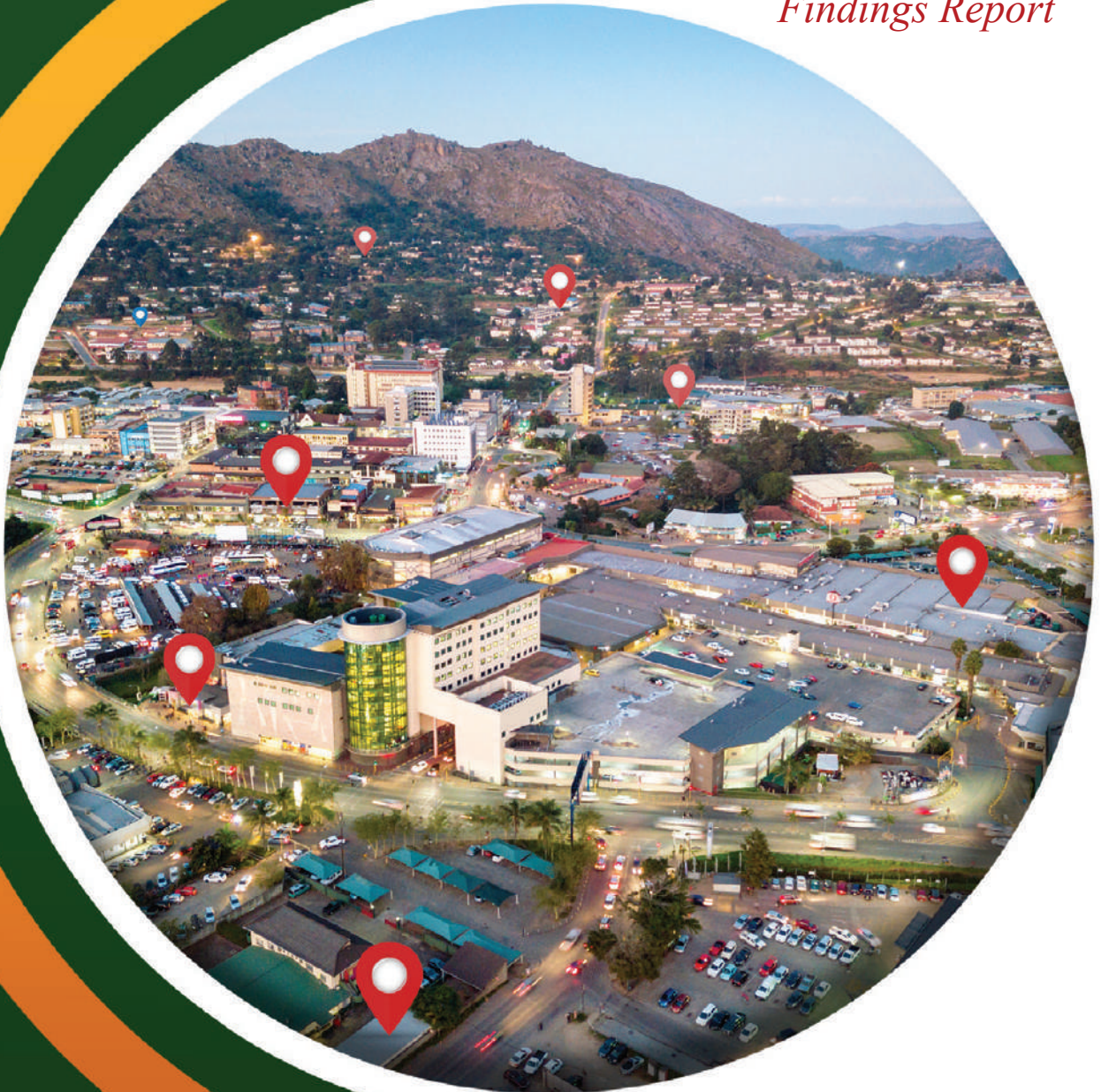


2023 Eswatini

Findings Report



FinScope

Blended Micro, Small and Medium
Enterprises Survey



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Glossary of Terms

Term	Definition
Access Strand	A measurement of financial inclusion across the formal-informal institutional provider continuum
Adults	Those people aged 18 years or older.
Banked	Individuals who use one or more traditional financial products supplied by commercial banks
Credit	Funds obtained from a third party with the promise of repayment of principal, usually with interest and arrangement charges in exchange for the money
Demand-side barriers	Barriers to accessing financial services related to characteristics inherent to individuals that prevent them from using financial services such as perceived insufficient income, low levels of financial literacy, and lack of trust in financial institutions
Enumeration Area (EA)	A well-identified territorial unit with a prescribed population size (usually about 80 to 120 households) in which enumeration is to be carried out by a single enumerator within a specified period of enumeration
Other formal	Financial products/services supplied by formal financial institutions which are not banks
Formal products	Products provided by government-regulated financial institutions such as commercial banks, insurance companies and microfinance institutions.
Formally included	MSME owners who use 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.
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	MSME owners using one or more formal and/or informal financial products/services
Financially excluded	MSME owners who are not using any formal or informal financial product/service
Financially included	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
Informal products	Financial services provided by individuals and/or associations that are not regulated by the government, such as savings clubs and private moneylenders
Informally only served	MSME owners who are not using any formal financial products but who are using one or more financial products/services supplied from an informal source, such as a savings club or informal moneylender
Informally served	MSME owners who make use of informal financial products (regardless of whether or not they use formal financial services and products)
MSME	Defined by the number of employees (according to the Eswatini National MSME Policy of 2023) who employ less than 60 employees and an annual turnover of up to E8 million. For the study, only the number of employees was used to segment the sector from independent (0 employees), micro (1-10 employees), small (11-20 employees) and medium (21-60 employees)
Insurance	Payment of a premium to cover the risk of an event happening, where the payout is made if or when the event occurs
Supply-side barriers	Barriers to access to financial services related to factors inherent to financial service providers that prevent individuals from using their services such as the location of access points and the cost of using their services
Transactional	Financial services that use cash or other means (such as cheques, credit cards, debit cards or other electronic means) to send or receive payments
Formal MSME	MSME owners who have either registered their business with an authority such as the Registrar of Companies or are licensed with the Ministry of Commerce, Industry and Trade or have a permit to operate from an authority such as the municipality.

Executive Summary

The Eswatini Government conducted a repeat Blended FinScope MSME survey in 2023

The Eswatini Government continues to place a high priority on the Micro, Small, and Medium Enterprises (MSME) sector as it recognises the critical role that these businesses play in fostering economic growth, generating employment, and lowering poverty. Therefore, a repeat Blended FinScope MSME survey was carried out in 2023 to fully understand and meet the information needs. The word “blended” was introduced to emphasise the inclusion of informal enterprises, which are a component of the nation’s MSME population. The objective was to determine the size and diversity of MSMEs in Eswatini as well as the extent of formal and informal financial product and service access.

The findings show that over three-quarters of business owners in Eswatini rely on their MSME as their primary source of income. The dependency on business has dropped since 2017, possibly due to the effects of the Covid-19 pandemic and the Russia-Ukraine war. However, there has been an 18% increase in the number of MSMEs since 2017, with most operating in the wholesale and retail sectors, and agriculture and farming.

Many MSMEs are in the start-up phase, and there is a greater failure rate after this stage. Young entrepreneurs constitute 28% of MSME owners, indicating the sector’s potential in alleviating youth unemployment and contributing to the government’s efforts to promote economic empowerment. Interestingly, the start-up phase has more female owners (67%), but this percentage declines as the business matures into the growth and established phases, which are similar to the 2017 findings.

The MSME sector still serves as a source of livelihood for a higher number of women, with most running micro-enterprises. The manufacturing sector has a low level of

entrepreneurship, with fewer MSMEs involved, indicating a marginal contribution to industrialisation.

A higher proportion of formal MSMEs are registered or licensed, largely due to improvements in sampling and sizing. The small size of the business and the lack of an obligation or incentive to register are still the key reasons for informal MSMEs. To formalise most of this sector, authorities need to understand which businesses should be registered. However, this may not apply to every firm as most are survivalist by nature. For many women and young people who cannot secure regular employment, this sector provides a means of subsistence. Women and young people pay more for business registration and compliance, with little to no apparent benefits.

The awareness of Business Development Service (BDS) providers is high at 84%, but the usage is lower, with only 30% of those aware having used any BDS institution. In the region, BDS is broadly viewed as not beneficial by those who received support, indicating a misalignment of support services with business needs. Business incubator interventions



have been found to inadequately address the actual needs of businesses and their owners. Creating effective support systems, informed by additional qualitative research, can bridge this gap. The results suggest that the value of a support service should be reevaluated from the perspective of the demand side (MSME owner).

Access to finance remains a significant constraint for businesses during operation and growth. However, a higher proportion of businesses are formally included in 2023, with 84% having formal access compared to 76% in 2017. The cost of finance, access to cash flow and sourcing funds are some of the 'access to finance' issues raised as barriers, even for those who have access to formal finance mechanisms like bank accounts. These findings suggest that the needs of business owners are not being fully met by the formal financial market.

The financial landscape for MSME businesses is changing. A lower proportion of business owners are adopting mobile money services because of their flexibility, convenience, and cost-effectiveness. Increased ownership of mobile phones is

also leading banks to develop mobile wallets. In 2023, fewer business owners are banked (52%) compared to 2017 (69%). The barriers to banking have remained unchanged, with the most common ones being related to survivalist business owners who do not see their business or income as sufficient to warrant bank products due to their low and irregular income.

Expanding the sector will require sustained support from both the public and private sectors. The Covid-19 pandemic demonstrated that the industry still needs government assistance to be resilient and grow. The MSME sector contributes significantly to the nation's GDP and provides a sizable number of jobs. The industry faces difficulties in obtaining funding, managing cash flow, and adhering to legal and regulatory requirements. Concerns about market access have been raised, and it may be necessary to consider industry protection and competition.



1. Introduction

Introduction

The Eswatini Government prioritises MSME development

With a focus on improving financial access and support for both formal and informal enterprises

The Eswatini Government still gives a lot of attention to the Micro, Small and Medium Enterprises (MSME) sector, acknowledging the vital role this sector can play in promoting economic growth, creating jobs, and reducing poverty. The Microfinance Policy, Financial Sector Development Implementation Plan, and National Financial Inclusion Strategy all include provisions aimed at facilitating small business access to financing through alternative financing schemes. The development of the MSME sector is a fundamental component of the revised Eswatini National MSME Policy 2023-2028.

The policy recognises its role in improving and developing the business climate to drive the sector's potential in creating jobs and increasing tax contributions and national income. The study speaks directly to the two-pronged approach outlined in the policy: first, by understanding and improving the MSME ecosystem, and second, by adopting a targeted approach to serve

various MSME subsegments. The study aims to uncover the ecosystems and apply a segmentation that identifies key subsegments with the potential to drive the sector forward.

The development of the MSME sector is a key priority, as it is a central objective within the Sustainable Development Goals (SDGs) and the SADC industrialisation and financial inclusion strategies. Globally, the MSME sector is important for industrialisation, as outlined in the United Nations SDG goals adopted in 2015. Goal 9 aims to "Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation." This goal recognises the need to "increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets." MSMEs also contribute to achieving Goal 8: "Inclusive and sustainable economic growth, employment and decent work for all" and Goal 5: "Gender equality."

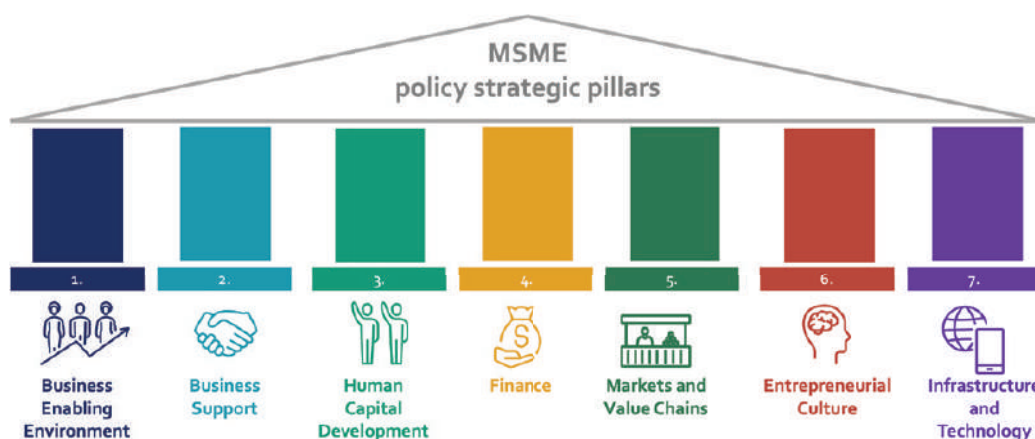


Figure 1: Eswatini MSME Policy strategic pillars

Source: Eswatini National MSME Policy 2023

Within the SADC context, MSMEs are also recognised as effective drivers of industrialisation, economic growth, and employment generation. They represent over 90% of all businesses, accounting for significant proportions of employment and gross domestic product. However, the SADC financial inclusion strategy has identified limited access to finance for MSMEs and agricultural production/agro-processing stakeholders as major barriers to industrialisation. Financial institutions tend to underserve these sectors, which hinders their ability to grow and prosper. To address this, the expansion of payments and digital financial services, and the adjustment of credit markets to better support MSMEs and smallholder finance are important steps to further improve financial inclusion for these sectors.

According to the MSME policy of 2023, the government and its partners have implemented several programmes to encourage entrepreneurship, such as Junior Achievers and the Entrepreneur of the Year awards, with the assistance of organisations like the Eswatini Investment Promotion Authority (EIPA) and the Small Enterprise Development Company (SEDCO). 'Repositioning & Up-Scaling MSMEs for Meaningful Growth and Stability' is the focus of the MSME policy under review, which was first released in 2004 and updated in 2009, before undergoing its most recent review in 2018. The 2023 review is still being finalised. With the help of supportive institutional and regulatory frameworks, the 2018 revision of the MSME National Policy (the "Policy") aims to create a highly profitable and entrepreneurial sector that is characterised by innovative, competitive, and sustainable businesses.

Drawing from global policy frameworks, the MSME Policy (2023) identifies seven strategic pillars that are deemed to be key

areas that form part of the MSME development ecosystem shown in Figure 1. Though this report does not delve into each pillar in detail, the policy focuses on improving the ease of doing business in Eswatini. This includes establishing support systems for entrepreneurs, ensuring the availability of high-quality financial instruments, and promoting inclusive financial markets, among other initiatives.

In an attempt to understand and meet the information needs, a repeat Blended FinScope MSME survey was conducted in 2023. The term 'blended' was added to amplify the inclusion of informal businesses which form part of the MSME sector in the country. The aim was to identify the size and scope of MSMEs in Eswatini and describe the levels of access to financial products and services, both formal and informal. The study also attempted to identify the most pressing constraints to MSME development, with a focus on access to financial markets. Additionally, the MSME sector was segmented into various categories to identify the needs of each segment and provide recommendations for promoting them in line with MSME policy.

The primary results of the Blended FinScope MSME Survey 2023 are presented in this report. It expands on the findings from the 2017 Survey to offer a current viewpoint on MSMEs, focusing on their use and accessibility of financial services. The 2023 study explores the current status of MSMEs' access to and use of finance, considering the impact of the Covid-19 pandemic, market contributions, and financial difficulties, while also building on the 2017 findings. Additionally, this research emphasises developed or high-growth MSMEs to draw policymakers' attention to a subset of MSMEs that, with the right support, could potentially transform the MSME sector.

Methodology

The FinScope MSME Eswatini study prioritises engaging a wide range of stakeholders through a thorough consulting process as an integral design attribute. This process aims to improve the survey and ensure that the results significantly benefit participants with a shared interest in developing the sector. The Ministry of Finance's Centre for Financial Inclusion (CFI) convened a Steering Committee (SC) responsible for the survey's design. The MSME Unit of the Ministry of Commerce, Industry & Trade (MCIT) was one of the organisations represented on the SC, as well as representatives from FinMark Trust, the Central Bank of Eswatini, the Central Statistical Office (CSO), and other organisations. CSO and the Ministry of Finance in Eswatini participated in the technical procedures.

The FinScope MSME Survey is a nationally representative survey developed by FinMark Trust to understand the financial needs of MSME owners. The main goals of the repeat survey were to:

- To assess the size and scope of MSMEs in Eswatini
- To describe the levels and landscape of access to financial products and services (both formal and informal) as well as track the level of financial access since 2017
- To identify the most binding constraints to MSMEs' development and growth with a focus on access to financial markets
- Identify the drivers and barriers to financial access for MSMEs
- To identify and describe different market segments with specific development needs to stimulate segment-related product innovation.



Sampling frame

The survey's sampling framework was created in partnership with CSO, CFI, and FinMark Trust. To ensure a fair representation of the Eswatini MSME sector, a random sampling strategy was used to select MSMEs in each chosen enumeration area (EA). The goal was to cover a diverse range of formal and informal MSMEs, representing various sizes, sectors, genders and locations. In urban EAs, 12 MSMEs (plus 2 substitutes) were chosen, while in rural EAs, 10 MSMEs (plus 2 substitutes) were selected. The substitutes were intended to replace any MSME owners who were unavailable or refused to participate.

The selection process for the survey carefully considered various factors to ensure a representative sample of MSMEs in Eswatini. To achieve this, the process:

- Excluded larger businesses (with over E10 million turnover or 60+ employees)
- Focused on medium and small businesses, given the dominance of micro-enterprises
- Prioritised businesses with a larger workforce for more in-depth insights
- Ensured diverse sector representation, including less common ones
- Strived for gender balance and a mix of formal and informal enterprises.

By applying these criteria, the survey aimed to create a comprehensive and accurate snapshot of the MSME landscape in Eswatini, supporting informed decision-making. Table 1 displays the number of EAs selected per region and the corresponding number of targeted MSMEs.

Region	EAs	Urban	Rural	Targeted
Hhohho	76	22	54	804
Lubombo	92	4	88	928
Manzini	90	24	66	948
Shiselweni	62	9	53	638
Total	320	59	261	3,318

Source: FinScope MSME Eswatini 2023 Technical Report

Table 1: Number of selected EAs by region and MSME targets



Questionnaire design

FinMark Trust developed a comprehensive questionnaire, which was adapted and contextualised by the research institution, ESEPARC, to fit the context of the Kingdom of Eswatini. With input from the SC, the questionnaire was refined and enhanced to ensure that it was appropriate and met all the objectives of the survey. The resulting questionnaire was an extensive and comprehensive instrument that investigated several themes related to MSMEs in Eswatini, such as the characteristics and profiles, the characteristics and attributes of business owners, and the proportionate size and significance of the MSME sector in the overall economy.

The questionnaire also covered topics related to formal and informal financial access, such as the changing dynamics of financial supply and demand, the nature and scope of financial product access, including bank and non-bank usage and non-financial services, and the factors that support and impede MSMEs' ability to access financial resources.

ESEPARC carried out a pilot study involving selected businesses in listed EAs located in Mafutseni. This exercise, attended to by the SC for oversight and quality control, provided valuable insights into the survey instruments, data collector readiness, and overall implementation preparedness.



Fieldwork and quality control

The primary goal of the fieldwork was to gather comprehensive insights into the financial behaviours and requirements of Eswatini’s households and businesses nationwide through in-depth interviews. To achieve this, a systematic and analytical approach was employed to engage the target sample across Eswatini’s varied geographic regions and populations. This thorough approach resulted in a total of 3,343 interviews being conducted throughout the country.



Data submission, cleaning and weighting

Following the completion of the fieldwork, the collected data underwent a thorough processing phase. It was first converted into a format compatible with the Statistical Package for Social Sciences (SPSS) software, then cleaned and coded. The resulting dataset was submitted to CSO and FinMark Trust for further refinement, specifically for weighting and validation purposes. To address any potential biases due to non-response, the weights were adjusted accordingly. The data was benchmarked against the most recent estimates provided by the CSO to ensure that the final dataset accurately represented the adult population aged 18 years and older.

Description	Details
Methodology	Computer Assisted Personal Interviews (CAPI)
Definition of MSME owners	Survey of MSME owners, defined as individuals who are: <ul style="list-style-type: none"> • 18 years or older • Perceive themselves as business owners/generating an income through business activities • Employing 60 people or fewer, including independent entrepreneurs without any employees, with a maximum annual turnover of E8 million.
Sample size	n=3,343 A nationally representative sample including both urban and rural areas
Sampling frame	Stratified random sampling methodology
Questionnaire length	65 minutes
Fieldwork	September to December 2023
Date management	Weighting was done by the CSO and FinMark Trust

Source: FinScope MSME Eswatini 2023 Technical Report

Table 2: Overview of the methodology



2. Background on the Eswatini Economy



Background on the Eswatini Economy

Eswatini is a landlocked country, bordered by Mozambique to its northeast and South Africa to its north, west, south, and southeast, covering an area of approximately 17,364 km². The Eswatini population, estimated at 1,2 million, is classified as a low-middle income country and has a Gross Domestic Product (GDP) per capita of USD 3,823 in 2023 (World Bank, 2024). The country maintains a significant economic dependence on its neighbour, and in 2023, South Africa accounted for 65% of Eswatini's exports and a substantial 75% of its imports¹. The country's currency, the Lilangeni, remains pegged to the South African Rand, effectively ceding monetary policy control to South Africa. The government relies heavily on revenue from the Southern African Customs Union (SACU) and remittances from Eswatini workers in South Africa to supplement its domestic income. The Eswatini economy showed signs of recovery from the Covid-19 pandemic in 2020-2022 with growth outpacing the long-term average of 2.5%, achieving 3.1%². However, fiscal challenges due to lower SACU inflows affected the manufacturing sector, leading to a slight decline in 2022/23³.

Despite recent economic challenges such as the ongoing effects of the Covid-19 pandemic and Russia's invasion of Ukraine, average inflation rose from 4.8% in 2022 to 5.0% in 2023. However, the surge in global commodity prices, including oil, fertiliser, and food, has driven up production costs. Moreover, being classified as a lower-middle-income country, Eswatini continues to struggle with a high poverty rate, with approximately 52.1% of its population living below the international poverty line in 2024, according to the World Bank's 2024 reports. The country's wealth distribution also remains a concern, with a mere 20% of the population controlling a staggering 80% of the nation's wealth.

Eswatini faces significant social challenges, including a high HIV/AIDS prevalence rate of 24.8% among adults (SHIMS3

2021), which poses a substantial burden on the healthcare system and economy. Unemployment is another pressing issue, with a staggering 49.2% rate among citizens actively seeking work, according to the Ministry of Labour & Social Security's 2023 labour force survey. According to the Integrated Labour Force Surveys, labour force participation among the working-age population grew from 45.9% in 2021 to 50.8% in 2023. The Covid-19 pandemic has further exacerbated this issue, resulting in thousands of job losses and contributing to the high unemployment rate. To address these challenges and improve the quality of life for its citizens, Eswatini needs to focus on promoting the growth and development of MSMEs and attracting foreign direct investment.

Eswatini has a population predominantly residing in rural areas (75%) and urban centres (25%). The majority of the urban population is concentrated in the administrative capital, Mbabane, and the commercial hub, Manzini, as well as the area between them. However, the rapid growth in these cities has led to informal settlements, with approximately 60% of urban households living in unplanned and un-serviced areas. This has caused difficulties in accessing essential services like sanitation, electricity, and waste management. To address these issues, the government has launched the Urban Development Programme, to improve urban management efficiency and living conditions for low-income households. The programme includes initiatives such as road rehabilitation, solid waste management, water and sewerage services upgrading, and residential housing development. This project will benefit MSMEs by addressing physical limitations such as poor infrastructure and creating opportunities for MSME products and services to be sold to the government, thereby promoting economic growth and development.

¹<https://www.worldbank.org/en/country/eswatini/overview>

² <https://parliament.gov.sz/media/speeches/budget/2024.pdf>

³<https://parliament.gov.sz/media/speeches/budget/2022.pdf>

Despite some setbacks, there has been improvement in the primary sector, particularly agriculture and mining. However, weather-related challenges and high input costs have hindered further progress. The latest Central Bank report forecasts growth in the primary and tertiary sectors, signalling a positive economic outlook for the country. Despite showing signs of recovery, the tourism sector remains below pre-pandemic levels. The public sector is moving ahead with several construction projects, including the Biotechnology Park, clinics, factory shells, and road infrastructure, as outlined in the 2024/25 national budget. Nevertheless, there is a concern that MSMEs may struggle to compete with larger companies for these projects (Annual Integrated Report, 2022/23).

Research conducted by FinMark Trust in 2021 on the service and light manufacturing sector to indicate the level of MSME activity, opportunities and challenges highlighted their nascent scope in the current economy. Overall, Eswatini remains an uncompetitive economy with a weak enabling environment. Eswatini ranks poorly against South Africa in all categories of competitiveness. Due to low innovation capability, labour market conditions and infrastructure among other areas place Eswatini in a difficult position to boost manufacturing or its services sectors. Significant reforms are required to gain some form of competitiveness that could translate into opportunities for MSMEs.

The ease of doing business is also deteriorating, mainly caused by poor access to electricity, difficulty in starting businesses, and inadequate contract enforcement. The cost of data is high and impedes the potential uptake of digital financial services and growth in the supply of digital services. Table 3 summarises the research highlighting limited markets and low competitiveness.

Thanks to the government's aggressive efforts to revive the sector, the tourist industry has demonstrated resilience in the face of the pandemic, with an impressive 77% surge in 2023 compared to the previous year. While this growth is promising, the nation's tourism figures have not yet returned to pre-pandemic levels.

Meanwhile, the construction sector presents expansion opportunities. The 2024/25 national budget highlights key public projects such as the Biotechnology Park, healthcare facilities, factory shells, and road infrastructure upgrades. However, there is a concern that smaller enterprises, such as MSMEs, might face stiff competition from larger companies in securing contracts. This could potentially limit their involvement in these projects.



Sector or Value Chain Identified	Expected Sector Growth	MSME Presence	MSME Growth Opportunity	Key Issues
Sugar	Moderate <ul style="list-style-type: none"> • Modest export growth • High regional competition • SACU and EU markets threatening to reduce demand 	Low <ul style="list-style-type: none"> • Dominated by large players and small-scale farmers 	Low <ul style="list-style-type: none"> • Limited market for MSME-produced goods • Low competitive advantage 	<ul style="list-style-type: none"> • Highly structured market • EU and SACU threatening to reduce demand
Textiles	High <ul style="list-style-type: none"> • High export growth • New market penetration 	Low <ul style="list-style-type: none"> • Dominated by large players 	Low <ul style="list-style-type: none"> • Low MSME competitive advantage • US market growth risk due to AGOA expiry 	<ul style="list-style-type: none"> • As highlighted in the previous cells
Fruits and vegetable processing	Low <ul style="list-style-type: none"> • Declining exports 	Low <ul style="list-style-type: none"> • Dominated by large players 	Low <ul style="list-style-type: none"> • Production takes place closer to markets in South Africa • Low MSME competitive advantage 	<ul style="list-style-type: none"> • As highlighted in the previous cells
Wood processing	Moderate <ul style="list-style-type: none"> • Moderate growth in exports 	Moderate <ul style="list-style-type: none"> • Dominated by large players 	Low <ul style="list-style-type: none"> • Low MSME competitive advantage • Small domestic market for local goods • Production of final goods takes place in South Africa with few local businesses producing furniture 	<ul style="list-style-type: none"> • As highlighted in the previous cells
Tourism	Low <ul style="list-style-type: none"> • Declining sector growth • Declining tourist arrivals 	Moderate <ul style="list-style-type: none"> • Mainly micro and large businesses 	Moderate <ul style="list-style-type: none"> • Few tourist assets relative to South Africa and Mozambique • Declining demand • Non-commercialisation of royal events 	<ul style="list-style-type: none"> • As highlighted in the previous cells
Support services (e.g. transport and logistics, cleaning, security, catering and maintenance for high-growth priority sectors)	Moderate <ul style="list-style-type: none"> • Moderate sector GDP growth • High dependence on government-induced spending 	High <ul style="list-style-type: none"> • Dominated by MSMEs 	Moderate <ul style="list-style-type: none"> • Lack of MSME procurement policies • No special tax regime for MSMEs 	<ul style="list-style-type: none"> • Getting credit: Poor project preparation, lack of collateral (where required), low diversity of credit options, institutional capacity, credit guarantee claims <p>Process and regulations.</p>

Source: MSME Finance Scoping: Services and Light Manufacturing (2021)

Table 3: Summary of value chain opportunities and challenges - Eswatini

Private sector development in Eswatini

Government aims to diversify and support MSMEs.

Eswatini has a small private sector, but there is potential for growth and change. Key sectors driving the private sector include agriculture (such as sugar cane farming), industry (especially the manufacture of sugar, citrus fruits, and textiles), and services (including banking and tourism). One of the significant challenges is the fact that the economy is heavily reliant on agriculture, particularly sugar production, which makes it susceptible to the volatility of global commodity prices. Despite some advancements, the investment climate is still difficult due to regulatory impediments and bureaucratic red tape, which create barriers for both domestic and foreign investors.

The government has implemented various national strategies to create a conducive environment for the private sector, including the National Development Plan (NDP). The NDP aims to increase economic diversification, investment, and job creation, especially in the MSME sector. Additionally, the strategy involves strengthening skills development through industry partnerships, which is considered an essential measure to empower MSMEs, particularly those in the informal sector.

The role of MSMEs in economic development

MSMEs drive Eswatini's growth, jobs, and inclusion.

Most economies, like Eswatini, rely heavily on the MSME sector to encourage innovation, economic growth, and job creation. With the right support and resources, MSMEs can contribute significantly to the country's GDP and employment opportunities, enabling women and youth entrepreneurship. MSME development, as part of the enhanced and dynamic private sector, supports sustainable and inclusive growth where job creation is critical. According to the Central Bank of Eswatini, the MSME sector has the potential to create over 20,000 new jobs and contribute up to 30% to the country's GDP. The MSME sector is also expected to play an important role in the economic inclusion of the youth, who comprise up to 37% of the population. Nationally, 58% of the youth are unemployed, and unemployment is more prevalent among those in rural areas.



Institutional framework to promote MSME development

MSMEs are vital for growth but face significant challenges.

MSMEs are widely acknowledged as the foundation of economic development and industrialisation, with the potential to drive job creation if their entrepreneurial spirit is nurtured. However, MSMEs in Eswatini face numerous challenges that hinder their entrepreneurial spirit, including marketing, accounting, and financial constraints, limited access to training and development, and an unfavourable business climate.

Several stakeholders, including the government, non-governmental organisations, financial institutions, and foreign organisations have started MSME support programmes to overcome these challenges. The MSME Unit, the Eswatini Investment Promotion Authority (EIPA), the Small Enterprise Development Company (SEDCO), the Eswatini Development Finance Corporation (FINCORP), and the Federation of Eswatini Business Community (FESBC) and Business Eswatini (BE), Swazi Commercial Amadoda (SCA) are frontline organisations that are actively promoting MSME development in Eswatini.

Micro Small and Medium Enterprise Unit

The Micro Small and Medium Enterprise Unit (MSME Unit) was created within the Ministry of Commerce, Industry and Trade (MCIT). Its main goal is to formulate policies and strategies that aim to develop and promote MSMEs, focusing on stimulating indigenous enterprises through an enabling business environment. In this case, an enabling environment is defined as a trading environment in which a business can operate while the government minimises licensing and other regulations. The MSME Unit has the overall responsibility of coordinating the implementation of the MSME policy.

The Eswatini Investment Promotion Authority

The Eswatini Investment Promotion Authority (EIPA) is a public enterprise with a mandate to “promote, coordinate and facilitate foreign direct and local investment in Eswatini to create the wealth necessary to enhance the Social and Economic Development of the Kingdom and its people.”

The EIPA is responsible for:

- Promoting Eswatini as an attractive destination for investment;
- Providing information to potential investors about investment opportunities in Eswatini;
- Assisting investors with licensing, immigration, and other regulatory requirements; and
- Facilitating investment partnerships between local and foreign investors.

The Small Enterprise Development Company

The Small Enterprise Development Company (SEDCO) is a public company created by the government with the main mandate of supporting and promoting the small business sector in Eswatini. Over the years, SEDCO has been instrumental in promoting entrepreneurship and supporting the growth of small businesses in the country, and it continues to be a key player in Eswatini's economic development. As part of its goal to create a vibrant MSME sector, SEDCO offers a wide variety of services tailor-made to promote the entrepreneurial talent of small and medium businesses. The main service offered is the provision of affordable premises in all the cities and towns in the country.

Eswatini Development Finance Corporation

Eswatini Development Finance Corporation (FINCORP) was established by His Majesty King Mswati III to empower the nation's economy. It aims to address the challenge of limited access to finance by providing financial resources. The main goals of FINCORP are to offer funding, promote the development of small and medium Swazi-owned enterprises that have the potential to significantly contribute to the country's economic development by providing business advisory services, and support the provision of training, monitoring, and development of other products and services for MSMEs.

Business Eswatini

Business Eswatini (BE) is Eswatini's apex private sector body that represents local businesses in the country. It serves as an umbrella body for all businesses in Eswatini and its membership cuts across all sectors of the economy. BE's mandate is to work with the government to promote a favourable business environment, encourage economic growth, and create jobs. They achieve this by forging a working relationship with the government and key policymakers, collaborating with key stakeholders and promoting social dialogue and partnership.

The Federation of Eswatini Business Community

The Federation of Eswatini Business Community (FESBC) is an organisation that represents employers. Its members and potential members are local business owners and operators who work in all sectors of the economy, including the informal sector, and micro, small, and medium-sized enterprises. These businesses are mainly run by women, the youth, people with disabilities, and people with albinism. FESBC provides a platform for collaboration, advocacy, and networking among enterprises in Eswatini. It aims to promote the growth and development of the business community by engaging with government and other stakeholders to address issues that affect the business environment.

Swazi Commercial Amadoda

The Swazi Commercial Amadoda was established in 1947 to monitor and coordinate the establishment of small businesses on Swazi Nation Land by local residents. The organisation operates in two groups, namely trade and transport, each having

nine branches and two sub-branches throughout Eswatini. The branches are overseen by branch executive councils, which have the authority to review all branch applications and approve those they consider good for the public, with a 5-mile (8 km) radius between shops for traders. Transport applications that have been reviewed by the Swazi Commercial Amadoda are then forwarded to the Road Transportation Board (RTB) with recommendations.

Youth Enterprise Revolving Fund

The Youth Enterprise Revolving Fund (YERF) is a government initiative in Eswatini aimed at supporting young entrepreneurs and promoting youth-led economic development. The fund provides financial and technical support to youth-owned businesses, enabling them to start, grow, and sustain their enterprises. YERF's objective is to empower young people between the ages of 18 and 35 to become job creators rather than job seekers, thereby reducing youth unemployment and promoting economic growth. The fund offers loans, grants, and mentorship programmes to eligible youth entrepreneurs, focusing on innovative and sustainable business ideas. YERF also provides training and capacity-building programmes to equip young entrepreneurs with the necessary skills and knowledge to succeed in business. By supporting youth entrepreneurship, YERF contributes to the country's economic development, job creation, and poverty reduction, while also fostering a culture of innovation and entrepreneurship among young people in Eswatini.





3. MSME Owner Profile

MSME Owner Profile

The 2023 edition of the Eswatini National MSME Policy highlights that the Kingdom's entrepreneurship ecosystem remains underdeveloped. Most MSMEs operate in the informal sector out of necessity due to high unemployment and lack of job prospects. This is primarily based on the baseline survey of 2017, which has been updated. The updated survey provides refreshed profiles of MSME owners, including insightful information about their age, location, gender, and educational background. This data is valuable as it helps identify regions with high numbers of entrepreneurs, the distribution of entrepreneurial activity among various demographic segments and guides focused support programmes.

According to Eswatini's revised MSME National Policy (2023), MSMEs are defined based on the number of employees and turnover because asset value is not easy to measure and tends to be industry-specific. Further, MSMEs are not one homogenous group. They vary in size and capabilities and have different needs. Compared to medium and large, more established firms, informal and micro-enterprises are disproportionately affected by costs.

Under the policy, businesses that employ up to 60 workers, have assets valued at up to E5 million or have a turnover of up to E8 million fall under the MSME category.

Micro-enterprises consist of up to ten people and have a turnover of up to E60,000.00, with the majority operating in the informal sector. Small enterprises are mainly formalised activities that engage 11 to 20 people and have a turnover of up to E3 million. Medium enterprises employ 21 to 60 people and have a turnover of over E3 million and up to E8 million.

Additionally, micro-enterprises are classified as formal and informal. Micro-informal enterprises include one-person operations, freelancers, vendors, mechanics, and similar, characterised by low wages, low productivity, and minimal tax contribution. Micro-formal enterprises include early-stage entrepreneurs with business ideas, newly registered businesses, or those with a few years of operation. Small enterprises are further divided into those focused on the local market and those involved in exporting or export-ready.

Due to the challenges in accurately assessing turnover and asset value, the study primarily uses the number of employees to determine business size. These classifications are applied throughout the report.

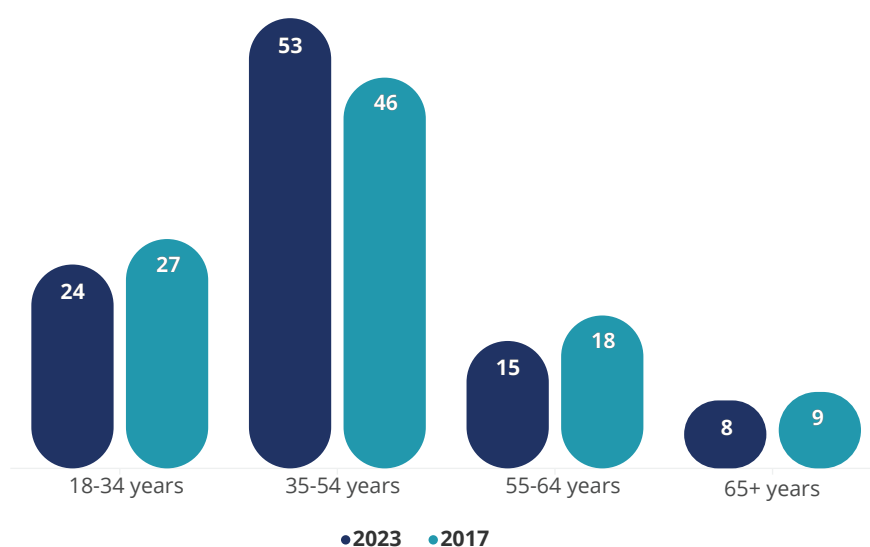
Age

The age of the business owner significantly influences several aspects of the business, such as financing, business type (formal or informal), and overall growth and success. Entrepreneurs' age is an important attribute that plays a role in understanding entrepreneurial culture, perceptions and attitudes. By segmenting business owners based on age, we can gain insights into which particular age group dominate business ownership.

As shown in Figure 2, more than half of MSME owners are adults aged 35 to 54 years. Approximately 24% of the MSMEs are owned by youth (aged 18 to 34 years), which is a decrease from 27% in 2017. In total, around three-quarters of MSMEs are owned by Swazis aged 18 to 54 years, up from 73% in 2017. Interestingly, MSME ownership declines in higher age categories, showing a consistent trend from 2017 to 2023. This demonstrates how the MSME sector can contribute to reducing the issue of youth unemployment and support the government's efforts to promote economic empowerment among the nation's youth. Additionally, it indicates that entrepreneurship is more popular among the working-age population (below 54 years).

The data also suggests that most MSME owners are young entrepreneurs who lack capital, business experience, and potentially the resilience needed in the event of unemployment. This indicates the need for the government to provide MSME owners with more business support services. Additionally, the majority of MSME entrepreneurs finance their start-ups and expansion using their funds. At the early stage of their businesses, young owners may not have enough capital to invest in their companies. This increases the pressure on the government to develop innovative financing initiatives for MSMEs.

The sectors with the highest youth population are wholesale/retail (47%), agriculture (20%) and business services (13%). Not surprisingly, 79% of the youth are individual entrepreneurs (no employees) with the majority (56%) in their start-up phase (under 2 years).



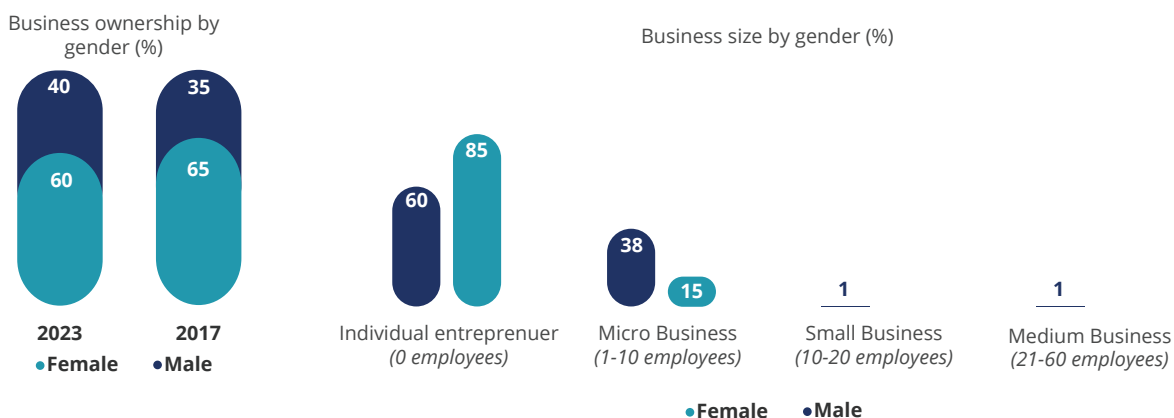
Source: FinScope MSME Eswatini 2023 Survey

Figure 2: Age of MSME owners (% of MSME owners)

Gender

While the 2023 results show a consistent dominance of female-led businesses in the sector, there is a slight increase in the proportion of businesses owned by males. Female entrepreneurs comprise 60% of MSME owners in Eswatini, while males make up 40% (Figure 3), down from 65% and up from 35% respectively in the previous period. This gender distribution is noteworthy, given that the adult population in Eswatini is almost evenly split between females (52%) and males (48%), according to the FinScope Consumer Survey Eswatini 2018.

On closer examination of business size based on gender, 85% of female entrepreneurs operate independently, with no employees, compared to 60% of males. These findings suggest that women have a higher propensity to own small businesses, which is consistent with 2017 findings. This disparity highlights the need for targeted support to help female entrepreneurs grow their businesses. Additionally, the higher prevalence of women in independent and micro-level enterprises may be attributed to lower educational attainment and limited formal employment opportunities, leading many women to engage in self-employment as a means of survival, rather than entrepreneurial motivation. Qualitative research conducted by FinMark Trust has revealed that keeping the business small is intentional as this allows female entrepreneurs time for other duties such as caregiving and voluntary exclusion, such as using the spouse’s bank account due to tradition or religious norms.



Source: FinScope MSME Eswatini 2023 Survey

Figure 3: Gender of MSME owners (% of MSME owners)

Analysis of Emaswati business owners reveals that women make up a disproportionate number of owners in the manufacturing (75%), wholesale (65%), and agriculture/farming (57%) sectors. When considering the female business owner population, wholesale /retail (47%) and agriculture/farming (21%) emerge as the most popular sectors. In contrast, male business owners are more evenly distributed across sectors, with a significant presence in construction (84%) and business services (51%). Similarly, the wholesale/retail (38%) and agricultural (24%) sectors are the most common among male entrepreneurs. The survey indicates that more women are involved in the manufacturing sector, which is closely related to the overall economy.

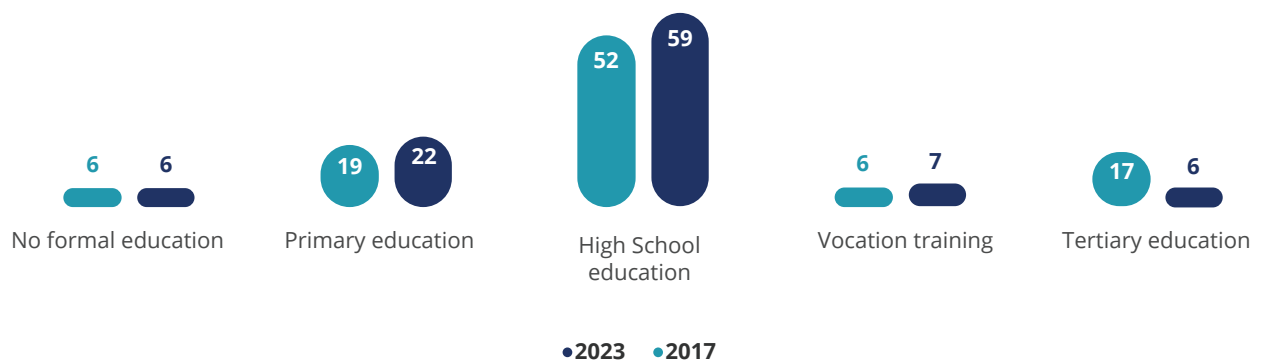
To close the gender gap and support the growth of female-owned businesses into small and medium-sized businesses, specific interventions are needed. Currently, 68% of individual entrepreneurs are female, while 32% are male. This marks a decrease in the proportion of female individual entrepreneurs from 74% in 2017. As businesses grow in size, the proportion of female ownership decreases, with only 38% of micro-enterprises and 17% of small businesses being owned by females. Medium enterprises are largely owned by males (69%) up from 61% in 2017. This suggests that women are more likely to own smaller, less mature businesses, while men dominate larger, more established enterprises.

Level of education

Although some people may gravitate towards entrepreneurship, it requires formal education or specialised training to thrive in today's technologically advanced business landscape. Research shows that higher levels of education equip entrepreneurs with skills to identify and seize opportunities, manage risks, and overcome obstacles, thereby increasing their potential for profitability. Studies have indicated that a business owner's potential to make a profit increases significantly with every additional year of schooling.

The likelihood of owning a small business has increased significantly since 2017. Only 13% of business owners in 2017 had a university degree or vocational training, compared to 23% in 2023. Compared to 2017, it seems that the industry has more educated business owners among those with any kind of education. As shown in Figure 4, 94% of MSME owners in Eswatini have at least a primary education and more than half of MSME owners have completed high school.

Lower entrepreneurial inclination by those with higher levels of education may be driven by the availability of employment opportunities for these groups and a concomitant loss of interest in running their own business due to contentment with the employment income. In contrast, individuals with lower levels of education may be more likely to start a business as a means of generating income, leading to a dominance of MSME ownership by entrepreneurs with limited education, who often lack the aspiration to grow their businesses by introducing new products and services. To address this, it is essential to provide business support services to MSME owners with no formal education or primary education, enabling them to acquire the necessary skills to run a successful business.



Source: FinScope MSME Eswatini 2023 Survey

Figure 4: Level of education of MSME owners (%)

Motivation for starting a business

Empirical studies have demonstrated the significance of entrepreneurial orientation in the survival and expansion of small businesses. Those who are highly entrepreneurial are more likely to start profitable businesses than people who are only trying to make ends meet. To understand the motivation behind starting a small business, reasons for starting a business are classified into three categories: entrepreneurial, desperate and others. The study, therefore, analysed the motivation of small business owners in starting their businesses.

People who started a business, because they identified an opportunity, were drawn to a specific product, or wanted to put their skills to use, are seen as entrepreneurial. Survivalists are those who launched a business because they were unemployed and could not find work or provide for their families. These individuals are different from the first group because they were compelled to run a small business because of exclusion from the job market. The rest of the small business owners are those who inherited their business from family or started their business either to make more money, wanted to be their own boss or due to pressure from family.

Figure 5 illustrates that a noteworthy 65% of MSME owners founded their small businesses to become entrepreneurs, whereas 43% did so out of desperation or the need to survive (survivalist). Both entrepreneurial and survivalist tendencies have been steadily increasing, suggesting that business owners are striving to meet their socioeconomic needs. It is heartening to observe that a larger proportion of MSME owners have an entrepreneurial disposition, as these owners are more likely to work hard to expand their enterprises, be creative, and be more resilient to economic shocks like the Covid-19 pandemic. Other reasons for starting a small business include inheriting the enterprise or being encouraged by a family member or friend to start the business.

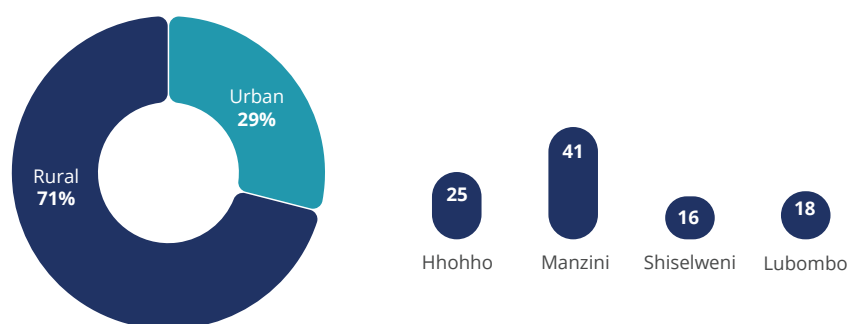


Source: FinScope MSME Eswatini 2023 Survey

Figure 5: Reasons for starting a small business (% of MSME owners)

Location and business premises

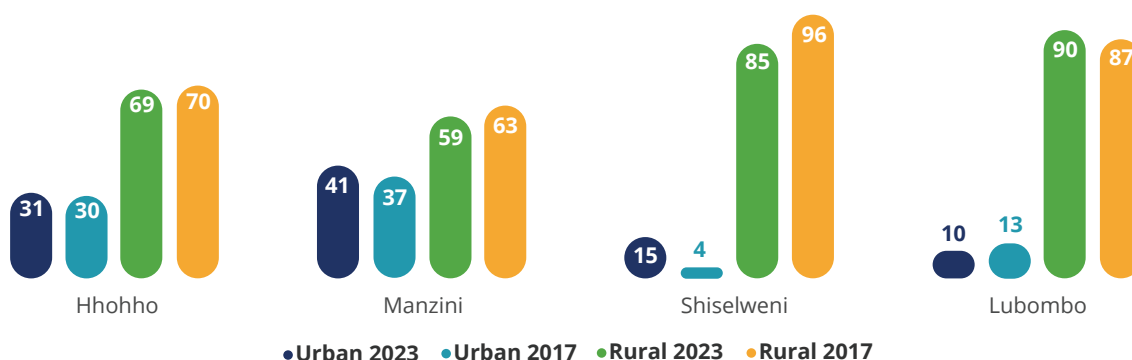
The trend in the distribution of MSMEs across urban and rural areas remains the same. As shown in Figure 6, the majority of MSMEs are still located in rural areas. However, there is a slight shift towards urbanisation compared to the 2017 survey, which reported a 74% rural and 26% urban split. Despite this shift, rural areas still dominate the MSME landscape, highlighting the importance of targeted support and resources for rural entrepreneurs to promote equitable economic growth and development. The slight increase in urban MSMEs may be attributed to improved access to infrastructure, markets, and resources in urban centres, highlighting the need for continued investment in these areas to foster sustainable growth. An analysis of the sectoral distribution of MSMEs shows that most MSMEs in the agricultural (91%), natural resources/mining (78%) and manufacturing (73%) sectors are located in rural areas. It is important to consider that while some areas may be classified as rural, they may have advanced infrastructure and development that resemble peri-urban areas. When comparing urban and rural areas, there were similar numbers of business owners in each region from 2017 to 2023, indicating changes within these regions.



Source: FinScope MSME Eswatini 2023 Survey

Figure 6: Location of MSME owners

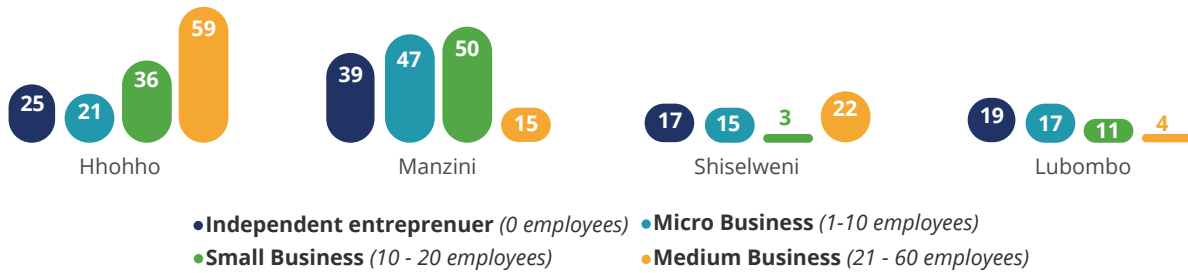
Figure 7 shows the regional distribution of MSME owners in Eswatini by urban and rural. The data reveals shifts within three regions – Lubombo, Manzini and notably Shiselweni. When combined, Hhohho and Manzini account for more than half of all MSMEs in the country; with Manzini alone being the base for 41% of all MSMEs. This demonstrates Manzini’s role as the economic hub and the fact that Mbabane, the capital city, is located in these regions, which empirically meets the conditions for a conducive environment for entrepreneurial activity.



Source: FinScope MSME Eswatini 2023 Survey

Figure 7: Regional distribution of MSME owners by urban and rural (%)

A closer look at the regional distribution of the MSMEs shows that while Manzini hosts the largest number of micro and small businesses, most of the medium enterprise businesses are located in Hhohho.



Source: FinScope MSME Eswatini 2023 Survey

Figure 8: Business size by region (%)

Operational location of business

The 2023 study pursued business establishments like salons, offices, shops and lodges, which were not included in the 2017 study. The goal was to ensure that the study covers the entire MSME sector comprehensively. Interestingly, of the 67,795 small business owners, around 34% operate from business premises, while the rest run household-based businesses.



Strata	Business premises	Household unit
Urban	55	45
Rural	26	74
Female	29	71
Male	42	58
Individual entrepreneur (0 employees)	24	76
Micro-business (1-3 employees)	64	36
Small business (4-10 employees)	68	32
Medium business (11-50 employees)	74	26
Wholesale/retail	47	53
Manufacturing	25	75
Agriculture/farming	8	92
Natural resources/mining	18	82
Business services	46	64
Community and household	32	68
Construction	29	71
Tourism	53	47
Other services activities	68	32

Table 4: Operational location of business (%)

An analysis of the business location revealed some interesting results, as shown in Table 4. Business premises are primarily situated on commercial property (78%) such as a garage, lodge or farm with 55% being owned and 23% being rented. Additionally, 11% of business owners have their premises attached to their residences, and a further 11% of business owners use open spaces that are either rented or free. Since this data was only collected in the 2023 survey, a comparison to the 2017 study was not possible.

Personal income

Personal income and turnover provide a rough gauge of a business's performance, although these metrics are often understated and subject to estimation errors. Considering the significant presence of micro-enterprises, it is unsurprising that more than half (56%) of MSME owners earn less than E2,500 per month. Table 5 shows that as businesses progress from micro to medium size, the personal income of their owners grows exponentially. Due to improvements in sampling, no business owner reported no personal monthly income.

For the majority of individual entrepreneurs (four out of five), their monthly income is under E5,000, which is still comparatively low compared to 2017 when adjusted for inflation. With four out of five business owners relying on their businesses as their main source of income, improving the business environment for the sector could have a beneficial and lasting impact on the personal income of business owners. As businesses grow from micro to medium, there is also an increase in personal monthly income. This trend suggests that the larger the business size, the higher the personal income for owners. As businesses expand and hire more employees, it indicates there is sufficient turnover to cover additional expenses, such as wages and salaries.

Personal monthly income (Emalangeni)	Total		Individual entrepreneur		Micro business		Small business		Medium business	
	2023	2017	2023	2017	2023	2017	2023	2017	2023	2017
Refused/ Do not know	-			4	-	7	1	10	5	10
No personal income		7		8		3		3		-
Less than 2,500	56	53	66	62	26	32	1	15	3	7
Between 2,501-5,000	21	17	20	16	27	23	21	21	16	13
Between 5,001-10,000	12	10	9	7	18	22	19	23	27	8
Between 10,001-25,000	8	4	4	2	21	10	38	13	6	38
Between 25,001-50,000	2	1	1	1	5	2	16	8	39	7
Between 50,001-60,000	-	1			-		-	4	-	
Between 60,001-100,000	-				1	1	1		-	13
Over 100,001	-				-		2	3	5	4

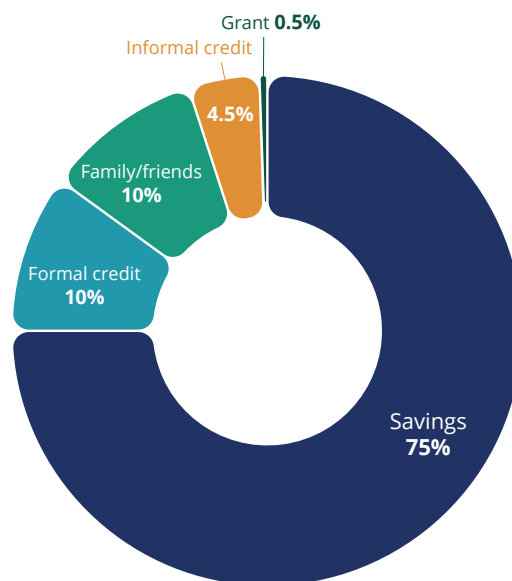
Source: MSME Finance Scoping: Services and Light Manufacturing (2021)

Table 5: Personal monthly income by size (%)

Sources of start-up capital

The lack of finance has been identified as the main obstacle to starting a new business. The constraint is more pronounced in developing countries due to their underdeveloped financial sector compared to developed countries. Figure 9 shows that 90% of MSME owners fund their new business using personal savings, support from family and friends, informal credit or grants. Only 10% of them manage to access formal credit from financial institutions.

Heavy reliance on personal savings, funds from family and friends, or informal lenders presents a significant challenge to the MSME sector. This is because it takes time for individuals to save enough money to finance a start-up and this can lead to the proliferation of micro-enterprises that are started with a small amount of seed money and remain unchanged for a considerable period. A majority of MSME owners cite the source of funds as a major challenge in the start-up, growth and operations of their businesses. Interestingly, one observation states the same saying they do not need to borrow money as a barrier to accessing credit. Further investigation is needed to understand the perceptions of sourcing funds and the role of credit in business.



Source: FinScope MSME Eswatini 2023 Survey

Figure 9: Source of start-up capital (%)



The MSME Sector in Eswatini

The economies of the SADC area are relatively similar, with highly commercialised foreign-owned businesses and state bodies. They are mostly based on agriculture and commodities. As mentioned in Chapter 2, the primary and secondary industries are crucial in shaping the structure of the economy. This leads to the emergence of informal business owners who try to sustain themselves by offering basic services to consumers. Table 6 below illustrates the phenomena of a highly informal MSME sector in some of the SADC nations where MSME studies were conducted. The largest proportion of adults in Mozambique and Zimbabwe own MSMEs, partly owing to high unemployment rates and political-economic instability. However, their MSME sectors also play a significant role in job creation and supporting livelihoods.

The SADC Secretariat, through its programmes like Support to Industrialisation and Productive Sectors (SIPS) and Support to Improving the Investment and the Business Environment (SIBE), supports regional growth and development. These programmes are aligned with the Regional Indicative Strategic Development Plan (RISDP) 2020-2030, which prioritises industrial development and market integration, placing industrialisation at the centre of the regional integration agenda. The plan aims to front-load and accelerate industrialisation in the SADC region. Therefore, comparing the region with others helps in sharing knowledge to achieve its common vision.

Among other key objectives, the study aims to offer a detailed description of the MSME landscape to gain a better understanding of its scope and scale. The primary areas covered in this section's discussion of MSME attributes include the business sector, source of start-up funding, awareness and utilisation of the support infrastructure, and employment across business sectors.

Table 6 presents a comparison of MSME ownership in Eswatini against a few regional nations. The results indicate that MSME ownership in Eswatini is higher than in Lesotho but lower than in Malawi. With 43% of registered MSMEs, Swazi MSMEs are relatively more formal than Malawi, followed by Lesotho and South Africa at 18% and 17% respectively. The employment potential of Swazi MSMEs is comparable to that of Lesotho.

The SADC region's economies, supported by regional programmes for industrialisation and market integration, have a robust MSME sector that significantly contributes to job creation and livelihoods, despite challenges like high unemployment and political-economic instability.

Indicator	Eswatini (2023)	Eswatini (2017)	Malawi (2019)	Lesotho (2016)	Zimbabwe (2022)	South Africa (2020)	Mozambique (2012)
Business owners	18 years and older	18 years and older	18 years and older	18 years and older	18 years and older	18 years and older	18 years and older
	60 employees or less	50 employees or less	100 employees or less	49 employees or less	75 employees or less	200 employees or less	100 employees or less
Estimated adult population	800,000	600,000	8,7 million	1,1 million	5,9 million	33,5 million	10,8 million
Estimated % of the adult population that owns MSMEs	10%	10%	13%	7%	46%	17%	42%
Number of MSME owners	68,000	59,000	1,1 million	76,000	2,8 million	2,6 million	4,5 million
Number of MSMEs they own	94,000	68,000	1,6 million	85,000	2,8 million	3,2 million	4,9 million
% of MSME owners with registered/licensed businesses	43%	25%	11%	18%	15%	42%	14%
Number of employees	92,750	93,000	1,8 million	118,000	2,9 million	13 million	5,3 million
% of independent entrepreneurs	75%	79%	88%	83%	71%	26%	93%
% of businesses with employees	25%	21%	12%	17%	29%	74%	7%
Average number of employees per MSME	1.4	1.4	1.1	1.4	1	1	1

Source: FinScope MSME Eswatini 2023 Survey

Table 6: Cross-country comparison of MSMEs in Eswatini vs other countries



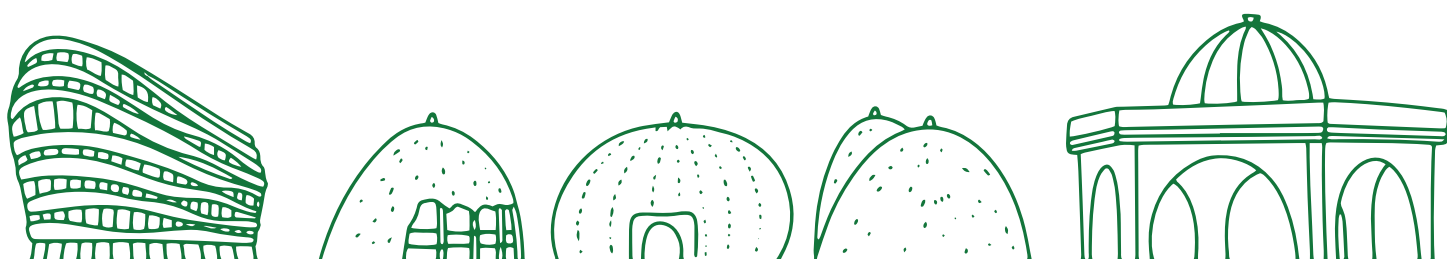
When looking at the total turnover per sector, the highest is the wholesale/retail sector followed by community and household, and business services. The lowest are tourism, natural resources and mining. However, the number of businesses in the sector may be the driving factor in total turnover and not a reflection of business performance or profitability as shown in Table 7, which shows that high turnovers do not necessarily translate to high profits when looking at the average within sectors.

Sector	Total monthly turnover (E)	Mean monthly turnover (E)	2023 Total monthly turnover (USD)	2017 Total monthly turnover (USD)
Wholesale/retail	585 million	20,000	31 million	50,5 million
Community and household	218 million	27,385	11,7 million	20,9 million
Business services	195 million	24,800	10,4 million	6,1 million
Agriculture/farming	125 million	8,440	6,7 million	134 million
Manufacturing	101 million	18,710	5,4 million	3 million
Construction	29 million	26,900	1,6 million	4,3 million
Tourism	9 million	26,530	508,000	750,000
Natural resources/mining	5 million	7,830	272,000	-

Source: FinScope MSME Eswatini 2023 Survey

Table 7: Business monthly turnover by sector

The results indicate that the highest average monthly profit is the community and household with just under USD 1,000, while the second highest monthly profit is the business services sector (USD 750). When comparing the business’s monthly income to mean monthly profit, the results suggest that business owners have multiple income sources that do not necessarily depend on business profits. Further, most business owners are using the profits to finance their business needs.



Sector	Total monthly profit (USD)	Mean monthly profit (USD)
Community and household	7,8 million	990
Business services	5,8 million	750
Tourism	160,000	450
Wholesale/retail	12,8 million	440
Manufacturing	1,4 million	260
Construction	678,000	250
Natural resources & mining	164,000	250
Agriculture/farming	3,1 million	210

Source: FinScope MSME Eswatini 2023 Survey

Table 8: Business monthly profit by sector

The average monthly turnover for businesses of different sizes is shown in Table 8. Small entrepreneurs record the highest average monthly turnover, which is over four times that of medium enterprises. Small enterprises have the largest proportion of businesses in the services sector (6%) and the community and household sector (34%), which are the sectors with the highest mean profits. Moreover, small businesses are less involved in wholesale and retail sectors, which are dominated by independent entrepreneurs and generate lower profits compared to specialised sectors.

Size	Mean Monthly Turnover (USD)	Mean Monthly Expense (USD)	Mean Monthly Profit (USD)
Individual entrepreneur	390	225	165
Micro-enterprise	2,155	900	1,255
Small enterprise	19,130	12,485	6,700
Medium enterprise	22,595	21,150	1,450

Source: FinScope MSME Eswatini 2023 Survey

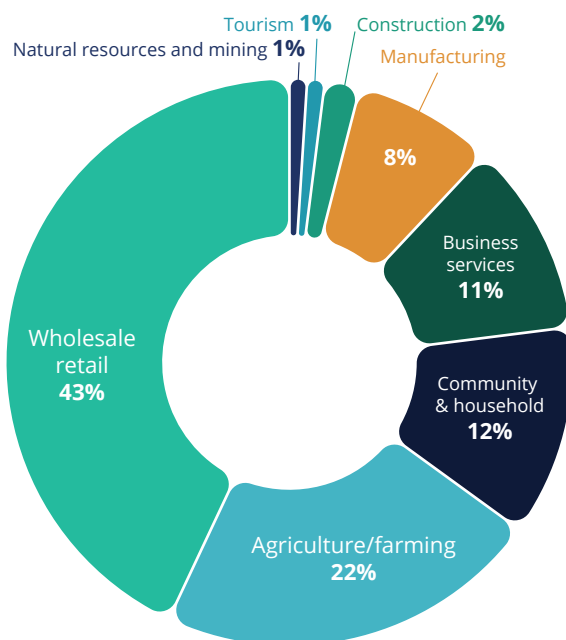
Table 9: Monthly turnover by business size (mean)

Business sector

The development of the MSME sector is needed because it can boost national output in addition to its contribution to job creation. The economic role of the sector becomes more important when MSMEs operate in sectors of the economy that are considered strategically important. However, capital constraints and limited market accessibility may lead to a concentration of small businesses in sectors of the economy that are less strategically important.

As shown in Figure 10, MSMEs operate predominantly in the wholesale or agricultural sector, with 44% in the wholesale sector and 22% in the agricultural sector. Only 8% of MSMEs operate in the manufacturing sector, which means the sector’s contribution to the industrialisation effort of the government is marginal. This highlights the need for a concerted effort by the government to help MSME owners identify opportunities in the manufacturing sector and provide incentive packages to attract more entrepreneurs to the sector.

Eswatini’s manufacturing sector, driven largely by sugar production and dominated by large companies, is the largest in the SADC region as a percentage of national output. Efforts to grow this sector with an MSME-oriented approach would require policy changes that allow smaller firms to participate in the industry, particularly in processing segments beyond sugar cane agriculture. Natural resources and mining include activities such as river sand, quarries or building sand, which mostly operate on a small scale.



Source: FinScope MSME Eswatini 2023 Survey

Figure 10: Business sector in which MSMEs operate (%)

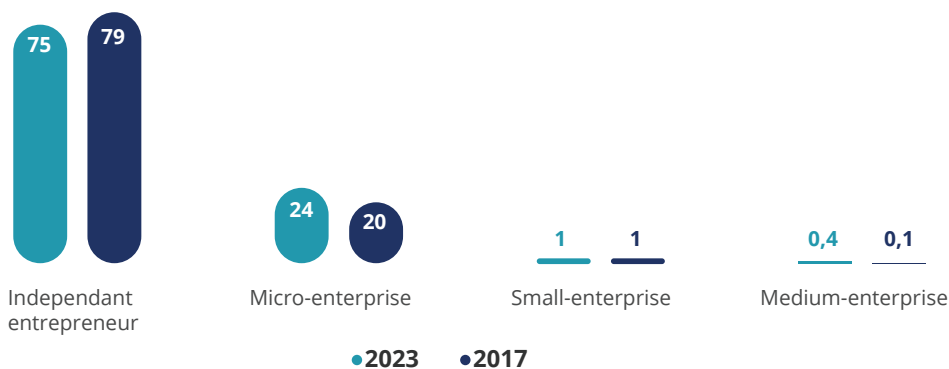
Business size

The size of a business can be measured using different parameters such as annual turnover, total assets or number of employees. Each of these parameters has its limitations. For instance, volatility in annual turnover may lead to the misclassification of a medium enterprise as a small business when turnover falls. Perception-based surveys are limited in accurately reporting income or turnover, further weakened by human bias and memory inaccuracies. Sectoral differences in the capital intensity of operations make using total assets as a basis for classifying business by size problematic.

Businesses that use capital-intensive processes will be classified into higher size categories while those that use less capital-intensive processes are likely to be classified into lower size categories. A similar limitation applies when using the number of employees as a basis of size classification, which leads to small businesses that use labour-intensive processes into higher size classes and those with less labour-intensive processes into lower size classes. This is highlighted as a limitation in sizing businesses in the MSME Policy (2023).

In this report, the study classified businesses into different size categories by the number of employees. Four categories were created, and the first consists of independent entrepreneurs where the owner has no employees. The second category comprises micro-enterprises that employ 1 to 10 workers and the third category consists of businesses that employ between 11 and 20 workers, classified as small businesses. The fourth category consists of enterprises that employ between 21 and 60 workers and are classified as medium enterprises. Notably, these classifications have changed since the last study. To enable comparison, the 2017 study was resized to the 2023 classifications.

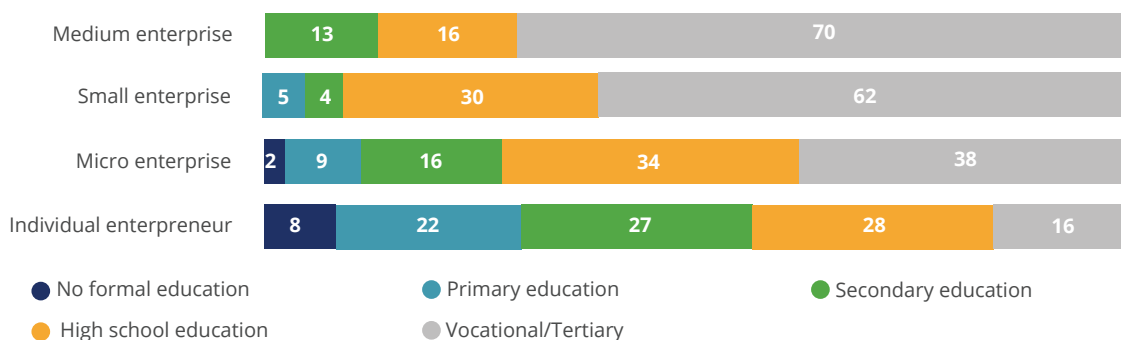
As shown in Figure 11, more than half of the MSMEs have no employees, and 24% are micro-enterprises with between 1 and 10 employees. Small businesses and medium enterprises are low at just over 1%. In general, independent and micro-enterprises account for 98,6% of the MSME sector. Despite the dominance of micro-enterprises from 2017, the sector appears to have a higher count of small and medium enterprises with an increase from 500 SMEs in 2017 to about 700 in 2023. The observation that most businesses are micro-enterprises implies the livelihood and limited employment potential of the MSME sector.



Source: FinScope MSME Eswatini 2023 Survey

Figure 11: Business size

It is interesting but predictable to learn more about the correlation between firm size and owner education level. Figure 12 illustrates how ownership of micro-enterprises declines as education levels grow, from individuals without formal education to those with higher educational degrees. Further, people with higher education are more likely to own small and medium-sized businesses. Secondary education is the most common educational achievement among MSME owners. Hence, the degree of education has an impact on the size of the MSME.

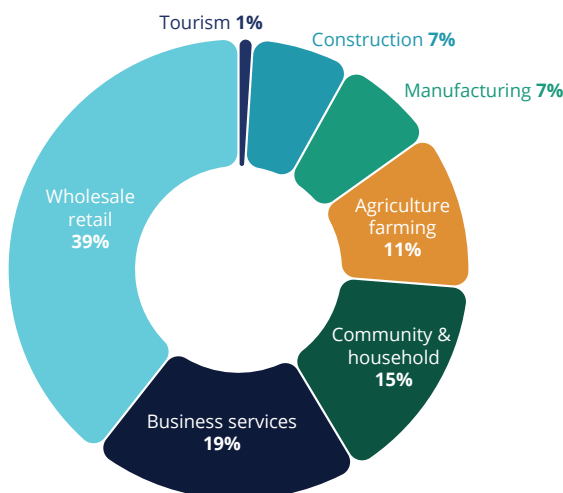


Source: Blended FinScope MSME Eswatini Survey 2023

Figure 12: Business size by level of education (%)

Employment creation by MSMEs

The importance of the MSME sector has largely been attributed to its ability to provide employment. Employment potential may vary across sectors due to the differences in labour intensity of businesses in each sector. As shown in Figure 13, MSMEs in the wholesale, business services and community and household have the highest share of full-time employees, owing to the scope of these industries. However, the same sectors are dominated by independent enterprises where the owner is the only employee of the business. The average number of full-time employees ranges between two and three workers. The highest average number of full-time employees is in the tourism and construction sectors.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 13: Share of full-time employees by sector (%)

When analysing employment by different types across locations (urban and rural), sex or business size, it offers additional insight into the different job opportunities within the sector. While urban enterprises comprise only 29% of the MSMEs in Eswatini, they contribute 55% of full-time employees and 43% of all employees in the sector. Although there are more female-led enterprises, similar to the 2017 baseline, their contribution to employment beyond the owner is still outweighed by male-led enterprises, which on average employ two employees versus one for female-led businesses (see Table 10). As businesses grow in size, their propensity to employ more individuals increases. Therefore, support for enterprises to grow and scale up jobs should be targeted at particular sectors, such as tourism and construction, since a single business in these can create more employment compared to traditional sectors like agriculture, which remain important providers of employment.

	Total number of MSMEs	Full-time employees	Part-time employees	Seasonal employees	Business owner is an employee	Total employees (full-time, part-time, seasonal and owner-employee)	
	No. of MSMEs	No. of Workers	No. of Workers	No. of Workers	No. of Owners	No. of Workers	Average No. of Workers per MSME
Total	67,795	44,795	5,337	8,422	33,195	91,750	1.4
Urban	19,480	24,515	2,078	2,204	10,566	39,363	2.0
Rural	48,315	20,279	3,260	6,218	22,630	52,387	1.1
Female	40,972	13,438	2,388	3,537	19,742	39,105	1.0
Male	26,824	31,356	2,950	4,886	13,453	52,645	2.0
Individual entrepreneur	50,814			5,321	25,572	30,893	0.6
Micro-enterprise	16,283	32,525	4,037	1,673	7,140	45,375	2.8
Small enterprise	484	6,782	429	73	315	7,599	15.7
Medium enterprise	215	5,488	871	1,355	168	7,882	36.7

Source: Blended FinScope MSME Eswatini Survey 2023

Table 10: Total and average number of employees in MSMEs by gender, location and business size

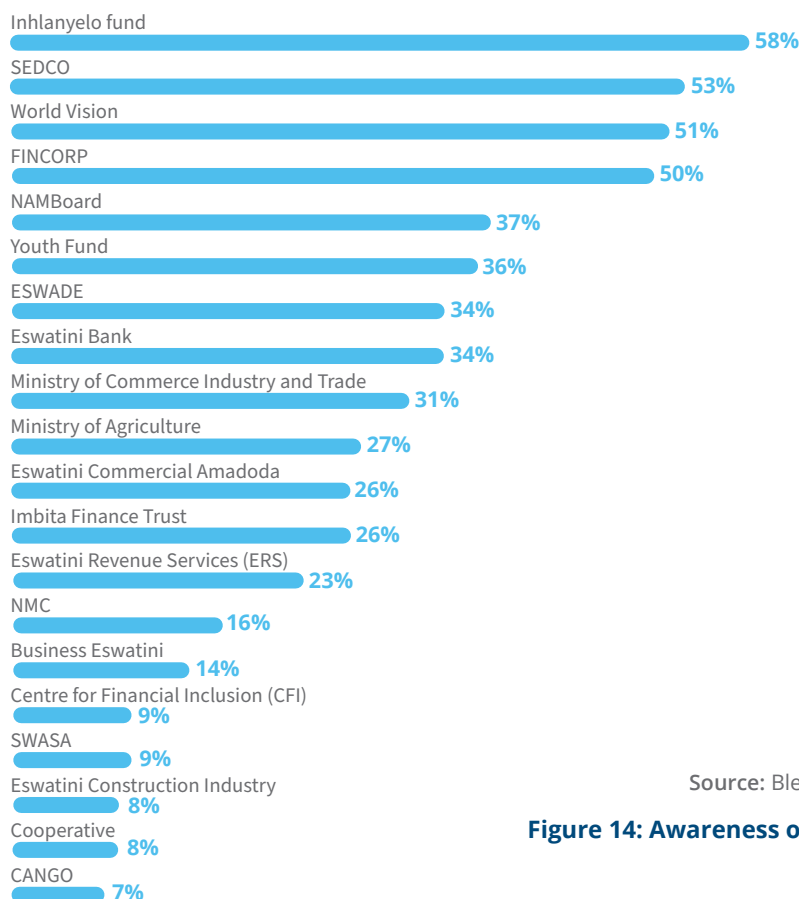
Based on an analysis of MSME characteristics, the majority of small businesses are involved in either the wholesale or agriculture sectors. A small number of MSMEs are involved in the manufacturing industry, with a significant portion engaged in producing clothing, including school uniforms. It is not unexpected that the MSME manufacturing sector has poor job prospects when compared to the large-scale manufacturing sector, which is dominated by the production of sugar. Furthermore, relatively few MSMEs are involved in the service industry, despite it offering the greatest employment potential. The MSME sector has considerable growth opportunities when the services sector is promoted.

Business support and impact of shocks

Beyond businesses that become obsolete in their value offerings or bad investments, MSMEs may fail due to a lack of key skills needed to successfully run a business. Support provided to MSMEs is therefore believed to alleviate this problem and help firms in the sector survive and grow. The government of Eswatini has built an MSME support infrastructure where various public institutions are involved in providing business support to the MSME sector. These institutions offer important support services, including financial management, human resource management and marketing management.

The benefit gained from the support infrastructure in the country largely depends on awareness of its existence and use. Therefore, the report explored the extent to which MSME owners are aware of the available support infrastructure and how to use it. It also explored the MSME owners' perceptions of the usefulness of these support services.

As shown in Figure 14, a total of 84% of business owners are aware of institutions that offer business support. However, disappointingly, only 30% of those who are aware have used these institutions. Most of those who received support did so for finance-related issues, such as accessing credit. Of all the business owners, the most requested types of support were access to finance (74%) and access to technology (11%). The analysis suggests that increasing awareness of the support infrastructure does not translate to higher usage of these institutions. Encouraging MSME owners to use the services should involve demonstrating how these institutions address their specific challenges and highlighting which types of enterprises are likely to benefit.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 14: Awareness of business support organisations (%)

Impact of Covid-19 pandemic and mitigation

A true reflection of the impact of the pandemic on small businesses must include the experiences of closed and operational businesses. Unfortunately, the survey only covered those that were still operational. Borrowing from the learnings of the Covid-19 tracker survey conducted by FinMark Trust in 2020:Q3 and 2021:Q1, various insights into how businesses were impacted, and their resilience to the various aspects of the pandemic yielded the following key findings as displayed in Table 11.

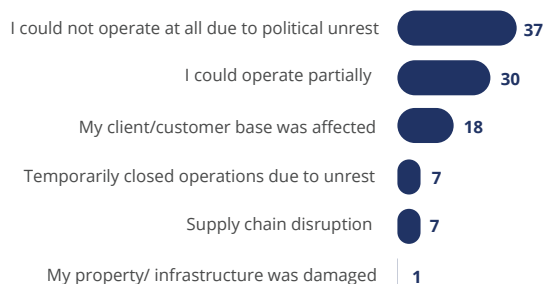
1.	About 1 in 5 (19%) businesses surveyed have closed down completely from the beginning of lockdown: <ul style="list-style-type: none"> • 47% being female-led • 57% of these have employees • mostly from wholesale/retail (34%) and community/household sectors (27%) • 9 in 10 of those that closed down during lockdown state the main reason for business closure was Covid-19-related issues.
2.	The crisis has had a severe impact on MSMEs with internal and external coping mechanisms implemented to sustain those that are still operational: <ul style="list-style-type: none"> • Widespread impact across all sectors with all recording 9 in 10 plus negative impact • The tourism sector has been hit the most of all sectors reporting the least prospects for recovery and the highest definite closure.
3.	Most female business owners are individual entrepreneurs (no employee) or micro-enterprises: <ul style="list-style-type: none"> • 3 in 4 females spend more time caregiving – 33 percentage points more than males • Females largely dominate the wholesale/retail (61%), manufacturing (74%) and tourism (59%) sectors of those currently operational.
4.	Lockdown time at home has affected 2 in 5 operational businesses with female business owners stating the highest impact.
5.	Just over half of operational MSMEs were classified as Essential Services Providers (ESPs) with a quarter of those that closed also falling into this group: <ul style="list-style-type: none"> • A higher proportion of operational ESPs are small (72%) and medium enterprises (68%) • A higher proportion of ESPs are male-owned enterprises (57%) • By design, the sectors that have the highest proportion of ESPs are agriculture, wholesale/retail, community/household and manufacturing.
6.	Supply chain disruption has affected about 2 in 3 businesses with higher prices being the main issue (80%) – a cost easily passed on to the final consumer.
7.	Relief measures explored by operational MSMEs have been to aid financial liquidity through relief funding (accessed by 42% of operational MSMEs).
8.	Formal financial access to operational businesses is very high; however, gender gaps in favour of males and urban areas exist: <ul style="list-style-type: none"> • Mobile money uptake is higher among female business owners but gaps still exist in banking and other formal products • Only 1 in 4 operational businesses accessed credit during the crises – most commonly, informal savings and banks.

Source: Impact of Covid-19 pandemic Tracker Survey Eswatini 2021

Table 11: Impact of the Covid-19 pandemic on business in 2020-2021

The 2023 survey also explored the impact of the pandemic and social and political unrest on businesses. Four out of five MSMEs reported that the pandemic had a negative net impact on their business, while others considered it positive (8%) or of no major impact (9%). Many businesses faced closure as they could not survive the harsh economic landscape during the peak of the pandemic. Factors such as lowered trade volumes, sunk costs, limited factor inputs like labour and materials due to supply chain disruptions, and issues with access to finance such as liquidity and credit access, contributed to the downfall of many small businesses.

Similarly, regarding the political unrest, 80% of businesses experienced a negative impact, mainly citing that they could not operate partially or at all during these crises (as shown in Figure 15). However, some businesses experienced a positive impact due to increased demand for products and more labour available at home to assist with the business.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 15: Negative impact of social unrest on business (%)

The mitigation actions pursued were mainly the measures stipulated by the government, such as social distancing and operational time restrictions. However, access to financial assistance set up by the government, such as relief funds, was used by only a handful of businesses (2%).

Formalisation among MSMEs (business registration or licensing)

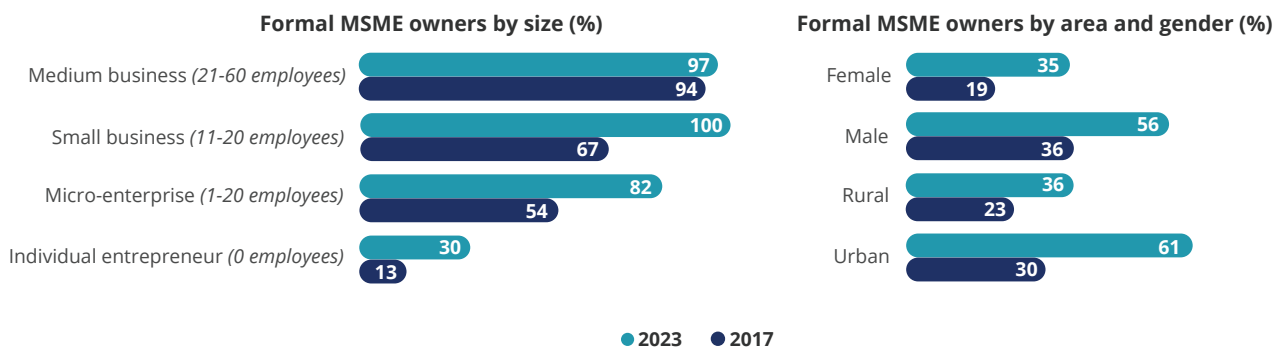
The Covid-19 pandemic highlighted the significance of having more formal MSMEs to increase the efficacy of tools created to support their growth. This assists in effective policymaking since the sector’s scope and scale are known, and business operations are within the government’s ambit. Formalising MSMEs in Eswatini involves several actions and factors that help transform informal enterprises into legally recognised organisations. This process is crucial for improving business growth, gaining access to financial services, and becoming part of the mainstream economy.

In Eswatini, a business can register with the Registrar of Companies. This includes choosing a business name and obtaining a Certificate of Incorporation. To operate, a business must obtain a trading license from the Ministry of Commerce, Industry and Trade (MCIT) that permits them to trade. Various municipalities or councils have designated trading areas, and traders can obtain a permit to trade in those areas.

In this report, a formal business is defined as one that is either licenced through the MCIT, has a permit (mainly issued by a municipality or council), and/or is registered with the Registrar of Companies. The report shows that 29% of MSMEs are both registered and licensed as there is an overlap where businesses have both registrations and licences. Additionally, 13% of MSMEs only have licences, while 57% remain informal. Licences are usually permits to trade, whereas registration creates a legal entity for the business, usually for limited liability. In 2017, 25% of MSME owners were formal. This suggests that more MSMEs are formal in 2023 than in 2017, indicating an increase in business formality.

The most common type of registration status is a sole proprietorship (4 out of 5 registered businesses), followed by a private company or partnership (both at 9%). With about a third of businesses registered, the main benefits of registering were to avoid harassment from officials (57%) and to comply with regulations (13%). This suggests that the primary motivation for registering is to avoid scrutiny from authorities, while only 6% of business owners register to obtain government support or access finance (12%). It seems that the current approach to registration is a “stick approach”. In contrast, the “carrot approach” would advocate providing incentives to business owners who register or license their companies, granting them access to benefits like funding, business support, and participation in marketplaces or structured value chains.

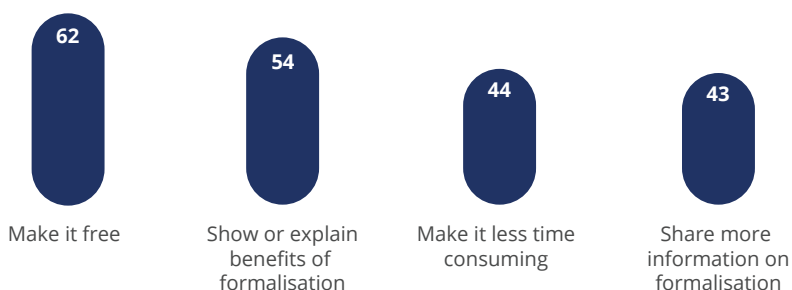
As can be expected, the proportion of formal enterprises increases with business size. As a business employs more people, moving from one business size group to the next, the chances of formalising increase drastically. Figure 16 shows the proportion of business owners by business size, with more than 70% of individual entrepreneurs being informal compared to 13% in 2017. This marks an increase in formal MSMEs in all business sizes. Looking at gender, a higher proportion of female business owners (65%) are informal compared to male business owners (44%).



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 16: Formal businesses by size, sex and location (%)

The barriers to formalisation between 2023 and the baseline have not changed – the main ones being, that the business is too small (38%) and not enough funds to register (16%). When assessing the issue of formality across the region and perhaps globally, the costs of formalisation (mainly registering the business) outweigh the perceived benefits. When the Covid-19 pandemic hit, all businesses (formal and informal) were affected, and no perceived advantage was experienced by formal enterprises during the crisis (FinMark Trust, 2021). The 2023 survey further explored whether informal enterprises would like to formalise and what assistance they require. Figure 17 shows that four out of five (83%) agreed to formalise their operations if the registration was free and the benefits of formalisation were made transparent to business owners. There is much work required to change existing perceptions of formalisation, as previous findings showed businesses rarely benefit from formalising operations beyond compliance. Therefore, it is important to reposition what formalisation means and how it aids businesses to access support, markets and finance.

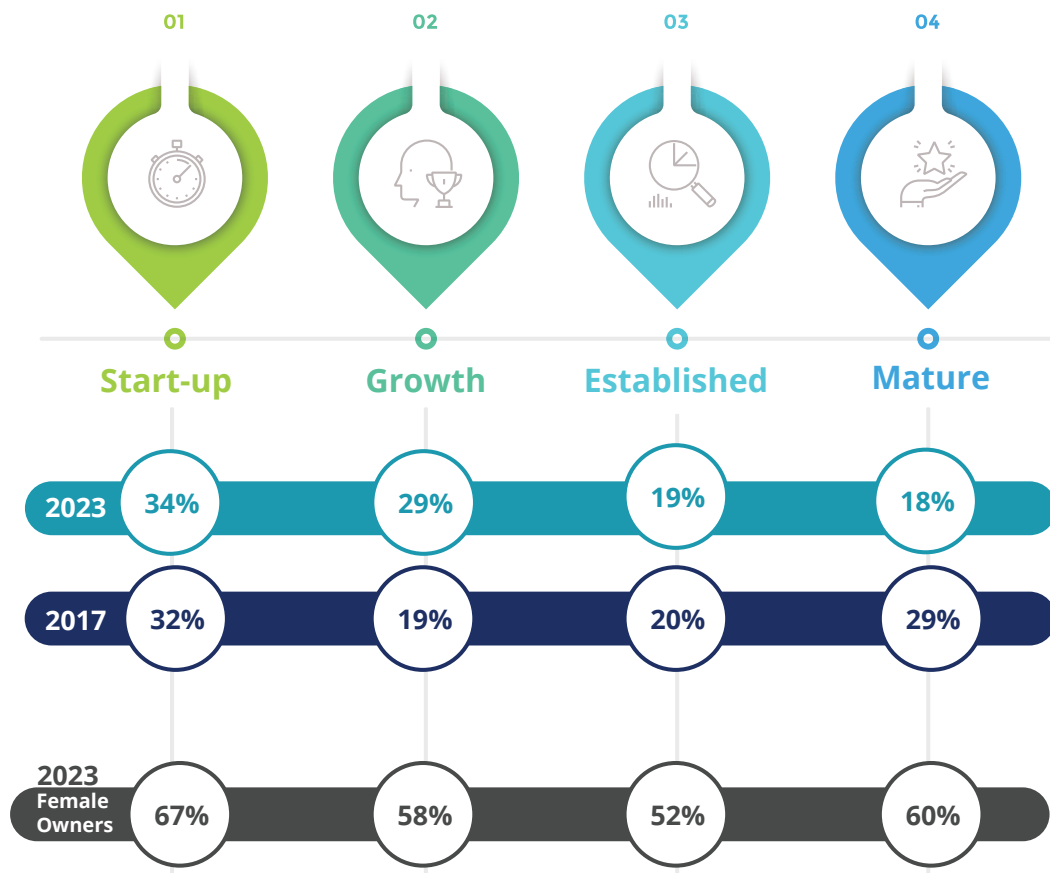


Source: Blended FinScope MSME Eswatini Survey 2023

Figure 17: Government assistance to formalise (%)

Business life cycle (business age)

The average age of most MSMEs in Eswatini is seven years. However, Figure 18 indicates that about one-third of MSMEs are in their start-up phase (between 0 and 2 years). Compared to 2017, there have been some changes, notably an 11 percentage point decline in mature businesses. This decline may be attributed to the impact of global economic shocks and local shifts within the Eswatini economy. Most start-ups are owned by females, contributing to a higher proportion of mature businesses being women-led. Since 2017, there has been a higher number of female business owners. There has been a notable improvement in the proportion of established and mature businesses that are led by women.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 18: Business life cycle (%)



5. Financial Services and Product Uptake and Usage

Financial Services and Product Uptake and Usage

One of the most common factors that either encourages or hinders MSME growth at different stages of their life cycles is access to finance. Capital is an essential element of business start-up, operation, and expansion. The analysis of financial inclusion was conducted using the FinScope methodology, as illustrated in Figure 19. This framework categorises the population of business owners based on the products they own or use.

Figure 19 shows how the analysis of financial inclusion was conducted under the FinScope methodology. The framework categorises the business owner population into different segments based on the products that they have or use. The concept of 'Financial Inclusion' is core to the FinScope methodology. Based on financial product usage and or ownership, the total business owner population is segmented into two groups: the 'financially excluded' and the 'financially included'.

Financially excluded business owners (BOs) are those who manage their financial lives without using any financial products or mechanisms outside of their relationships. They may rely on borrowing from family or friends and saving at home. This group also includes those who voluntarily choose not to use or access financial products and those without financial products or services in their name. They may also, for example, use someone else's bank account or be covered by someone else's insurance, such as extended family funeral cover.

Financially included BOs are those who have or use formal and or informal financial products and mechanisms.

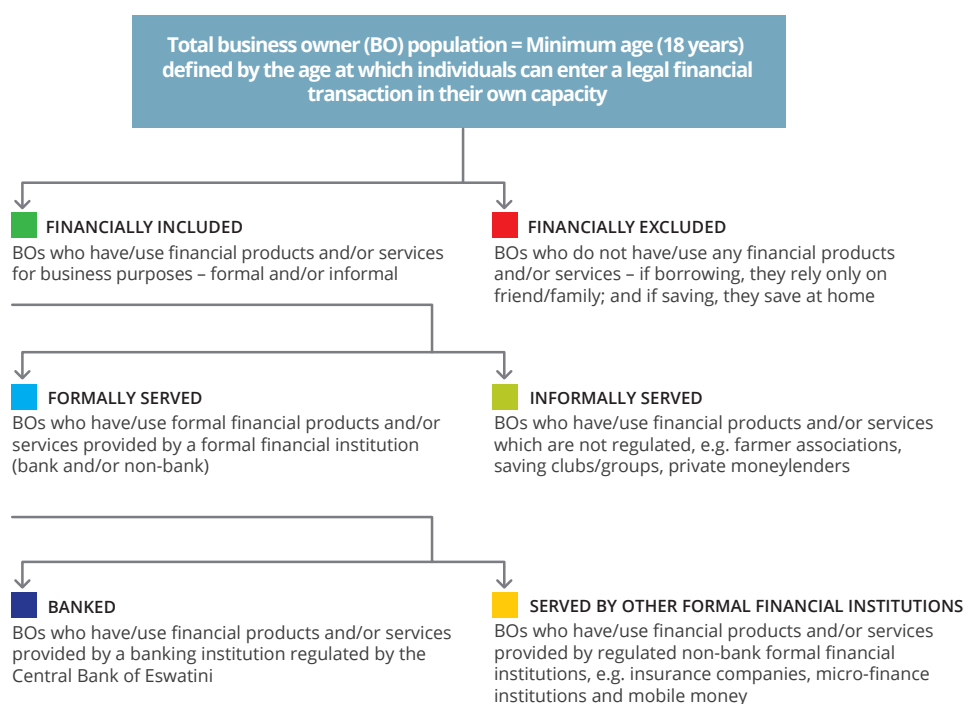
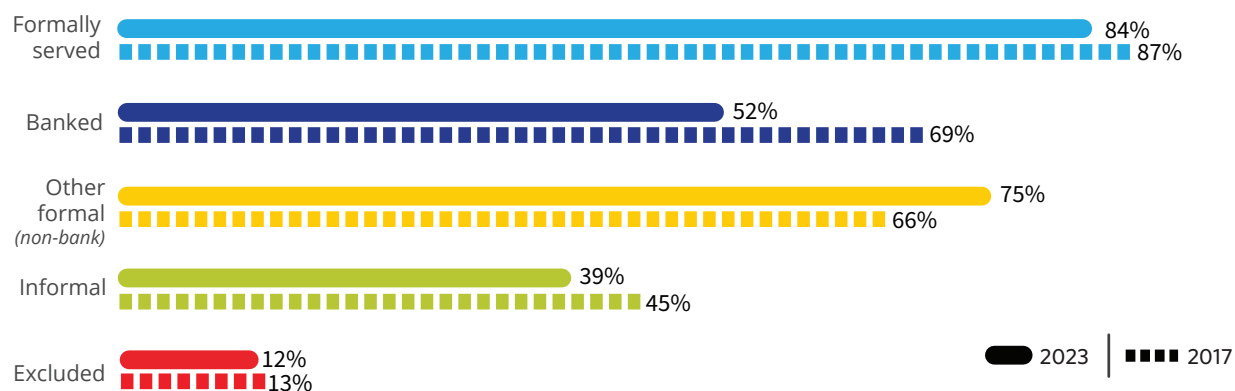


Figure 19: Financial inclusion framework

MSMEs employ a variety of financing strategies to grow or even reduce their daily operations. The FinScope framework for financial inclusion enables the identification and integration of various mechanisms that are used by business owners. This makes it possible to comprehend access to financing for the day-to-day needs of the business, ranging from payments to mitigation measures, on a deeper level. The overview of financial product usage across categories is displayed in Figure 20 and is compared between 2023 and 2017.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 20: Overview of financial uptake (with overlaps)

Four key insights can be garnered from the above figure:

- There has been a slight decrease in the proportion of business owners with access to formal financial services/products from 2017 to 2023, showing a three-percentage point decrease.
- Bank account ownership has also decreased in terms of the proportion of banked business owners by 17 percentage points. In absolute numbers, the decrease is by 5,700 business owners, dropping from 40,986 in 2017 to 35,272 in 2023.
- A slightly lower proportion of business owners are using informal products, although still significantly high.
- A negligible reduction in the excluded business owner population from 13% to 12% between 2017 and 2023 respectively.

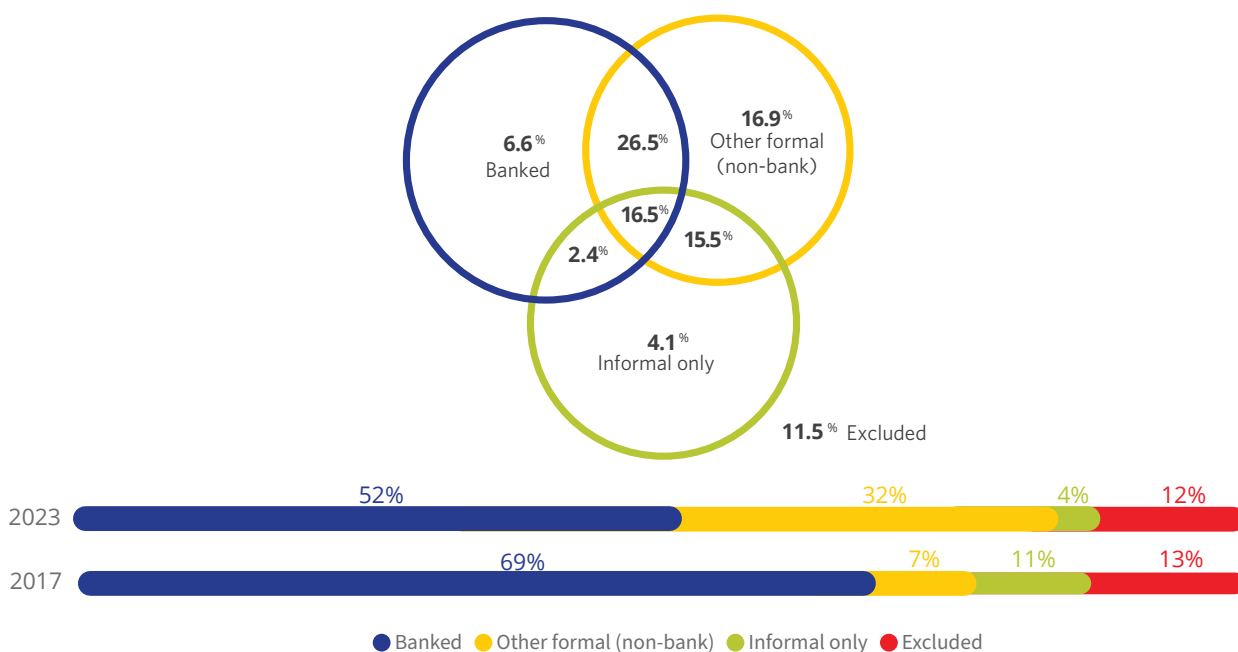
The above shifts are unpacked in detail across institutions and products in the sections that follow.



Overlaps and the Financial Access Strand

A closer examination of the overlaps in Figure 21 demonstrates an inclination of MSME owners to use financial services from a collection of sources, including banks, other formal institutions, and informal providers. This could be caused by variations in the efficacy of the financial services that each sector provides. For example, consumers in need of a small, rapid working capital loan might turn to unofficial lenders, while those in need of larger loans might turn to banks and other formal organisations. The low uptake of formal products and services may be hindered by constraints related to collateral, KYC requirements, and onerous procedures. If a supply-side analysis is conducted, these obstacles might become clearer.

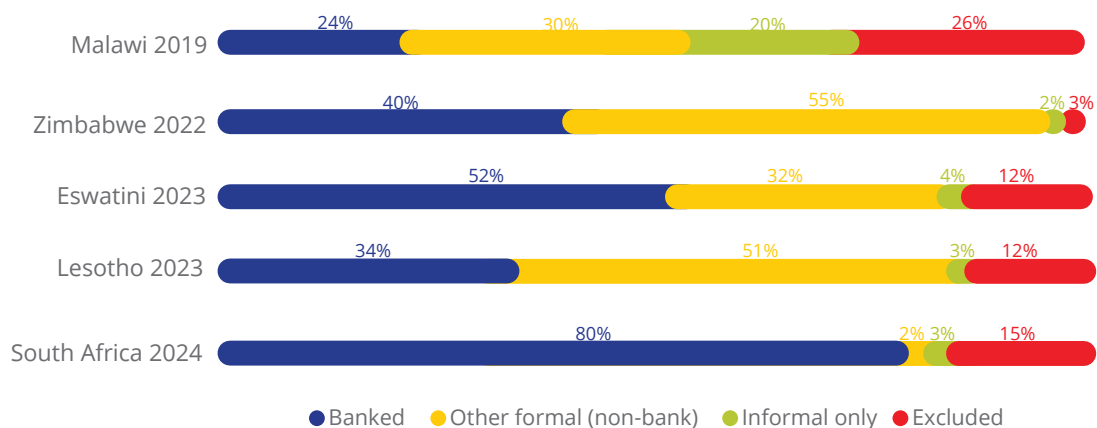
Figure 21 illustrates that business owners use a myriad of financial products in varying combinations. About 43% of MSMEs use both formal and informal products. The use and reliance on purely banking products and services is shrinking, with more businesses using other formal services only. The Access Strand shows a significant rise in business owners reliant on other formal (non-bank) at 32% as opposed to 7% in 2017. The factors driving these shifts are unpacked in section 5.2 onwards.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 21: Overlaps and Financial Access Strand

Swazi MSMEs enjoy high formal financial access compared to their neighbours in the SADC region. As shown in Figure 22, more than half of the MSMEs in Eswatini are banked and a further 32% access financial services from other formal institutions. The financially excluded MSMEs constitute only 12%, which translates to approximately 700 business owners in absolute number, due to the increase in the business owner population. The trend in the region appears to shift from banking as more adults and business owners are using mobile money, which has increased formal financial inclusion not only in Eswatini but also in Zimbabwe and Malawi.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 22: Cross-country comparison of MSME Financial Access Strand

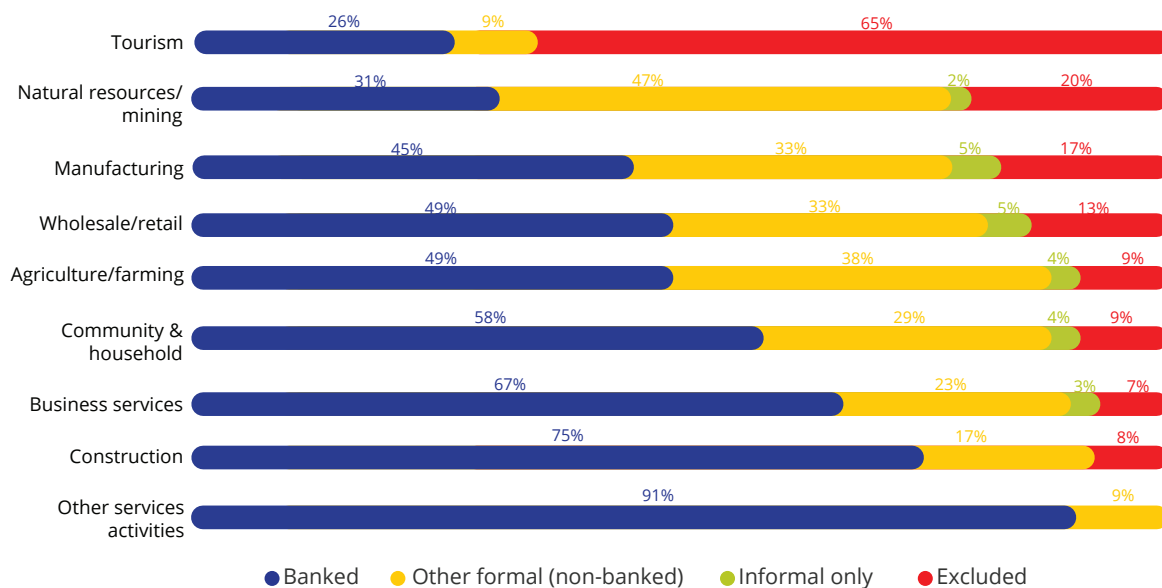
Financial access and usage

Traditionally, banks have been the main providers of formal financial products and services. However, the introduction of mobile money and microfinance institutions in the early 2000s altered the landscape dramatically. Business owners now use products from both banks and other formal (non-bank) sources, as illustrated in Figure 23.

The level of financial access also varies by sector, influenced by factors such as the sector’s development stage and the business life cycle phase. Banked businesses may also use other formal (non-bank) services or informal services, with the Strand categorising them from banked, other formal (non-bank), to informal and the excluded. Figure 23 shows that more formal (registered or licensed) sectors like business services and construction have higher rates of banked businesses. In contrast, sectors like natural resources, mining and tourism⁴, which are less formal, show lower levels of formal financial access. Interestingly, in sectors with lower bank penetration, there is a higher uptake of other formal (non-bank) services/products, possibly due to the higher uptake of mobile money and insurance.

Moving from manufacturing to wholesale/retail and agriculture sectors, there is a higher reliance on other formal (non-bank) services like mobile money. In contrast, sectors like community and household, business services and construction show a higher proportion of banked businesses with fewer relying on other formal (non-bank) services. Access to and use of formal products depend on the business ecosystem. For instance, using formal products like Point of Sale (POS) systems may be expensive if customers and suppliers prefer cash transactions. Developing tools that enhance how business owners receive and process payments, as well as manage and secure their cash flow, requires a thorough understanding of the business ecosystem. Access to and use of formal products rely on the business ecosystem.

⁴The tourism and other service activities sectors have low numbers of sampled businesses hence inference should be taken cautiously as it is not representative to the sector.

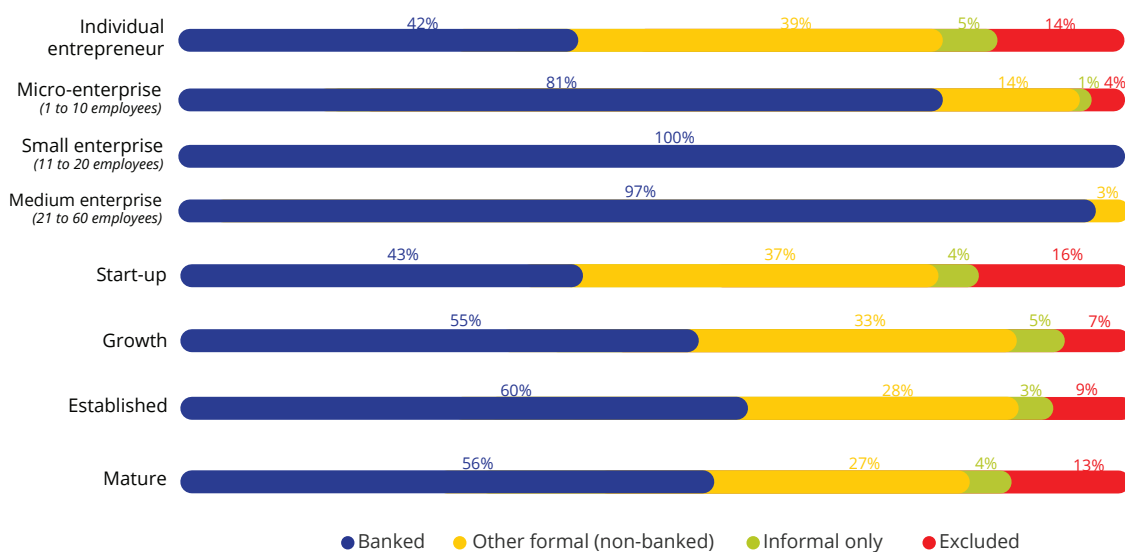


Source: Blended FinScope MSME Eswatini Survey 2023

Figure 23: Financial Access Strand by sector (%)

The stages of the business life cycle lead to varying financial requirements for the business. The capital composition of a start-up may be very different to that of an established or mature business. Considering not every stage of a business has the same needs, it is possible to deploy the best financial tools in the market by taking access to funds into account at each phase. It is challenging to assign life cycles to firms because of the significant differences between sectors. For simplicity, as in earlier sections, this report uses the business age as a life cycle indicator to review financial usage at each phase.

It appears there are no consistent trends in business maturity related to financial inclusion. Intuitively, more established companies will have greater levels of financial inclusion as these are likely to be more formalised and developed. Figure 24 illustrates that businesses in the mature and established phases are more included, with the highest proportion of banked business owners. However, when comparing the levels of formal access across all four phases, there are no significant differences. In each phase, at least four out of five businesses are formally financially included.



Source: Blended FinScope MSME Eswatini Survey 2023

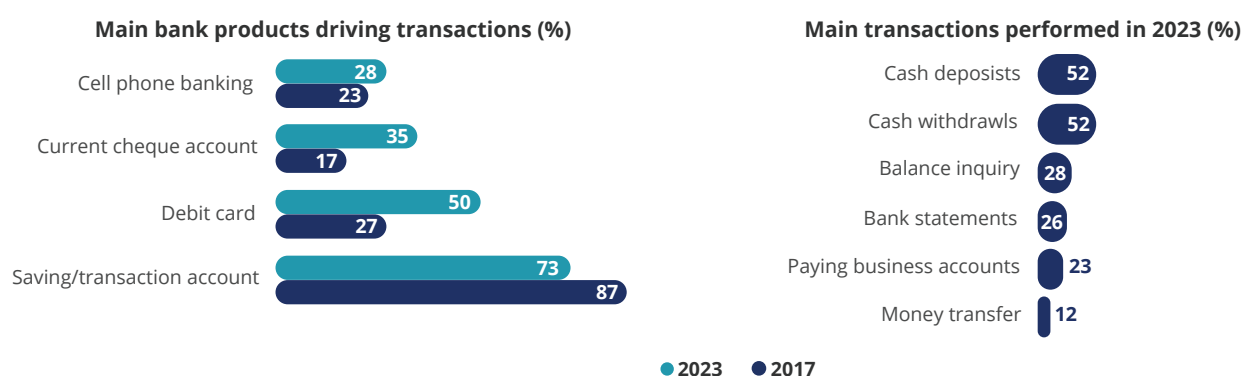
Figure 24: Financial Access Strand by business size and life cycle (%)

Bank account: Access and usage

Ownership of a bank account is essential for business owners as it allows them to effectively manage their financial resources. Dispersed cash holdings increase the risk of loss and expose it to theft and misuse. Additionally, having a bank account enables small business owners to conduct transactions with clients more efficiently. They can supply goods through agents, and clients can make payments directly into their bank account from their location. Bank accounts also serve as primary instruments for making and receiving payments in business transactions with large corporations.

The ownership of bank products among business owners decreased from 69% in 2017 to 52% in 2023. This decline was largely driven by a decrease in transactional products, although savings with banks also dropped in proportion. Overall, the number of banked business owners decreased from 40,986 in 2017 to 35,272 in 2023.

Currently, 26% of banked MSMEs use business accounts (accounts in the name of the business), while 74% use personal bank accounts. This marks an increase in the proportion of business-owned bank accounts from 14% in 2017. Additionally, 25% of business owners use over-the-counter (OTC) transactions through bank wallets and do not own a bank account.

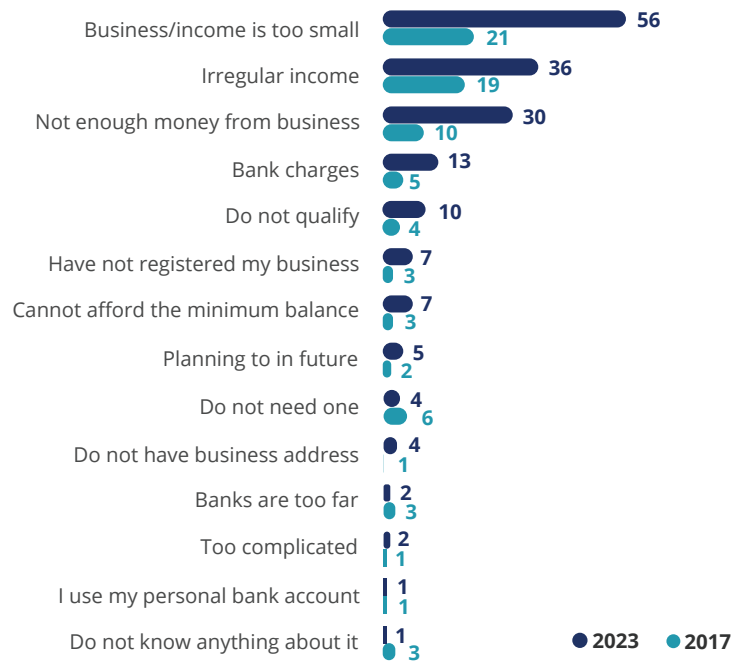


Source: Blended FinScope MSME Eswatini Survey 2023

Figure 25: Banking drivers

Thirty per cent of banked businesses use bank digital financial services (DFS). While this appears low, the costs associated with digital payment systems must also be considered. Some small businesses may incur relatively high transaction costs for using POS systems, making them seem more like a cost than a value-added service for processing their payments. Although Eswatini has a relatively moderate banked population, 85% pay their employees in cash, 8% use DFS and 97% are paid in cash by their clients. This indicates a gap between ownership of banking products and their usage, which may contribute to the declining proportion of banked users.

Barriers to banking have not changed since 2017, particularly affecting survivalist businesses that do not see their business or income as sufficient to justify bank products. This perception stems from their low and irregular income. Given these challenges and the comparatively high costs associated with banking, more business owners are opting for cash and other formal non-bank products that are flexible, such as mobile money.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 26: Barriers to banking (%)

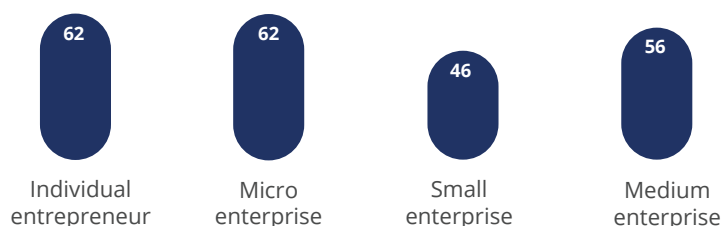
Mobile money account ownership and usage

Mobile cellular subscriptions have seen a dramatic increase in Africa. Along with it, came mobile money services. A recent report by the World Bank (2014) showed that Africa has achieved a significant improvement in financial inclusion driven by growth in mobile money account ownership. Mobile money services allow individuals to access financial services through their mobile phones, and they are particularly beneficial in areas where access to conventional financial services is low.

Clear reasons are driving the increase in formal financial products, mainly attributed to mobile money. Mobile money has shown consistent uptake since its introduction to the market in 2011 through MTN, the main mobile network operator at the time. The FinScope Consumer Survey Eswatini 2018 recorded 71% of adults using mobile money. This study shows that 62% of MSMEs use mobile money for their businesses. Similar to traditional banking, a higher proportion of mobile money users (79%) mainly use this service for transactions and also to access credit (17%). The market share indicates the majority of users are with MTN MoMo (74%) while 7% use InstaCash and 6% use E-Mobile.

As shown in Figure 27, mobile money is more popular among individual and micro-enterprise owners compared to small and medium enterprise owners. However, the proportion of those using DFS is similar across different business sizes, averaging 39% for individual, micro-enterprise and medium businesses, while small enterprises are higher at 55%.





Source: Blended FinScope MSME Eswatini Survey 2023

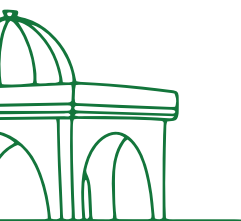
Figure 27: Mobile money account ownership among MSME owners (%)

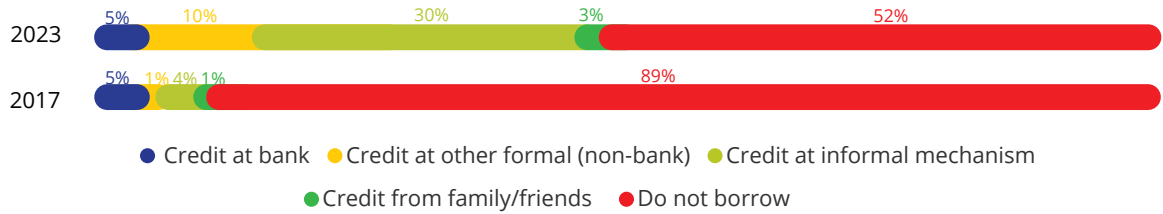
Access to credit

The first strategic priority of the recently launched Eswatini National Financial Inclusion Strategy 2023-2028 reads: “Productivity and resilience in the agriculture and MSMEs sectors”. This priority area entails helping the country’s farmers and entrepreneurs to be more productive, growth-oriented, and resilient in the face of various shocks that may arise. Specifically, there is a need to widen options for MSMEs and farmers to access finance and other financial services that support productivity and resilience, and to address issues of risk given that lending institutions generally perceive MSMEs as risky borrowers.

Policymakers are cognisant of this, as they view one of the crucial steps in fostering the growth of MSME development is to make financing more accessible. Although the Eswatini government has been working hard, it acknowledges that the tools created specifically for this purpose have been grossly underutilised. The current landscape will require a review to ensure instruments designed by the government, development financial institutions and private sector are in harmony, and the perceptions and attitudes of the business owners are considered in the design and delivery of these instruments.

One of the most important services in developing the MSME sector captured in Eswatini’s first rendition of the NFIS is productive credit. As cited in 2017, 25% of MSMEs found access to finance the biggest growth impediment, and in 2023, 59% of MSMEs stated the same. On operational constraints, 49% stated sourcing money as the most common constraint in 2017, while 55% stated the same in 2023. The Credit Strand in Figure 28 shows an improvement in access to formal finance, with 6% in 2017 up to 15% in 2023, mainly driven by mobile money credit. There are slightly more business owners accessing bank credit in 2023 in absolute numbers.





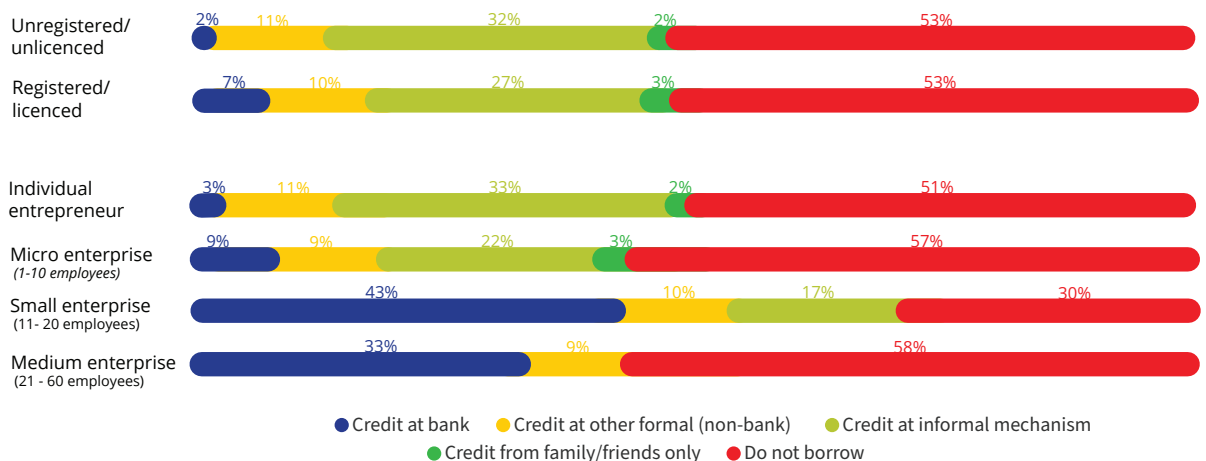
Source: Blended FinScope MSME Eswatini Survey 2023

Figure 28: Credit Strands for MSME owners (%)

The study compared MSME owner access to credit across formality and size categories. The comparison is made between access to credit from a bank, other formal, informal and family and friends. Figure 29 illustrates that access to bank credit increases with firm size. While 33% of medium enterprise owners accessed bank credit, only one out of five micro-enterprises have access to bank credit and far less for individual entrepreneurs. Forty-three per cent of small business owners obtained bank credit, while on average, only one out of ten accessed formal (non-bank) credit.

Although bank credit access varies between micro and larger enterprises, the percentage of people excluded from the credit market has dropped from 89% in 2017 to 52% in 2023. It is important to note the role of the informal sector in this regard, mainly saving and credit groups and money lenders. Informal financing is usually quicker, more flexible, and more convenient, making it appealing to MSME owners. However, it does have two significant drawbacks. Firstly, informal loans are often smaller and more commonly used for working capital, rather than expansion. Secondly, excessively high loan rates charged by informal lenders can destroy small businesses' profits. Independent entrepreneurs have the lowest access to formal credit (14%) and therefore rely more on informal mechanisms (33%).

Access to credit by formality shows no major differences across other formal (non-bank) mechanisms, informal mechanisms or exclusion, except for a higher proportion of bank credit among formal MSMEs. This finding further challenges the perceived benefits of formalisation, as formal MSMEs do not seem to have better access to formal credit.

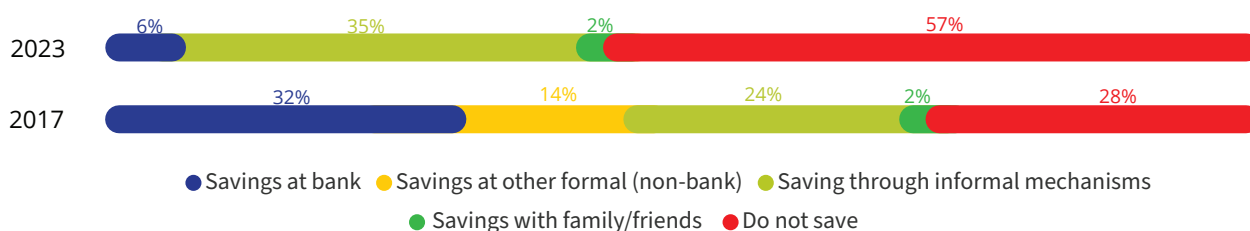


Source: Blended FinScope MSME Eswatini Survey 2023

Figure 29: Credit Strand by formality and by MSME size (%)

Savings and investment

Access to capital markets and other formal savings and investment platforms, such as SACCOs or the stock exchange, allows retained earnings from MSMEs to be reinvested in formal enterprises, thereby increasing funds available for investment or credit. It is important to note that most businesses are considered an investment mechanism. Since the majority of MSMEs self-fund their growth and working capital, their access to savings and investment products is essential to ensure they have money available for future needs. As shown in Figure 30, less than 10% of the MSMEs save at a formal financial institution, with banks being the only institution. The rest of the MSMEs either save informally or do not save at all.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 30: Savings Strands (%)

Looking at the Savings Strand, between 2017 and 2023, the percentage of MSMEs saving at the bank has dropped from 32% to 6%. This is largely attributed to the reallocation of savings accounts previously under savings in 2017, but now as non-saving transactional accounts in 2023. The rationale for this was applied to the FinScope Consumer survey in 2018 following a change in the savings book or account to a transactional cheque account in the banking system.

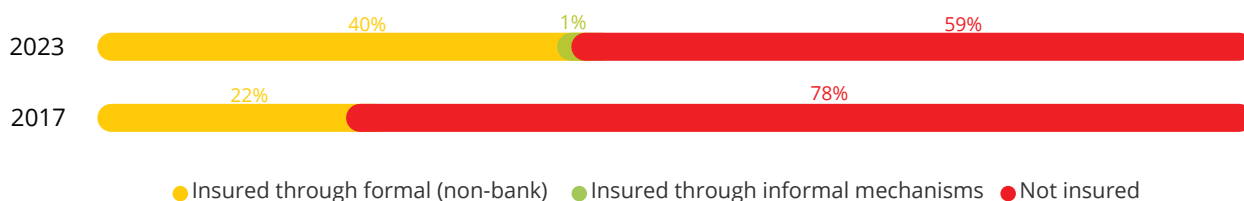
The drop in overall savings by business owners from 72% to 43% may also be attributed to the refinement of the questionnaire as well as the measurement framework between the baseline survey of 2017 and third-generation surveys conducted in 2019. The main questionnaire phrasing change was asking in terms of the business, i.e. Is the business owner saving specifically for business purposes? It may be difficult to separate personal or household savings from that of the business. Together with a tougher economic environment, dependency on retained earnings as a source of capital injection, and having less to put away as savings may explain the drop in the overall proportion of enterprises saving in 2023.

For those not saving, the main reasons mentioned were not making enough to save (29%) and all money being put back into the business (22%). Reinvesting in the business is a common practice as a source of capital, mainly to sustain or grow the enterprise. Thus, the main barrier to businesses not saving is the lack of excess funds, with most enterprises reporting the business is struggling (58%) or worse (4%).

Insurance and risk mitigation

The operational and financial risk profile of MSMEs is well documented in the NFIS II. The strategy reads: “Resilience products are also needed, particularly as it relates to addressing climate change impacts”. Yet insurance products for environmental and agricultural risks, such as disaster, crop, livestock and climate change are underdeveloped and cannot adequately respond to the risks that Eswatini farmers face. It is therefore proposed to explore the potential of establishing a climate risk insurance facility and an agriculture insurance fund.

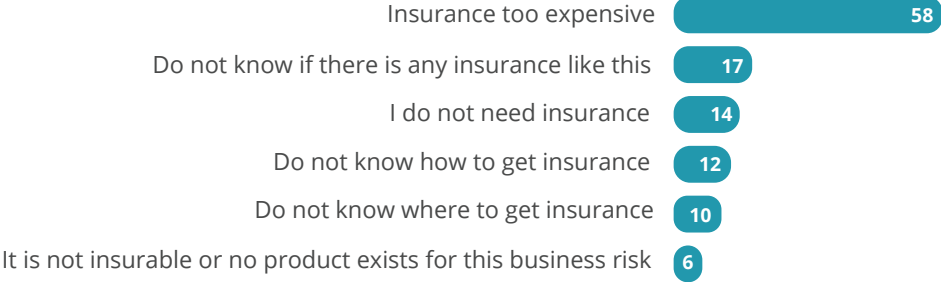
While co-ownership and using diversified sources of financing can help distribute risk, most MSMEs are solely owned, and the owner is the only source of capital. As a result, the owner would bear all of the risk, which increases the likelihood that a business may fail. Insurance is therefore a crucial component of MSMEs’ risk management strategy. Figure 31 illustrates that, although two out of every five MSMEs have formal insurance, the majority are without. This demonstrates the high level of MSMEs’ vulnerability to operational or other risk events.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 31: Insurance Strands (%)

MSMEs that use financial services and products have a wide range of risks that add to their total risk profile. Theft of company stock (33%) is the most common risk MSMEs face, followed by rain damage (25%) and fire, flood, or other disaster (26%). Since most MSMEs are run by sole proprietors and are informal, risk can easily extend to the household, severely affecting the livelihoods of MSME owners. The bulk of risks facing the sector are insurable, and the uptake of insurance is improving albeit on a personal level. Most of those with insurance, are covered at a personal level and the business risk is still largely uninsured. The main barriers to insurance similar to banking and credit, remain largely unchanged. Figure 32 shows that the main barriers are linked to affordability and financial literacy. For micro-enterprises, the business owners may have a perception that they do not need insurance or are unaware of products that can cover their business, even if it is very small.



Source: Blended FinScope MSME Eswatini Survey 2023

Figure 32: Barriers to insurance (%)





6. Conclusions and Implications for Stakeholders

Conclusions and Implications for Stakeholders

In Eswatini, the MSME sector plays a vital role in helping the country achieve SDG 3, 8, and 9 as well as other sustainable development goals, and in reducing poverty. By addressing the obstacles in the sector, well-thought-out interventions can help the country's MSME sector reach its fullest potential. This research demonstrates how various intervention examples can solve these issues, particularly among female-led businesses, and promote youth employment by de-risking the industry to attract more capital. Key interventions include the provision of information, formalisation of businesses and infrastructure development.

The conclusions from the study are presented in this section, along with the implications for stakeholders.

Conclusions

Based on a descriptive analysis of MSME owners' profiles, business characteristics, and obstacles, the study has come to the following conclusions:

- **Over three-quarters of business owners are dependent on their MSME as the primary source of income.** Looking back at 2017, business owners' dependency on the business as a primary source of income has dropped. This may largely be due to the external shocks and volatility experienced by the Covid-19 pandemic and the ripple effects of the Russia-Ukraine war. However, there are more MSMEs in 2023, which has resulted in an 18% increase in the number of small businesses since 2017.
- **The majority of MSME business owners continue to operate in the wholesale and retail sectors.** They sell something, particularly agricultural products, operate the agricultural/farming sector and render business services, e.g. professional services or community and household. The most common place of MSME business operations is from their residential premises, primarily for the community and household, and wholesale/retail sectors.
- **Many of the businesses are in the start-up phase (0-5 years of existence).** The analysis implies that MSME firms are growing, not only through the expansion of existing firms but also through the birth of new firms seen by the larger proportion of start-ups (as in 2017). Given that 37% of MSMEs are in operation for six years or more, and nearly two-thirds have less than five years in operation, the pattern indicates a greater failure rate of MSMEs after this phase. This stage of a business's life cycle needs extra consideration for growth and assistance.
- **Just over one-quarter of MSME owners are youth:** While this is comparatively low across the region, young entrepreneurs constitute 28% of MSME owners in Eswatini, which shows the sector's potential in alleviating youth unemployment and its contribution to the government's effort to promote economic empowerment for young people in Eswatini. Moreover, it implies that the MSME support framework needs to be strengthened to better serve young entrepreneurs who might not have much business experience.
- **The sector is still a livelihood for a higher number of women who are more likely to own micro-enterprises and less**

likely to own small and medium firms. About two-thirds of MSME owners are women but most of them run micro-enterprises (85% compared to 60% for men), and also proportionately fewer women own SMEs. This calls for the provision of training programmes tailored for women-owned MSMEs to enable them to grow their businesses as well as to understand the gender roles that directly affect the amount of time women dedicate to growing their businesses.

- The manufacturing sector still has a low level of entrepreneurship, showing a drop in proportion to other sectors.** Despite the manufacturing sector being a critical contributor to economic transformation, relatively fewer MSMEs participate in the sector which means the contribution of the MSME sector to industrialisation would be marginal. This may tie in heavily with access to markets, and high costs of market entry and gatekeeping. More research will be required in this area to further unpack the sub-sector and address issues to ensure it grows.
- Higher proportion of formal MSMEs:** Nearly two out of five MSMEs are formal, with either being registered or licensed (43%) up from 25% in 2017. The higher proportion is largely attributed to improvements in sampling and sizing of the sector as well as other direct efforts by the government to register small enterprises.
- Access to finance is the most binding constraint during operation and the growth phase.** The most common obstacles faced at both the operation and growth phases remain sourcing funds and access to finance. Given that access to finance embodies several factors, such as the cost of finance, accessibility, collateral, and discrimination, there is still work required to address the finance gap cited in this report as well as the NFIS II.
- Financial access to products and services is high, but the landscape is changing.** While the MSME financial landscape was predominantly led by banking, the study found a lower proportion of business owners with bank accounts and more taking up mobile money services. This trend is common in the region where the flexibility, convenience and cost of mobile money are perceived to be drivers towards mobile money. Increased mobile phone ownership is also a driver, which has attracted banks to develop mobile wallets to join the mobile money market.



Implications for stakeholders

Based on conclusions drawn from the analysis, the study forwards the following policy recommendations for policymakers and the private sector. The NFIS II addresses the points discussed next.

Recommendations for policymakers

The growth of the MSME sector in Eswatini has been promoted by the government and yielded a mixed bag of results. The government understands that every stakeholder in society, including NGOs, development organisations, and the commercial sector, must be involved to create a thriving MSME sector as clearly articulated in the NDP, among other strategies. According to this study, the Eswatini government should continue to serve as the hub of all activities and exhibit guidance in fostering the growth of the MSME sector.

- **Innovative strategy for generating employment:** The sector can produce more meaningful and sustainable jobs. As the study has demonstrated, concentrating on the development of jobs in the tourism, agricultural, and wholesale/retail sectors through small and medium-sized businesses is likely to result in a greater number of jobs. Segmenting these businesses to better understand the particular difficulties they face will likely lead to more resilient and flourishing enterprises. More markets and consequent demand for regional goods and services may arise from addressing export issues, such as standards and certification that certain agricultural and agro-processing sectors face.
- **The upcoming series of policy changes ought to concentrate on practical industrialisation and deepen the understanding of the business landscape.** It is recommended that an information campaign be created regarding formalisation, tying its significance to other advantages like access to financial institutions. Several schools of thought contend that a sizable fraction of organisations may not require, or be able to realise, the benefits of formalisation. Therefore, governments seeking to increase economic growth should aim to reduce the costs of registration and change the stigma around compliance over benefits to formalise, coupling it with interventions that increase direct contact with formal financial institutions providing one compelling option.
- **Protection and creation of markets:** One of the primary challenges identified pertained to limited markets and intense rivalry, particularly from regional and global products. Many nations have implemented measures to protect local producers to boost domestic industry. The purpose of the buy-local initiatives is to provide local manufacturers with markets in several subsectors. In addition to supporting supplier development programmes between retailers, MSME producers and manufacturers as well as linkages between corporates and large firms and MSMEs, governments should tighten procurement policies to concentrate more on buying from MSMEs. For instance, tax breaks or subsidies may be used as incentives for this.
- **Risk mitigation and relief:** Developing a contingency plan for unexpected disruptions such as natural disasters or economic downturns. The Covid-19 pandemic surfaced as many of the underlying issues within the sector, on both measurement and reach to businesses. Relief packages could not reach the intended beneficiaries, and this should be addressed to ensure future shocks can be dealt with more effectively.

Recommendations for the private sector

- **Women and youth mainstreaming:** Prioritising these target groups should not just be lip service but needs to extend to financial institutions as well as to the development and provision of financial products. Support for individual or self-employed business owners - the majority of whom are young women and men - should include customised financial solutions. This further demonstrates the need for a segmented strategy that is carefully created to match the development and operational requirements of each sector. It is recommended that a workshop with key private sector players to understand key segments and themes will assist in better product development.
- **Broadening the sector's offering of financial services and products:** Due to a lack of information, the majority of mainstream banking systems still experience the fear of banking the unknown when it comes to the MSME sector. As a result, there are currently few financial instruments available for start-ups and small businesses. The model used by microfinance institutions to reach out to smaller businesses and close the financing gap has increased the role of these institutions. The industry requires more products that address cash flow, equipment financing, resilience, and mitigation. These should take into consideration the unique financial requirements of the vast majority of MSME sector business owners. The data that can guide product development through a segmentation of the MSME market is now in hand and a workshop on this can be of great value to stakeholders from both the public and private sectors.
- **Supplier development programmes:** Larger enterprises must play a role in MSME development by introducing business owners to best practices and integrating them into high-value, sustainable chains. Improving MSMEs' productivity or the calibre of their goods and services would increase their competitiveness and affect their growth if programmes were developed to help them access and advance up the value chains. The goal of such initiatives is to upskill MSMEs through mentoring and capacity building to enhance their ability to operate successfully.
- **Financial literacy for business owners:** Programmes for business and financial education are also created and funded by the commercial sector. While aimed at certain growth categories that generate profits for the private sector, this excludes a significant percentage of the sector. In the short- to medium-term, programmes that aim to expand the sector for long-term mutual gain (of both MSMEs and the private sector) may be considered as an example of corporate social responsibility. This would provide entrepreneurs with the knowledge and resources they need to manage their companies legally and sustainably. Digital financial literacy is fast becoming an important aspect of consumer empowerment where a gap in both research and knowledge exists for business owners.



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