Department of Trade and Industry, small business development institute)
   - In Botswana: the programme is just starting. UNDP Botswana is in the process of recruiting SDP specialists (partners: Botswana Investment and Trade Centre, Debswana, Government of Botswana)
2. UNDP African agri-business Supplier Development Agenda - To support the AU and CAADP's agriculture transformation and food security programme to:
   - Improve the quality and quantity of products by farmers and SMEs to markets
   - Provide smallholder farmers and SMEs access to the growing agricultural value chains and
   - Contribute to the development of African national economies.

A similar programme for Eswatini would greatly enhance the landscape of provision of BDS as it focuses on imparting skills to the private sector to deliver BDS to enterprises

5.1.5. Distribution of BDS and Financial Services

Financial service and business development support providers need adequate infrastructure across the country to service the needs of SMEs efficiently. Channels for distribution of services can be traditional (provided by the service providers themselves) or alternative channels (provided by other service providers). This section explores both channels.

Traditional Distribution Channels

Distribution channels for both BDS and financial services are mainly concentrated in urban areas. The most common type of distribution is through traditional channels; branches and agents. The relatively small

distance between urban areas and rural areas resulting from the small size of the country should made it easier for SMEs to access distribution infrastructure. However, access to distribution channels remains a challenge for SMEs in rural areas. High transport costs and inconveniences in accessing urban areas due to road infrastructure constraints make accessibility to distribution channels limited for SMEs operating in rural areas.

Traditional bank infrastructure is largely adequate to serve SMEs. Eswatini is well-served by banking infrastructure in terms of branches, automatic teller machines and point of sale. However, accessibility to bank branches is a challenge for SMEs operating in rural areas due to undeveloped road infrastructure in rural areas.

SEDCO has a large network of built estates and offices to support SMEs in all the four regions of Eswatini. This infrastructure network positions SEDCO in a better position to access SMEs across the country. Offices are situated in the following areas: Nhlangano, Mbabane Industrial Site, Sidwashini Industrial Site, Vuvulane, Manzini, Piggs Peak, Hlatikhulu, Macetjeni, Matsapha. The company also uses the tinkhundla centers to get in touch with its clients.

NAMBOARD acts as production aggregators. NAMBOARD works with various farmers, providing technical support, transportation and storage facilities and marketing of agricultural produce. NAMBOARD has several distribution channels: The main distribution channel is in Manzini, with two distribution infrastructures in Lubombo and one in Chiselweni. The organisation is in the process of developing three other facilities, two in Chiselweni and one in Hhohho. A holding facility is under development in Manzini. The objective is to increase distribution facilities to ten in the coming two years. Further distribution facilities are provided through open market municipalities (Supply-side consultations 2018).

Alternative Distribution Channels

Electronic transactions are a convenient and effective method to transact. All the commercial banks have enabled electronic transactions for businesses, which allows businesses to transact using computers, laptops and mobile phones. This results in efficiencies and cost savings due to reduced visitations to branch networks, lower transaction costs compared to over the counter transactions and ability to conduct recurring transactions. Furthermore, electronic banking enables a more convenient and secure way for e-filling of transactions.

Mobile phones are a convenient way to transact. Using mobile phones to access financial services is convenient and reduces transport costs needed to access financial services (Eswatini Diagnostics Report 2014). The use of mobile data enables access to the internet in many areas in the country, both rural and urban. Eswatini has an estimated mobile penetration of 86% (ITU 2016), which makes it easier for SME owners to access banking facilities much more easily and conveniently.

Agro supporting institutions offer distribution potential to serve farmers. Agricultural value chains offer both urban and rural distribution potential not achieved by most other distribution channels. They offer credit facilities to farmers in the form of farm inputs (seeds, fertilisers, pesticides, fungicides etc) to enable them to plant, grow and fertilise their crops. An opportunity exists for further support through insurance that offers mitigation risks to cushion farmers in bad seasons and provide the necessary capital to continue farming after a crop failure (Eswatini Diagnostic Report 2014).

Sugarcane, horticulture, forestry and dairy present main opportunity for distribution. Financial service distribution through agro-value chains requires a number of farmers linked to a large aggregator, ideally also the institution that purchases the produce from the farmers. Major commercial crops for Eswatini such as horticulture, sugarcane and diary provide the most viable agro-value chains in Eswatini due to the number of farmers involved and the aggregators involved in these industries (Eswatini Diagnostic Report 2014).

6 Towards an SME Roadmap for Eswatini

6.1. Priorities and Recommendations

Based on the analysis of the SME needs, the provider landscape and the regulatory framework, provided below are Priority Intervention areas that have the greatest potential to impact the growth of targeted SMEs, enabling them to contribute to economic diversification, industrialization, employment creation and overall economic growth. It must be noted that these intervention areas are not the only opportunities for SME growth. These areas are likely to have the most impact on target SME groups given the nature of the identified needs of the target group.

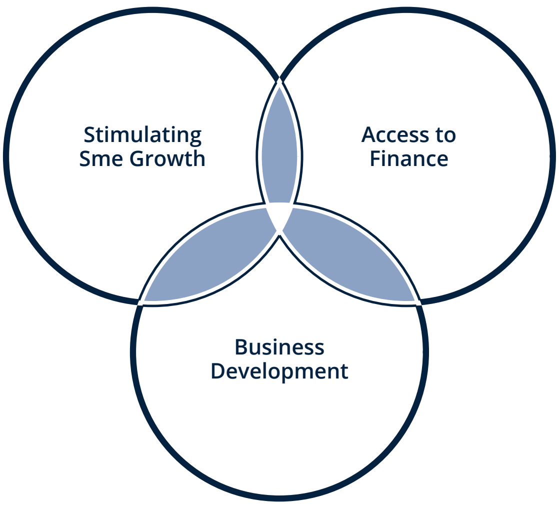


Figure 29: Priority Intervention Areas

Stimulating SME Growth

1. Improving policy level support to SMEs.
2. Identifying and developing action plans around priority value chains and ecosystems to grow target SMEs, creating market linkages and platforms that will help transform the economy.

Access to Finance

1. Improving access to finance especially by ensuring appropriate credit mechanisms from a range of providers throughout the life cycle of target SMEs.
2. Digitizing payments across value chains where SMEs participate to increase operational efficiency and generate digital transaction history.

Business Development

1. Providing high quality and coordinated business development support to target SMEs in key sectors that will transform the economy.
2. Addressing barriers for women and youth to promote their high growth enterprises.

The priority areas are unpacked below.

6.1.1. Stimulating SME Growth

Improving policy level support to SMEs

Rationale: SME development requires strategies that touch upon many areas impacting on SME growth. The ability of Governments to implement sound macroeconomic policies, develop conducive microeconomic business environments through simplified legal and regulatory frameworks, abundant and accessible finance, suitable infrastructure, supportive education, skilled labour and capable public and private institutions, amongst other things, is critical in facilitating the development of enterprises. Eswatini boasts of a stable macroeconomic environment to support development. However, an analysis of the microeconomic environment/business environment revealed regulatory and policy gaps that are necessary to improve SME competitiveness and boost growth. There is a need to develop new laws and implement initiatives that strengthen current institutions such as SEDCO and the SMME Unit to strengthen coordination and delivery of SME capacity building programmes, stimulate growth in the SME sector through policies relating to buy local and affirmative action for SMEs through government procurement, and implement policies and initiatives that promote access to credit by addressing issues such as access to collateral and creating opportunities for targeted blended finance. A targeted approach to SME development rather than a one size fits all is necessary to bring about the required growth in SMEs. Hence the focus of this Roadmap only on SMEs that are likely to bring about high growth.

Opportunity: Dialogue and partnerships between the stakeholders (public sector, private sector and civil society) fosters ownership of strategies, engenders them more implementable, making them politically credible, and sustainable. The following opportunities exist to improve policy level support for SMEs:

- Strengthen SME coordination by capacitating the SMME Unit and developing legislation that enables SEDCO to operate as an ‘Authority’ and not as a Company as is currently the case. This will reinforce its authority as the main coordinating institutions for SME capacity building.
- Work with MCIT and Parliament to introduce / enforce a “buy local” policy to support SMEs in the key economic sectors of agriculture, construction and manufacturing.

i. Conduct a benchmarking exercise to help understand the scope and potential of the "buy local" campaign.
ii. Introduce requirement for Government departments to purchase a minimum local content, for example 30%. To support this initiative, introduce a regulation that ensures Government pays on time to facilitate SME working capital requirements.
iii. Explore the introduction of procurement and related training programmes by large retailers and chains to grow SMEs in key sectors.
iv. Explore the introduction of buy local quotas for large projects and contracts e.g. use of local SMEs by infrastructure companies.
v. Corporate/private sectors procurement to support "real growth" SMEs using sub-contracting and supplier development programmes (formalized partnerships between SMEs and main private sector companies dominating value chains).

- Identify potential export products, develop the necessary market linkages and supporting environment and policies, and introduce export-led initiatives to build capacity for regional and international export markets.
- Fast-track the approval and implementation of existing initiatives: Implementation of the Investor Roadmap Reforms to improve business environment for SMEs (registration, licensing, reduction of red-tape), approval of the revised SMME Policy and approval of the Citizen Economic Empowerment Act Bill.
- Promote formalization of businesses and support current initiatives towards business registration (database) and ensure that support is provided to target SMEs.
- Identify and document SMEs especially in the target markets, and ensure they receive the necessary support.
- Ensure tax laws and regulations are supportive to promote business registration by mitigating the potential negative impact of the proposed retrospective assessment of compliance and presumptive tax.
- Remove administrative burdens for businesses by introducing electronic interfaces to facilitate interaction with government bodies, streamlining procedures for opening new businesses and removing red tape in Government authorization processes

Identifying and developing action plans around priority value chains and ecosystems to grow target SMEs, creating market linkages and platforms that will help transform the economy.

Rationale: A value chain describes the full range of activities through which goods or services pass from conception to distribution and beyond. This includes several activities such as product design, production, marketing, distribution, and support for the final consumer. Eswatini's small economy presents a unique opportunity for the utilization of value chains to find and nurture businesses that can transform the economy. Participation in value chains brings many potential advantages, such as technology transfer, skills upgrading, innovation and access to supply chains. These in turn result in positive impact to SMEs, making production more flexible and efficient and access to market attainable. Value chains help SMEs leverage their relationship with buyers to access better market access and better financing opportunities. Large enterprises at the head of the value chains often help smaller enterprises produce better quality products through skills transfer and promotion of the use of technological innovations. Research has shown that participation in value chains can help boost labour productivity, increase domestic value-add, spur industrial development and drive growth (World Bank Group, 2017). Participation of Eswatini SMEs in national, regional and international value chains is very limited, despite the huge benefits associated with value chains. Any strategy to grow SMEs needs to take into consideration the role of value chains in SME development.

Opportunity: In value chains, SMEs are normally seen as suppliers providing intermediate input, often acting as subcontractors several levels down from the ultimate buyer. In Eswatini, value chains are largely led by large wholesale/retail stores who are predominantly owned by South African firms. The main opportunity lies is taking advantage of value chain opportunities that have already been identified in-country as well as regional value chains Identified through SACU and SADC regional trading blocs. Identified opportunities lie in the following:

- Prioritise "low hanging fruit" value chains through a prioritization methodology. This entails a review and consolidation of all current research work on value chains in-country and developing a prioritization criterion to identify quick wins for value chain development/implementation. Most of the studies on value chains have concentrated on the agriculture sector, a sector viewed as having comparative advantage. Some of the current work includes the following value chains:

- » Agriculture (Horticulture, Meat, Dairy, Sugar, legumes, honey)
- » Tourism
- » Manufacturing (Arts and Crafts)
- » Financial Services and ICT (identified at the SADC regional level)

- Develop viability assessments and operational models for the implementation of each of the prioritised value chains. Issues to consider include:
  - » Infrastructure required for the value chains,
  - » Target model for the value chains
  - » PPP models (Government, donors, private sector)
  - » Blended finance (development/donor/banks)
  - » Specialised business development support
  - » Market linkages
  - » Increased competitiveness (using research and product development, ICT, investment, trade agreements, subsidies etc.)

6.1.2. Access to Finance

Improving access to finance especially by ensuring appropriate credit mechanisms from a range of providers throughout the life cycle of target SMEs.

Rationale: SMEs require financing to invest in assets and inputs, which in turn enables greater productivity. However, credit is unattainable for many SMEs in Eswatini. Credit is only available to the most productive SMEs and those with strong collateral backing. It is important for financial institutions to take steps to develop profitable SME lending programmes and prioritize the development of innovative solutions to collateral issues, such as the acceptance of more flexible forms of collateral. The use of the SSELGS, more flexible collateral such as movable property, an assessment of borrowing capacity that is based more on current and/or future cash flows than the balance sheet, easy and effective loan application assessment methodologies would go a long way in improving access to finance for SMEs.Businesses require different kinds of funding throughout their life cycle. Start-up businesses

Table 11: SME Business lifecycle, properties and financial needs

Source: Physica-Verlag Heidelberg, 2010

Age increase; Information opacity decreases; Size changes

Lifecycle stage	Properties	Needs	Sources of finance	Providers
Inception	Small, young businesses Difficulty accessing external finance. No track record, no collateral Undercapitalisation	Capital for sunk cost and operating expenses	Owners equity (savings) Debt using owner collateral	Owner & providers to owner: Banks, MFI's, Informal and friends
Expansion Growth 1	Overtrading; Liquidity crisis Small, but high growth potential Limited track record High reliance on inefficient short term debt	Liquidity management longer term debt or equity investment	Retained profits Trade credit Overdraft facility	SME itself Value chain providers Bank
Growth 2 Growth 3	Medium sized, older business Some track record Collateral available if necessary Balance sheet mismatch Loss of control (if equity is utlised)	Addressing finance gap/ mismatch Retaining control	Longer term finance Private equity investment Market issued debt/equity instruments	Banks Development banks Private equity investors Public equity/debt markets
Maturity	Large firms, known risk & track record Access to broad range of financial services Declining marginal return on investment Large, old firms, in competitive industry	Need to maintain return on investment (ROI)	Choice of financing determined by owner preference	Choice of financing determined by owner preference
Decline	Well established track record Rapidly declining return on investment Withdrawal of finance, repurchase shares, firm liquidation			

(between 0 and 2 years) require more DFI funding, angel financing and grant funding while more mature businesses normally utilise funding through bank debt, asset-based funding, private equity and venture capital. It is important to note that small businesses, herein referred to a low-impact business, are normally funded through own funds such as savings, funds from family and friends, as well as equity release from residential property. However, these are not the focus of this Roadmap. For the target SMEs, there is an opportunity for the use of blended finance as part of the credit solution. Blended finance refers to a combination of funding instruments from sources such as government, DFIs or philanthropic funds (donor) blended with capital from other official sources such as private credit providers.

Opportunity: The main objective is to improve access to finance for target SMEs. A good SME support system needs to recognise that different stages of SMEs have different financial needs. Any strategy intended to meaningfully growth SMEs should attempt to provide an optimal support system by addressing the various financial needs that emerge during the various business life cycles. The Table below presents the business lifecycle stages, their properties and needs of each business lifecycle.

Lack of access to collateral, insufficient funding for DFIs and lack of a credit and information sharing platform were found to worsen access to credit in all stages of the SME business lifecycle. The following actions are aimed at addressing challenges to access to credit for the business lifecycle stages of target SMEs.

- Introducing a variety of funding mechanisms, including blended finance, over the business life cycles of target SMES. Opportunities exists to strengthen and target DFIs towards start-ups and risky sectors, value chain financing for target sectors while making it easier for banks to lend to growth phase SMEs through lessening the risk burden on them while exploring new models that are not as strong in Eswatini, such as angel investors.
- There is potential to extend input credit to target SMEs through existing and new high growth value chains. In tight value chains, this reduces the risk to the provider as repayments are automatically deducted at the point where goods are sold. Credit could be structured to suit various SME business cycles, enabling repayment to be delayed until they earn revenue. As has been shown in the diagnostic assessment, this model has helped propel the sugar cane industry in Eswatini.
- Credit providers in Eswatini require that clients, including SMEs, provide collateral such as land or real estate to secure their loans. However, many creditworthy SMEs do not have the type of collateral required. To remove this barrier, the Government and credit providers could consider relaxing collateral requirements to include movable property as a form of collateral. This could require establishing a unified online registry for all movable assets used as collateral so that potential creditors can verify whether assets offered as collateral are subject to other obligations and introducing enforcement laws in cases of default to reducing credit providers' risk in accepting alternative forms of collateral. Introduce legislation to enable the use of moveable collateral by SMEs.
- Improving the broader credit and information sharing environment for providers can help to reduce the uncertainty in the lending market and therefore reduce risk. Central to this is facilitating fully functioning credit bureaus. An SME register is critical to allow lenders to identify and track clients. Overarching credit regulation would help reduce many of the uncertainties in the market and provide a consolidated framework for the market to operate within. Through the CFI, Eswatini is already in the process of developing a credit information bureau as well as a business development measurements system that could be used as SME credit scoring model by financial institutions.
- Address information asymmetries between credit providers and SMEs, and address operational constraints raised by banks in the recovery against bad loans.
- Prepare economic viability models for DFIs and find grant or concession loan facilities from donors or government to support target SMEs.
- Introduce financial solutions 'one-stop-shops' to encourage uptake of financial services.

Digitizing payments across value chains where SMEs participate to increase operational efficiency and generate digital transaction history.

Rationale: Access to digitized payments is fundamental to the usage of all economic segments.SMEs in Eswatini are largely operating in a cash economy, with usage of cash well over 90% mainly due to a lack of electronic payments acceptance capability. Most SMEs use cash to pay employees and suppliers and perceive cash to be simple to use and free. However, this limits access to digital transaction history, which is important for modern day record keeping. It is important to develop none cash-based payments mechanism to meet the needs of SMEs such as processing day-to-day business transactions. One such opportunity is the use of mobile money for transactions. Providers and users of digital payments need to work together to grow penetration of digital payments.

Opportunity: The following opportunities exist to improve digital payments:

- Develop ecosystems such as digitising payments where suppliers are paid digitally and are able to pay others in the chain using digital money.
- Exploring mobile money solutions for SMEs.
- Develop new digitized products for SME clients and raise awareness on digital payments and receipts to promote update by target SMEs.

6.1.3. Business Development

Providing high quality and coordinated business development support to target SMEs in key sectors that will transform the economy.

Rationale: Business development support services enhance the performance of individual businesses, allowing them to compete more effectively, operate more efficiently and become more profitable. They provide businesses with knowledge and resources to innovate, grow and contribute positively to the economy. The diagnostic analysis showed that most SMEs in Eswatini do not utilize BDS. However, lack of management or technical skills, the use of suboptimal technology, limited access to markets and information, as well as regulatory barriers, were found to hinder the development of SMEs. Business capabilities are therefore crucial for the development of SMEs, providing the know-how and skills to seek growth opportunities, reach export markets and promote innovative and competitiveness. The analysis also revealed that some of the business support offered to SMEs in Eswatini did not match the needs of SMEs. Delivery of an effective business support system is therefore a necessary condition for the success of SMEs in Eswatini. It requires coordinated business support agencies which are customer-oriented, have a demonstrated capability of meaningfully impacting the SME sector and are accredited to provide such support.

Opportunity: Opportunities exist for more tailored, improved and targeted BDS, delivering knowledge and technical expertise in all key areas of BDS: strategic management, production & operation (including use of ICT to enhance performance through technology uptake); sales & marketing; financial management; human resources management; and regulatory/legal compliance. Where possible, the use of physical infrastructure such as business incubators could be explored for more hands-on practical experience. This however, is more suited for smaller companies with not much basic knowledge on their business operations and business processes.

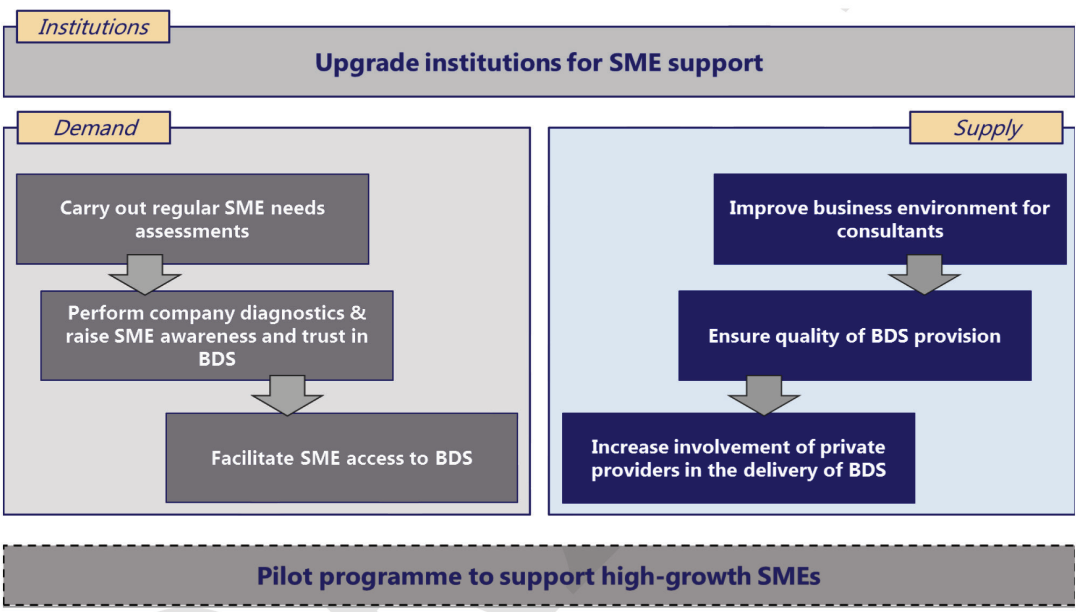


Figure 30: Delivery Model for Business Development Support

Source: *OECD Eurasia Competitiveness Programme (2017)*

The supply of business development services should be determined by the market and shaped by demand based on a clear understanding of enterprise needs. Currently, some of the BDS services have been supply-driven and hence less efficient. The overall opportunity lies in structuring the delivery of business development services to be more coordinated, efficient and effective. This will require close collaboration between development partners, Government institutions, business organisations and the private sector to ensure targeted initiatives and capacity building amongst BDS providers.

The main actions include:

- Develop targeted market-driven business development programmes, such as through the UNDP Supplier Development Programme, for each of the prioritized value chains to address specific target group needs. A pilot programme to support high-growth SMEs should be considered to kick-start market-driven provision of BDS.
- Structure the delivery of business development support to be more coordinated, efficient and effective. This will require close collaboration between development partners, Government institutions, business organisations and the private sector to ensure targeted initiatives and capacity building amongst BDS providers.
- Use physical infrastructure such as business incubators to impart more hands-on practical experience to target SMEs.
- Encourage the uptake of ICT and technological innovations by target SMEs to drive value chains.
- Conduct periodic SME needs assessment for the target groups, leading to a targeted and supply-driven provision of business development support.
- Strengthen the supply of BDS by the providers, including the private sector, through a capacity building and accreditation programme to enhance quality in the supply of BDS services. The UNDP Supplier Development Programme Methodology[15] can be used for this purpose. UNDP provides training and an accreditation process to BDS providers to ensure quality in the delivery of BDS. The introduction of a performance and quality control assessment criteria for BDS providers will go a long way in addressing the current uncertainty on the quality of BDS provided by suppliers in the country. An opportunity also exists for collaborative delivery of BDS between the public and private sectors.

Addressing barriers for women and youth to promote their high growth enterprises.

Rationale: Fostering entrepreneurship amongst women, the youth and the disadvantaged is a key policy goal for the Government of Eswatini. Enhancing the ability of women, youth and the disadvantaged to participate in SME development should be considered at every level, as they account for an important share of private sector activity and contribute most to poverty reduction. Gender, youth and other disadvantaged group dimensions need to be mainstreamed throughout SME development strategies and programs, with additional specific, targeted initiatives directed at critical roadblocks. The analysis on the participation of women and youth in business showed that women play a significant role in the SME space in Eswatini. However, they tend to operate at very small scale and in none-innovative, low-productivity industries. Only 31% of women owned businesses in the high growth target group. Even though youth participation is still low, it was impressive that almost a quarter of businesses in the high growth target group were owned by the youth.

Opportunity: There is an opportunity to revisit Government's procurement procedures to the extent that Government avails a ready (and stable) market for women and youth businesses. This will increase the meaningful participation of women and youth business people in Government or Donor funded capital projects. SMME Policy 2009

The following actions seek to address the participation of women and youth participation in high growth businesses.

- Strengthen policies to promote female and youth entrepreneurship, including reducing administrative burdens on businesses and excessive regulatory restrictions, ensuring equal access to finance for female and male entrepreneurs, and pair relevant financing schemes with support measures such as financial literacy, training, mentoring and coaching.
- Provide more and better information about entrepreneurship as an attractive career option for the youth in schools and for women outside the labour force who are considering starting or getting back into work. Programmes for female-owned enterprises should not exclusively target start-ups and small enterprises but

[15] The UNDP Supplier Development Programme methodology is aimed at developing productive capacities of SMEs to improve their competitiveness and strengthen the entrepreneurial ecosystem through a structured delivery of BDS. BDS is provided through a defined process involving a detailed diagnostic assessment of individual enterprises, development and implementation of performance improvement plans and formalization of supply agreements between suppliers and buyers. In the case of Eswatini, the programme could be rolled out on target SMEs in value chains.

include instruments to stimulate participation in high-growth enterprises.

- Develop and improve current preferential market and financial schemes for women and youth and develop a scoring system to recognize women and youth entrepreneurs in Government procurement and financial assistance programmes.
- Introduce a women/youth entrepreneurship award programmes to nurture entrepreneurship.
- Collaborate with organisations dealing with women and youth in order to coordinate and complement efforts towards women and youth entrepreneurship development.

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Notes

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