



Contract for Technical Assistance Support for Improving the Investment and Business Environment in the Southern African Development Community Region (SIBE)

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# **Consultancy to develop recommendations on business development support (BDS) for financial access, including financial literacy. Draft Knowledge Product**

STE Name: Leonard Chitongo  
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# Abbreviations

Acronym	Definition
<b>AI</b>	Artificial Intelligence
<b>BDS</b>	Business Development Support
<b>DL</b>	Deep Learning
<b>ESG</b>	Environmental Social Governance
<b>IT</b>	Information Technology
<b>ML</b>	Machine Learning
<b>NGO</b>	Non-Governmental Organisation
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>SADC</b>	Southern Africa Development Community
<b>SDG</b>	Sustainable Development Goals
<b>SIBE</b>	Support to Improving the Investment and Business Environment in the SADC Region
<b>SME</b>	Small and Medium Enterprise
<b>UNIDO</b>	United Nations Industrial Development Organization

# Executive Summary

This draft knowledge product outlines recommended actions for an integrated approach to Business Development Support (BDS) services across the Southern Africa Development Community (SADC). It is part of the project to Support Improving the Investment and Business Environment in the Southern Africa Development Community (SADC) Region (SIBE). The report highlights regional efforts at financial inclusion as enunciated in the SADC Strategy on Financial Inclusion. The report also summarises common best practises in providing BDS services for financial access to SMEs from other regions of the world. Emerging findings and how they can be synthesized to come up with recommendations for improved BDS services for financial access in the SADC region are also given in the report. The draft knowledge product provides a recommended framework for a BDS services ecosystem in the SADC region. It also provides key nuggets on Artificial intelligence (AI) that can be integrated into the financial sector to help in supporting the development of new products and services that can enhance the performance of SMEs in the SADC region. The knowledge product also gives a template of a regional policy on BDS services support and how the policy template can be customised at Member State level.

The report is divided into nine chapters as indicated below.

Chapter 1: Introduction

Chapter 2: Background

Chapter 3: SADC Strategy on Financial Inclusion

Chapter 4: Methodology

Chapter 5: Best Practices in BDS Services for Financial Access

Chapter 6: Framework for BDS Services in the SADC Region

Chapter 7: Leveraging on Artificial Intelligence in Finance

Chapter 8: Recommendations

Chapter 9. Conclusion

The overall objective of this assignment is to recommend how best to support SMEs in order to facilitate SME access to finance. The specific objective is to review existing business development support programmes for SMEs in SADC Member States and recommend best practices for business development support based on the findings. These objectives are aligned to the SIBE RA 2: “Enhanced integration of financial markets in the SADC region is promoted”, Activity 2.1.1.2 “develop recommendations on business development support (BDS) for financial access, which includes financial literacy.”

The methodology used to execute the assignment involved a desk study covering the SADC region and other regions outside the area. This was meant to give context and assist in the development of appropriate recommendations which would address gaps on the ground. Key informant interviews were undertaken with stakeholders with one-on-one meetings done in Botswana, Mauritius, South Africa and Zimbabwe. Other stakeholders were interviewed online while others responded to questionnaires sent to selected regional stakeholders and those within SADC Member States.

BDS services encompasses a range of services aimed at strengthening the capacity and competitiveness of SMEs, including access to finance, market linkages, technical assistance, and skills development. In the SADC region, BDS initiatives have gained traction as policymakers and development practitioners recognize the pivotal role of SMEs in driving inclusive and sustainable economic growth. The link between sustainable finance and the achievement of the Sustainable Development Goals (SDGs) is increasingly recognized as a cornerstone of inclusive and equitable development.

The SADC region has a Strategy on Financial Inclusion and SME Access to Finance which is designed to enhance the financial ecosystem for SMEs within SADC Member States. The strategy outlines several key initiatives to improve access, uptake, and utilization of quality financial services and products for consumers and SMEs. BDS services providers in this regard will offer training and advisory services to improve the managerial and operational capacities of SMEs. The BDS services initiatives will include financial literacy programmes that will educate SME owners on financial planning, budgeting, and the benefits of various financial products.

The SMEs sector in the SADC region faces a number of challenges which curtail their growth and competitiveness. One common problem is limited access to finance due to among other factors high-interest rates, stringent collateral requirements, and a lack of credit history. Our research found out that there are country specific support systems for SME development within each of the SADC Member States. The country specific issues are summarised in the Data Analysis Report which is presented as a separate document. The report also proffers results of cross-country analysis done by international organisations such as the IMF on common best practises for providing BDS services for financial access by SMEs. Online repositories like OECD iLibrary, FSD Africa, and FinDev Gateway scanned for resources specific to financial inclusion and SME support. All this information helped in coming up with emerging lessons and key principles to follow which were used to design a framework for a SADC BDS service offering which is summarised on **Diagram 1** in the report.

The role of technology in helping to resolve the problem of financial access by SMEs is also explored. In particular, the manner in which Artificial Intelligence (AI) mechanisms present opportunities for the analysis of creditworthiness of thin file customers like SMEs who have limited credit history is examined. Through its sub-branches of Machine Learning (ML) and Deep Learning (DL), AI can offer mechanisms that can help SME in making management decision. A framework adopted from UNIDO on pathways that SMEs can use to adopt AI in their business models is presented in the knowledge product. Limitations of AI systems in terms of issues with regard to data availability and associated costs and possible reputational and legal risks if they are deemed to be discriminatory are highlighted.

The recommendations which are presented in this draft knowledge product are preliminary. They will be finalised once further input in terms of existing frameworks in the BDS services space in the SADC Member States are confirmed through interaction with stakeholders in the SME sector. The recommendations are grouped into the three main categories with each one having possible actions that can be taken as summaries below.

- a) Strengthening of the BDS ecosystem through increased collaboration, standardised training, investment in data and research, and leveraging on AI mechanisms.
- b) Development of tailored financial products and services for SMEs and leveraging digital finance and rollout of comprehensive financial literacy initiatives.
- c) Streamlining the policy and regulatory environment by creating an enabling environment and promoting financial sector diversification and development.

Tailored financial products and services, and financial literacy programmes are critical in addressing the specific challenges and opportunities faced by SMEs in the SADC region. These need to be couched in the context of a supportive policy and regulatory framework. **Appendix A**, which provides a template for the development of a regional policy for BDS support for financial access and literacy is attached at the end of the report.

# 1. Introduction

This draft knowledge product outlines recommended actions for an integrated approach to Business Development Support (BDS) services across the Southern Africa Development Community (SADC). It is part of the project to Support Improving the Investment and Business Environment in the Southern Africa Development Community (SADC) Region. (SIBE). The assignment is being done in fulfillment of SIBE RA 2: “Enhanced integration of financial markets in the SADC region is promoted”, Activity 2.1.1.2 “develop recommendations on business development support (BDS) for financial access, which includes financial literacy.”

The Southern African Development Community (SADC) region is home to a vibrant and dynamic landscape of small and medium-sized enterprises (SMEs), which play a crucial role in driving economic growth, job creation, and poverty reduction. However, SMEs in the region often face significant challenges in accessing formal financial services and navigating complex financial landscapes. In response to these challenges, Business Development Support (BDS) services have emerged as a critical mechanism for enhancing financial access and promoting financial literacy among SMEs.

BDS services encompasses a range of services aimed at strengthening the capacity and competitiveness of SMEs, including access to finance, market linkages, technical assistance, and skills development. In the SADC region, BDS initiatives have gained traction as policymakers and development practitioners recognize the pivotal role of SMEs in driving inclusive and sustainable economic growth. Despite progress in promoting financial inclusion and literacy, persistent barriers continue to impede SMEs' access to formal financial services, limiting their potential for growth and innovation.

BDS services play a multifaceted role in promoting financial inclusion and literacy among SMEs in the SADC region. By providing tailored support and resources, BDS providers empower SMEs to overcome financial barriers, expand their operations, and seize new opportunities. Moreover, BDS interventions contribute to fostering a culture of entrepreneurship, innovation, and resilience, thereby enhancing the overall competitiveness and sustainability of SMEs.

The link between sustainable finance and the achievement of the Sustainable Development Goals (SDGs) is increasingly recognized as a cornerstone of inclusive and equitable development. Sustainable finance encompasses principles of environmental, social, and governance (ESG) responsibility, aligning financial practices with long-term sustainability objectives. In the context of SMEs, sustainable finance entails promoting access to affordable and responsible financial services that support both economic growth and social development goals.

The following aspects describe the linkage:

## **a) Economic Growth and Decent Work (SDG 8):**

Sustainable finance provides SMEs with the necessary capital to expand operations, create jobs, and stimulate economic growth. By accessing green and sustainable finance options, SMEs can invest in sustainable business practices, which can lead to higher productivity and job creation. Sustainable finance mechanisms, such as green bonds or sustainability-linked loans, directly support SMEs in adopting sustainable practices, contributing to economic growth and decent employment.

## **b) Industry, Innovation, and Infrastructure (SDG 9):**

Sustainable finance can fund innovation and infrastructure development within SMEs. This includes investments in clean technologies, energy-efficient processes, and sustainable infrastructure. By securing finance that incentivizes sustainable projects, SMEs can innovate and upgrade their operations, fostering resilient infrastructure and promoting inclusive industrialization.

## **c) Reduced Inequalities (SDG 10):**

Sustainable finance aims to be more inclusive by providing financial products tailored to underserved communities, including SMEs in rural or disadvantaged areas. Access to sustainable finance helps reduce inequalities by enabling marginalized SMEs to access capital, grow their businesses, and contribute to local economies.

#### **d) Responsible Consumption and Production (SDG 12):**

Sustainable finance encourages SMEs to adopt sustainable production practices and resource-efficient methods. Financial incentives for sustainable practices drive SMEs to minimize waste, use resources more efficiently, and produce goods and services sustainably, aligning with responsible consumption and production goals.

A typical example is financial products such as green bonds or sustainability-linked loans that can provide SMEs with lower interest rates or better terms for projects that meet sustainability criteria. This access to capital helps SMEs invest in renewable energy, sustainable agriculture, or eco-friendly manufacturing processes.

#### **e) Climate Action (SDG 13):**

Sustainable finance includes funding for projects that reduce carbon footprints and enhance resilience to climate change, such as renewable energy projects and energy efficiency improvements. By accessing climate-focused finance, SMEs can implement practices that reduce their environmental impact, contributing to global efforts in climate action.

Programmes supported by governments and international organizations often include financial and technical assistance for SMEs to adopt sustainable practices. For example, grants or subsidies for renewable energy installations can reduce the upfront costs for SMEs, making it feasible for them to transition to sustainable energy sources.

#### **f) Partnerships for the Goals (SDG 17):**

Sustainable finance fosters partnerships between governments, financial institutions, and the private sector, including SMEs, to mobilize resources for sustainable development. These partnerships facilitate knowledge sharing, capacity building, and co-financing opportunities that empower SMEs to participate in sustainable development.

Microfinance institutions and impact investors focus on providing capital to SMEs that contribute to social and environmental goals. These financial products are designed to support small businesses that aim to create positive social impact, thus promoting inclusive and sustainable economic growth, providing a good example.

This knowledge product aims to provide a comprehensive overview of BDS for financial access and financial literacy in the SADC region. Through a systematic analysis of existing initiatives, challenges, and opportunities, the knowledge product seeks to inform policymakers, practitioners, and stakeholders on strategies for enhancing SMEs' access to formal financial services. By examining the nexus between BDS, sustainable finance, and the SDGs, the knowledge product aims to catalyse dialogue and action towards building a more inclusive and resilient financial ecosystem for SMEs in the SADC region.

## **2. Background**

BDS services encompass a wide array of interventions designed to enhance the capacity, productivity, and competitiveness of SMEs. These services are instrumental in addressing the multifaceted challenges faced by SMEs, ranging from limited access to finance and markets to inadequate managerial skills and technological know-how. By providing targeted assistance and resources, BDS providers facilitate SMEs' growth, innovation, and sustainability, thereby driving overall economic development.

BDS services typically include access to financial services, market linkages, business advisory services, technical assistance, training programmes, and networking opportunities. Through a holistic approach, BDS initiatives empower SMEs to overcome barriers, seize opportunities, and thrive in dynamic and competitive market environments. Moreover, BDS interventions play a pivotal role in promoting entrepreneurship, job creation, and poverty reduction, making them indispensable drivers of inclusive and sustainable economic growth.

The SADC comprises 16 member states, each characterized by diverse economic structures, regulatory frameworks, and financial landscapes. While the region boasts significant economic potential and natural resources, many SADC member states face persistent challenges in achieving widespread financial inclusion. Limited access to formal financial services, particularly among SMEs and marginalized populations, remains a key barrier to inclusive growth and development.

The current financial inclusion landscape in the SADC region is marked by disparities in access to banking services, credit facilities, and digital financial solutions. Rural areas and underserved communities often face greater challenges in accessing financial services, exacerbating inequalities and hindering economic participation. Despite ongoing efforts to promote financial inclusion, substantial gaps persist, necessitating targeted interventions and coordinated strategies to expand access to financial services for all segments of society.

Findings from our engagement with stakeholders indicate that a number of strategies are being applied across the SADC region to promote financial access by SMEs. Examples include the Malawi Stock Exchange which has an incubation programme aimed at building capacity for SMEs in the areas of corporate governance, financing and financial reporting. This is meant to enhance SMEs readiness to list on the Enterprise Development and Growth Exchange (EDGE) platform which is specifically for SMEs. The Stock Exchange of Mauritius (SEM) operates the Development & Enterprise Market (DEM) which provide a market for SMEs and newly set-up companies which possess a sound business plan and demonstrate a good growth potential.

South Africa runs a Capital Matching Initiative – where SME are put through Capital Readiness Training and given an opportunity to present to capital providers at a capital matching event. The Capital Readiness Training initiative involves masterclasses that cover various topics relating to financial literacy and ensures that SMEs are as funding ready as possible before they seek capital.

A number of SADC Member States have specialised agencies that provides financial products and services to qualifying SMEs. In Zambia, the Small Enterprise Finance Agency (SEFA) provides wholesale, and direct lending credit facilities and credit guarantees to SMEs

### 3.SADC Strategy on Financial Inclusion

At a regional level, the SADC Strategy on Financial Inclusion and SME Access to Finance is designed to enhance the financial ecosystem for SMEs within SADC Member States. Recognizing the critical role SMEs play in economic development, the strategy seeks to create a conducive environment that facilitates access to finance, ultimately driving industrialization and economic growth across the region.

The strategy outlines several key initiatives to improve access, uptake, and utilization of quality financial services and products for consumers and SMEs. These initiatives are highlighted below.

- i. Harmonizing financial regulations across SADC member states to ensure a consistent and supportive regulatory framework. This involves updating policies to reduce barriers to entry for new financial service providers and adopting technologies that enhance financial inclusion.
- ii. Strengthening the capacities of financial institutions to better serve SMEs and underserved populations. This includes training for bank staff on SME lending and financial literacy programmes for SMEs to improve their understanding of financial products and services.
- iii. Promoting the adoption of digital financial services such as mobile banking and digital payment platforms to reach remote and underserved communities. This also includes initiatives to improve digital infrastructure and reduce transaction costs.
- iv. Encouraging the development of innovative financing models such as microfinance, peer-to-peer lending, and crowdfunding. These models are particularly useful for SMEs that may not meet the traditional credit criteria of banks.



- v. Facilitating partnerships between governments, financial institutions, and development partners to mobilize resources and create sustainable financing solutions for SMEs.

Within the context of these initiatives, BDS service providers will offer training and advisory services to improve the managerial and operational capacities of SMEs. This helps SMEs to better prepare for and manage financial resources, making them more attractive to lenders. The BDS services initiatives will include financial literacy programmes that will educate SME owners on financial planning, budgeting, and the benefits of various financial products. This increased financial literacy can lead to better financial decision-making and higher uptake of financial services.

## 4. Methodology

The research methods used in this study encompassed a combination of desk research, stakeholder consultations, and data analysis. Desk research involved a comprehensive review of existing literature, reports, policy documents, and relevant publications related to BDS services, financial access, and financial literacy in the SADC region. Additionally, stakeholder consultations were conducted through interviews, surveys, and case studies to gather insights from key actors involved in BDS provision, financial institutions, government agencies, and SME representatives across SADC Member States.

The sources of data for this study included the following:

### a) Literature Review

Existing reports, studies, and publications from international organizations, government agencies, academic institutions, and research organizations provided foundational insights into BDS, financial access, and financial literacy within the SADC region and beyond.

### b) Stakeholder Consultations

Interviews, surveys, and focus group discussions were conducted with a diverse range of stakeholders, including government officials, financial institutions, BDS providers, SME associations, and development partners. These interactions facilitated the collection of primary data, case studies, and first-hand perspectives on the challenges, opportunities, and best practices related to financial inclusion and literacy for SMEs.

### c) Secondary Data Sources

National statistical agencies, central banks, and relevant organizations provided secondary data on financial indicators, SME demographics, and economic trends, which were analysed to assess the current state of financial access and literacy across SADC member states.

The analysis techniques employed in this study comprised both qualitative and quantitative method

### a) Qualitative Analysis

Qualitative data from stakeholder consultations, interviews, and case studies were analysed thematically to identify key themes, challenges, and success factors associated with BDS, financial access, and financial literacy initiatives in the SADC region. Coding, categorization, and narrative synthesis techniques were used to distil insights from qualitative data sources.

### b) Quantitative Analysis

Quantitative data, including survey responses, financial indicators, and statistical datasets, were subjected to descriptive and inferential analysis. Descriptive statistics such as frequencies, percentages, and averages were calculated to summarize quantitative findings, while inferential analysis techniques such as regression analysis or correlation analysis may have been employed to explore relationships and associations between variables where applicable.

## 5. Best Practices in BDS Financial Access and Financial Literacy

### 5.1. Common best practices in providing BDS to SMEs

An empirical study by the IMF titled, 'Unlocking Access to Finance for SMEs: A Cross-Country Analysis,' covering the Middle East, North Africa, Afghanistan, and Pakistan (MENAP) and Caucasus and Central Asia (CCA) regions identifies the following as the key policy priorities for improving SME access to finance.

- ☐ Stable economic conditions and strong institutions are essential for fostering an enabling environment for SMEs.
- ☐ A competitive market encourages financial institutions to offer better services to SMEs.
- ☐ Efficient public administration and effective governance positively impact SME financing.
- ☐ Establishing credit registries and improving credit information availability helps lenders assess SME creditworthiness.
- ☐ Clear legal frameworks for contract enforcement and ease of doing business enhance SME financing.
- ☐ Effective supervision and regulation ensure a stable financial system.

A World Bank report on, "Improving Access to Finance for SMEs" emphasises on the need to focus on practices aimed at improving SMEs access to finance in three areas of credit reporting (improved credit history to allow them to access bank finance), secured lending (establishment of collateral registries), and insolvency (having appropriate insolvency regulations that are SME-friendly). The report borrows from data assembled by the World Bank's Doing Business teams on how a number of practices recommended by existing research have been implemented across the world to improve SMEs access to finance.

The Organisation for Economic Co-operation and Development (OECD)'s SME support framework emphasises on the importance of BDS services in productivity growth for SMEs. This pillar of the Small Business Act of Europe is pivoted on three principal areas of business development services, innovation policy for SMEs, and green economy policy for SMEs.

We also looked at some cross-country cases of BDS service provision involving some SADC Member States and others outside the SADC region. These include E4Impact Foundation's incubation and acceleration centers in Uganda that provide businesses with entrepreneurial services, such as: links with local investors, connections with international companies, funding ICT and satellite communication services, and access to markets. E4Impact has its roots in Italy and works with MBA students to support its entrepreneurial development programmes. E4Impact Foundation's programmes are in a number of African countries which include the following SADC Member States: DR Congo, Mozambique, South Africa, and Zimbabwe.

We have also gathered information on the Access to Finance Rwanda (AFR)'s assistance through the Terimbere SME Village which acts as a one-stop shop for investment readiness support and provision of financial support through the Terimbere Village Catalytic Fund. AFR is part of the FSD Africa network which is targeting to make finance work in Africa. FSD Africa are delivered across more 28 countries Africa. FSD's a network of financial deepening programmes that are working on promoting financial inclusion across Africa. Within the SADC region, the network includes FSD Zambia and Finmark Trust which operate as autonomous bodies. Finmark Trust is working with SADC on promoting financial inclusion at a regional level and also within individual SADC Member States.

## **5.2. Emerging Lessons and Key Principles to Follow**

Emerging key lessons for BDS services from the preliminary review of these support frameworks are highlighted below.

### **a) Understanding Local Needs**

#### **a.1. Market Analysis**

There is need to conduct thorough market analyses to understand the needs, gaps, and opportunities specific to each region or country.

#### **a.2. Stakeholder Engagement**

There is need to engage with local businesses, financial institutions, policymakers, and other stakeholders to align the services with the actual needs.

### **b) Building Robust Partnerships**

#### **b.1. Collaboration with Financial Institutions**

There is need to partner with banks, microfinance institutions, and fintech companies to design financial products suitable for SMEs.

#### **b.2. International and Local NGOs**

There is need to work with NGOs that have expertise in financial education to utilize their networks and knowledge.

### **c) Developing Tailored Financial Products**

#### **c.1. Diverse Financial Solutions**

There is need to offer a range of products, from microloans to equity financing, considering the varied needs of SMEs in different sectors.

#### **c.2. Risk Management Products**

There is need to introduce products like credit insurance to mitigate risks for both lenders and borrowers.

### **d) Capacity Building and Training**

#### **d.1. Financial Literacy Programmes**

There is need to conduct regular workshops and training sessions on financial management, digital financial services, and financial planning.

#### **d.2. Business Skills Development**

There is need to provide training in areas such as business planning, market research, and customer relationship management.

### **e) Leveraging Technology**

#### **e.1. Digital Platforms**

There is need to develop or support platforms that offer easier access to financial services and learning materials on financial management.

#### **e.2. Mobile Solutions**

There is need to utilize mobile technology to reach SMEs in remote areas, providing services like mobile banking and SMS-based financial tips.

### **f) Regulatory Framework and Advocacy**

#### f.1. Policy Advocacy

There is need to work with governments to advocate for policies that improve the business environment and increase access to finance.

#### f.2. Regulatory Compliance

There is need to ensure that all BDS services comply with local regulations and international best practices.

### **g) Monitoring and Evaluation**

#### g.1. Impact Assessment

There is need to regularly evaluate the impact of BDS services on SME growth and sustainability.

#### g.2. Feedback Loops

There is need to implement mechanisms for feedback from SMEs to continually adapt and improve services.

### **h) Scalability and Sustainability**

#### h.1. Scalable Models

There is need to develop models that can be scaled and replicated in different regions with adjustments for local contexts.

#### h.2. Financial Sustainability

There is need to aim for models that are financially sustainable, reducing dependency on donor funding over time.

### **i) Cultural Sensitivity**

#### i.1. Local Adaptation

There is need to tailor programmes to fit the cultural nuances and business practices of each region.

#### i.2. Language and Communication

There is need to offer services and materials in local languages and culturally appropriate formats.

### **j) Case Studies and Benchmarking**

#### j.1. Learning from Others

There is need to analyse successful BDS implementations in other non-SADC regions for insights and adaptable strategies.

#### j.2. Benchmarking Performance

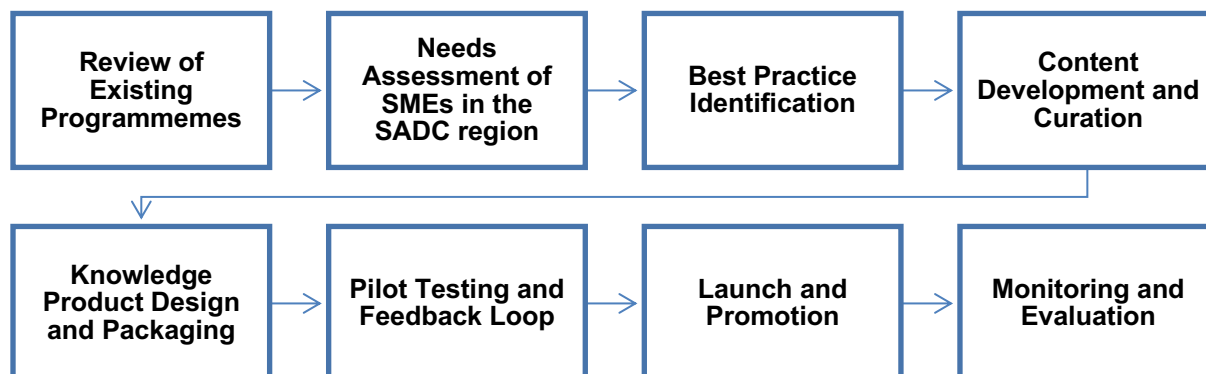
There is need to use benchmarks to measure performance against similar services in other regions or countries

## **6. Towards regional framework for BDS services in the SADC region**

Having looked at the problems faced by SMEs in accessing finance in the SADC region and experiences elsewhere in the world, below is a recommended framework for use within SADC region.

The framework needs to be tested for practicality and also to be customised to each SADC member state.

**Diagram 1: Framework for Developing a Knowledge Product for BDS Services**



**a) Review of existing Programmes**

This involves a review of literature on specific programmes, reports, and publications related to BDS support, financial access, and financial literacy for SMEs by international organisations such as the International Finance Corporation (IFC), World Bank, United Nations Development Programme (UNDP), and regional bodies like the Southern African Development Community (SADC). There is also need to review online platforms and repositories like OECD iLibrary, FSD Africa, and FinDev Gateway for resources specific to financial inclusion and SME support. For the review to be comprehensive, there is need to get opinions of relevant experts, organisations, and institutions working in the field for direct access to the latest guides and knowledge products.

**b) Needs Assessment of SMEs in the SADC**

This involves conducting comprehensive market research to understand the specific needs and challenges faced by SMEs in the SADC Member States identifying key industry sectors, market trends, and gaps in the existing BDS services landscape. This was done during this study by engaging with SMEs, BDS providers, government agencies, industry associations, and other relevant stakeholders to gather insights and feedback. Continuous collaboration with local experts and organisations needs to be done to ensure the knowledge product continues to be relevant and impactful.

**c) Best Practice Identification**

During this study, research was undertaken to identify best practice examples of BDS services from within the SADC region as well as globally. This was done through the analysis of successful case studies, programmes, and initiatives that have effectively supported SME growth and development.

**d) Content Development and Curation**

The next step is to develop high-quality content for the BDS knowledge product, including guides, toolkits, case studies, and practical resources tailored to the needs of SMEs in the region. There is need to ensure that the content is accessible, relevant, and actionable for SMEs looking to benefit from BDS services.

**e) Knowledge Product Design and Packaging**

The design of the knowledge product needs to be in a user-friendly format, considering the diverse needs and preferences of SMEs in the SADC Member States. It also has to utilise multimedia elements, interactive features, and localization strategies to enhance engagement and usability.

**f) Pilot Testing and Feedback Loop**

There is need conduct a pilot test of the BDS knowledge product with a select group of SMEs and associates to gather feedback on usability, relevance, and effectiveness. This should be followed by iteration on the product based on user feedback making necessary adjustments to improve its impact.

#### **g) Launch and Promotion**

A comprehensive launch strategy should be developed to promote the BDS knowledge product among SMEs, BDS providers, government agencies, and other stakeholders. This should leverage digital marketing tools, collaborations with industry partners, and participation in relevant events to reach a wider audience.

#### **h) Monitoring and Evaluation**

There is need to establish key performance indicators (KPIs) to track the adoption and impact of the BDS knowledge product on SMEs in the SADC Member States. A roadmap to regularly monitor and evaluate the product's performance, gather testimonials and success stories, and make data-driven improvements needs to be put in place.

## **7. Leveraging on Artificial Intelligence (AI) in Finance**

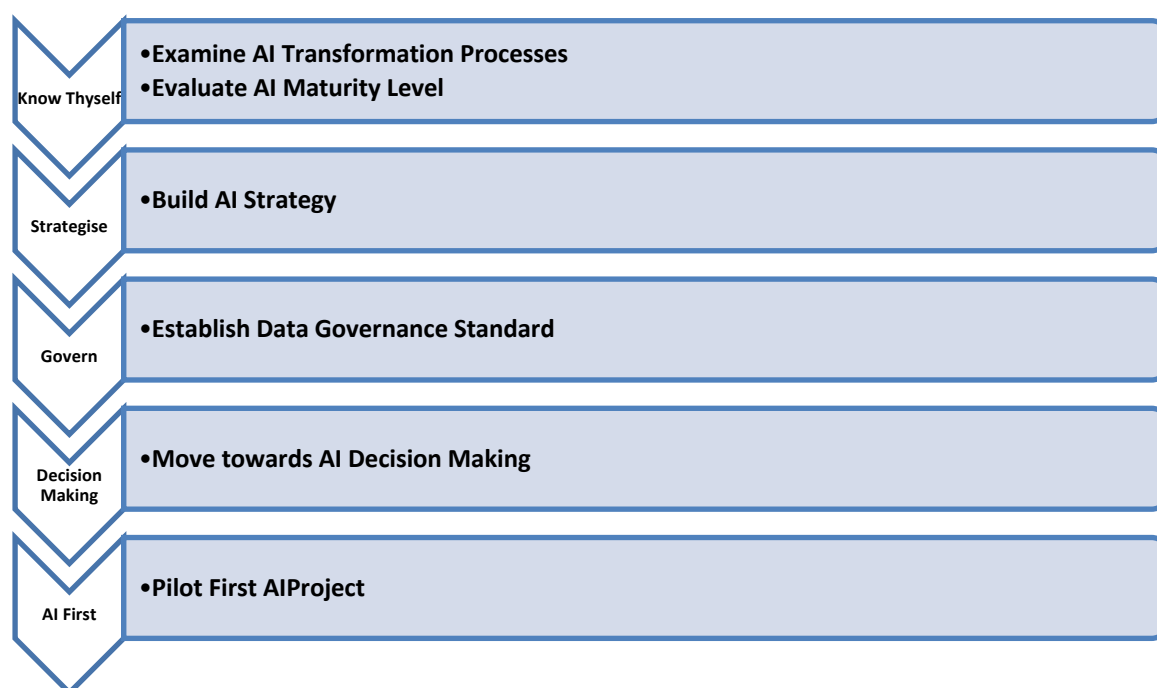
Technology plays a very important role in improving access to financial services and promoting financial literacy. The use of digital platforms and mobile solutions have been highlighted above as some of the solutions that can enhance inclusivity and financial access. Research by OECD (2021) indicates that Artificial Intelligence (AI) mechanisms present opportunities for the analysis of creditworthiness of thin file customers like SMEs who have limited credit history. This situation is of great appeal for those SMEs that are viable but do not have historical performance data or are not able to provide tangible collateral to access finance. While they have not been tested for longer periods AI-based scoring models present an opportunity to cover financing gaps that are faced by SMEs.

In this knowledge product, the UNIDO adopted definition of AI which says, “AI comprises a set of widely different technologies, which can be broadly defined and grouped together as 'self-learning, adaptive systems’” is used as the meaning of AI. UNIDO further describes Machine Learning (ML) a subset of AI as enabling, “.. IT systems to recognize patterns and regularities on streaming data based on learnings from historical data and algorithms, and to develop solutions from them without being bound by strictly static programme instructions. The insights gained from the data can be generalized and used for new problem solutions or for the analysis of previously unknown data.” It also describes the significance of Deep Learning (DL), a subset of ML, in recent years as follows: “Whereas Machine learning is about computers being able to think and act with less human intervention; deep learning is about computers learning to think using structures modelled on the human brain.”

As highlighted above AI can promote inclusivity and access to finance by the SME sector. By virtue of the fact that young people are more amenable to handle technology, the adoption of AI systems should see more youth involvement in the SME sector. The automation of certain tasks also helps in embedding the youths and women and youth in position in the production lines that needed the physical strength of men.

The UNIDO framework for adoption by SMEs is summarised in the steps below.

**Diagram 2: Pathway to the Adoption of AI**



### **Adopted from UNIDO**

While AI offers great opportunities for application in SMEs' access to finance, it has its own limitations associated with data availability and associated costs. This is more so as the maintenance of an AI system requires complementary technologies and calls for a firm digital transformation strategy by the SMEs. There are also reputational and legal risks associated with AI systems if they are deemed to be discriminatory. Most SMEs also have weak data culture and hence they are not prepared to valorise their data. These are the elements which have to be considered by the SMEs before embarking on a journey to adopt AI driven systems.

## **8. Recommendations**

The recommendations which are presented in this draft knowledge product are preliminary. They will be finalised once further input in terms of existing frameworks in the BDS services space in the SADC Member States are confirmed through interaction with stakeholders in the SME sector. The interface will be through written comments on this draft knowledge product that will be received from stakeholders. Further comments will be received at a stakeholder workshop to be conducted as part of this assignment. Below is a summary of preliminary recommendations based on findings and from the data analysis that was undertaken.

### **8.1. Strengthening the BDS Ecosystem**

Most Member States within the SADC region have policies, regulations and frameworks that govern financial inclusion and financial literacy. These are managed through relevant Government Ministries and Departments; Central Banks; Banking and non-banking financial institutions; and SME related associations; and other actors in the sector.

Besides all these systems being in place, the study undertaken concluded that SMEs still have limitations in terms of access to finance. A number of actions need to be undertaken to strengthen the BDS ecosystem in light of the ever changing regional and international financial architecture. Some of the key actions that need to be undertaken include the following:

- **Increased collaboration**

This can be done by fostering stronger collaboration between BDS providers, financial institutions, and government agencies to create a more integrated and holistic support system for SMEs.

- **Standardized Training**

This can be implemented by standardized training programmes for BDS providers on financial literacy and access, equipping them to effectively guide SMEs on navigating the financial landscape.

- **Investment in Data and Research**

This can be implemented by investing in data collection and research on the financial needs and challenges of SMEs in the SADC region to inform targeted BDS interventions.

- **Artificial Intelligence (AI) mechanisms**

This is a new area which presents opportunities for the analysis of creditworthiness of thin file customers like SMEs by the financial sector. SMEs themselves have the opportunity to use AI in their management decision making processes. There is need for the AI mechanisms to be enhanced so that the technology dividend can be utilised for the benefit the SMEs sector in the SADC region.

## **8.2. Development of Tailored Financial Products and Services**

Our research also found out that some products and services offered to the SME are not fit for purpose. This calls for the development of products and services that have been proven to work for SMEs. Some of the key recommendations in this area are as follows:

- **Developing innovative financial products**

Financial institutions should develop products specifically tailored to the needs and risk profiles of SMEs, including micro-loans, asset financing, and tailored insurance options.

- **Promoting mobile and digital finance**

There is need to encourage the adoption of mobile and digital financial services to enhance financial access and inclusion for SMEs in remote areas.

- **Financial Literacy Initiatives**

There is for implementation of comprehensive financial literacy programmes for SME owners and employees to improve financial management skills and decision-making.

## **8.3. Policy and Regulatory Framework**

Our research pointed to a lot of work having been done in this area. However the everchanging financial landscape calls for continuous efforts in reviewing the policy landscape. Some of the areas that require attention in this area include the following:

- **Streamlining regulatory environment**

This can be done by simplifying and harmonizing regulations related to financial access for SMEs across the SADC region, reducing bureaucratic burdens and promoting efficiency.

- **Creating an enabling environment**

This can be achieved by promoting policies that encourage financial inclusion, including access to credit, insurance, and payment systems, through tax incentives and other supportive measures.

- **Promoting financial sector development**

This can be achieved by supporting the development of a robust and competitive financial sector in the SADC region that encourages the participation of diverse financial institutions to serve SMEs.



## 9. Conclusion

BDS services are a critical enabler for SME growth and financial inclusion. By providing tailored support and guidance, BDS services can play a pivotal role in empowering SMEs to access financial resources and achieve financial stability. A collaborative approach between BDS providers, financial institutions, and government agencies is crucial for creating an effective and supportive environment for SME financial inclusion.

Tailored financial products and services, and financial literacy programmes are critical in addressing the specific challenges and opportunities faced by SMEs in the SADC region. These need to be couched in the context of a supportive policy and regulatory framework. All this is essential to creating an enabling environment for SME financial inclusion and foster sustainable economic development in the SADC region.

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# Appendix A: Recommended SADC Regional Policy on BDS Services for SME Financial Access and Literacy

## 1. Introduction

SMEs are important for economic growth, job creation, and poverty alleviation in the SADC region. They contribute 60% to the GDP of SADC Member States and over 50% of employment. SMEs drive local entrepreneurship and innovation. Financial access and financial literacy play a critical role in enabling the sustainable development of SMEs. The provision of BDS services has the potential to complement and support the provision of financial services and financial education for SMEs in SADC region.

The crafting of this recommended regional policy framework for the provision of BDS services for SME financial access and literacy is based on the findings of this assignment and lessons from best practice experiences of other countries and regions in the world.

## 2. Objectives

The objectives of this recommended regional policy framework for the provision of BDS services for SME financial access and literacy are as follows:

- a) Establish a harmonized regional framework to improve financial access and financial literacy for SMEs in the SADC region through the deployment of effective BDS services;
- b) Provide guidance to SADC member states on the development and implementation of national policies and programmes to enhance SMEs' financial capabilities and access to finance; and
- c) Encourage cross-border collaboration and the sharing of best practices among SADC member states in the design and delivery of BDS services for SME financial access and literacy.

## 3. Key Policy Pillars

The recommended regional policy framework for the provision of BDS services for SME financial access and literacy is hinged on pillars highlighted below.

### a) Enhancing Financial Access for SMEs

This will be achieved through policy actions which are aimed at key aspects SME development highlighted below:

- i. Encouraging the development of credit guarantee schemes and other risk-sharing mechanisms to facilitate SMEs' access to finance. This would require guidance on the design and implementation of effective credit guarantee schemes, drawing on best practices from SADC member states such as South Africa's Credit Guarantee Scheme. Key considerations will be the importance of targeted eligibility criteria, streamlined application processes, and strong public-private partnerships.
- ii. Promoting the use of alternative financing options, such as microfinance, leasing, and equity investments, to complement traditional bank lending. This would need to be supported by an enabling regulatory environment and support the growth of these alternative financing channels.

- iii. Leveraging digital financial services and fintech solutions to improve the reach and affordability of financial services for SMEs. This would require SADC member states to invest in digital financial infrastructure and promote financial inclusion through technology-driven initiatives.

These actions need to be customised Member States through:

- i. Assessment of the current landscape of financial access for SMEs within the national context ;
- ii. Addressing the key barriers to SMEs' access to finance, such as lack of collateral, high interest rates, or limited financial infrastructure; and
- iii. Implement targeted policies and programmes to enhance SMEs' access to diverse financing options, based on the specific needs and challenges of the member state.

#### **b) Strengthening Financial Literacy for SMEs**

This will be attained through the following measures

- i. Integrating financial literacy training into existing BDS programmes and entrepreneurship support initiatives.
- ii. Encouraging the development of customized financial education content and delivery methods that are relevant to the local context and the diverse needs of SMEs.
- iii. Promoting the collaboration between BDS providers, financial institutions, and industry associations to deliver comprehensive financial literacy programmes.
- iv. Emphasize the benefits of multi-stakeholder partnerships in designing and delivering comprehensive financial literacy programmes for SMEs.
- v. Provide recommendations on the roles and responsibilities of different stakeholders in the delivery of these programmes.

Member States can customize these actions through:

- i. The assessment of the current state of financial literacy among SMEs within the national context, including the identification of gaps and target segments;
- ii. Development of national financial literacy strategies and programmes that leverage BDS services to enhance the financial management capabilities of SMEs; and
- iii. Ensure the availability of financial literacy resources and training in local languages and formats accessible to SMEs.

#### **c) Integrating BDS and Financial Services**

This will be achieved through:

- i. Encouragement of the development of one-stop-shop BDS services that combines the two tracks of financial and non-financial support for SMEs. successful models from SADC Member States include Mozambique's GAPI Investment and Consultancy Company
- ii. Facilitation of partnerships between BDS providers and financial institutions to offer integrated solutions for SMEs. Areas of collaboration include data-sharing, and joint product development. There should also be encouragement of the establishment of formal referral mechanisms and co-located service delivery points to improve SMEs' access to integrated solutions.
- iii. Provision of training and capacity-building support to BDS providers to enhance their ability to deliver comprehensive financial services and financial literacy programmes. Certification schemes and knowledge-sharing platforms can be created to upskill BDS providers.

Member States can customize these actions through:

- i. The assessment of the existing landscape of BDS services and financial services for SMEs within the national context to identify gaps and opportunities for integration;
- ii. Identifying opportunities for strengthening the integration of BDS and financial services, based on the specific needs and challenges of the member state; and
- iii. Implement policies and incentives to encourage BDS providers and financial institutions to collaborate and offer integrated solutions to SMEs including the co-location of BDS and financial services for SMEs.

#### **d) Monitoring, Evaluation, and Knowledge Sharing**

This will be achieved through:

- i. The establishment of a regional monitoring and evaluation framework with a common set of indicators and data collection methodologies to track the progress and impact of BDS services for SME financial access and literacy.
- ii. Ensuring the disaggregation of data by sector, region, and demographic characteristics to enable targeted policy interventions.
- iii. Facilitation of the collection and sharing of data, best practices, and lessons learned among SADC member states.
- iv. Organize regular regional forums and knowledge-sharing platforms to foster the exchange of expertise and the replication of best practices.
- v. Encourage the involvement of SMEs, BDS providers, financial institutions, and other stakeholders in the design and evaluation of policies and programmes.
- vi. Ensuring that feedback and lessons learned from stakeholders are incorporated into the continuous improvement of BDS services for SME financial access and literacy.

Member States can customize these actions through:

- i. Develop national-level monitoring and evaluation systems to assess the effectiveness of BDS services for SME financial access and literacy;
- ii. Participation in regional knowledge-sharing platforms and contribute to the development of a common SADC-wide evidence base; and
- iii. Engagement with relevant stakeholders to ensure the continuous improvement and adaptation of policies and programmes based on feedback and lessons learned.

#### **e) Implementation and Coordination**

This will be achieved through:

- i. The establishment of a SADC Regional Coordination Mechanism to oversee the implementation of this policy framework;
- ii. Encouraging the alignment of national-level policies and programmes with the regional policy objectives;
- iii. Mobilizing resources and facilitate access to funding for the development and scaling of BDS services for SME financial access and literacy; and
- iv. Promoting cross-border collaboration and the exchange of expertise and best practices among SADC Member States.

## **4. Conclusion**

Through the adoption of a regional financial inclusion strategy, the SADC Member States have shown commitment to improving financial access and financial literacy for SMEs through the effective deployment of BDS services. This regional policy framework should be adopted for implementation at the national level. A number of examples of such frameworks are highlighted below to provide lessons to stakeholders in the region.

### **Examples of successful integrated BDS (Business Development Support) services for SMEs in the SADC region**

Below is a list of selected BDS organizations or frameworks whose impact has been in supporting SMEs with financial access and financial literacy impact has studied and proven.

#### **1. GAPI Investment and Consultancy Company (Mozambique)**

##### **GAPI's Integrated Service Model**

In addition to traditional BDS services, GAPI offers a range of financial services, including credit, equity financing, leasing, and hire-purchase arrangements. The organization also provides financial management training, bookkeeping assistance, and advisory services to help SMEs improve their financial capabilities. GAPI's approach is designed to address both the business and financial needs of SMEs, recognizing the interdependence between the two.

##### **Reach and Impact**

GAPI has a presence across Mozambique, with a network of regional branches and partnerships with local organizations. The organization has served over 10,000 SMEs, with a particular focus on reaching underserved segments, such as women-owned enterprises and rural SMEs. Evaluations have shown that GAPI's integrated approach has led to improved business performance, increased sales, and higher survival rates among its SME clients.

##### **Sustainability and Replicability**

GAPI's model is financially sustainable, with a mix of revenue streams from its financial services and BDS offerings. The organization has also demonstrated its ability to adapt and scale its integrated approach to serve the evolving needs of SMEs in Mozambique. Other SADC countries could potentially replicate GAPI's model, with adaptations to align with the local context and the specific needs of SMEs in their respective countries.

#### **2. SME Competitiveness Programme (Namibia)**

##### **Integrated Service Delivery**

The programme provides a combination of BDS services (e.g., business planning, marketing, operations) and financial services (e.g., access to financing, financial literacy training). The integration of these services is facilitated through a network of regional Business and Innovation Centers, which serve as one-stop-shops for SMEs. The programme works closely with financial institutions to ensure that SMEs receive the necessary support to access credit and other financial products.

##### **Targeted Approach**

The programme specifically targets SMEs that have the potential for growth and job creation, with a focus on sectors such as manufacturing, agriculture, and tourism. The financial literacy training component is tailored to address the specific knowledge gaps and needs of the participating SMEs.

##### **Measurable Impacts**

Evaluations have shown that the integrated approach has led to improved financial management practices, increased access to formal financing, and enhanced business performance among participating SMEs. The programme has also contributed to the creation of new jobs and the expansion of existing SMEs.

##### **Scalability and Replicability**

The programme's regional network of Business and Innovation Centers allows for the efficient delivery of integrated services across Namibia. The model could be replicated in other SADC countries, with adaptations to align with the local context and the specific needs of SMEs.

### **3. Rural Finance Expansion Programme (Zambia)**

#### **Holistic Approach to Financial Inclusion**

The programme combines the provision of financial services (e.g., savings, credit, insurance) with financial literacy training and business development support for SMEs in rural areas. The financial literacy component covers topics such as financial management, record-keeping, and business planning, empowering SMEs to better manage their finances and access formal financial services. BDS support is delivered through workshops and one-on-one mentorship, ensuring that SMEs receive tailored guidance and capacity-building.

#### **Reaching Underserved Segments**

The programme specifically targets rural SMEs, a segment that has traditionally been underserved by formal financial institutions and BDS providers. By integrating financial and non-financial services, the programme aims to address the multifaceted challenges faced by rural entrepreneurs and small businesses.

#### **Positive Outcomes**

Pilot studies have demonstrated that the integrated approach has led to increased savings, better business practices, and improved access to credit among participating SMEs. The programme has also contributed to the financial inclusion of previously unbanked rural populations.

#### **Potential for Replication**

The model of combining financial services and BDS support for rural SMEs could be adapted and replicated in other SADC countries facing similar challenges in reaching underserved segments. The programme's emphasis on financial literacy and the integration of multiple services provides valuable lessons for other initiatives targeting rural entrepreneurship and financial inclusion.

These successful examples illustrate the power of integrating BDS and financial services to comprehensively support the growth and development of SMEs in the SADC region. The key factors contributing to their success include the one-stop-shop approach, the targeted and adaptable service delivery, the involvement of diverse stakeholders, and the measurable impacts on SME performance and financial inclusion.

### **4. Small Enterprise Development Agency (SEDA) (South Africa)**

#### **Services Offered**

As part of its financial literacy training, SEDA offers workshops and seminars on financial management, budgeting, and financial planning. It also helps with loan applications, business plans, and connections to financial institutions. Over and above that SEDA offers BDS services mentoring, coaching, and business advisory services.

#### **Reach and Impact**

SEDA has a nationwide reach with a strong presence in both urban and rural areas. Its programmes have impacted thousands of SMEs improving their financial management skills and gaining access to necessary funding.

#### **Sustainability**

SEDA is funded by the South African government, ensuring a stable financial backing. Its strong partnerships with private sector organizations and financial institutions enhance sustainability.

#### **Replicability**

SEDA's model can be replicated in other SADC countries by establishing partnerships with local governments and adapting training materials to local contexts.