RESEARCH REPORT

SMME Finance Scoping: Services and Light Manufacturing

Botswana, Lesotho, Eswatini and Malawi

FINMARK TRUST

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About FinMark Trust

FinMark Trust is an independent non-profit trust whose purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'. We pursue our core objective of making financial markets work for the poor through two principle programmes. The first is through the creation and analysis of financial services consumer data to provide in depth insights on both served and unserved consumers across the developing world. The second is through systematic financial sector inclusion and deepening programs to overcome regulatory, supplier and other market level barriers hampering the effective provision of services. Together, these programmes unlock financial inclusion and sector development through a symbiotic relationship between rigorous data collection and research activities. Our work can be found in South Africa, throughout the SADC region and the global arena.

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ACRONYMS AND ABBREVIATIONS

Acronym	Description	Acronym	Description
ADMARC	Agricultural Development and Marketing Corporation	**MCIT**	Ministry of Commerce, Industry and Trade
AFCFTA	African Continental Free Trade Area	**MEDI**	Malawi Enterprises Development Institute
AfDB	African Development Bank	**MFA**	Multi-Fibre Arrangement
AGF	African Guarantee Fund	**MFI**	Microfinance Institution
AGOA	Africa Growth Opportunity Act	**MGDS**	Malawi Growth and Development Strategy
APDP	Automotive Production and Development Programme	**MICF**	Malawi Innovation Challenge Fund
ATM	Automated Teller Machines	**MIS**	Management Information Systems
AU	African Union	**MITI**	Ministry of Investment, Trade and Industry
BBSL	Botswana Building Society Limited	**MM4P**	Mobile Money for the Poor
BECI	Botswana Export Credit Insurance and Guarantee Company	**MMO**	Mobile Money Operator
BEDCO	Basotho Enterprises Development Corporation	**MOU**	Memorandum of Understanding
BMC	Botswana Meat Commission	**MSEPS**	Minimum Standards for Electronic Payment Schemes
BNPC	Botswana National Productivity Centre	**MSME**	Micro, small and medium enterprise
BOCRA	Botswana Communications Regulatory Authority	**MUSCCO**	Malawi Union of Savings and Credit Cooperatives
BSB	Botswana Savings Bank	**MYSC**	Ministry of Youth Empowerment, Sports and Culture Development
BSDP	Business Supplier Development Programme	**NAC**	National Arts Council
CAGR	Compound Annual Growth Rate	**NAMBoard**	National Agricultural Marketing Board
CDE	Centre for Development of Enterprise	**NAP**	National Agriculture Policy
CEDA	Citizen Entrepreneurial Development Agency	**NASFAM**	National Smallholders Farmers' Association
CFI	Centre of Financial Inclusion	**NBFI**	Non-Bank Financial Institution
CIPA	Companies and Intellectual Property Authority	**NBFIRA**	Non-Bank Financial Institutions Regulatory Authority
CMA	Common Monetary Area	**NDB**	National Development Bank
COMESA	Common Market for Eastern and Southern Africa	**NDP**	National Development Plan
CRBs	Credit reference bureaus	**NEPAD**	New Partnership for Africa's Development
DEMAT	Development of Enterprises Malawi Trust	**NES**	National Export Strategy
DFI	Development Finance Institution	**NFIS**	National Financial Inclusion Strategy

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Acronym	Description	Acronym	Description
ECGA	Eswatini Cane Growers Association	NIP	National Industrial Policy
EDF	Export Development Funds	NPL	Non-performing Loan
EIB	European Investment Bank	NSDP	National Strategic Development Plan
EIPA	Eswatini Investment Promotion Authority	OBRS	Online Business Registration System
e-KYC	Electronic Know Your Customer	PCG	Partial Credit Guarantee
EMA	Eswatini Millers Association	PED	Promoting Enterprise Development
ESA	Eswatini Sugar Association	PPSR	Personal Property Security Regulations
ESD	Enterprise and Supplier Development Programme	PRIDE	Programme for Rural Irrigation Development
ESDP	Economic Diversification Support Project	PSCEDP	Private Sector Competitiveness and Economic Diversification Project
ESP	Enterprise Support Programme	PSDP	Private Sector Development Programme
EU	European Union	PSP	Payment service provider
FCB	First Capital Bank	RBF	Results-based financing
FCDO	Foreign Commonwealth and Development Office	RBM	Reserve Bank of Malawi
FDH	First Discount House	RFG	Rhodes Food Group
FISP	Farm Input Subsidy Programme	RSG	Resilience and Sustainable Growth
FMT	FinMark Trust	RUTF	Ready to Use Therapeutic Foods
FNB	First National Bank	SA	South Africa
FSCC	Food Security System Certification	SAAM	South African Automotive Masterplan
FSP	Financial Service Provider	SABS	South African Bureau of Standards
GB	Gigabyte	SACCO	Savings and Credit Co-operative
GDP	Gross Domestic Product	SACU	Southern African Customs Union
HACCP	Hazard Analysis Critical Control Point	SADC	Southern African Development Community
HLCC	High-Level Consultative Council	SBI	State Bank of India
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics	SDP	Supplier Development Programme
ICT	Information and Communication Technologies	SEDCO	Small Enterprises Development Company
ICTs	Information and Communications Technologies	SEDOM	Small Enterprise Development Organisation of Malawi
IDA	International Development Association	SHS	Solar Home System
IFAD	International Fund for Agricultural Development	SMEDI	Small and Medium Enterprises Development Institute
IMF	International Monetary Fund	SMME	Small, Micro and Medium Enterprise
IPT	Internet Protocol Television	SSCBT	Small-Scale Cross-Border Trade
ITC	International Trade Centre	SSLEGS	Small Scale Enterprise Loan Guarantee Scheme
LAPAD	Local Authorities Procurement and Asset Disposal Regulations	STR	Simplified Trade Regime

Acronym	Description	Acronym	Description
LBS	Lesotho Bureau of Standards	**TEVET**	Technical, Entrepreneurial and Vocational Education and Training Authority
LEA	Local Enterprise Authority	**UNCDF**	United Nations Capital Development Fund
LHDA	Lesotho Highlands Development Authority	**UNDP**	United Nations Development Programme
LHWP	Lesotho Highlands Water Project	**UNICEF**	United Nations Children's Fund
LLP	Local Procurement Programme	**UNSDF**	United Nations Sustainable Development Framework
LLWDP	Lesotho Lowlands Water Development Projects	**US**	United States
LRA	Lesotho Revenue Authority	**USAID**	United States Agency for International Development
LTDC	Lesotho Tourism Development Corporation	**USD**	United States Dollars
LTE	Long Term Evolution	**VSLAs**	Village Saving and Loan Associations
LWC	Lesotho Wool Centre	**WAMPP**	Wool and Mohair Promotion Project
MAIC	Malawi Agriculture and Industrial Corporation	**WEF**	World Economic Forum
MAP	Make Access Possible	**WFP**	World Food Programme
MCCCI	Malawi Confederation of Chambers of Commerce and Industry	**YERF**	Youth Enterprise Revolving Fund

EXECUTIVE SUMMARY

Objectives

In this report we review the "health" and opportunities to improve the contribution of SMMEs in four Southern African economies.

The broad objectives of this study are to i) understand the overall small, micro and medium enterprise (SMME) landscape in Botswana, Lesotho, Eswatini and Malawi focusing on the services and light manufacturing industries; and ii) to provide recommendations to FinMark Trust (FMT) on a financial inclusion and growth strategy for such SMMEs.

In this report we review the "health" and opportunities to improve the contribution of SMMEs in four Southern African economies - which share many characteristics. Three of the four countries (Botswana, Lesotho and Eswatini) are each deeply integrated into the much larger South African economy, with which they share a customs union, have very small markets (populations of around 2 million people) and rely to a large degree on tax revenues that depend on the performance of the South African economy. Malawi's population is considerably larger than the other three countries – with a population of around 18 million people). All of these countries are members of the Southern African Development Community (SADC).

The capital cities of Botswana, Lesotho and Eswatini lie within a three-hour drive of Johannesburg - the industrial and manufacturing heartland of the regional economy – while Malawi has closer ties to its East African partners. All four countries have a wide range of policies, programmes and institutions designed to support SMMEs with similar enabling environment challenges. However, disparities in the resource endowments, trade linkages and competitiveness of these economies creates different opportunities for SMMEs in the light manufacturing and services sectors that are the focus of this study.

This executive summary provides a summary of the analysis, findings and recommendations per country which have been detailed in the completed document below.

Botswana

Economic context

Botswana is one of Africa's wealthier economies and holds an upper middle-income status. Botswana's GDP is USD 18.3 billion (2019), and has experienced average annual growth rates of almost 3% since 2014. The country has a population of approximately 2.3 million and a per capita GDP of USD 7,961 (2019). Botswana's wealth is primarily a function of its diamond exports which account for more than 90% of total exports. Despite considerable investment Botswana has not been particularly successfully in its diamond beneficiation strategy - this is discussed in detail in section 2.2.4. Manufacturing levels in Botswana are low given its small size and openness to the South African economy, against which it has few competitive advantages. The sectors that have the highest contributions to GDP are the trade, the hotels and restaurants sector, the finance and business services sector, and general government. These three sectors alone accounted for more than half of the country's GDP in 2019.

Enabling environment and SMME support programmes

Although Botswana is one of the most highly-ranked countries in macroeconomic stability, it has a comparatively weak enabling environment when placed against South Africa - a country with which it is closely integrated. Its product market is characterised by high market dominance of a few players, while its labour market lacks flexibility in the determination of wages. The country has not done well in adopting ICT but it scores poorly with respect to innovation. Botswana also scores poorly with respect to the time it takes to start a business, getting an electrical connection, enforcing contracts, and resolving insolvencies. The absence of a collateral registry has exacerbated issues around access to credit for SMMEs.

Botswana has a number of SMME support programmes. The Citizen Entrepreneurial Development Agency (CEDA) provides financing and business development programmes. The Local Enterprise Authority (LEA) provides business advisory services to SMMEs. LEA and CEDA work closely together, with enterprises that have gone through LEAs doors are often referred on to CEDA for funding support. While CEDA and LEA have been successful in serving the SMMEs that are currently in their books, both of these organisations face insufficient funding. The Ministry of Investment Trade and Industry (MITI) created the Economic Diversification Drive (EDD), which is a national initiative to diversify the economy and ensure that the economy remains healthy beyond the depletion of diamonds. Its role in Botswana's SMME environment is to primarily assist enterprises in securing business from Government and parastatal organisations. One of EDD's challenges is low support from Government institutions in supporting SMME procurement. The programme has not reached the desired level of success.

The United Nations Development Programme (UNDP) created the Business Supplier Development Programme (SDP) to link SMMEs to buyers in a number of priority sectors. The programme was successful in its first year of operation in that it did well in connecting a significant number of SMMEs to several large buyers. The SDP is currently restricted in the number of sectors that it operates in. The SDP is looking to expand its operational sectors in its second year of operation (November 2020 - October 2021). With relevant partnerships, the SDP can expand into the beef and leather industry to support the growth of SMMEs in this space. There is scope for FMT to partner with the SDP to identify relevant sectors, buyers, and sellers for the programme's expansion. Further programmes and SMME support institutions are discussed in section 2.1.4. Botswana's competitive and enabling environment is discussed further in sections 2.1.3 and 2.1.4 respectively.

Demand-side

Botswana is reported to have approximately 140,000 SMMEs - most of which are micro enterprises (~60%). The wholesale and retail trade sector accounts for around 37% of formally-registered businesses. Around 9% of businesses operate in the manufacturing sector, although manufacturing contributes approximately 7% to GDP. Service sector businesses account for ~35% of formally-registered businesses despite the service sector contributing to more than half of GDP. Almost half of formally-registered businesses operate in Gaborone and Botswana Central. Botswana's demand side is discussed in section 2.2.

SMMEs in Botswana have been slow to adopt technology and innovation that could enhance their businesses. A relatively low proportion of SMMEs receive support from access-to-market initiatives, and the poor levels of product certification reduce the demand for SMME products.

Demand-side opportunities in the light manufacturing and services sub-sectors

The table below provides a summary of opportunities in key sectors:

Table 1: Summary of explored opportunities - Botswana

Sector or value chain	Expected growth	SMME presence	SMME opportunity	Key issues for SMMEs	Areas for intervention
Diamonds	High (the diamond sector is projected to grow from 2021 with the economy recovering from the pandemic)	Low (almost no SMMEs are in this market with Debswana and the Diamond Trading Company Botswana (DTCB) dominating the value chain activities)	Low (given Debswana market dominance)	• Beneficiation is expensive in Botswana's market. Other countries are able to profitably work diamonds • Low local skills result in reliance on imported skills	FMT should not focus on this
Livestock/ beef	Moderate (a lift in COVID-19 restrictions on trade is expected to boost exports)	Low (this market is characterised by small scale, informal and survivalist farmers, and BMC dominates in the wholesale and retail space)	Moderate (this market is going through liberalisation. Once this happens, SMMEs will have the opportunity to become suppliers of beef products - albeit at a smaller scale than BMC)	• Increasing popularity of larger firms in the value chain - the number of smaller farmers is decreasing • Botswana Meat Commission (BMC) has been the only licensed exporter of beef products. This issue is currently being addressed to allow for other market players, but it is unlikely that SMMEs could plug-in here given their limited scale and skills.	Support the SDP in expanding into this industry to connect SMMEs to buyers. With the liberation of this sector, SMMEs will be able to supply local retailers and the international market - albeit to a smaller scale than BMC
Leather	Low (the Lobatse leather park is experiencing operational issues)	Low (this sector has not yet fully developed)	Moderate (once the Lobatse Leather Park is in operation, SMMEs will have the opportunity to create leather-based products)	• Hide processing is a water-intensive and chemical-intensive process, which may be ill-suited to the local market • Many hides are damaged due to local branding traditions	Supporting the training initiatives once the Lobatse Leather Part is up and running
Tourism	High (with the tourism industry being hard hit by the pandemic, the sector is expected to grow rapidly once restrictions continue to be lifted)	High (transport providers, accommodation providers and restaurants have a good presence in the tourism space)	Moderate (given the high presence, further SMME opportunities are limited)	• The regulatory environment needs to allow for the operation of platforms such as Airbnb. Once such entrepreneurs are licensed to operate, they can then benefit from this opportunity. • Slow-to-land digital innovation	Support the development of digitisation in the tourism industry
Solar	High (Given that this is a new market, the potential for uptake of solar products is high)	N/A (the market does no currently exist)	Moderate (once the solar market emerges, SMMEs may have the opportunity to provide solar power related services)	• Many business lack the capital required to invest	There are no immediate opportunities, but there may be in future

Sector or value chain	Expected growth	SMME presence	SMME opportunity	Key issues for SMMEs	Areas for intervention
Creative economy	Moderate (the presidency is working on initiatives to see to it that this sector is prioritised and attended to more formally)	Low (the formalisation of this sector and the initiatives are at an early stages)	Moderate (with the increasing focus on this sector, initiatives will provide SMMEs with opportunities to participate in this sector)	• The National Arts Council is still under development, but initiatives by the Ministry of Youth, Sports and Culture (MYSC) will help resolve access to opportunities	Engage with the Internet Protocol Television platform to surface opportunities for SMMEs in television production

Notes: Expected sector growth: Based on GDP growth forecasts | SMME Presence: Based on market size data | SMME growth potential: Based on the impact of highlighted key issues.

This analysis suggests that from a sectoral perspective there are limited opportunities for SMMEs in the areas of manufacturing or the key service industries. However, while these opportunities remain limited, a potential way to solve multiple issues related to access to market and access to finance for SMMEs is through value-chain finance solutions. An example of this includes establishing linkages between suppliers (SMMEs) and buyers (retailers) that could purchase from these suppliers on a regular basis.

Through such linkages SMMEs would be able to resolve their access to market issues, they would be able to gain financing such as invoice discounting based on the formed linkages and at the same time, they would receive training from the buyers on what quality standards are required to remain as an ongoing supplier.

To understand whether or not there are further opportunities in the light manufacturing and services sub-sectors, there is a need to conduct a demand-side survey with SMMEs.

With Botswana's slow adoption of information and communication technology (ICT), there are several global innovations that the country could learn from. In the solar energy space, M-Kopa Solar (operating in East Africa) is a solar system that powers households and businesses through innovative solar devices. Lynk is a Kenyan platform that connects blue-collar workers to consumers. SweepSouth is a South African platform that connects domestic workers to consumers. It has allowed people to find part-time work and boost micro entrepreneurship. Airbnb has worked well in other countries, but it has not done well in Botswana. Government regulation in this space can ensure that entrepreneurs are given the rights to operate and generate business from such accommodation services.

Supply-side

As discussed in detail in section 2.3 of the document, one of the key challenges that SMMEs face in Botswana is insufficient access to start-up and working capital. This issue hinders SMMEs from providing their products and services to the market. Additionally, the banking sector in Botswana is largely focused on lending to retail customers and established businesses, and the microfinance industry has only recently begun serving SMMEs. The mobile money industry is still in the development phase and has not yet matured into a credit market for SMMEs. The role of mobile based credit and credit guarantees to incentivise banks to lend to SMMEs is an important aspect to consider. Other successful kinds of financing (such as venture capital and crowdfunding) are not being explored to full capacity in Botswana - limiting financing options for SMMEs.

Recommendations

While a number of recommendations have emerged from this study (these are outlined in section 2.4), two recommendations have been selected as key focus areas for FMT. These recommendations have stemmed from three main issues being faced within the country. The implementation plan for these recommendations is provided in section 2.5.

Issue 1: Based on a value-chain and sector-based analysis the opportunities identified are few and far between and therefore FinMark Trust could focus on a broad-based supplier development programme.

Recommendation 1: Therefore, the first recommendation is for FMT to partner with Botswana's SDP that was introduced (and is currently being funded) by the UNDP. The SDP has reported that it is working on a limited UNDP budget and is looking for partners to assist it in scaling up the programme's reach. FMT's potential role is anticipated to be two-fold. First, to provide financing to assist in closing the programme's funding gap, and secondly, to be a key influencer of the sectors that the programme expands into. The SDP would allow SMMEs to be able to sell their products, create steady demand and at the same time allow these SMMEs to access innovative products such as invoice discounting.

Issue 2: The credit guarantees schemes within the country are not working at an optimal level. These schemes have the potential to change Financial Service Provider (FSP) lending behaviour when administered and structured correctly.

Recommendation 2: The second recommendation is for FMT to play a role in the redesign of the credit guarantee schemes[1] to ensure the uptake of the scheme increases. SMMEs have been disadvantaged by lenders' reluctance to make better use of credit guarantees. A user journey assessment of the pain points that the user and issuers of the guarantee face could support in increasing the uptake of this guarantee.

Lesotho

Economic context

Lesotho is a lower middle-income country with a nominal GDP of USD 2.5 billion, a GDP per capita of USD 1,158 and a population of approximately 2.1 million. Its economy is heavily reliant on imports from South Africa (SA) and the textiles industry which accounts for 58% of its exports. Top contributors to GDP are; public administration (25.4%), manufacturing (12.8%) and wholesale and retail trade (11.5%). The success in the manufacturing sector is a result of the African Growth and Opportunity Act (AGOA) which has propelled the growth in the textiles and apparel industry, however, this success could be impacted should the United States (US) change its AGOA policy.

Lesotho has experienced weak economic growth of approximately 1.6% over the past 5 years[2] as a result of the weak performance in the SA economy to which it is closely linked, a decline in Southern African Customs Union (SACU) revenues (a principal source of tax), political instability and frequent elections which has created considerable policy uncertainty and poor implementation of Government programmes. Further information on this can be found in section 3.1.2 of the report.

Enabling environment and SMME support programmes

Lesotho's current competitive advantage needs to be seen in the context of its proximity to South Africa and access to the US market under AGOA. The only competitive advantage it has in relation to SA is in the labour market as depicted in **section 3.1.3**. From a global perspective and in the absence of AGOA, it faces competition in the textiles market from countries with cheaper labour costs such as Ethiopia. These factors are likely to deter foreign investment in the country. Furthermore, the dominance of the textile industry by Chinese multinationals and overreliance on AGOA put the country at risk of economic instability if the AGOA policy expires in 2025. This is because there is little downstream transfer of manufacturing skills to the Basotho and minimal manufacturing exports outside of textiles.

The country performs poorly across all Ease of Doing Business metrics as shown in section 3.1.4. Its rank has been deteriorating mainly because of the poor access to electricity, difficulty in starting a business, lack of a collateral registry and low coverage of the credit bureau across SMMEs. The protection of minority investors is also particularly poor and this can detract from attracting angel and venture capital investors in all sectors. However, there are some positive developments in recent years, the opening of the One-Stop Business Facilitation Centre seeks to improve the ease of starting a business.

Lesotho has a number of donor and government support programmes discussed in **section 3.1.4 and annex 7.2**. The **Private Sector Competitiveness and Economic Diversification Project** (PSCEDP) is a project whose key mandate is to facilitate private sector investment by

1 CEDA and The Ministry of Finance run separate credit guarantee schemes
2 2014 - 2019

improving the business environment and diversifying sources of business growth. Its efforts to strengthen the private sector has experienced cash-flow challenges in implementing its grant scheme and in coordinating numerous ongoing projects[3]. The **Economic Diversification Support Project** (EDSP), funded by the African Development Bank (AfDB) seeks to support the private sector through improving partnerships, entrepreneurial and skills development and investment promotion. One of the project's support programmes was the introduction of the 2018 microfinance programme which aimed to design and implement a suitable MFI programme. However, its implementation has been delayed and MFIs are yet to commence SMME lending. **Basotho Enterprise Development Corporation** (BEDCO), the implementing arm of the Ministry of Small Business, Cooperatives and Marketing is mandated to establish and develop indigenous Basotho-owned enterprises by coordinating efforts between private sector businesses development service (BDS) providers. Its incubation programme has not gained much traction. It also assists SMMEs to access finance through evaluating business plans for loan applications. Over the past five years it has only assisted approximately 35 SMMEs which corresponds to about 0.05% of the total SMME population to access finance. Its Partial Credit Guarantee (PCG) is also faring poorly and to date less than 1% of all SMMEs have had access to this scheme, this translates to approximately 564 SMMEs. The **Lesotho National Development Corporation** (LNDC), which is the implementing arm of the Ministry of Trade and Industry is mandated to initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce. It also has a partial credit guarantee (PCG) scheme which seeks to support medium to large enterprises. Over the past nine years, only 65 loan applications worth 2 million dollars have been issued. The **National University of Lesotho (NUL) innovation hub** promotes private-sector development through offering SMME support in three phases: incubation, acceleration and tenancy in its industrial park, however, the last two phases are yet to be operationalised. The innovation hub currently has 15 physical and 15 virtual fully incubated businesses but lacks the funding to propel these businesses into the market. Lastly, the **SMME support network** is a consortium of 11 BDS providers which was set up to bring together individuals, entities and organisations that deal with SMMEs to promote their development. The main impediment in its operation is the lack of cooperation between the relevant stakeholders and this is a potential area for intervention.

Demand-side

As of 2016, there were 85,173 SMMEs in the country, majority of which were micro enterprises with no employees as discussed in **section 3.2.1**. These businesses tend to be survivalist in nature and are rarely growth-oriented. There needs to be more graduation from micro to small if SMMEs are to support private sector development. SMMEs mainly operated in the services sector with wholesale and retail trade (30%), other services activities (18%) and accommodation and food services (10%) accounting for the largest sectoral activity. SMME presence in the manufacturing sector is very low.

The main demand side challenges faced by SMMEs highlighted in **section 3.2.2** include: the lack of production facilities, high production costs inhibiting production capacity for large orders, poor knowledge on product quality, poor knowledge on how to access the market and inadequate marketing skills.

Demand-side opportunities in the light manufacturing and services sectors

The table below shows key value chains identified in light manufacturing and/or services. The analysis in **section 3.2.4** uncovered limited growth opportunities for SMMEs in these value chains.

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3 Stakeholder Engagements, 2020, Genesis Analytics

Table 2: Summary of explored opportunities - Lesotho

Sector or value chain	Expected sector growth	SMME presence	SMME opportunity	Key issues	Areas of intervention
Textiles and clothing	Moderate • Benefits of AGOA have stabilised	Low • Sole textile mill is foreign owned • Only 3 SMMEs in clothing production • Few local retailers mainly offer support services	Moderate • Ancillary services to the mill • Support services for the clothing manufacturers • Clothing production for local market	• Low cotton production • Value chain dominated by corporates • Dependency on AGOA • Limited skills transfer • Limited factory shells for locals • Outside AGOA, competition from other African markets • Economy is not large enough to accommodate production of synthetic fibres	• Development of a post-AGOA strategy • Support the development of the business curriculum to incorporate training on how to run and operate factories • Supplier development programme to assist SMMEs who offer support services[4] sell their produce to large local garment manufacturers and supermarkets
Wool and mohair	High • Increasing exports	Low • Value chain is highly underdeveloped and there is generally low participation except in the ram and goat breeding value chain (farmers and shearers)	Moderate - currently no value addition • Input support to farmers • Merchants • Ancillary services to scouring plant • Small scale spinning for "home knitting" • Synergies with the textile industry	• Despite liberalisation in the auctioneering and brokerage of wool and mohair, Lesotho brokers face stiff competition from SA brokers and the Maseru Dawning Trading Company • Primary processing dominated by large corporates	• Supplier development programme to assist qualifying SMME associations[5] sell their produce to Lesotho and SA brokers. • Online sales portal as an access to market tool
Auto-motive parts	Indeterminate growth • Dependent on SA national policy	Low • Dominated by large corporates	Indeterminate • Leverages its cheaper cost of labour to manufacture car components e.g., seat covers • One automotive seat cover manufacturer has expressed interest in Ha-Belo to occupy on the factory shells	• The South African Automotive Masterplan (SAAM), 2021, seeks to deepen SA value chains and Lesotho's goods may not qualify as local content • SA's national policy will likely outweigh the benefits of the SACU industrialisation programme	FMT should not focus on this

4 SMMEs will provide support services such as embroidery, coat hangers/sizers, garment screen printing, waste fabric recycling, carton packaging
5 The Wool and Mohair Promotion Project (WAMPP), Lesotho National Wool and Mohair Growers' Association (LNWMGA)

Sector or value chain	Expected sector growth	SMME presence	SMME opportunity	Key issues	Areas of intervention
Handicrafts, leather and footwear	Moderate • Dependent on utilisation of AGOA	Low • There are only two footwear manufacturers. These are not SMME owned	Low - customs union restricts protectionist policies against cheaper SA imports	• Potential to scale is limited because leather has to be imported • Its exports are tied to the AGOA facility that is set to expire in 2025	FMT should not focus on this
Packaging and materials	Low • Decreasing exports	Low • Dominated by large corporates	Low - requires high capital requirement and scale in order to be competitive in the export market	• Despite the presence of springs and highlands project, the country lacks local accredited testing facilities • The industry is also dominated by large corporates	FMT should not focus on this
Consumer electrical and electrical appliances	Low Decreasing exports	Low • Dominated by large corporates	Low - dominated by large corporates	Companies assembling electronic and electrical products are large multinationals	FMT should not focus on this
Tourism	Moderate • Focus area of the National Strategic Development Plan (NSDP) II but greatly hit by the pandemic	Indeterminate • Data not discernible	High • Tourist attraction sites • Sports and recreation • Accommodation and conferencing • Creative arts	• Covid-19 pandemic • Few accommodation facilities have been graded under the PSCEP. As of Q3 2020, there were only 34 graded facilities	• Support institutions that offer conduct the grading of accommodation facilities • Assist in marketing the 2021 African Union Region 5 under-twenty games and other attractions

Key: Low - Red; Moderate- Amber; High - Green

Notes: Expected sector growth: Based on export trends | SMME Presence: Based on preliminary research data on the number of participants | SMME growth potential: Based on sector growth, SMME presence and the impact of highlighted key issues.

From the analysis it is clear that there are limited opportunities for SMMEs in the light manufacturing and service sector. However, while these opportunities remain limited, multiple issues related to access to market and access to finance can be solved through value-chain finance solutions. For example, through establishing linkages between suppliers (SMMEs) and buyers (retailers) that could purchase from these suppliers on a regular basis as illustrated in the textiles and wool value chain above.

Through such linkages SMMEs would be able to resolve their access to market issues, they would be able to gain financing such as invoice discounting based on the formed linkages and at the same time, they would receive training from the buyers on what quality standards are required to remain as an ongoing supplier.

The role of technology is also instrumental in resolving enabling environment and demand side related market inefficiencies. These digital platforms can be used to create employment and opportunities for micro enterprises; however, they may not impact the overall SMME landscape significantly. Examples of these platforms include M-Kopa Solar which is a solar system that powers households and businesses through innovative solar devices. Lynk, SweepSouth and Takealot are platforms that connect businesses to consumers, greatly improving access to market challenges and boosting micro entrepreneurship. Airbnb has worked well in other countries, and has the potential to scale in Lesotho through partnering with the Airbnb Academy.

Supply-side

The principal supply side constraints that SMMEs face relates to their access to finance. Lesotho's financial sector consists of four commercial banks, nine insurance companies, 35 microfinance institutions (MFIs), and two money transfer institutions (MTIs) as highlighted in section 3.3. SMMEs' lack of access to finance results from their lack of collateral and unfavourable track record when honouring debt obligations. This is further exacerbated by lenders' inability to make proper creditworthiness assessments due to the undeveloped credit bureau. SMME owners' lack of business development skills and the unawareness of organisations that offer support services also reduces the viability of their business plans and ultimately funding applications.

Therefore, banks continue to offer traditional products and are not making significant efforts to lend to SMMEs. In 2018, banks' lending to the manufacturing sector remained low at 8%, with real estate, transport and communication receiving the highest share of lending at 62%. MFIs tend to serve salaried government employees, which is counterintuitive to the traditional MFI model of group lending for low-income populations. Banks and MFIs have expressed interest in growing their SMME business but lack detailed analysis of the landscape. Once again, effective credit guarantee schemes could be a way to induce financial service providers to take on more risk on their books.

The lack of credit on mobile money platforms could also be impeding access to finance for SMMEs. Developments in leasing products, private equity, and venture capital being provided to businesses in the market may also improve financial access among SMMEs.

Recommendations

As noted above, our assessment of value chains in the areas of light manufacturing and in the service, sector suggest limited opportunities for SMME development. However outside of these value chains opportunities exist for instance with respect to supplier development programmes. A full list of recommendations is provided in **section 3.4** of the report but based on where FMT can have the largest impact, the following recommendations were chosen as areas of focus.

Issue 1: SMMEs face critical access to market challenges in the country which limits the demand for their products and their ability to access finance due to insufficient evidence of demand. The two sectors of focus identified include textile and clothing and wool and mohair. In the former sector, there are limited opportunities for SMMEs in garment manufacturing due to the limited skills transfer but there is potential to grow the support of the services sub-sector. For the wool and mohair sector, commercial processing of wool is yet to commence and the volume and quality of the wool may not be sufficient for large scale production. Wool is mainly sold through the Lesotho Wool Centre (LWC)[6] and BKB (Pty) Limited, a South African broker. Farmers stated preferring exporting their wool through the South African broker who offered timely payments, better prices and a wider access to international markets.

Recommendation 1: Supporting the creation of a supplier development programme which seeks to improve access to markets within the SMME environment. In particular it is recommended that if FinMark Trust is able to partner with the UNDP in Botswana, it can take the lead on replicating this programme in Lesotho.

For the textiles industry, the opportunity lies in linking SMMEs who provide support services such as embroidery, manufacture of coat hangers/sizers, manufacture of cartons, garment screen printing and waste fabric recycling with the already established multinational corporations. These SMMEs can also be linked to large retail supermarkets for the sale of general items such as hangers, cartons and other similar items.

For wool and mohair, the opportunity lies in the improvement of the sale of the raw wool and mohair from the farming associations to local and international brokers, allowing farmers and shearers to get better terms for their produce.

Issue 2: The credit guarantees schemes within the country are not fully utilised because SMMEs have to qualify for bank credit to qualify for the guarantee, and banks do not have confidence in the Government's ability to honour default payments. These schemes have the potential to change Financial Service Provider (FSP) lending behaviour when administered and structured correctly.

Recommendation 2: Supporting the redesign of the current PCG scheme by understanding banks' key pain points in order to increase uptake. This could be done through a journey mapping exercise of the guarantee. A potential solution is the development of an escrow account, in which the funds can be held in trust by an independent third party, once banks administer the loans through the PCG scheme to improve visibility of available funds and credibility that the guarantee will activate in the event of default.

6 An auction venue which is largely dominated by the Maseru Dawning Trading Company

Eswatini

Economic context

Eswatini is a lower middle-income country with a population of ~1.2 million, nominal GDP of USD 4.4 billion and GDP per capita of USD 3,837. It is closely integrated with the South African economy and largely dependent on agriculture, government-induced demand and remittances from South Africa. The economy has experienced sluggish average growth of ~2% since 2014, characterised by a small mass market, droughts, declining SACU revenues and fiscal challenges. The services sector is the largest contributing sector to the economy (53%) while the manufacturing sector contributes 33.5%. The country's major exports are sugar, essential oils and textiles.

COVID-19 has had a significant impact on the economy with a projected decline of 5.58%. The COVID recovery plan intends to inject E23 billion to resuscitate the economy and reignite economic growth through high impact private sector-led projects. SMMEs are expected to receive an estimated E5 billion as benefactors of large projects. Priority sectors are tourism, agriculture/forestry & fisheries, infrastructure (construction), wholesale & retail trade, manufacturing, energy and textiles.

Enabling environment

Overall, Eswatini remains an uncompetitive economy with a weak enabling environment. It ranks poorly against South Africa in all categories of competitiveness. 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 SMMEs. 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.

Key SMME support organisations are SEDCO, EIPA and YERF which mostly provide training and development support with limited financing support. Given the small size of the SMME market, these support organisations are sector agnostic and do not focus specifically on the services or light manufacturing sectors.

Demand-side

As of January 2017, the SMME sector in Eswatini was estimated to consist of 59,283 SMMEs. The majority of these SMMEs are micro-enterprises (80% of which are sole proprietors). SMMEs mainly operate in the services sector with wholesale and retail trade (39%), agriculture (23%) and community & household activities (14%) accounting for the largest share of SMMEs. SMMEs in services (mainly retail trade) and manufacturing are predominantly micro businesses. There are only 77 manufacturing SMMEs with more than 10 employees in the country. Some of the key demand-side challenges facing SMMEs include competition, lack of market linkages, lack of procurement incentives, and a general poor business environment.

Demand-side opportunities in the light manufacturing and services sectors

The table below provides an overview of the value chains and opportunity analysis.

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

Sector or value chain identified	Expected sector growth	SMME presence	SMME growth opportunity	Key issues	Areas for intervention
Sugar	Moderate • Modest export growth • High regional competition • SACU and EU market threatening to reduce demand	Low • Dominated by large players and small-scale farmers	Low • Limited market for SMME produced goods • Low competitive advantage	• Highly structured market • EU and SACU threatening to reduce demand	Limited intervention opportunities
Textiles	High • High export growth • New market penetration	Low • Dominated by large players	Low • Low SMME competitive advantage • US market growth risk due to AGOA expiry	• As highlighted in the previous cells	Limited intervention opportunities
Fruits & Vegetable processing	Low • Declining exports	Low • Dominated by large players	Low • Production takes place closer to markets in SA • Low SMME competitive advantage	• As highlighted in the previous cells	Limited intervention opportunities
Wood processing	Moderate • Moderate growth in exports	Moderate • Dominated by large players	Low • Low SMME competitive advantage • Small domestic market for local goods • Production of final goods takes place in SA	• As highlighted in the previous cells	Limited intervention opportunities
Tourism	Low • Declining sector growth • Declining tourist arrivals	Moderate • Mainly micro and large businesses	Moderate • Few tourist assets relative to SA and Mozambique • Declining demand • Non-commercialisation of royal events	• As highlighted in the previous cells	FMT could support the Vakasha Eswatini Facebook page to help it scale and become a fully-fledged platform that promotes domestic tourism
Support services e.g., transport & logistics, cleaning, security, catering and maintenance for high growth priority sectors	Moderate • Moderate sector GDP growth • High dependence on government induced spending	High • Dominated by SMMEs	Moderate • Lack of SMME procurement policies • No special tax regime for SMMEs	• Getting credit: Poor project preparation, lack of collateral (where required), Low diversity of credit options, institutional capacity, credit guarantee claims process and regulations.	Develop a services SDP with the objective of creating better market linkages

Notes: Expected sector growth: Based on GDP growth forecasts | SMME Presence: Based on market size data | SMME growth potential: Based on the impact of highlighted key issues.

Based on the value chain and sector analysis, there are limited value chain and sector level opportunities in the manufacturing sector due to low domestic demand and low export competitiveness. Any growth opportunities for SMMEs lie in providing ancillary support services to high growth sectors such as construction, transport & distribution and health. Similar to Botswana, a potential way to solve multiple issues related to access to market and access to finance for SMMEs is through value-chain finance solutions.

Furthermore, technology-based solutions such digital platforms can be used to create employment opportunities for micro-enterprises. Examples of these platforms include M-Kopa Solar which is a solar system that powers households and businesses through innovative solar devices. Lynk, SweepSouth and Takealot are platforms that connect businesses to consumers, greatly improving access to market challenges and boosting micro entrepreneurship. These technology solutions could be instrumental in resolving enabling environment and demand side related market inefficiencies.

Supply-side

The formal SMME financing landscape in Eswatini is dominated by five major banks and two local development finance institutions which make up 63% and 37% of the total credit extended to SMMEs respectively. Banks and DFIs offer traditional products such as transaction accounts, invoice discounting, overdrafts, general commercial lending and internet banking facilities. However, due to a small market size, banks don't specifically target SMMEs based on the specific size of the SMME or gender of the owner.

Bank lending to SMMEs in the manufacturing sector remains quite low as most bankable manufacturing businesses are large enterprises that fall within the corporate lending book. Due to the risk profile of SMMEs, MFIs do not target SMMEs and often focus on salaried lending. Mobile money platforms also do not provide credit to SMMEs. There is limited evidence of leasing products, private equity, and venture capital being provided to businesses in the market. The main challenges facing financial institutions to extend credit to SMMEs relate to poor business plans and management skills, lack of collateral (where required), credit guarantee claims process and regulations and unwillingness of the private and public sector to partner with DFIs to help unlock contract finance through cessions over proceeds.

Recommendations

Based on the analysis, there are several recommendations that donors, policymakers and the private sector can support which have been shown in the recommendations section of the report. However, based on the breadth of recommendations, there are a few recommendations that have been highlighted as areas that could have the greatest potential impact. These recommendations are further expanded upon in the implementation section of the report. Below we provide a high-level view of the key issues and the associated recommendations. These 'high priority' recommendations include:

Issue 1: Value-chain/sector opportunities are few and far between but access to the market remains a cross-cutting challenge across the SMME segment in all value-chains. The opportunity for SMME growth in Eswatini lies in creating markets for SMMEs to provide ancillary services to high growth sectors. However, these market linkages are not established due to various issues[7] impeding SMME relationships with corporates.

7 Service quality issues, lack of trust between SMMEs and Corporates, no established market linkages etc.

Recommendation 1: As with Lesotho, we recommend that FinMark Trust seeks to partner with and replicate the UNDP supplier development programme (SDP), currently operating in Botswana. However, this SDP should be focused on creating market linkages for SMMEs who can provide ancillary support services to key players in the identified high growth sectors such as ICT, financial and insurance activities, construction and retail[8]. The creation of an SDP would enable FinMark Trust to have the most impact in a short space of time within the SMME segment.

Issue 2: The central bank credit guarantee scheme has historically been faced with numerous design and administration issues that have reduced uptake. Although the scheme is currently under revision there is a need to ensure that the scheme is designed and administered appropriately to induce increased SMME lending.

Recommendations 2: Supporting the redesign of the current credit guarantee scheme. The support here could range from working with banks and other FSPs to understand key pain points with the guarantee scheme in order to increase uptake.

Malawi

Economic context

Malawi is a small, landlocked country with a population of 18.6 million. It is one of the poorest and most donor-dependent countries in the world. As of 2019, the GDP was USD 7.7 billion while GDP per capita was only USD 412. Economic growth has been highly volatile as a result of economic mismanagement, excessive public spending around elections and volatile climate conditions affecting agricultural production. Agriculture plays an important role in Malawi's economy as it has close linkages to other sectors of the economy and employs more than half of the Malawian population through small-scale subsistence farming (mostly in rural areas). This over-reliance on the agricultural sector, which is predominantly rain-fed, leaves Malawi particularly vulnerable to events such as droughts, floods, and natural disasters.

The services sector is the largest contributing sector to the economy (55.8%) while the manufacturing sector only contributes 9.8%. Both sectors have been negatively impacted by a declining agricultural sector, however, this is expected to improve as the agricultural sector rebounds and electricity supply interventions come online.

International trade

As a landlocked country, Malawi is dependent on transport corridors and ports in neighbouring countries for all its trade. Malawi relies on three very long trade routes with dilapidated roads to access international gateways/ports, which results in high transport costs and makes it very expensive and uncompetitive to export goods.

Malawi is a net importer of most goods including many low-value goods, petroleum oils and medicines. Its exports mainly constitute unmanufactured tobacco and other raw agricultural products (e.g., nuts, raw sugar, tobacco refuse) and only contribute a limited amount to the economy.

Given the logistical difficulties and costs related to importing goods into Malawi, import substitution strategies for products that can be produced close to the market at a relatively low cost may be feasible - examples include, printed books, fertiliser, plastics, edible fats, soap and bedding/mattresses. But this needs to be set against the very small size and low incomes in the market. These possibilities are explored in the sector and value-chain analysis sections.

8 A map of key players in each high growth sector has been mapped in the value chain analysis section.

Enabling environment

Overall, Malawi remains an uncompetitive economy. Considering all relevant measures of competitiveness[9], Malawi ranks poorly against all its neighbour countries[10] except for Mozambique. This hinders Malawi's ability to boost its manufacturing or its services sectors. It is worth noting that amongst the five neighbouring countries, Malawi's labour market is considered the most competitive given the large supply and availability of cheap labour (but not necessarily by skills level).

Although doing business is becoming easier through improvements in credit information and tax processes, an ease of doing business ranking of 109/190 in 2019 suggests that there are still key challenges that Malawian businesses face. These include the high cost and low access of electricity, difficulties in registering a business and enforcement of contracts among other things. In addition, poor ICT infrastructure and high costs of data impede the potential uptake of digital financial services and growth in the supply of digital services.

To improve the business environment, Malawi has a number of institutions such as BDS providers, incubators and business associations. However, these organisations are generally faced with capacity constraints (i.e., finances and skills) to scale their programming. BDS training in particular is largely unaffordable to business start-ups and most SMMEs. Incubators, on the other hand, do not cater for pre-start-ups enterprises but rather focus on acceleration as opposed to incubation. Among the business associations there appears to be duplicated efforts that could be streamlined through a merger between the MCCCI and SMEA.

There are a number of public procurement policies that seek to support SMME development. However, more work needs to be done to streamline the business registration process.

Demand-side

As of January 2019, the SMME sector in Malawi was estimated to consist of 1.1 million SMME owners and 1.6 million SMMEs. The majority of these SMMEs can be classified as informal (89%) and micro- employing less than five people (74%). Most of these SMMEs are concentrated in the trade and agriculture sector which together account for 86% of all SMMEs in the country. SMMEs in services (mainly retail trade) are predominantly micro-businesses while small and medium SMMEs contribute 56% to the total number of SMMEs in manufacturing. These businesses are mainly involved in agro-processing of food and beverages.

Some of the key demand-side challenges facing SMMEs include poor market linkages, poor usage and awareness of business support programmes and high costs of importing supplies. Within the agro-processing sector, inadequate marketing, procurement of material inputs, lack of storage facilities, lack of transportation, bad road conditions and high cost of fuel are the main challenges cited by SMMEs.

Demand-side opportunities in the light manufacturing and services sectors

Light manufacturing value-chains analysed include food processing resulting from soybean and groundnut production. Wood-based furniture production and other manufactured products for domestic consumption are also analysed. Tourism was analysed given its linkages to other services sectors such as hotels, restaurants, entertainment and wholesale and retail trade.

The table below provides an overview of the value chains and opportunity analysis.

9 Low ICT adoption, weak macroeconomic stability, low business dynamism
10 Zambia, Mozambique, Tanzania, Kenya

Table 4: Summary of value chain opportunities and challenges - Malawi

Sector or value chain	Expected growth	SMME presence	SMME opportunity	Key issues for SMMEs	Areas of intervention for FMT
Soya beans processing	High • Increasing global demand	Low Dominated by large players	Low • High substitutes for soya products • Low export potential • High costs of production	• Low potential for medium and high-value product export • Dominance of large players • High substitutes for high value products • High oil extraction costs	• FMT could partner with SMEDI to help establish the Phalomba agro processing Incubation centre which will include SMMEs involved in Soya bean processing
Groundnut processing	Moderate • Moderate global demand • Production constraints • EU market restrictions	Low • Dominated by large players	Low • Low potential for export market • Low value products for domestic market	• Low potential for medium and high value export • Low seller global bargaining power • Dominance of large players • High groundnut production constraint (quality of seeds, production techniques, climate risks, aflatoxin risks and associated EU market restrictions)	• FMT could partner with SMEDI to establish the Phalomba agro-processing incubation centre which will include SMMEs involved in groundnut processing • FMT could partner with the Mastercard foundation skills development programme
Wood-based manufacturing	Moderate • Growing population and incomes will increase demand for products • Increasing import substitution of products	Moderate • Formal market dominated by large players • Likely high presence of micro and small business serving local markets	Moderate • Increasing import substitution of products • High production costs for scale may limit growth	• High production costs for scale • Limited skills • Low access to finance • Limited export potential • Formal market dominated by large players	• Partner with SMEDI and the MICT to establish a wood-based manufacturing incubation centre in rural areas where there is an increasing number of small informal producers. • Partner with Mastercard skills development programme or the EU Zantchito Skills for Jobs programme that aims to increase technical skills in Malawi.

Sector or value chain	Expected growth	SMME presence	SMME opportunity	Key issues for SMMEs	Areas of intervention for FMT
Miscellaneous goods manufacturing	Moderate • Growing population and incomes will increase demand for products • Increasing import substitution of products	Low • Products are currently imported suggesting few local producers	Moderate • Increasing import substitution of products • Low technical skills and productive capacity limit growth	• Low technical skills • Low productive capacity that might limit the ability to produce at scale and price that is cheaper than import countries	• Partner with UNDP Innovation challenge fund manufacturing window focusing on solving access to finance challenges • Partner with the EU Zantchito Skills for Jobs programme that aims to improve technical skills while linking graduate entrepreneurs to finance through providing funding and technical assistance to deal with capacity issues
Tourism	High • Sector expected to rebound as the vaccine becomes widely available • Increasing investments into the sector • High Pre-Covid-19 growth projections till 2028	High • Over 90% of SMMEs in the sector are micro and small	High • Increasing investments into the sector and overall projected sector growth will create more opportunities for SMMEs	• Poor skills • Sector is not technologically enabled • Infrastructure challenges • High staff turnover due to low salary levels • Poor coordination between tourism and other sub-sectors	• Support the Ministry of Trade and Tourism in developing partial guarantee loan scheme targeted at Tourism • Partner with the EU Zantchito Skills for Jobs programme to support in funding mobilisation efforts for infrastructure projects

Based on the value chain and sector analysis, most of the light manufacturing opportunities lie in the processing of locally available agricultural products and import substitution of wood-based and miscellaneous items[11]. However, opportunities for large scale supply of groundnut and soybean high value-added products will be limited by the large capital investment required in downstream activities e.g., processing of oil, feed and consumables.

From a services perspective, Malawi has good tourism (accommodation and food services) potential and this is a sector where SMME involvement could be boosted given the high contribution to the services sector. Post the stabilisation of the COVID-19 pandemic, there are opportunities for SMMEs in the tourism sector through the provision of tours, guides and similar services. The digital enablement of the sector could also catalyse its growth and development and serve as a key input throughout the rest of the economy. This relates to the expansion in availability of bookings and payments to stimulate tourism and hospitality, improved local expertise in ICT to serve as inputs into the rest of the economy.

Supplier development programmes may not work in the context of Malawi as the market is highly fragmented and informal. However, distributor financing models through partnerships with large producers could be considered e.g., Coca-Cola, Unilever to provide business support and financing facilities to local informal retailers.

Below is an example of a distributor financing model adopted by MasterCard in Kenya through its MasterCard's Kionect project.

Box 1: MasterCard Kionect Pilot Project in Kenya

What is Kionect?

Kionect is a digital ordering system that empowers small kiosk owners in Nairobi to order and pay for products from wholesalers via SMS. Orders submitted via a feature phone helps create a digital record for kiosk owners to get access to micro-loans to stock inventory and grow their business.

How does it work?

The platform enables merchants to place and pay for an order from a partner wholesaler, Kaskazi, via text–either an SMS from a feature phone or a message from a smartphone will work. Kaskazi acts as something of a wholesale aggregator from the region, sourcing products from various large retailers and delivering them on-demand to merchants. An East African financial institution, Diamond Trust Bank, facilitates mobile payments between the shop owners and Kaskazi, and all of the transactions are recorded and managed on the Kionect platform.

What are the benefits?

The digital trail that builds up over a series of placed orders and payments equips the merchants with a credit history they can use to secure business loans from Musoni, a Kenyan microfinance provider. Additionally, these micro retailers struggle to buy the supplies for their shops, and they struggle with the logistics of it. Restocking a store could mean having to close up shop for an hour and a half to go buy supplies from the wholesaler. MasterCard selected Kaskazi as its wholesale partner for Kionect because it employs a network of delivery motorcyclists to bring the goods directly to shops. Each of the participating shops is geo-tagged on the platform and labelled with an identifying barcode, so delivery agents know where to bring the goods.

11 Examples include fibre board, floor boards, plastics, bedding, furniture, household items etc.

Supply-side

The formal SMME financing landscape in Malawi is dominated by commercial banks that provide 68% of the total SMME credit, followed by MFIs (18%), donors (8%), SACCOs(3%) and VSLAs (3%). However, credit extension to SMMEs remains low due to various challenges such as low literacy levels of SMMEs, insufficient credit history, poor credit processes, lack of collateral and many other factors. Banks do provide a wide range of SMME products, however, short term products like working capital can be too costly for SMMEs.

MFIs perform better than banks in lending to underserved segments such as rural youth and women, however, MFI products and services are mainly generic and retail-focused, limiting use cases for businesses. This is, in part, related to the limited capital bases, and a lack of capacity to develop more complex products like asset finance. SACCOs and VSLAs are also successful at reaching underserved segments but are limited by funding constraints and are operational inefficiencies. Although the mobile money market has grown over the years, this remains limited to payment solutions and individual lending products. MNOs also have no short- or medium-term ambitions to introduce credit products for SMMEs as they are currently focused on increasing business uptake of their current products.

There are several donor programmes all providing similar support within the market. These include the EU's Zantchito Skills for Jobs, UNDP innovation challenge, MasterCard foundation jobs for youth and the various World Bank initiatives among others. Support provided includes lines of credit, training and other de-risking initiatives such as risk-sharing credit guarantees. However, there is a potential opportunity for partnerships, support with implementation and support with coordination across all these programmes.

Recommendations

Our recommendations highlight interventions with the greatest potential for impact. These recommendations are further expanded upon in the implementation section of the report. These 'high priority' recommendations include:

Issue 1: Malawi is undergoing a structural transformation whereby rural areas are seeing a transition of jobs from agriculture to manufacturing and services. The 'new' jobs created are a positive indication of development, however, the quality of jobs is not good due to low literacy levels.

Recommendation 1: There is an opportunity to partner with other donors such as the EU on their Zantchito Skills for Jobs programme or the MasterCard foundation jobs for youth programme that are both focused on improving skills within rural areas to enable women and youth to become successful entrepreneurs. The Zantichito programme also aims to improve skills development in Malawi through the development of the TVET sector and capacitation of BDS providers while linking entrepreneurs to funding.

Issue 2: Access to finance remains critical despite the ease of doing business indicating otherwise. Given the fragmented and rural structure of retailing and the low market share of formal large-scale retailers, it is unlikely that a supplier development programme will have much traction. However, there are large multinationals like Unilever and a distributor development programme is likely to have a greater impact.

Recommendation 2: There is an opportunity to support local independent rural retailers to gain access to finance through digital distributor financing mechanisms. Such a programme would involve the development of a digital ordering system that empowers local retailers to order and pay for products from wholesalers via SMS. Orders submitted via a feature phone helps create a digital record for the local retailer to get access to micro-loans to stock inventory and grow their businesses. This could be done by partnering with MNOs such as Airtel that already specializes in mobile money payment solutions for businesses. Large manufacturers such as Unilever or Coke partnering with an FSP to provide short-term credit and invoice discounting for rural retailers who sell Unilever and Coke products.

Issue 3: High operational costs of lending to SMMEs prevent banks and other financiers from effectively serving the market. In the short term, continued technical assistance to financial institutions is probably still required. This would involve much more careful consideration of where the constraints lie in the market and ensuring that support to any institution achieves a sustainable and material change in its operational cost with respect to SMME lending.

Recommendation 3: There is an opportunity to partner with the UNDP Innovation Hub financing window for the development of solutions targeted at improving the bank's operational costs of lending to SMMEs. The UNDP makes a contribution to the project however, the participating bank has to match the grant. Increasing the financial resources of the programme would allow the UNDP to reduce the matched grant contribution requirement placed on banks thus likely driving more participation.

Issue 4: There are early indications that donor and Government support programmes may be poorly implemented due to lack of funds or capacity. There is also a clear need for better coordination among donors that aim to de-risk SMME lending.

Recommendations 4: The World Bank and the EU have both committed to supporting SMME lending by providing risk-sharing credit guarantee schemes to various banks in the market. There is an opportunity to consolidate these efforts to reduce the duplication as well as the increased administrative burden placed on FSPs to participate in multiple credit guarantee schemes.

Issue 5: Low access to electricity for SMMEs remains a key challenge in Malawi with only 26% of SMMEs having access to electricity. For the manufacturing and services sectors this amounts to 15% and 30% respectively. Although there have been improvements in increasing the rate of electrification, there is still a significant unmet demand and an over-reliance on unpredictable hydroelectricity which is affected by variable rain patterns. Solar energy presents an opportunity to increase the rate of power access in Malawi, however, solar companies (particularly SMMEs) face significant challenges accessing finance.

Recommendation 5: FMT could engage the World Bank to provide support the World Bank's Malawi electricity access project 2019-2024. The proposed project intends to bring a transformative change to the energy value chain in Malawi by supporting a rapid scale-up of the country's electricity access agenda, by meeting the investment needs of a distribution expansion plan, and by promoting private sector participation for the deployment of solar home systems (SHS) and mini-grids. The Off-grid market development fund (USD 30 million: USD 24 million IDA Credit and USD 6 million equivalent IDA Grant) component will address the challenges to scaling up the off-grid market by providing financing through three windows - a working capital window, a results-based financing (RBF) window, and a mini-grid window. The first two windows will be available to Off-grid solar companies and the third window will be available to mini-grid developers.

In the proposed project, IDA concessional resources are strategically deployed to present de-risked opportunities to the private sector to participate as service providers or financiers and contribute to the GoM's access vision. Public funding provided is supporting the development of a solar market by providing financial resources that are currently not available for solar companies, allowing these companies to scale up their businesses and new market players to come in. In addition, the TA provided under the project will provide training and awareness raising for financial institutions, especially commercial banks, on solar technologies and the market, allowing FSPs to become more comfortable over time to lend to solar companies – contributing to enabling the environment for the private sector. Technical support is being provided by the World Bank Group's Lighting Africa Initiative that focuses on catalysing commercial markets for the delivery of clean, affordable, and reliable energy services. FMT may be best placed in supporting the project through funding and TA for projects that aim to de-risk lending to solar companies.

The design principles of these programmes are expected to be similar across the three smaller markets and therefore there is merit in implementing these initiatives in a centralised manner to ensure value for money. Given that Malawi is not as similar as the other three countries, different design principles are expected to emerge.

Cross-cutting synergies across the recommendations

Based on the analysis conducted, it has been noted that each country has different value-chains and key sectors. There are however a number of common challenges across the different countries that create an opportunity for FinMark Trust to design and implement interventions that can are applicable to these countries, and that can be run as centralised programs:

- **Supplier development programme** – With the exception of Malawi, our research suggests there are opportunities for supplier development programmes in the countries. We believe that if FinMark Trust was able to establish a programme in collaboration with UNDP in Botswana, this could be jointly rolled out to Lesotho and Eswatini using the same materials, and team. The design, training materials and any other programme level documents, staff and design aspects can be expanded and with limited modification applied in Lesotho and Eswatini - this will ensure that the programme does not start from scratch in the countries.
- **The credit guarantee scheme redesign** - we recommend that FinMark Trust appoint a consultant to do a deep dive into the reasons for the poor performance of the Credit Guarantee schemes in each country and then develop specific recommendations and actions plans for each country.
- **Other financing mechanisms -** Due to the low uptake of existing credit guarantees schemes, there is an opportunity to support the restructuring of existing credit guarantee schemes in each market to increase efficiency. There is also scope to improve the design of existing schemes to include women, youth and SMME specific targeting.
- **Mobile-based credit products** - Across all markets, the usage, uptake and products of mobile money and mobile based credit are underdeveloped. There is an opportunity to support the enhancement and expansion of mobile based credit products through supporting exposure visits for local MNOs and FinTechs to other markets e.g., Kenya.
- **Electronic movable collateral registries -** electronic collateral registries in each country are a new development and there is scope to support initiatives that focus on increasing usage and awareness of the collateral registry. There is also scope to support FSPs to develop credit products using alternative and innovative collateral e.g., livestock and warehouse receipts.
- **Government procurement policy -** in all markets there is scope to support the development and enhancement of existing legal and policy frameworks to cater for women, youth and the SMME segment more explicitly e.g., setting minimum percentage limits on public procurement in these segments.
- **Digital platforms and supporting off-grid electricity -** access to electricity in all markets is low. There is an opportunity to support innovators and existing off-grid electricity providers through funding and technical assistance (e.g., market scoping, securing funding, access to market and business plan development etc.).

1. INTRODUCTION AND OBJECTIVES

1.1 Context

Fast growing countries create jobs and the fiscal resources that can be used to improve human development. But fast-growing countries rely on healthy companies and in particular the ability of small firms to emerge and grow. This is why development partners and Governments place considerable emphasis in understanding the health of the environment for small businesses and promoting their growth and development.

The determinants of a healthy small business sector are also well known - an enabling environment that makes it easy to start a firm, and to operate without undue or pecuniary bureaucracy, access to the infrastructure they need to operate, a financial system that recognises their unique circumstances and access to market opportunities. Market opportunities arise when small businesses are able to participate in local or cross- border supply chains and when technological changes reduce the cost or the barriers to entry in different markets.

In this report we review the "health" and opportunities to improve the contribution of SMMEs in four Southern African economies - most of which share many characteristics. Three of the four countries (Botswana, Lesotho and Eswatini) are each deeply integrated into the much larger South African economy, with which they share a customs union, have very small markets (populations of around 2 million people) and rely to a large degree on tax revenues that depend on the performance of the South African economy. The capital cities of these three countries lie within a three-hour drive of Johannesburg, the industrial and manufacturing heartland of the regional economy. Malawi is comparatively larger than these three countries by population – with a population of about 18 million people. All of the countries in this study are part of the Southern African Development Community. They all have a wide range of policies, programs and institutions designed to support SMMEs. Despite these similarities, the resource endowment of these economies is very different which create different opportunities for SMMEs in light manufacturing and services that are the focus of this study.

1.2 Scope and objectives

A starting point for any organisation aiming to develop the SMME sector is to establish clear definitions of what constitutes, and differentiates, a micro, small and medium enterprise, and which market failures prevent these firms from reaching their full potential. SMME support has become a key focus area for most DFIs principally for two reasons. The first is related to the special contribution that SMMEs can make with respect to job employment, economic growth and investment. Secondly, SMMEs face special challenges that do not apply to other sizes of businesses, particularly as it relates to access to finance.

In the literature there is considerable debate as to the contribution of firms of different sizes to employment creation in Africa, and elsewhere. Although micro enterprises account for the majority of enterprises across Africa, the role that these firms play in the economy and the challenges they face are often completely different to larger firms. The majority of micro-enterprises are often not growth-orientated, which limits their contribution to job creation and economic growth. Larger firms that still fit within the definition of SMME are thus the focus of this study as these are the firms that have the ability to create jobs and support the growth in the economy.

Value chain development approach to SMME development

The value chain approach is one of several market systems approaches to development. It seeks to understand the firms that operate within an industry—from input suppliers to end market buyers; support ecosystem, financial service providers; and the business environment in which the industry operates. This approach aims to identify the constraints SMMEs face at each stage of the value chain. It is an approach that applies best when an industry is focused on the production and distribution of a single product.

Supplier development approach to SMME development

Not all SMMEs exist within long and multi-linked value chains, many for instance have a relationship with one buyer. In this instance a supplier development programme which focuses on the relationship between suppliers and buyers, and how the terms of relationship can be improved to the advantage of SMMEs may be appropriate.

This report seeks to identify whether there are both value chain development and supplier development opportunities and other development interventions that FinMark Trust could support in Botswana, Lesotho, Eswatini and Malawi. As per the terms of reference, particular attention is paid to the areas of light manufacturing and services sectors.

This document covers the followings:

1. Understanding the overall SMME landscape in Botswana, Lesotho, Eswatini and Malawi, which entails:
    a. Understanding the drivers of growth focussing on the services and light manufacturing industry.
    b. Highlight the areas in key value chains to support SMMEs' access and use of finance in these sectors.
    c. Understanding the enabling and regulatory environment for SMMEs to identify barriers and the required interventions.
    d. Explaining the failure of SMMEs and what interventions are required.
    e. Assessing the levels of financial access and their influence on SMME failure rates.
    f. Understanding existing support/programmes for the SMME sector.
    g. Establishing SMMEs' access to energy, particularly clean energy.
    h. A view of the above through gender and youth lenses.
2. Providing recommendations on a financial inclusion and growth strategy for SMMEs in the services and light manufacturing sectors, which includes:
    a. Proposing an SMME growth initiative based on existing opportunities (export and domestic).
    b. Assess the impact of Covid-19 and identify interventions to build SMME resilience.
    c. Suggest possible development and support strategies for donors, Government and the private sector.
    d. Assess digital interventions that could spur development.

1.3 Structure of this document

This document is made up of five main sections and an appendix. This introductory section is followed by a section on each country. Each country section consists of key sub-sections.

- **Country context** - the macroeconomic and enabling environments for SMMEs
- **Demand-side analysis** - Focuses on the size and structure of the SMME sector, analyses key challenges faced by SMMEs and finally identified key value chain and non-value-chain/

sectoral opportunities

- **Supply-side analysis** - Focuses on the state of the financing landscapes for SMME, key gaps and challenges in accessing finance
- **Recommendations** - Provides an overview of the key actions for the public, private and donors sectors
- **Implementation plan** - Converts the recommendations into an action plan of interventions and partnerships

1.4 Rationale for this study

The rationale for increased support to SMMEs stems from the recognition of the pivotal contribution which SMMEs make towards economic growth and employment. Given the sheer number of SMMEs in developing countries, it is in the interests of Governments and development institutions to ensure that SMMEs are supported, and that their growth is at the forefront of economic development strategies.

Recognising this importance, the Governments of Botswana, Lesotho, Eswatini and Malawi have all prioritised SMMEs as strategic economic drivers in their national development plans. This has been articulated in numerous policies and programmes that aim to provide support to SMMEs. However, these policies tend to be generic and do not target the specific SMME challenges and opportunities that exist in different sub -sectors such as those in the services and light manufacturing sectors. This study seeks to address this through a consideration of opportunities in these sectors - and to develop a roadmap of targeted interventions.

1.5 Methodology

The research approach includes primary and secondary (desktop) data collection.

- **Primary research** is conducted through key stakeholder interviews to address gaps not covered by the desktop review. Key stakeholder interviewed include relevant ministries, regulators, banks, microfinance institutions (MFIs), development finance institutions (DFIs), mobile money operators (MMOs) and donors. A list of stakeholders interviewed is provided in the appendix.
- **Secondary research** involved reviewing key documents such as Government and regulator publications, statistical bureau data, donor research, media and press releases, business and financial service provider websites, key stakeholder websites, FMT's prior publications and several other credible sources. Sources of information are cited throughout this document.

The research methods have been used in combination with the Making Access Possible (MAP) framework for analysis[12]. This approach looks at the supply of financial services to SMMEs and the demand for financial services by SMMEs. The combination of both these lenses provides a consolidated view on the best interventions to spur SMME development and growth.

The analysis within this report has limitations which have been identified and noted as development areas within this study, namely the lack of up-to-date demand-side information is often lacking or not consistent in most of the markets - especially in Botswana and that the supply-side data is not granular enough to understand lending across different segments of the SMME market

12 MAP is a multi-country, financial-inclusion initiative launched by United Nations Capital Development Fund (UNCDF) and FinMark Trust. MAP roadmaps are designed to provide a strategic vision on financial inclusion and ways to achieve delivery. They cover the country and political economy context; consumer financial needs and current uptake and usage of various formal and informal financial services; the provider and product landscape; as well as the regulatory framework for the whole financial services sector.

2. BOTSWANA

2.1 Country context

This section provides a contextual overview and macro-economic outlook of Botswana. It further highlights the main components of an enabling environment for SMMEs in order to diagnose the chief constraints and opportunities for SMME development.

2.1.1 Country overview

Table 5: Key economic metrics - Botswana

Key metrics	Botswana
Nominal GDP (USD billions, 2019)[1]	18.3
Avg. Real GDP growth - (%, 2014-2019)	2.7%[2]
Avg. Real GDP growth (%, 2020-2025)	4.3%[3]
Nominal GDP per capita (USD, 2019)[4]	7,961
Fiscal balance % of GDP (2019, 2019/20)[5]	-5.8%[6]
Current account balance % GDP (2019)	-4.3%[7]
Population (million, 2019)[8]	2.3
Percentage of population below 35 years	65% (2020 projection)[9]
Median age (2020)[10]	24
Income status (2020)[11]	Upper middle-income

Botswana is an upper middle-income country with a population of 2.3 million, most of whom live along the south-eastern border of the country, close to South Africa. Botswana's level of prosperity derives largely from the diamond industry, the Government's prudent management of the resources the industry has generated, and Botswana's openness and level of integration with South Africa as a member of the Southern African customs union (SACU).

Over the past five years Botswana has experienced moderate economic growth of around 2.7%, growth being dampened by lower mineral activities and drought but this is expected to improve post-Covid-19 to around 4% as the diamond industry recovers, and a new copper mine comes on stream. The main risks to the growth outlook include lower than anticipated export demand from key trading partners, shifts in consumer preferences towards synthetic diamonds, and further droughts.

Despite a reputation for solid fiscal policy, the Government deficit has increased in recent years as spending has been maintained at around 32.5% of GDP despite a sharp fall in revenues - from

1 World Bank Open Data
2 2019 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director of Botswana
3 Ibid
4 World Bank Open Data
5 2019 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director, Botswana
6 Ibid
7 Ibid
8 World Bank Open Data
9 Botswana population projections, 2011 - 2026, Statistics Botswana
10 United Nations Population Projection, 2020
11 World Bank Country *and Lending* Groups, World Bank

33% of GDP in 2016 to 25.5% in 2019. This means that the Government will need to reduce spending and trim the public-sector wage bill over the next five years.

2.1.2 Sector and international trade overview

Table 6: Real GDP contribution by sector - Botswana

Sector	2014	2019	Increase/decrease in share
Trade, hotels & restaurants	21.7%	24.3%	Increase
Finance and business services	15.8%	17.3%	Increase
General Government	14.2%	14.4%	Increase
Mining	17.8%	11.1%	Decrease
Construction	8%	8.4%	Increase
Manufacturing	6.6%	6.6%	-
Other	16%	17.7%	Increase

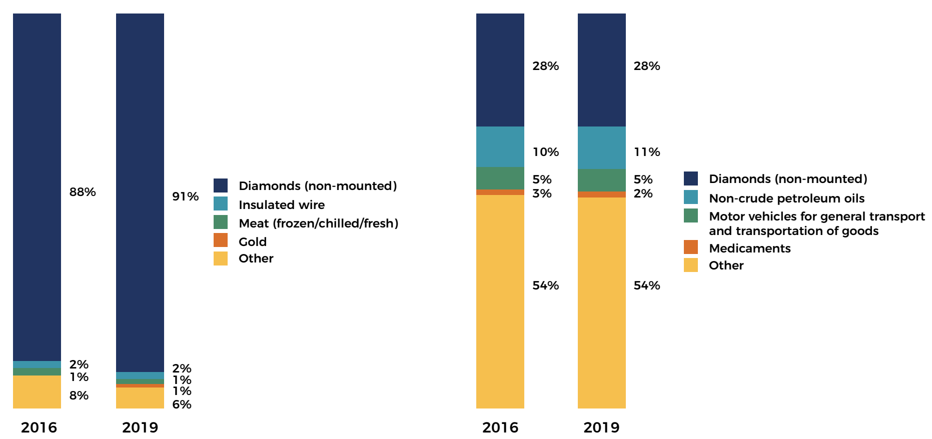
Source: 1. Statistics Botswana | 2. Genesis Analytics Team, 2020 | Notes: shading blue = top four sectors
Botswana's trade, hotels and restaurant sector has consistently contributed more than 20% of GDP in recent years. Although mining accounts for almost 90% of exports, it directly contributes only 11% of GDP, a share that has halved over the last 20 years, as mines are depleted and the economy is diversifying.

The General Government sector increased its contribution to GDP in 2020 to deal with the pandemic but this is unlikely to persist, given the aforementioned fiscal challenges. Manufacturing has a relatively small share of the economy at only 7%.

International trade

With respect to imports and exports, Botswana is heavily reliant on the export of unmounted diamonds - which account for over 90% of exports.

Figure 1: Exports and imports by product (% value contribution, 2016; 2019)[12] - Botswana



12 2017 International Trade Statistics, *United Nations;* 2019 International Trade Statistics, *United Nations*

Botswana has long tried to develop more value-added services in the diamond industry but with limited success. Other key exports only amount to a further 3% of GDP.

Developing more manufacturing exports would contribute to the diversification of the economy - Botswana holds an absolute advantage in the production of diamonds and a comparative advantage in the production of beef (meat and live cattle exports grew by more than 20% alone in 2018). Although Botswana has access to the US market under the AGOA framework, it has not developed a textiles industry - unlike Lesotho.

With respect to imports, Botswana imports a wide range of goods principally from South Africa. The principal import is unmounted diamonds, which are mainly inter-company imports for re-processing, and re-export.

Value chain opportunity identification

In order to identify opportunities within the manufacturing and services sector, a three-pronged approach has been used:

- Identifying which large export value chains can SMMEs plug into
- Given the small scale of the market and proximity and openness of the economy to South Africa, import substitution is not considered a key strategy, however, export data has been reviewed
- What technology trends are creating new opportunities for SMMEs in the market?

To identify large export value chains, a detailed analysis of Botswana's exports and imports by product are shown in the table below. The table identifies only those products that have grown strongly in the last five years and contributed USD 5 million or more in 2019, as well as products that contribute USD 50 million or more to annual trade - irrespective of growth. Based on the export and import analysis there are several opportunities where SMMEs can plug into the specific product value chains, the main ones include:

- Diamond beneficiation
- Beef, cattle exports and by-products (e.g., leather)

It should be noted that the export of the third fastest growth accounted for less than USD 10 million in export earnings.

Table 7: Detailed exports breakdown, 2015 and 2019, USD millions - Botswana

Product	2015	2019	CAGR
Products with growth between 2015 and 2019			
Gold	29	41	9%
Rigid tubes, pipes and hoses, of polymers of vinyl chloride	2	9	46%
Vegetable saps	2	6	32%
Stoppers, caps and lids	0	6	N/A
Motor vehicles	3	5	14%
Boring or sinking machinery	1.4	5	37%
Coaxial cable and other coaxial electric conductors, insulated	2	5	26%
Products contributing USD 50 mil or more			
Worked diamond but not mounted	5214	4747	-2%
Insulated wire, cable, and other insulated material	108	89	-4%
Meat of bovine animals - frozen, fresh or chilled	115	61	-12%

The import analysis shows that there may be limited opportunities for Botswana to manufacture items such as packaging material, ketchup, tableware, leather products, toilet paper and so on - but these would typically require factor production and may be beyond the scale of a SMME. It also shows that Botswana both imports and exports diamonds - highlighting that some reprocessing activity is taking place as discussed within the value chain analysis. The import analysis reinforces the opportunity areas identified from the export analysis.

Table 8: Detailed imports breakdown, 2015 and 2019, USD millions - Botswana

Product	2015	2019	CAGR
Diamonds (worked and unmounted - excl. industrial diamonds)	86	440	50%
Beer made from malt	9	46	50%
Motor vehicles (for goods transportation) n	18	45	26%
Electric conductors	11	35	34%
Self-propelled mechanical shovels, excavators and shovel loaders	20	33	13%
Cider, perry, mead and other fermented beverages and mixtures	11	32	31%
Raw beet sugar (excluding added flavouring or colouring)	0	31	N/A
Clothing, clothing accessories, footwear and headgear	0	30	N/A
Raw cane sugar (solid with no added flavour or colouring)	0	29	N/A
Prepared foods obtained by swelling/roasting cereals or cereal products	5	14	29%
Toilet paper in rolls of a width of <= 36 cm	6	11	16%
Tomato ketchup and other tomato sauces	5	9	16%
Tableware and kitchenware, of plastics	3	8	28%
Boxes, cases, crates and similar articles for conveyance/packaging of goods	3	6	19%
Tiles, cubes and other processed articles of natural stone etc.	0	6	N/A
Food preparations for infant use, put up for retail sale, of flour, groats, meal	2	6	32%
Pallets, box pallets and other load boards, of wood; pallet collars of wood	3	6	19%
Waters, incl. mineral and aerated, with added sugar, sweetener flavour, for consumption	3	6	19%
Uncoated paper and paperboard (used for writing, printing or other graphic purposes)	3	5	14%
Mattresses (fitted with springs, stuffed or internally filled with material)	2	5	26%
Bread, pastry, cakes, biscuits and other bakers' wares	1	5	50%
Clothing accessories of leather or composition leather (excl. gloves, mittens and mitts)	0	4	N/A
Ties, bow ties, cravats and other made-up clothing accessories, knitted or crocheted	1	3	32%

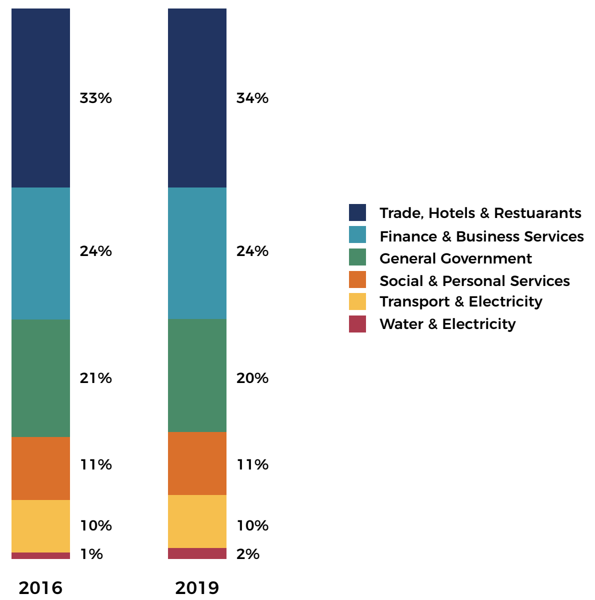
Manufacturing

Manufacturing accounts for 7% of GDP. Activities within the sector include the processing of diamonds (for export), foods and beverages, jewellery, metals and metal products, and clothing. However, the contributions of the various manufacturing sub-sectors are not reported within the national accounts, making it difficult to assess their exact contributions or growth.

Services

Botswana's services sector contributes a significant proportion of GDP (~50%). The trade, hotels and restaurants sector make a significant contribution. The structure of the services sector has not changed much over the last four years.

Figure 2: GDP services sector shares (% contribution to total services, 2016; 2019)[13] - Botswana



Impact of Covid-19

The manufacturing sector contracted sharply by 31.3% in the first six months of 2020 due to a sharp decline in diamond processing and beverage production[14].

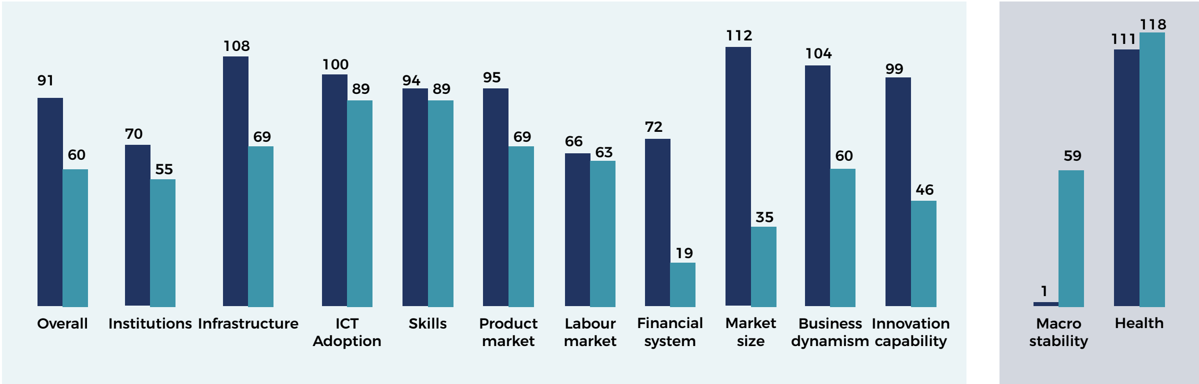
Services that fall within the tourism and transport sectors are expected to see a decline in 2020 with pandemic lockdown restrictions in place. Social and personal services are also expected to decline but should pick up when restrictions are lifted. Overall, it is expected that the sector's contribution to GDP will be reduced in 2020 with most services activities being halted by lockdown restrictions.

2.1.3 Understanding Botswana's competitiveness

This section analyses these competitiveness factors in relation to South Africa which is the regional manufacturing hub. The figure below displays the competitiveness rankings between Botswana and South Africa.

13 *Statistics Botswana*
14 Gross Domestic Product: Second Quarter of 2020, *Statistics Botswana*

Figure 3: Competitiveness comparison Botswana vs South Africa15, ranking out of 141



This analysis shows that the only areas where Botswana is competitive with South Africa is with respect to macro-economic stability and health care. From an institutional perspective, Botswana's Government institutions lack digitisation of services. This in turn creates inefficiencies in service delivery. The country has lagged behind South Africa in the quality of its broadband connectivity - exacerbating issues around doing business. Its product market is characterised by high market dominance of a few players, and its labour market lacks flexibility in the determination of wages, and displays poor levels of labour productivity. Compared to South Africa, Botswana's innovation market has weaker research, low patent applications and low buyer sophistication.

This analysis explains many of the difficulties SMMEs face in the local market - most significantly how small the market is compared to its neighbouring South Africa, and that is less innovative or dynamic. The lack of trade barriers suggests that for all products other than those that need to be produced very close to point of consumption, producers in Botswana face stiff competition from much larger firms in South Africa, who have access to a much better enabling environment and all the other factors of production as shown above.

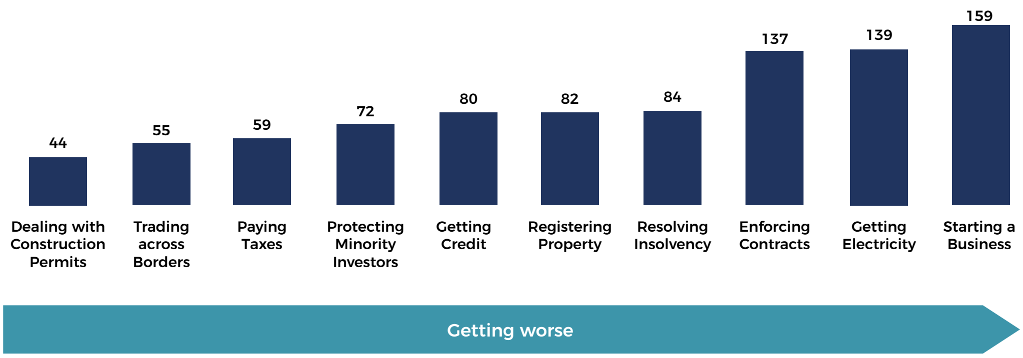
2.1.4 Enabling environment

This section analyses the ease of doing business, SMME-specific support programmes and their efficacy and, finally, any regulations or policies supporting or hindering SMMEs' growth.

15 The Global Competitiveness Report 2019, *World Economic Forum*

Ease of doing business

Figure 4: Ease of doing business Botswana[16]



Botswana is ranked 87 out of 190 economies in the World Bank's ease of doing business report 2020. This ranking is a decline from its 2018 ranking of 81/190, and Botswana's 2016 ranking of 72/190. Some of the main issues include:

- **Starting a business** - At the time of the 2020 Doing Business review, business registrations took up to 48 days, with a nine-step process. The Companies and Intellectual Property Authority (CIPA) has since launched its Online Business Registration System (OBRS). Online business registration takes 24 hours, and full registration and acquisition of a license is now down to 11 days.
- **Getting electricity** - The Doing Business 2020 report points out that it can take up to 77 days and cost in excess of 2.5 times the average per capita income of the country to get an electricity connection. The National Electricity Standard Connection has since initiated processes to alleviate the costs of electricity in the country[17].
- **Enforcing contracts** - it takes almost two years to enforce a contract, which can make it difficult for SMMEs to receive payment. This leads to cash flow issues for SMMEs, which in turn impact financing applications[18].
- **Resolving insolvency** - it takes 1.7 years to resolve insolvency, making it difficult for failed businesses to re-register or overcome failure
- **Registering a property** - it takes 27 days to register a property which could be a hindrance to firms. Digitisation of this process should improve this and allow for immediate registration.
- Getting credit - There are several key issues which impact access to finance in Botswana:
  - » The lack of a unified legal framework for secured transactions, i.e., the regulation covering secured transactions is fragmented, patchy and potentially conflicting. There is no single framework that guides conditions for secured transactions
  - » The lack of a collateral registry (electronic or physical) in operation for both incorporated and unincorporated entities. However, the World Bank is supporting its establishment
  - » Only 13,500 firms (~ 10%) are registered on the credit bureau and just 54.4% of the adult population is covered. This impedes the implementation of credit scoring and risk-based lending

16 Doing Business 2020 - World Bank
17 National Electricity Standard Connection
18 Stakeholder engagements, 2020, *Genesis Analytics*

Government and donor support schemes

In Botswana there are five key support schemes for SMMEs. This section provides an overview of these schemes, their challenges and successes. The table below provides a summary of the types of services provided by the various schemes.

Table 9: Summary of key support schemes - Botswana

Scheme	Grants	Loans	Equity Funding	Training/ Mentoring	Access to markets	Scale[19]	Distribution[20]
Citizen Entrepreneurial Development Agency	No	Yes	No	Yes	Yes	High	Medium
Local Enterprise Authority	No	No	No	Yes	Yes	High	Medium
Economic Diversification Drive	No	No	No	No	Yes	Medium	High
UNDP Supplier Development Programme	Yes	Yes	No	Yes	Yes	Low	Low
Botswana Innovation Hub	Yes	No	No	Yes	Yes	Low	Low
Tokafala	No	No	No	Yes	Yes	Low	Low

CEDA is Botswana's largest SMME funding support institution. It provides financial products and business support to SMMEs. A key challenge faced by CEDA is their ability to manage their growing book of SMMEs[21]. Their cost to serve is increasing rapidly, and they would benefit from digitisation and automation of administration, management and monitoring processes[22]. The Government cut its funding to CEDA as it had a high rate of non-performing loans.

LEA is Botswana's main SMME development support agency. It was created to implement the objectives of the Small Business Act of 2004. LEA's annual budget was recently reduced (by approximately 40%) which may pose challenges to its stated plan to ramp up its capacity to provide more market-access opportunities for its SMMEs and upskill its staff[23].

The EDD is an initiative by the MITI to help manufacturing, services, and agricultural enterprises in securing business from the Government and parastatal organisations. The EDD's short term strategy lacked sufficient monitoring and evaluation processes, and so outlining its challenges and successes is difficult. Its longer-term strategy is focused on developing sustainable industries - for which manufacturing, pharmaceuticals and agro-processing form part of their priority areas. Another issue faced by the EDD is the lack of support from other government institutions.

UNDP Botswana has created the Business SDP to foster supplier-buyer relationships within various value chains. The programme's first year focused on value chains in the mining, construction, processing, textiles and leather sectors[24]. A constraint in SDP's model is that it only takes on SMMEs that are already supplying its buyers. The SDP has flagged further donor

19 Scale key: Low - 200 or less SMMEs; Medium - between 201 and 500 SMMEs, High - more than 500 SMMEs
20 Distribution key: Low - 5 or less operating premises; Medium - Between 6 and 15 operating premises; High - more than 15 operating premises
21 CEDA currently has more than 8,000 SMMEs on book
22 Stakeholder engagement, 2020, *Genesis Analytics*
23 Stakeholder Engagements, 2020, *Genesis Analytics*
24 Stakeholder Engagements, 2020, *Genesis Analytics*

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support and partnerships as a key for unlocking further reach and growth of the programme. The SDP's budget from the UNDP is limited, and it is seeking partnerships to assist in expanding its reach.

The Botswana Innovation Hub (BIH) provides grants to technology and digitally-focused individuals and businesses. Incubation services range from co-working spaces to financial-model training. Most of BIH's members (approximately 200) are start-ups[25]. The organisation has been successful in assisting its members to build business cases. The hub is funded almost entirely by the Government, and currently needs support in attracting counterpart funding from angel Investors and other funders.

Tokafala was initially created as a four-year programme designed to help SMMEs in Botswana overcome business challenges, but it has expanded its operational period. A key focus area of the hub is in assisting SMMEs to identify value chains that speak to their product lines.

A donor programme that incorporated SMME development into its strategy, but is no longer running, was the Private Sector Development Programme (PSDP). The European Union (EU) in partnership with MITI and the Centre for Development of Enterprise (CDE) developed the PSDP in 2012. The PSDP was initiated by Business Botswana and executed (funded) by the EU from 2013 until 2017. The programme's overall objectives were to create employment, grow the economy, and reduce poverty[26]. The programme also sought to capacitate SMMEs through value chain optimisation, better access to finance and an improved business environment. The PSDP came to an end in 2017.

While well-intentioned these schemes and programmes' reach is constrained by funding, staff capability and low levels of partnership with relevant institutions. It is recommended that organisations that offer similar support - such as LEA and Tokafala - should partner in an effort to join resources and more efficiently serve SMMEs.

Policy and regulation

This section covers some of the key regulations either impeding or promoting the success of SMME growth and development. Some of these include:

Botswana's SMME policy of 1999 is outdated. This policy is in the process of being repealed and replaced by the National Entrepreneurship Policy for Botswana of 2019. This policy will focus on innovation-driven opportunities for entrepreneurs and SMME entrepreneurs.

There is a lack of SMME-specific procurement regulations in the country. The Local Authorities Procurement and Asset Disposal Regulations (LAPAD) outlines the general tender requirements for businesses. While this is helpful, SMMEs require other means of enforcement support. SMMEs are seldom able to supply the large product quantities that buyers are looking for, so procurement from SMMEs becomes difficult. The EDD is one of the programmes that provides SMMEs with the opportunity to compete in Government tender processes - with contracts of up to Pula 10 million being reserved for SMMEs. The success of such a procurement policy is hindered by some SMMEs inability to meet required quantities for the buyers.

Non-existent guidelines for the procurement of women-led businesses makes it more challenging for women to access business support. Many of the institutions that have been engaged as part of this research have no particular strategy or products focused on women.

The country does not yet have a collateral registry policy in place. The regulation is in draft phase and is expected to be passed officially in 2021 or 2022[27]. In the 2019 budget speech,

25 Stakeholder Engagements, 2020, *Genesis Analytics*
26 http://botspsdpmande.org/faq.php
27 Stakeholder Engagements, 2020, *Genesis Analytics*

commitment was made to pass this bill in 2019, but this has not yet happened. Banks typically adopt a collateral to loan ratio of at least 1 and the lack of sufficient collateral is preventing SMMEs from accessing finance[28]. The collateral registry will allow SMMEs to use a wider range of assets when applying for funding.

The Standards Act (1995) established the Botswana Bureau of Standards (BOBS). BOBS is Botswana's national standards body; whose mandate is to provide quality certification to products and services sold and delivered in the country. All companies are expected to attain some level of certification, but this comes at a cost. While certification is intended to ensure quality of goods and services, the associated costs are a barrier for some SMMEs who cannot afford to go through the certification process. A potential subsidisation mechanism could be considered.

Covid-19 response plans and measures

The Government of Botswana has put in place several measures to counteract the impacts of the pandemic. Some of the key ones include:

Covid-19 Pandemic relief fund: The Ministry of Finance and Economic Development created the Covid-19 which had an initial cash injection of P2 billion. Under this fund, financial resources are allocated to a number of public and private institutions to ensure the stability of food and medical supplies, payment of employees in various sectors, and other economic areas[29].

Monetary policy: The Bank of Botswana lowered the bank rate by 50 basis points to 4.25%. The Bank of Botswana also reduced the capital requirement for banks by 2.5 percentage-points, and the capital adequacy requirement was reduced to 12.5% from 15%. These measures have been introduced in order to provide banks additional liquidity to manage large withdrawals and delayed payments.

Loan guarantees: The Government has offered loan guarantees for 24 months' worth Pula 1 billion (~USD 87 million) to private sector businesses which is a modest amount in relation to private sector credit that amounted to USD 5.6 billion in 2018. The guarantee is provided by Botswana export credit insurance (BECI) on behalf of the Government. BECI will guarantee 80% of the loan, with 20% guaranteed by commercial banks.[30]

Covid-19 Pandemic Recovery Plan for the Private Sector: Over and above the country's general economic recovery plan, Business Botswana has tabled a private sector recovery plan - which is supported by the UNDP. The private sector plan specifically highlights the need to integrate SMMEs into the supply chains of large firms in the country. The Government and private sector partners have been called upon to assist with building the necessary data capabilities for the purposes of improving how business performance is monitored and how the business environment evolves. Botswana does not have any Covid-19 recovery plans specific to the services and light manufacturing sectors.

28 Ibid
29 Guidelines for Botswana Covid-19 Pandemic Relief Fund
30 https://www.mfw4a.org/news/africa-financial-sector-responses-covid-19-botswana

2.1.5 Key enabling environment findings

Based on the analysis of above, the following findings emerge.

- Botswana's economy is heavily reliant on diamond exports and there is little value addition taking place of the commodity locally.
- The opportunity areas for light manufacturing include: beef and leather processing. Diamond beneficiation has limited opportunities for SMMEs.
- The key opportunity areas for services include: tourism and its sub-sector industries (transport, accommodation and restaurants), alternative power generation and resulting services such as repairs and maintenance, and the creative economy.
- The country's state of doing business continues to be an area for improvement. While some work has been done to alleviate several issues, the lack of a collateral registry and low coverage of the credit bureau across SMMEs still needs to be addressed.
- Government agencies such as LEA and CEDA are experiencing a drop in funding from the Government - given the non-performance of the loans that CEDA disburses.
- Some support programmes have not been able to scale and require a revised distribution approach.
- Support for SMME is coordinated (between LEA and CEDA), however, further linkages can be formed and strengthened to ensure the financing of businesses across the entire business cycle i.e., from start-up to maturity
- The UNDP SDP is looking for partner organisations for its next year of implementation. FMT can work with the UNDP to scale up this existing SDP
- Some of the Covid-19 funds and support measures require coordination and implementation support

2.2 Demand-side

This section focuses on the size and structure of the SMME sector, analyses key challenges faced by SMMEs and finally identified key value chain opportunities

2.2.1 Size and structure of SMME sector

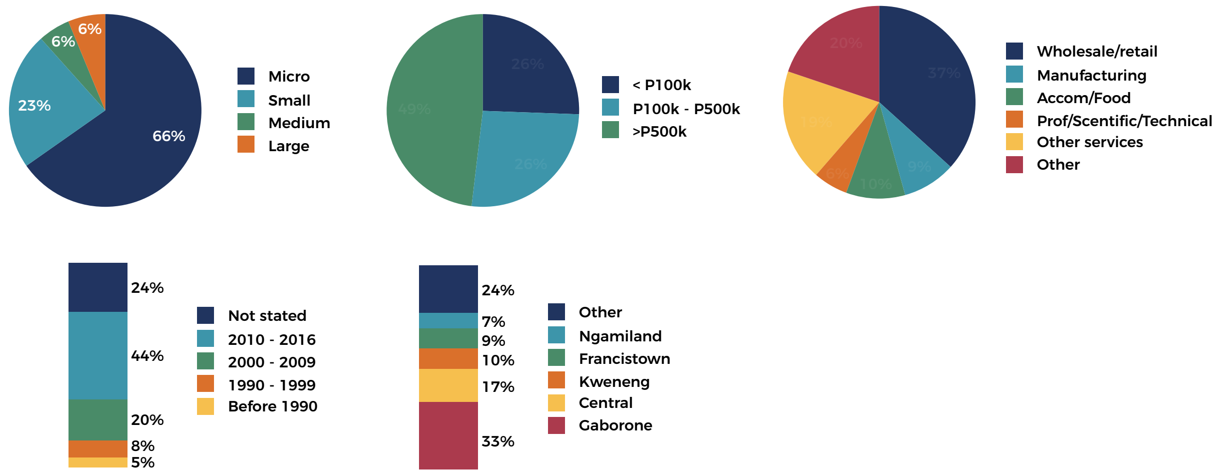
There are approximately 140,000 SMMEs in Botswana, of which 18,000 are formally registered[31]. The breakdown of formally-registered businesses is shown in the graphs below. We have assumed a micro business has an annual turnover of less than P300,000[32] and employs less than 6 people (as per the LEA definition[33]):

31 Census of Establishments and Enterprises, 2016, *Statistics Botswana* | Note: This census however only took stock of formally-registered businesses, and accounted for 18,552 enterprises and establishments.

32 In 1999 the Government policy defined a Micro business as having an annual turnover of less than P60,000 - in today's prices this would be around P280,000 - close to the P300,000 turnover definition used in the 2016 census of enterprises and establishments.

33 LEA defines a micro enterprise as an enterprise making an annual turnover of less that P300,000

Figure 5: Structure of Botswana's SMME environment



The majority of formally-owned businesses fall into the Micro-size category. From a business sector perspective, the wholesale and retail trade sector hold the largest proportion of formal businesses. This is quite typical and also reflects Botswana's proximity and openness to South Africa - a much larger economy with a large formal manufacturing base that produces many goods at much lower prices due to its scale.

Manufacturing - while it only contributes to about 6% of GDP - has 9% of enterprises operating in the sector which is encouraging. With the services sector accounting for over half of GDP in Botswana, they account for 35% of formal businesses.

Most businesses were established between 2010 and 2016 and businesses are concentrated in Gaborone and Botswana Central.

2.2.2 Demand-side challenges

Based on our engagements with stakeholders, there are several key challenges faced by SMMEs in Botswana. Information on demand-side challenges have been brought to light in engagements with banks, the Botswana Bureau of Standards, and a number of the government and donor support agencies. The existing pool of research does not go into much detail about non-financial demand side challenges, and the engagements have assisted in closing these gaps. Over and above access to finance challenges, other demand-side challenges that have surfaced include the following:

Low levels of quality standard certification are hindering SMMEs from becoming more competitive and expanding their businesses into other markets. To compete internationally, certain standards of quality need to be met through certification. In general, SMMEs are not well-versed in quality standards and the requirements thereof. Certain buyers are not willing to use SMMEs as their suppliers in the absence of certification.

Poor pricing and marketing skills reduce SMMEs' ability to reach more of the market. Inappropriate pricing reduces the competitiveness of SMMEs - especially when it comes to plugging into the value chains of large corporates. SMME development agencies point out that SMMEs are not optimising the use of digital platforms to successfully market their businesses.

2.2.3 The role of technology in solving demand-side challenges

Like all countries Botswana faces opportunities and challenges from the changes in technology that are sweeping the world and are often referred to as the fourth industrial revolution. For SMMEs new technology can create considerable opportunities in three broad areas:

- The emergence of platform businesses makes it much easier for small firms to connect and market their services to global or regional consumers. Examples of such platforms include Airbnb in the tourism sector and Uber in the transport industry (although Uber has not yet launched in Botswana)
- New technology is transforming the electricity sector. Solar and wind power are changing the cost and structure of the electricity market, often to the benefit of small businesses which can overcome the delays and cost of connecting to the national grid, can potentially earn from supplying the national grid, and develop new businesses in the sale, installation and maintenance of solar panels.
- Digital finance is also transforming SMMEs' ability to make and receive electronic payments and in the process generate the digital data trail that can be used to assess their credit worthiness, beyond traditional asset-based finance.
- Technology is also transforming the definition of a traded goods and the Covid-19 crisis has transformed thinking as to what businesses services can be digitised and delivered from anywhere in the world.

Some examples of innovations that are already occurring across Africa that have relevance to Botswana are shown below:

Table 10: Innovations to learn from and encourage

Innovation	Description	Applicability to the local market
M-KOPA SOLAR	Provides pay as you go solution to electricity issues in East Africa using solar solutions	This could solve some of the power issues in the country and enable entrepreneurs to conduct business
LYNK	An online platform in Kenya to connect blue-collar workers (e.g., repairmen, plumbers etc) to consumers	This would solve access to market issues
SweepSouth®	An online platform to find a cleaner	This would allow people to find part time work (micro entrepreneurs)
airbnb	Online platform for property rental	Increased awareness of such a platform could help the tourism industry
takealot.com	Online e-commerce player in South African linking thousands of businesses to consumers	Would solve access to market issues for SMMEs
Business Process Outsourcing solutions	Platforms that support local and international corporates with non-core tasks e.g., call centres and so on	It can provide part-time work to many micro entrepreneurs

While these innovations hold high promise for countries that are struggling with a poor enabling environment certain prerequisites need to be in place. The current state in Botswana against some peers is shown below. Top countries in each category are marked in blue shading.

Table 11: Current state of the communications, technology and education[34]

	Botswana	Kenya	South Africa
Fixed broadband per 100 people	18	0.7	2.4
Fiber internet per 100 people	0.1	0.2	0.4
Internet user per 100	47	17.8	56.2
Mean years of schooling	8.9	8.4	10.1
Digital skills score: 1 - 7 (best)	3.7	4.5	3.3
Quality of vocational training: 1 - 7 (best)	3.8	4.3	3.5

Based on this analysis there is a need for reforms around vocational training, digital skills training and increasing fibre and broadband access for the digital economy to thrive.

2.2.4 Identification of opportunities in the light manufacturing and services sectors

This section provides an analysis of product value chains related to light manufacturing, and several sectoral opportunities for the services sector. The table below shows a high-level summary of the key findings and further analysis is provided below the table.

34 The Global Competitiveness Report 2019, *World Economic Forum*

Table 12: Opportunities in the light manufacturing and services sectors - Botswana

Sector or value chain	Expected growth	SMME presence	SMME opportunity	Key issues	Areas of intervention
Diamonds	High (the diamond sector is projected to grow from 2021 with the economy recovering from the pandemic)	Low (almost no SMMEs are in this market with Debswana and DTCB dominating the value chain activities)	Low (given Debswana market dominance)	Beneficiation is expensive in Botswana's market. Other countries are able to profitably work diamonds Low local skills result in reliance on imported skills	FMT should not focus on this
Livestock/beef	Moderate (a lift in COVID-19 restrictions on trade is expected to boost exports)	Low (this market is characterised by small scale, informal and survivalist farmers, and BMC dominates in the wholesale and retail space)	Moderate (this market is going through liberalisation. Once this happens, SMMEs will have the opportunity to become suppliers of beef products to retailers - albeit at a smaller scale than BMC)	Increasing popularity of larger firms in the value chain - the number of smaller farmers is decreasing Botswana Meat Commission (BMC) has been the only licensed exporter of beef products. This issue is currently being addressed to allow for other market players, but it is unlikely that SMMEs could plug-in here given their limited scale and skills	Support the SDP in expanding into this industry to connect SMMEs to buyers. With the liberation of this sector, SMMEs will be able to supply local retailers and the international market - albeit to a smaller scale than BMC
Leather	Low (the Lobatse leather park is experiencing operational issues)	Low (this sector has not yet fully developed)	Moderate (once the Lobatse Leather Park is in operation, SMMEs will have the opportunity to create leather-based products)	Hide processing is a water-intensive and chemical-intensive process, which may be ill-suited to the local market Many hides are damaged due to local branding traditions	Supporting the training initiatives once the Lobatse Leather Part is up and running
Tourism	High (with the tourism industry being hard hit by the pandemic, the sector is expected to grow rapidly once restrictions continue to be lifted)	High (transport providers, accommodation providers and restaurants have a good presence in the tourism space)	Moderate (given the high presence, further SMME opportunities are limited)	The regulatory environment needs to allow for the operation of platforms such as Airbnb. Once such entrepreneurs are licensed to operate, they can then benefit from this opportunity. Slow-to-land digital innovation	Support the development of digitisation in the tourism industry
Solar	High (Given that this is a new market, the potential for uptake of solar products is high)	N/A (the market does no currently exist)	Moderate (once the solar market emerges, SMMEs may have the opportunity to provide solar power related services)	Many business lack the capital required to invest	There are no immediate opportunities, but there may be in future
Creative economy	Moderate (the presidency is working on initiatives to see to it that this sector is prioritised and attended to more formally)	Low (the formalisation of this sector and the initiatives are at an early stages)	Moderate (with the increasing focus on this sector, initiatives will provide SMMEs with opportunities to participate in this sector)	The National Arts Council is still under development, but initiatives by the Ministry of Youth, Sports and Culture (MYSC) will help resolve access to opportunities	Engage with the Internet Protocol Television platform to surface opportunities for SMMEs in television production

Notes: Expected sector growth: Based on GDP growth forecasts | **SMME Presence:** Based on market size data | **SMME growth potential:** Based on the impact of highlighted key issues.

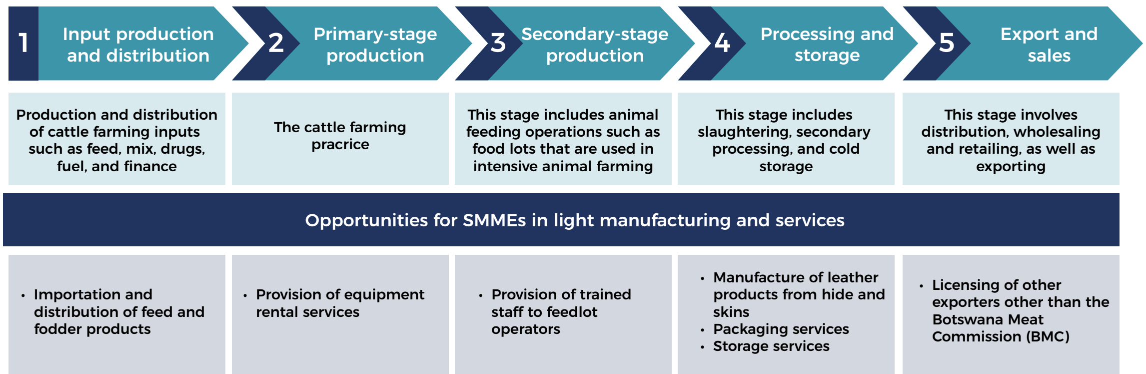
Value chain analysis

Beef and leather

The beef industry is one of the most important sectors in Botswana's economy. The industry contributes 57% of value added in the agricultural sector. Given the arid nature of much of the economy it is the only viable form of agriculture in many parts of the country. It plays an important role especially in the rural economy as a source of income, food, investment and employment opportunities[35]. The beef subsector is the only foreign exchange earner within the livestock sector. Botswana is in the process of developing the Lobatse Leather Park from which the country's leather manufacturing operations will take place. A key issue that has surfaced is the low production of cattle skin to meet the planned magnitude of this leather park[36]. The beef and livestock industry needs to be engaged to rethink how the by-products of livestock can be retained for use in other areas such as the production of leather.

Approximately 80% of the livestock in Botswana are managed under a traditional communal grazing system. Productivity is lower on traditional farms than on commercial farms. The traditional production system, which is dominated by smallholder farmers, is characterised by numerous production and marketing constraints such as low off-take rates[37], failure to understand various markets' quality requirements and high transaction costs. Also, longer and harsher droughts are driving a growing share of these smallholder farmers to give up their animals.[38]

Figure 6: Value chain activities in the beef industry - Botswana



The different stages of the beef value chain in Botswana are explored below.

Input production and distribution

The main inputs in cattle farming in Botswana include feed, fodder, veterinary drugs, breeding animals and artificial insemination. Botswana has hardly any domestic resources (because of its arid nature) for the production of concentrated feed or fodder (hay, silage, straw). At present, all feed, including the roughage base for feedlots, is imported, mainly from South Africa but also with significant amounts, particularly of maize chop, from Zambia and Zimbabwe where it is cheapest. The imports are done by relatively large enterprises to be sold to large ranchers and commercial farmers. Therefore, SMME presence at this stage of the value chain is low.

35 Annual Agricultural Survey Report 2013, *Statistics Botswana*
36 Pula Lobatse Leather Park project in Botswana downgraded to phases, 2019m Construction Review Online
37 Offtake rate is the percentage of the current year's herd that is removed through sales, deaths, gifts and home slaughter from the total herd size kept in a year. Generally, the higher the offtake rate the higher the productivity
38 Technical efficiency of beef production in agricultural districts of Botswana: A latent class stochastic frontier model approach, *S. Bahta et. al.*

Primary stage production

The (approximately) 39,000 primary beef producers in Botswana can be classified into two categories - commercial and traditional farmers[39]. Almost all of these (98%) have fewer than 150 cattle. In fact, approximately 78% of the total have fewer than 40 cattle. These are small-scale farmers who are poorly integrated into the market and rely on diversified livelihood strategies. Smallholder farmers use few purchased inputs and normally sell or slaughter cattle only when they have immediate cash needs. They are, however, quite important as they supply the hundreds of butchers and agents in the country with cattle. Additionally, roughly half the animals purchased by the BMC come from the same farmers[40]. On the other hand, there are also large-scale commercial operations, e.g., the Government-owned Banyana farm in Molopo, a large ranch which keeps over 15,000 cattle.

According to the Botswana Agricultural Census Report 2015, of the 39,054 total primary producers, 37,753 were traditional while only 1,301 were commercial. This is compared to the 71,826 traditional farmers and 695 commercial farmers in 2004. The number of small-scale farmers (and cattle) has therefore dropped significantly while there has been a notable increase in commercial production.

SMME presence at this point of the value chain is low. This point of the value chain is dominated by; (i) small scale, informal and survivalist farmers and (ii) large ranchers.

Secondary stage production

This stage of the value chain mainly consists of feedlot operations; a type of animal feeding operation used in intensive animal farming where weaners[41] are taken through an intensive feeding programme to get them to the correct slaughter weight and quality, within a specified period of time. There were approximately 20 feedlot operators in Botswana in 2010[42], all of them large-scale ranchers.

Feedlot operators are important production stakeholders in Botswana, especially for beef meant for export by the BMC. The Botswana Government and the BMC began to promote weaner-based production in 2006 as a way to increase beef production using the same or fewer grazing resources. Advantages of the weaner system are that it increases the number of cattle available for slaughter, reduces fluctuations in supply (due to droughts, a major challenge in cattle farming in Botswana) and improves the quality of beef produced. This is especially important for demanding and lucrative export markets for the BMC such as the European Union (EU).

The BMC buys cattle from private feedlots such as Feed Master, or contracts these feedlots to get weaners it has purchased up to slaughter weight. Other modern processors such as Senn Foods and Quality Meats also buy from these private feedlot operators.

The presence of small businesses at this point of the value chain is low, due to the heavy capital investment required. All the feedlot operators in Botswana are also large ranchers, and hence large business operations.[43]

Slaughtering, secondary processing and cold storage

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39 Botswana Agricultural Census Report 2015, *Statistics Botswana*

40 Botswana Agrifood Value Chain Project: Beef Value Chain Study 2013, *Ministry of Agriculture, Botswana & FAO*

41 A calf that has been weaned (accustomed to food other than its mother's milk) during the current year

42 Botswana Agrifood Value Chain Project: Beef Value Chain Study 2013, *Ministry of Agriculture, Botswana & FAO*

43 Botswana Agrifood Value Chain Project: Beef Value Chain Study 2013, *Ministry of Agriculture, Botswana & FAO*

The main players at this point in the value chain are (i) the Botswana Meat Commission (BMC), the largest slaughterhouse in the country with three abattoirs, (ii) three modern meat processors including Senn Foods and Quality Meats, and (iii) hundreds of local butchers across the country.[44] There are also about 15 municipal and private abattoirs and 81, mainly rural slab-slaughter, facilities.

BMC-processed beef is mainly for export although it serves the local market to a smaller extent. The private modern meat processors primarily serve the urban population while the retail butcheries serve the rural and part of the urban population in the country.

Secondary processing of beef, that is, deboning carcasses and cutting into portions and cuts, and further processing (e.g., production of canned beef and sausages) is done by the BMC, the private modern meat processors and large butcheries such as Gantsi Beef, Afro Butchery and Butcher Shop located in urban centres. These facilities also engage in cold storage, cutting and processing.

There are hundreds of local and village butchers across the country which offer slaughtering services and serve the local market - all SMMEs. A threat to this is a new regulation by the Department of Veterinary Services that enforces sanitary guileless for which many of these SMMEs have been unable to meet. This has resulted in the closure of many slaughtering houses[45].

Export, wholesale and retail sectors

BMC is the sole licensed exporter of beef products and is responsible for marketing and sales. South Africa and the EU are the most lucrative markets for the BMC. The commission has three wholesale subsidiaries in different countries - the United Kingdom (BMC UK), South Africa (Table Bay Cold Storage Pty), and Germany (Allied Meat Importers GmbH), which are responsible for wholesale and distribution[46].

The beef processed by private modern processors such as Senn Foods and Quality Meats is sold to some eight modern retail chains serving the local urban market. The 500+ butchers supplement the retail chains in serving the local urban market but also serve the local rural market.

Opportunity areas for SMMEs in the beef industry in Botswana

SMMEs in this value chain are concentrated in the slaughtering stage (with hundreds of butchers in the country) and the retail stage (butchers also offer retail services). SMME presence is low in the rest of the value chain.

Stemming from the analysis above, the following opportunities exist for SMMEs in this value chain;

- Currently, BMC is the only licensed exporter of beef products in Botswana. Licensing of other exporters by the Botswana authorities is therefore a key opportunity.
- Botswana generates 200,000-300,000 hides a year[47]. Yet, the country exports most of its raw hides and imports manufactured products[48]. These could be processed locally. Hide processing is however a water-intensive and chemical-intensive process. This has implications for the availability of water in the country, and the potential inability to reuse polluted water. These issues need to be considered.

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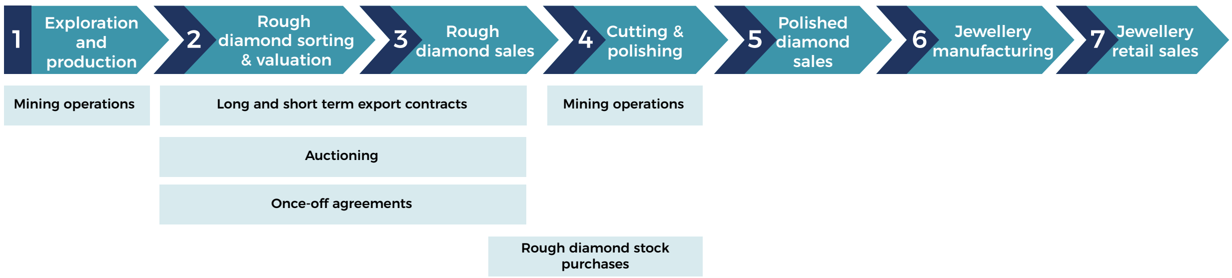
44 Botswana Agrifood Value Chain Project: Beef Value Chain Study 2013, *Ministry of Agriculture, Botswana & FAO*
45 Stakeholder engagements, 2020, *Genesis Analytics*
46 Botswana Meat Commission
47 Investor factsheet: leather and leather goods, *gobotswana.com*
48 Investor factsheet: leather and leather goods, *gobotswana.com*

Diamonds and diamond beneficiation

The diamond value chain comprises three stages. The first being the upstream stage - where exploration, production, rough diamond sorting, valuation, and rough diamond sales takes place. The second stage is the mid-stream stage that involves cutting, polishing, polished diamond sales (this is typically where Botswana's involvement ends), and jewellery manufacturing. The final stage is the downstream stage where the manufactured jewellery is sold in the retail market. The figure below outlines the stages and activities in the diamond industry's value chain.

Figure 7: Value chain activities in the diamond industry - Botswana



Botswana is Africa's top producer of diamonds, and the world's second largest producer (following Russia)[49]. About a third of the Government's annual revenue is from rough diamond sales. There is minimal value-addition in the country's diamond industry. The country has long been exploring strategies of beneficiation to increase the value it generates in its diamond market, but this has not been entirely successful for reasons explained below. Diamond beneficiation became a national policy as of 2008, with the core of the strategy being that the country should be cutting and polishing 15% of its rough diamond output[50]. In 2012, Botswana exceeded this targeting and managed to cut between 18% and 20% of its rough diamonds[51]. However, the country's cutting and polishing skills are imported into the country[52]. Botswana's has not yet provided the right level of training to rely on locally-provided cutting and polishing.

Exploration and production

Debswana runs all four of the diamond mines in the country. Namely, Damtshaa, Jwaneng, Letlhakane and Orapa Mines - with diamond deposits heavily concentrated in the Orapa and Jwaneng areas[53]. Of all mineral mining in the country, Diamond mining accounts for about 80%[54]. Between 2015 and 2018, diamond mining increased at an annual growth rate of 6%[55].

49 Top five diamond mining countries in the world, 2020, *NS Energy*
50 Skills Implication of Botswana's Diamond Beneficiation Strategy, 2014, *The World Bank*
51 Diamond Beneficiation in Botswana, 2013, *R Grynberg; ECDPM*
52 Skills Implication of Botswana's Diamond Beneficiation Strategy, 2014, *The World Bank*
53 Some Like Them Rough: The future of Diamond Beneficiation in Botswana (working paper), 2013 *European Centre for Development Policy Management*
54 Index of the physical volume of mining production: Third quarter of 2019, Stats brief, *Statistics Botswana*
55 Ibid

Rough diamond sorting and valuation

DTCB was formed in 2006 to manage and ensure that the country has a constant supply of rough diamonds for local manufacturing[56]. DTCB opened the world's largest and advanced diamond sorting and valuing operation in 2008. This company is also jointly owned by the Government and De Beers. DTCB sorts the rough diamonds that it receives from Debswana into more than 11,000 categories. This operation employs around 400 people, and is a key revenue generator for the Government.

Rough diamond sales

Over 60% of Botswana's rough diamond sales are to India, Belgium and the United Arab Emirates[57]. Although Botswana has sorting facilities, it is expensive for Botswana to process diamonds. Growth in diamond exports has been erratic, despite the significant contribution to GDP. The industry is privy to variable demand, and production levels in Botswana shift depending on capacity. Demand and prices are variable, but Botswana continues to do well on the global front with its diamond exports. Given that the economy gains large benefits from its rough diamonds alone, the processing of diamonds need not be a focus area for the country. Botswana has not been able to competitively operate in midstream and downstream operations.

Cutting and polishing

The country established a number of cutting and polishing factories which have created around 3000 direct jobs and indirect jobs[58]. Finestar Diamonds (Pty) Ltd - a cutting and polishing facility opened its doors in early 2020, but it is wholly owned by Finestar India. India is highly-skilled in the cutting and polishing of diamonds. Other non-local sight holders hold the skills to cut and polish diamonds[59] - increasing the costs incurred by Botswana. One of the challenges in Botswana's diamond market (as it pertains to beneficiation) is that the cost of processing diamonds is high. Botswana is not competitive in cutting and polishing. Indian and China have a much lower processing cost in comparison to Botswana. In 2013/14, the average processing cost per carat in India was at USD 10, and in China, USD 1760. Botswana's cost per carat stands at between USD 35 and USD [60] [61]. India and China are characterised by lower labour costs (given lower salaries), high availability of skilled labour and more-advanced technology[62]. It is unlikely that Botswana will be able to reduce these processing costs in the absence of heavy investment in technology and skilled labour (which too would come at a cost).

Botswana may need to focus on high-value stones in its beneficiation strategy[63]. It would need to focus on pushing up revenues to offset the costs. The lowering of processing costs (such as tax incentives or policy) may be an area for exploration for Botswana if it is keen on maintaining its involvement in diamond beneficiation. Cities such as New York and Antwerp are known for processing diamonds at high costs, yet they are still able to make profit off high-value stones[64]. The midstream companies in these countries are able to profitably process diamonds by cutting any excess factory capacity and placing more of their focus on melee diamonds (smaller diamonds that weigh less than a fifth of a carat)[65]. Cutting excess capacity allows them

56 Building on Diamonds: Turning finite resources into enduring opportunities
57 Trade Map, *International Trade Centre*
58 Skills Implication of Botswana's Diamond Beneficiation Strategy, 2014, *The World Bank*
59 Some Like Them Rough: The future of Diamond Beneficiation in Botswana (working paper), 2013, *European Centre for Development Policy Management*
60 Skills Implication of Botswana's Diamond Beneficiation Strategy, 2014, *The World Bank*
61 Skills Implication of Botswana's Diamond Beneficiation Strategy, 2014, *The World Bank*
62 Skills Implication of Botswana's Diamond Beneficiation Strategy, 2014, *The World Bank*
63 Some Like Them Rough: The future of Diamond Beneficiation in Botswana (working paper), 2013, *European Centre for Development Policy Management*
64 Idid
65 The Global Diamond Industry 2019, *Antwerp World Diamond Centre; Bain and Company*

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to maintain factory utilisation (and thereby decrease costs), and the smaller diamonds attract a higher per-carat price in comparison to larger stones.

Polished diamond sales

Botswana is not significantly involved in this stage of the diamond value chain as much of its diamonds are sold when they are still rough. Global sales of polished diamonds declined in 2019 with the general decline in diamond jewellery demand.

Botswana does not have any diamond jewellery manufacturing operations. It is not involved in much of the midstream and downstream operation. Enterprises have attempted to emerge into the diamond production and middle-market space, but they have been confronted with issues of insufficient access to credit facilities, lack of skilled labour, high production costs[66], and dominance by Debswana. Initiatives and programmes such as the Okavango Diamond Company Youth Entrepreneurship Programme is one of the few programmes that have been put in place to encourage the growth of Botswana's diamond jewellery making. This is happening at a small scale. On an annual basis, it takes on ten individuals aged between 18 and 35 to build knowledge diamond value chains and provide entrepreneurship training[67]. While the DTC Botswana Diamond Academy provides training on a range of topics in diamond production and cutting, this is for the purposes of employment in the company, as opposed to entrepreneurship. FinMark Trust may want to explore how they partner with DTC to move promising employees into employment opportunities in the sector.

Are there opportunities for SMMEs?

In the midstream stage, it is clear that Botswana's diamond processing faces competitiveness challenges. Other countries are more successful in processing diamonds at a much lower cost. If local processing were to be extended in the future, large investments in better machinery, technology and the upskilling of labour would be required. The current local processing is also dominated by a single provider, making it difficult for SMMEs to penetrate this value chain.

Sectoral analysis

Tourism

The tourism sector is one of the country's strategic sectors for economic diversification, with the industry contributing approximately 12% of GDP annually. A number of industries gain from growth in tourism. The transport industry, hotels industry (and accommodation industry more broadly), restaurants, entertainment, and local artifacts markets form part of tourism activities - with international visitors contributing significantly to spending within these industries. The increased awareness of its wildlife offering has resulted in significant growth in the demand for wildlife products (such as game drives and legal wildlife hunting). The country has several globally recognised national parks and nature reserves. The Chobe River Plains, Okavango Delta and the Kalahari Desert attract a number of international tourists annually, with the majority of tourists coming from South Africa[68]. The tourism sector is expected to pick up momentum in 2021 despite the pandemic. Once tourists begin receiving vaccinations, then this will boost tourism activity in Botswana.

The Okavango Delta

The Okavango area is an elite tourist area. It is an attractive wetland that covers up to 15,000 square meters of the Kalahari Desert69, and is home to a rich range of wildlife. This tourist site

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66 Botswana's emerging diamond cutting and polishing firms struggling – VP Masisi, 2016, *Mining Weekly*
67 Okavango Diamond Company Youth Entrepreneurship Programme Facebook page
68 Tourism Statistics Annual Report 2018, *Statistics Botswana*
69 Okavango Delta

attracts high-end tourists for honeymoons, game drives and walks, house-riding, camping, family activities, hot-air ballooning and various water-based activities.

In 2018, 43% of tourists from the top ten SADC countries came from South Africa, while 37% came from Zimbabwe[70]. These two bordering countries are the most popular African regions that visit Botswana. Between 2016 and 2018, tourist arrivals from South Africa grew by only 3%, while arrivals from Zimbabwe declined by 6%. Between the same period, there has not been much growth (overall) in tourist visits from the SADC region. This has been driven by a large drop in Zimbabwean tourist arrivals during the period under review. The past couple of years has seen instability in Zimbabwe's political and economic environment - affecting tourist activity. South African tourism into Botswana may also be limited by the weakening South African economy. SADC tourists are not typical large spenders, and they are unlikely to support significant growth of SMMEs in Botswana's tourism environment.

A more interesting (and arguably more important) factor in Botswana's tourism industry is that between 2016 and 2018, annual tourist visits from the top ten overseas (non-SADC) countries grew by 18%. More than half of these tourists originate from Europe and the United Kingdom, while approximately 28% come from the United States. Tourists who come from these regions display a greater demand for Botswana's tourist attractions and activities than the SADC regions do. More notably they also have a greater spending power.

Botswana's tourism sector growth has been driven by overseas countries, and this presents an opportunity for the development of the country's tourism sub-sectors and the SMMEs that operate within it.

<u>Accommodation</u>

Accommodation and other tourist facilities have increased in and around the country's national parks[71], and accommodation will constantly be in demand given the volume of tourist arrivals. Airbnb in South Africa has proven to be a healthy driver of growth in the tourism industry[72], however in Botswana, it has experienced some operational challenges with the Department of Tourism pointing out that some of the Airbnb properties contravene the Tourism Act.[73] For Airbnb to succeed in Botswana, there needs to be a good understanding of the guidelines of the Tourism Act. The presence of Airbnb Botswana in Botswana has the potential for growth if appropriately approached. The Doing Business report highlights that registering a property in Botswana is not an easy process. This needs to be addressed to ensure that SMME can register accommodation businesses with ease.

<u>Restaurants, entertainment/recreation, and local markets</u>

Tourism brings in business for restaurants, the entertainment industry and local markets (that sell local food and artifacts). International demand for local dining and entertainment can be leveraged to grow the tourism sector. Batswana produce local artifacts in the informal market, and this can be further commercialised.

Opportunities for SMMEs

- Accommodation services can be driven by SMMEs through the development of platforms such as Airbnb
- The provision of local transport services through platforms and other transport means
- The Chobe area has the potential to scale up water-based tourist activities such as boat-

70 Tourism Statistics Annual Report 2018, *Statistics Botswana*
71 Developing Tourism in Botswana: Progress and Challenges, 2017, *C Leechor; M Fabricius*
72 Airbnb in South Africa: The Positive Impact of Healthy Tourism, *Airbnb*
73 Botswana cracks down on Airbnb owners, 2019, *Southern and East African Tourism Update*

riding and boating events

- Local food and artefacts markets are a big attraction for tourists. This is an already-existing market and businesses can be tailored for tourist seasons
- Okavango area: Activities around the elite Okavango Delta attract high-end tourists. It is a good attraction for couples and families, and offers specialist tourist activities such as camping, horse-riding, wilderness trails, Okavango Delta day trips and safari boat rides.

Alternative energy - solar

Between 2010 and 2019, Botswana's distributed electricity grew at an annual growth rate of 19%[74]. Botswana relies heavily on imported electricity - reporting that it imported 52.3% of its distributed electricity in the first quarter of 2020[75]. Solar power generation in Africa is becoming increasingly popular with countries like Egypt, South Africa and Kenya being characterised by fast-growing solar energy markets[76].

Botswana has only recently begun exploring solar energy as a competitive alternative to the current coal-powered electricity in the country. The Botswana Power Corporation is in the process of establishing two solar photovoltaic plants[77]. Regardless of the progress at a national level there are considerable opportunities for SMMEs to provide services such as installation and repairing of solar panels.

The Creative Economy

Botswana's creative economy is said to account for approximately 5% of GDP, but the country's statistical agencies have not formally integrated this industry into its reporting structures.[78] Botswana is in the process of establishing a National Arts Council (NAC) that will guide the country on various aspects of the creative industry. The Ministry of Youth Empowerment, Sports and Culture Development (MYSC) has driven the drafting of the NAC bill.

CEDA has identified the creative industry as one of its special sector focuses for the businesses types that it supports[79]. The NAC will see to it that the creative industry - which ranges from film production, to fine and performing arts, and various other creative arts -is provided with the support that it needs. The creative industry has the potential to boost employment and contribute to economic growth.

The Government of Botswana launched the Internet Protocol Television (IPT) platform earlier this year (2020)[80]. IPT is a subscription-based platform that has on-demand streaming for television and film services. Some of the television networks (like BoFiNet) have started approaching the platform for contracting that will see to the development of local content creators[81].

Opportunities for SMMEs in this industry include:

- Provision of equipment services in film and art performance
- Provision of services such as make-up and wardrobe in film and tv production
- Provision of professional services such as administration, accounting industry advisory

74 Genesis Analytics analysis | Electricity Generation and Distribution Stats Brief First Quarter 2020, *Statistics Botswana*
75 Electricity Generation and Distribution Stats Brief First Quarter 2020, *Statistics Botswana*
76 The Big 5 – Africa's fastest growing solar energy markets The Big 5 – Africa's fastest growing solar energy markets, 2019, *ESI Africa*
77 BOTSWANA: BPC will designate an IPP for its 100 MWp solar PV project in September, *Afrik21*
78 Creative Industry makes up 5.4% of GDP - Rakgare, 2020, The Botswana Gazette
79 Stakeholder engagements, 2020, *Genesis Analytics*
80 Further Africa, 2020
81 BoFiNet News

- Creation of television productions

2.2.5 Key retailers market mapping

This section gives an overview of the largest corporate retailers present in the markets. Some of these retailers make use of SMMEs in their supply chain. This mapping provides a useful base for any type of supplier development programme.

Table 13: Overview of large retailers in Botswana

Retailer name	Country origin	Number of locations/stores
Choppies Enterprises Limited	Botswana	~139
Sefalana Group	Botswana	57[82]
Spar	South Africa	42+
Shoprite	South Africa	14[83]
Pick 'n Pay	South Africa	12[84]

Sefalana Group and Choppies Enterprises Limited are the only large Botswana-owned retail companies in the country. These companies have a larger presence than the South African retailers, and are both good candidates for a supplier development programme. Botswana's SDP only has one of the above retailers in its programme (Choppies).

2.3 Supply-side

This section provides an overview of the financial sector, looking at the bank financing and non-bank financing environment for SMMEs.

2.3.1 Structure of the financial sector

Botswana's financial sector is dominated by ten commercial banks and three statutory banks. Its microfinance industry consists of a number of players and is quite competitive. Many banks do not have direct mandates to support SMMEs but the non-bank institutions (MFIs) do.

Table 14: Overview of Botswana's financial services sector

Type of FSP	Approx. number of institutions	Lending model	Special emphasis on women-led businesses
Banks (commercial & statutory)	13	Commercial	Yes
MFIs	221	Commercial and NGO	Yes
Mobile Money	3	Commercial	Yes
SACCO	~50	Member-based	Yes

Source: 1. Banking Supervision report 2020, *Bank of Botswana* | 2. MSME Market Assessment, Frankfurt School of Finance and Management

82 Integrated Annual Report *2019, Sefalana* Group
83 Shoprite opens its first distribution centre *in Botswana, Shoprite* Holdings Ltd
84 2019 Integrated Annual Report, *Pick 'n Pay*

2.3.2 Bank financing

As at December 31, 2019, the number of licensed commercial and statutory banks in Botswana was nine and three, respectively. The commercial banks in order of asset size are: First National Bank (FNB), Absa, Stanbic, Stanchart and BancABC, Bank Gaborone, First Capital Bank, Bank of Baroda and Bank SBI.

The table below provides a summary of the assets held by Botswana's retail and commercial banks, the value of their loan advances, the value of deposits and their market shares[85].

Table 15: Assets, loans, customer deposits and market share (USD, % - 2019, 2020) - Botswana

Bank	Total assets (USD '000)	Gross loans to customers (USD '000)	Total customer deposits (USD '000)	Market share of assets (%)
First National Bank of Botswana (2020)	2 559 210	1 358 192	1 964 969	26.7%
Absa Bank (2019)	1 772 079	1 306 829	1 353 639	18.5%
Stanbic Bank (2019)	1 544 440	871 917	1 156 363	16.1%
Standard Chartered Bank (2019)	1 481 003	768 448	1 212 251	15.5%
BancABC (2019)	857 191	632 901	656 589	8.9%
Bank Gaborone (2019)	529 319	386 621	465 821	5.5%
First Capital Bank (2019)	343 300	188 319	241 209	3.6%
Botswana Savings Bank (2018)	238 636	138 578	201 667	2.5%
Bank of Baroda (2019)	205 136	104 321	123 004	2.1%
Bank SBI (2019)	29 069	17 671	18 921	0.3%
Bank of India Limited (2017)	18 272	13 075	10 589	0.2%
Total	9 577 656	5 786 873	7 405 020	100%

Source: BankScope |Note: Blue shading reflects highest value in given metric

In 2019 the five large banks continued to dominate the banking sector, accounting, in aggregate, for 85.7%, 85.3% and 87.5% of total assets, total deposits and total loans and advances, respectively.

Financial depth and development, as estimated by the ratio of private sector credit to GDP, increased marginally from 28.9% in 2018 to 30% in 2019. When benchmarked against the global average ratio of private sector credit to GDP of 133%[86], the Botswana banking system is small, suggesting capacity for further growth in an environment of stable macroeconomic conditions and prudent credit expansion. The ratio was also lower than the sub-Saharan African (SSA) average of 45.5%.

85 BankScope
86 As reported by the World Bank's indicators

The total share of lending to private businesses in Botswana was 31% in 2019. The largest sectors receiving credit across private businesses included; commercial real estate - 23%, trade and restaurants - 19%, business services - 16%, manufacturing - 10%, agriculture - 8%, construction 6% and other sectors - 17%. A detailed breakdown is shown in the table below.

From a non-performing loans (NPLs) perspective, the manufacturing and trade, restaurants and bars sub-sectors dominated private business NPLs in 2019, contributing 27.1% and 23.7% of the private business NPLs, respectively as shown below. High NPLs in these sectors were concentrated amongst large corporates.

The table below shows the changing distribution of lending. The biggest change in lending is an increase in lending to business services - although this may have been as a result of some reclassification of businesses that were previously captured under trade restaurants and bars. Manufacturing lending has fallen from 17% to 10% of total lending[87].

Table 16: Private business sector lending statistics - Botswana

Private business sector	Loans 2015, %	Loans 2019, %	Share increased?	NPLs 2015, %	NPLs 2019, %
Manufacturing	17%	10%	No	8.5%	27.1%
Trade, restaurants and bars	32%	19%	No	22.1%	23.7%
Construction	6%	6%	No	9.9%	10.2%
Business services	0%	16%	Yes	6.7%	9.5%
Commercial real estate	25%	23%	No	11.6%	9.4%
Agriculture, forestry and fishing	7%	8%	Yes	12.2%	7.4%
Transport	4%	3%	No	4.9%	3.4%
Tourism and hotels	2%	6%	Yes	0.4%	3.2%
Other community, social and personal services	0%	4%	Yes	18.9%	3.1%
Mining and quarrying	6%	3%	No	3.6%	2.5%
Electricity	1%	0%	No	1.2%	0.5%
Water	0%	0%	No	0%	0%
Telecommunications	1%	1%	No	0%	0%

Source: Banking Supervision Annual Report 2019 | Notes: Shading in blue = top three in each segment or "Yes"

Most banks offer a standard set of products to SMMEs. From a website analysis of the top banks, banks appear to offer generic products which do not appear to be tailored to specific sectoral needs such as those of manufacturing or services. Also, banks do not appear to offer leasing products.

87 http://www.weekendpost.co.bw/17835/business/struggling-manufacturing-sector-failing-to-pay-banks/

Table 17: Botswana bank product offerings

Bank	Product offering						
	Business account	Short Term loans	Long term loans	Vehicle asset finance	Purchase Order finance	Trade finance	Insurance
Absa	✓	✓	✓	✓	✓	✓	X
Stanchart	✓	✓	✓	X	X	✓	✓
FNBB	✓	✓	✓	✓	✓	✓	✓
Stanbic	✓	✓	✓	✓	✓	✓	✓
BancABC	✓	✓	✓	✓	✓	X	X

Source: 1. Provider websites and banking supervision report, 2019
Notes: 1. ✓- yes | 2. ✓ - No | 3. * - to be confirmed with stakeholder engagements

A similar view is revealed when conducting a channel analysis; most banks offer the standard set of distribution channels. Specific channels targeting SMMEs appear to be missing, such as mobile banking specifically for businesses (app or USSD) and agency banking which has proven to be a cost-effective way to bank SMMEs in the rural areas of East Africa. In Botswana, ATMs and branches are concentrated in the urban areas. Internet banking is mainly focused on SMMEs or corporates which have access to the internet.

ATMs and branches per capita in Botswana are 44.5 and 9.2 per 100,000 which are significantly higher than sub-Saharan Africa (6.7 and 5). Indicating a relatively established banking sector[88].

Table 18: Bank channel distribution - Botswana, (2019)

Bank	No. Branches	No. of ATMS	Internet Banking	Mobile banking	Agency banking	Number of agents
Absa	35	113	✓	✓	X	X
Stanchart	19	70	✓	✓	X	X
FNBB	28	233	✓	✓	X	X
Stanbic	17	56	✓	✓	X	X
BancABC	13	14	✓	X	X	X

Source: 1. Provider websites and banking supervision report, 2019
*Notes: 1. ✓- yes | 2. ✓- No | 3. * - to be confirmed with stakeholder engagements*

Overall, based on primary and secondary data available, banks appear to be largely focusing on serving larger and more stable/mature SMMEs and corporates and do not offer suitable products for start-ups and growing SMMEs. More support in the form of partial credit guarantees, product design and innovation could be provided to banks to increase their lending to SMMEs. Further support can be provided to banks and the Bank of Botswana to improve reporting on SMME lending, based on a standardised definition.

2.3.3 Non-bank financing

This section provides an overview of the non-bank financial institutions (NBFIs). The financial institutions assessed here are MFIs, mobile money platforms, private equity providers and such insurance as is relevant to SMMEs.

88 World Bank indicators

NBFIs

NBFIs in Botswana are regulated by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA). Botswana has a number of non-bank financing institutions - some of which have the specific objectives of advancing financial inclusion and providing affordable funding to SMMEs - most of the MFIs are however focused on payroll lending and make little contribution to the SMME sector. Prior to 2015, Botswana only had one microfinance institution but the country's MFI market has grown significantly since.

The largest MFI is Letshego Holdings - Letshego is principally focused on payroll lending. This is also the case with Bayport Financial Services is the second largest MFI, followed by Blue Financial Services. Other MFIs are Peo Holdings, Penridge Employee Benefits, Capricorn and Women's Finance House Botswana (also known as Thusang Basadi). Thusang Basadi is mainly focused on retail MFI loans, for household consumption, targeted at women. Members of Thusang Basadi take a stokvel[89] approach in gathering funds to repay their loans[90].

Mobile money

Botswana currently has three mobile money institutions - Orange Money, Mascome's MyZaka and BCT Mobile's SMEGA.

Orange Money has the highest level of market penetration with 752,000 subscribers (March 2019). MyZaka is the second largest mobile money institution with 398,000 subscribers. SMEGA reported having fewer than 300 subscribers in March 2019 but these numbers have since increased. Overall mobile money penetration stands at about 24%[91] of the adult population – which is relatively low to East African countries where it can range from 80% to 100%.

Mobile money in Botswana allows the following: sending and receiving money, buying goods in shops or online, paying bills, school fees, and topping up mobile phone airtime. Almost half of Botswana's population are users of mobile money[92]. The mobile money platforms in Botswana do not provide credit and only enable savings and money sending capabilities[93]. The lack of a credit function is a gap in this market, one that presents scope for exploration.

Donor and Government financing

In terms of Government and donor financing, and as mentioned earlier, CEDA is the country's key player in the SMME financing market. It provides low-interest business loans and serves enterprises that are typically excluded from commercial bank financing due to a lack of sufficient security. CEDA also provides trade financing and equity funding. CEDA offers specialised loans to enterprises that are in the manufacturing and services sector. Depending on the nature of one's manufacturing business, CEDA offers three repayment frequencies (monthly, quarterly or annually) on these loans.

89 A model in which a number of individuals come together to contribute funds. The collected money is then handed over to the members on a rotational basis.

90 Stakeholder engagements, 2020, *Genesis Analytics*

91 https://www.statista.com/statistics/1155782/mobile-money-accounts-botswana/#:~:text=Mobile%20money%20accounts%20in%20Botswana%202018%2D2020&text=As%20of%20January%202020%2C%20approximately,in%20the%20South%20African%20country.

92 ICTWorks, 2020

93 https://www.bankofbotswana.bw/sites/default/files/publications/BOB%20Newsletter%202020.pdf

Table 19: Selected CEDA funding products - Botswana

Product	Max. loan size	Terms	Requirements
Manufacturing enterprise loans	P4 million	• 5% interest on loans below P500k • 7.5% interest on loans P500k + • 15 years max repayment period • Monthly, quarterly or annual repayment based on business nature	• Business plan • Equipment quotation • Identity document/s • Certified F2 forms • Provisional lease agreements
Services enterprise loans	*Standard	*Standard	• Three supplier quotes • Trading licence copy • Deed or offer of sale • Health and safety standards • Environmental impact assessment • Provisional lease agreements
Equity financing	P30 million	• CEDA holds a minimum of 26% in equity stake	• Business plan • Skilled management team • Citizen participation • Minimum of 15% of funding need • High growth potential

Source: ceda.co.bw

Private equity and venture capital

Private equity (PE) financing remains limited in Botswana, accounting for USD 70 million of USD 3.5 billion in SADC over 2010-2016. This equates to roughly USD 11.6 million dollars per annum. Some three deals accounted for the USD 70 million[94]. There is an opportunity to increase this form of funding for relatively smaller ticket sizes.

Insurance

The Export Credit Insurance and Guarantee Company (BECI) is the only credit insurer in Botswana[95]. BECI offers domestic and export trade credit insurance, bonds and guarantees as well as outward investment insurance for enterprises wanting to expand their businesses outside of Botswana[96]. This product offering is likely to become a key driver of growth as the EDD gathers momentum.

Alternative financing

More recently there has been a surge in crowdfunding platforms in Botswana - GoGetFunding, Soshnet and others. While the success of these platforms is not quantifiable, this form of capital raising may hold opportunities for SMME funding.

Additionally, the Botswana Securities Exchange has launched the Tshipidi SMME board. While the board has had limited success, the BSE has launched the Tshipidi mentorship programme which is intended to nurture SMMEs wishing to list on the board. Increased awareness and support of the programme could potentially make it a successful avenue for SMMEs to raise capital.

94 AVCA Spotlight on Southern Africa Private Equity
95 Stakeholder engagement is in scheduling
96 https://www.beci.co.bw/

2.3.4 Supply-side challenges

Some of the main challenges faced by SMMEs in accessing financial support include:

A lack of adequate finance and insufficient collateral to support financing applications - this prevents SMMEs from growing and operating their businesses. The collateral registry will assist SMMEs in having a broader range of collateral that they can use to access finance.[97] SMMEs will have the option of attaching personal and household assets for financing applications.

Lack of business plan development skills to access loans -SMMEs (especially micro enterprises) do not have the required level of business planning skills. SMMEs often neglect the elements in business plans that are key in demonstrating that their business is viable[98].

Lack of a sufficient financial track record and poor record keeping - Bank financing requires a sufficient track record for which some SMMEs struggle to produce. Where SMMEs have been in operation for long enough, many of them have erratic financial cash flows. Where SMMEs rely on Government as a client, there are often gaps in their financial statements for periods in which Government business was not available.

2.3.5 Key supply-side findings

Based on the analysis above, the following findings emerge.

- Banks are largely focused on lending to retail customers and established businesses
- The microfinance industry is only beginning to serve the SMME market and may be a potential way with which to reach SMMEs effectively - further support could be provided.
- Mobile money credit is not being utilised or being implemented; this is a concern given that this channel has the potential to reach a large number of SMMEs through merchant loans
- Private equity, venture capital and crowdfunding are potential sources of finance for start-ups and businesses that are not ready for bank finance - this could potentially be scaled up
- Leasing products remain underdeveloped although this is an essential form of finance for businesses wanting to buy capital goods for manufacturing
- Credit insurance and partial credit guarantees are not properly structured to incentivise their uptake by financial providers.

2.4 Recommendations

Based on the analysis, there are several recommendations that donors, policymakers and the private sector can support which have been shown in the table below.

97 Stakeholder Engagements, 2020, *Genesis Analytics*
98 Ibid

Table 20: Recommendations - Botswana

#	Theme	#	Recommendation
1	**Enabling environment**	1.1	Improve the usage of the credit bureau through incentives and/ or awareness programmes
		1.2	Expedite and support the implementation and usage of the collateral registry
		1.3	Enhance the communication and ICT infrastructure
		1.4	Consider merging and restructuring government support organisations
		1.5	Explore options to digitise government support programmes
2	**Demand-side**	2.1	Create or enhance vocational programmes for the identified value chains
		2.2	Provide digital skills training relevant for the digital economy
		2.3	Support the development and use of pay-as you go solutions
		2.4	Support the use of buyer programmes to ensure steady demand for SMMEs
		2.5	Support the development and implementation of online marketplaces in order to allow SMMEs to sell domestically and internationally
		2.6	Support the creation and scaling of platforms to enhance market access
		2.7	Commission a demand-side study to better uncover the opportunities in services and light manufacturing
3	**Supply-side**	3.1	Incentivise lenders and mobile money provider to partner to offer merchant credit
		3.2	Support the development of leasing products in the market
		3.3	Restructure credit guarantees to enhance banks' lending to SMMEs
		3.4	Support and incentivise lenders to create cash flow-based lending products which require minimal to no collateral
		3.5	Support the attraction and establishment of alternative forms of finance e.g., crowdfunding platforms, SMME debt funds, venture capitalists, private equity
		3.6	Government is often not effective at direct lending and this should be outsourced to the private sector through wholesale lending mechanism such as credit lines and guarantees
		3.7	Encourage credit bureaus to share data between themselves to enhance lending to SMMEs

Amongst this long list of interventions, there are a few of these where FinMark Trust can have the greatest impact in a short space of time. These recommendations have been highlighted in blue and further expanded upon in the implementation section.

These 'high priority' recommendations include:

Given the limited opportunities in extended supply chains, a supplier development programme may be more appropriate. As there is an existing UNDP Supplier Development Programme, we recommend partnering to scale up this programme. The SDP has recently concluded its first year of implementation and is looking to expand its target sectors in year two and onwards. The programme is also looking to identify more buyers and sellers, one of which may be De Beers to spur growth in the diamond jewellery production industry. With the liberalisation of the beef industry, it is expected that SMMEs will be able to penetrate this market. This can then be added as an additional area of focus for the current SDP.

Another important area where FinMark Trust could have a major impact is in supporting the redesign of the current partial credit guarantee schemes. The support here could range from working with banks and other FSPs to understand key pain points with the guarantee scheme in order to increase uptake. Again, as similar schemes exist in each of the other markets technical assistance and interventions could cover all three markets.

2.5 Implementation plan

Table 21: Implementation plan - Botswana

Recommendation	A#	Activity	Partners to work with
1. Partner with the UNDP SDP	1.1	Assist in closing the funding gap to help with the expansion of the programme	UNDP
	1.2	Engage with the SDP to finalise additional target sectors for year two and beyond. Suggested sectors include: • Tourism • The creative economy • Alternative energy • Beef and leather	UNDP Tokafala The Ministry of Trade and Industry's EDD Botswana Ministry of Environment, Wildlife and Tourism Ministry of Youth Empowerment, Sports and Culture Development Ministry of Mineral Resources, Green Technology and Energy
	1.3	Review qualification criteria for buyers and sellers	UNDP
	1.4	Reach out to relevant additional buyers	The research identified the following players: • Botswana Meat Commission • Sefalana Group • Spar Botswana • Shoprite Botswana • Pick 'n Pay Botswana
	1.5	Identify and reach out to new sellers	UNDP FinMark Trust
	1.6	Host separate FGDs with identified sellers and buyers to uncover current issues	FinMark Trust SDP team
	1.7	Engage banks to provide invoice discounting solutions to selected SMMEs	Banks
	1.8	Documentation of results and analysis for possible replication to other suppliers	SDP FinMark Trust team
2.Restructure credit guarantee schemes to optimise risk-sharing	3.1	Conduct a user journey assessment to understand the pain points	Banks
	3.2	Support the identification of a third party to hold funds, manage and disburse funds in trust	FinMark Trust team

3. LESOTHO

3.1 Country context

This section provides a contextual overview and macro-economic outlook of Lesotho. It further highlights the main components of an enabling environment for SMMEs in order to diagnose the chief constraints and opportunities for SMME development.

3.1.1 Country overview

Table 22: Key Economic Metrics - Lesotho

Key metrics	Lesotho
Nominal GDP (USD billions, 2019)[99]	2.5
Avg. Real GDP growth - (%, 2014-2019)	1.6%[100]
Avg. Real GDP growth (%, 2020-2025)	1.8%[101]
Nominal GDP per capita (USD, 2019)[102]	1,158
Fiscal balance % of GDP (2019, 2019/20)[103]	-3.4%[104]
Current account balance % GDP (2019, 2019/20)	-14.2%[105]
Population (million, 2019)[106]	2.1
Percentage of population below 35 years	70% (2016)[107]
Median age (2020)[108]	24
Income status (2020)[109]	Lower middle-income

Source: 1. Lesotho Bureau of Statistics | 2. Genesis Analytics Team, 2020 | Notes: shading blue = top four sectors

Small, mountainous and completely landlocked by South Africa, Lesotho is a low middle-income country in which about 75% of its two million people live in rural areas and engage in subsistence agriculture. Lesotho produces less than 20% of the nation's food requirement and relies on South Africa - from which it imports 78% of the goods it consumes, including most agricultural inputs - for much of its economic activity.

Households depend heavily on remittances from family members working in South Africa - in mines, on farms and as domestic workers (although mining employment has declined substantially since the 1990s).

Government revenue also depends heavily on transfers from South Africa. Customs duties from the Southern Africa Customs Union accounted for 36% of Government revenue in 2018

99 World Bank Open Data
100 World Economic Outlook, October 2020, International Monetary Fund
101 Ibid
102 World Bank Open Data
103 2019 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director, Botswana, Lesotho, Eswatini
104 2019 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director of Lesotho | Note: 2019/2020 fiscal year
105 Ibid
106 World Bank Open Data
107 Census report, 2016, Lesotho Bureau of Statistics
108 United Nations Population Projection, 2020
109 World Bank Country *and Lending* Groups, World Bank

- and have been negatively affected by the poor performance of the South African economy. The South African Government also pays royalties for water transferred to South Africa from the Lesotho Highlands Water Project. As a result, the Government maintains a very large presence in the economy - public expenditures accounted for over 60% of GDP in 2019 and the Government remains Lesotho's largest employer. The country's largest private employer is the textile and garment industry - approximately 36,000 Basotho, mainly women, work in factories producing garments for export to South Africa and the US.

Diamond mining in Lesotho has grown in recent years and now contributes around 6% of GDP.

Lesotho's real GDP recorded an annual growth of 1.6% over the past five years but is projected to decline by 5% in 2020.[110] The large fiscal deficit is driven by the Government's failure to adjust spending in line with the decline in SACU revenues.

Political instability and frequent and contested elections, combined with weak regional growth and recent droughts, have continued to weigh on growth and depress investment and job creation. While work on the Second Lesotho Highlands Water Project has kept growth positive, prospects for exports and remittances are unpromising, given continued subdued growth in South Africa and depressed prices for key exports (diamonds). A stabilisation of the political climate and better fiscal management would help the economy to regain momentum.

3.1.2 Sector and international trade overview

Table 23: Real GDP contribution by sector - Lesotho

Sector	2014	2019	Increase/ decrease
Public administration	22.8%	25.4%	Increase
Manufacturing	10.0%	12.8%	Increase
Wholesale and retail trade	14.3%	11.5%	Decrease
Finance and insurance	8.9%	9.4%	Increase
Real estate activities	6.2%	6.1%	Decrease
Construction	6.9%	5.2%	Decrease
Other	31.0%	29.6%	Decrease

Source: Lesotho Bureau of Statistics, Annual National Accounts of Lesotho 2009-2019
Notes: Blue shading indicates the largest sectors in the economy

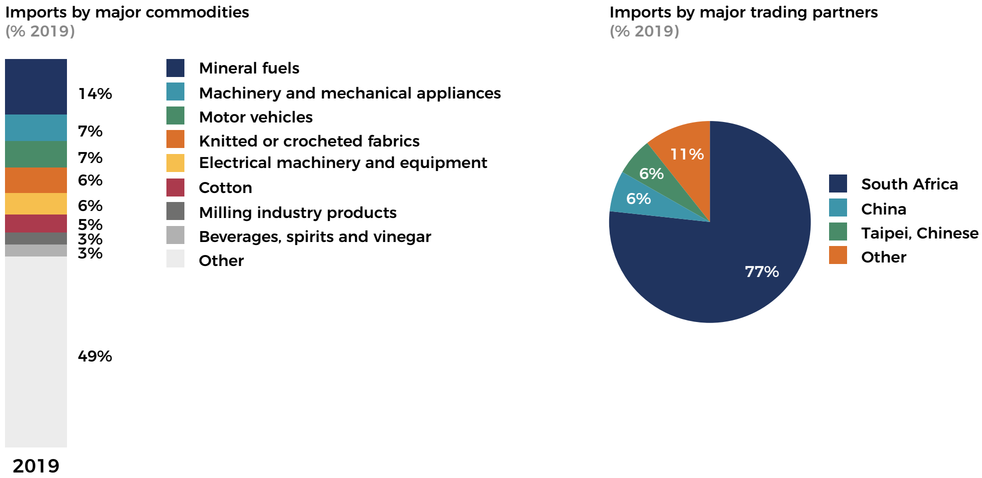
Top contributors to GDP in 2019 were public administration (25.4%), manufacturing (12.8%) and wholesale and retail trade (11.5%). The manufacturing sector recorded the highest level of growth among the top three sectors in recent years. However, this rate of growth has been declining over the past five years. The public administration sector has seen steady growth due to continued high levels of government spending while the wholesale and retail trade sector has shrunk as a result of declining demand. The Covid-19 pandemic will continue to negatively affect all sectors in the short term.

International trade

Over 75% of imports come from South Africa. Manufactured imports mainly consist of mineral fuels (14%), machinery (7%), motor vehicles (7%), knitted and crocheted fabrics (6%) and electrical equipment (6%).

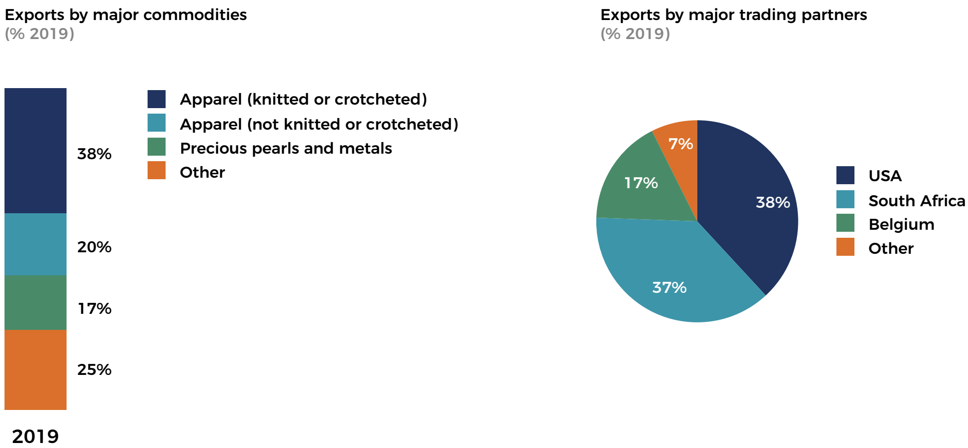
110 World Economic Outlook, October 2020, International Monetary Fund

Figure 8: Distribution of Imports - Lesotho



Source: Trade map, Trade statistics for international business development

Figure 9: Distribution of Exports - Lesotho



Source: Trade map, Trade statistics for international business development

The dominance of apparel exports is largely attributable to the favourable trade preferences under the AGOA which has allowed Lesotho to become one of the largest sub-Saharan exporters of garments to the USA[111].

Value chain opportunity identification

In order to identify opportunities within the manufacturing and services sector a two-pronged approach has been used:

- Which large export value chains can SMMEs plug into?
- Are there any other value chains including import specific ones that could create SMME development opportunities?

The analysis below shows two tables. The first table identifies key export products and the second table shows key imports.

111 Manufacturing report, Lesotho Bureau of Statistics

Whereas the textile industry has grown strongly and accounts for the bulk of exports and many imports, its long-term viability will depend on continued preferential access to the US market[112] and the relatively cost/productivity of the Basotho workforce. Lesotho's terrain is largely mountainous and has minimal arable land to support the large-scale growth of cotton. The economy is also not large enough to accommodate downstream activities for the production of synthetic fibres.

The diamond sector comprises a single mine that exports uncut diamonds. As discussed in the section on Botswana, creating a diamond beneficiation industry is extremely challenging from a skill and scale perspective -Lesotho diamond production is not sufficient to support such an industry.

Given the openness to the SA economy opportunities for import substitution seem limited - most of the key imports are produced in factories in South Africa that service the much bigger (50 million people) market, and thus achieve vastly lower costs than could be achieved in Lesotho.

There are some albeit fragmented opportunities for ancillary services that support these sub-sectors which includes professional services, catering, repairs and maintenance. The tourism sub-sector which accounts for roughly 15% of Lesotho's GDP, exhibits some potential.

112 AGOA agreement is set to lapse in 2025

Table 24: Exports, 2015 and 2019, USD million - Lesotho

Product	2015	2019	CAGR
Non-industrial diamonds unworked or simply sawn, cleaved or bruted (excluding industrial diamonds)	0	111	N.A
Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	51	74	9.8%
T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	17	35	19.8%
Jerseys, pullovers, cardigans, waistcoats and similar articles of man-made fibres, knitted etc	8	33	42.5%
Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres, knitted.	4	14	36.8%
Footwear with outer soles and uppers of rubber or plastics (excluding covering the ankle	2	5	25.7%
Plants, parts of plants, incl. seeds and fruits, used primarily in perfumery, in pharmacy	0	2	N.A
Gears and gearing for machinery (excluding toothed wheels, chain sprockets and other transmission	0	2	N.A
Fittings for furniture, coachwork and the like, of plastics (excluding building components	0	1	N.A
Sweet biscuits	0	2	N.A
Boxes, cases, crates and similar articles for the conveyance or packaging of goods, of plastics	0	1	N.A
Carboys, bottles, flasks, jars, pots, phials and other containers, of glass, of a kind used	0	1	N.A

Source: Trade map, Trade statistics for international business development

Note: Blue shading - textiles industry

Table 25: Imports, 2015 and 2019, USD million - Lesotho

Product	2015	2019	CAGR
Knitted or crocheted fabrics of synthetic fibres	0	45	N.A
Medicines	16	32	18.9%
Wheat and meslin (excluding seed for sowing, and durum wheat)	1	19	108.8%
Waters, incl. mineral and aerated, with added sugar, sweetener or flavour, for direct consumption	5	14	29.4%
Beer made from malt	3	13	44.3%
Fertiliser	3	13	44.3%
Cider, perry, mead and other fermented beverages and mixtures of fermented beverages and non-alcoholic drinks	5	10	18.9%
Fresh or chilled cuts and edible offal of fowls of the species Gallus domesticus	2	8	41.4%
Sausages and similar products, of meat, offal or blood; food preparations based on these products	4	8	18.9%
Composition leather based on leather or leather fibre, in slabs, sheets or strip	0	8	N.A
Footwear with outer soles of rubber or plastics and uppers of textile materials	2	5	25.7%
Fluting paper	0	2	N.A
Prepared or preserved vegetables	0	1	N.A

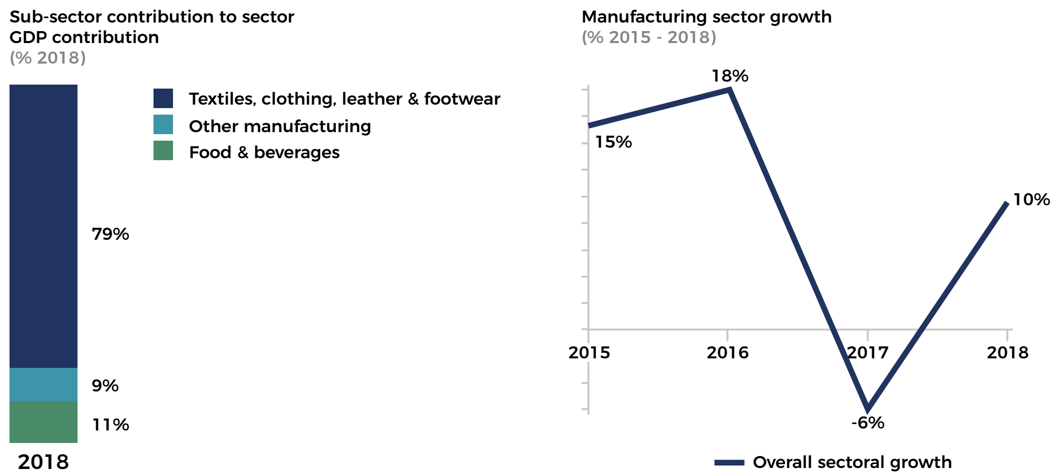
Source: Trade map, Trade statistics for international business development

Note: Blue shading - textiles industry

Manufacturing

Lesotho's manufacturing industry is classified into four sub sectors: textiles and clothing, leather and footwear, food and beverages and "other" manufacturing.[113]

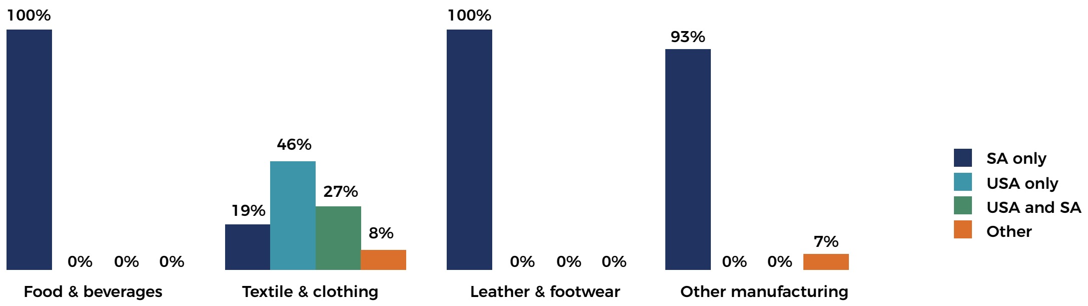
Figure 10: Manufacturing size and sector growth - Lesotho



Source: 1. Annual National Accounts 2018, Lesotho Bureau of Statistics

113 manufacturing of cook stoves, cement blocks, clay bricks, plastic products, corrugated boxes, furniture, low voltage electric breakers, printing works, petroleum products (e.g., petroleum jelly) and aluminium products (windows and doors)

Figure 11: Percentage share of exported manufactured products by destination - Lesotho



Source: 1. Manufacturing report Q1 2020, Lesotho Bureau of Statistics

Textiles and clothing are the country's largest sub sector, accounting for 79% of manufacturing's GDP contribution. Growth in the sector reflects Lesotho's preferential access to the US market under the AGOA arrangements - but this access is set to expire in 2025. In view of this expiry through, efforts were put in place to diversify the economy in order to reduce heavy reliance on the textile industry. Economic diversification strategies are contained in the National Strategic Development Plan II. The 2018 to 2023 LNDC Strategic Development Plan which implements NSDPII defines three very clear goals that seek to achieve economic diversification. These include diversification of Lesotho`s industrial output and market destinations, mobilising funding for economic diversification and developing the right talent to drive economic diversification. LNDC`s current projects, some with a focus on commercial agriculture and agro processing, seek to achieve these goals.

Most textiles exports go to the US, and diamonds to Belgium. Other items are exported to South Africa.

Services

Lesotho's services sector accounts for the largest contribution to GDP at 65% with public administration (18%), wholesale and retail trade (13%) and finance and insurance (9%) having the largest contributions. For the purpose of this analysis, we are only interested in the private sector share of services.

Table 26: Services sub sectors by share of GDP - Lesotho

Services sub-sector	2015	2019	5-year growth rate	Share has increased?
Public administration	21.8%	25.9%	3.9%	Yes
Wholesale and retail trade	13.3%	11.4%	-3.2%	No
Finance and insurance	10.3%	9.3%	2.6%	No
Real estate activities	6.0%	6.0%	0.6%	-
Construction	6.9%	5.1%	-4.4%	No
Information and communication	4.9%	4.9%	3.5%	-
Electricity and water	5.4%	4.5%	-3.4%	No
Business services	4.2%	3.6%	1.8%	No
Education and health	2.4%	2.5%	3.4%	Yes
Transportation and storage	2.7%	2.4%	-2.4%	No
Hotels and restaurants	1.4%	1.3%	-2.9%	No
Other services activities	1.1%	1.2%	2.6%	Yes

Source: 1. Annual National Accouts 2018, Lesotho Bureau of Statistics | 2. Lesotho Business Register 2015
Notes: 2020 values are projections by the Genesis Analytics Team

Given the overstretched fiscal position, the privatisation of some government services may represent an opportunity for the private sector, but there is little focus or commitment to this at this point in the country's development. Other growth sectors include telecommunications (3.5%), finance and insurance (2.6%), "other" services activities (2.6%) and business services (1.8%).

Impact of Covid-19

The manufacturing sector contracted sharply by 26% between Q1 2020 and Q2 2020[114] due to a sharp decline in construction and food and beverage production.

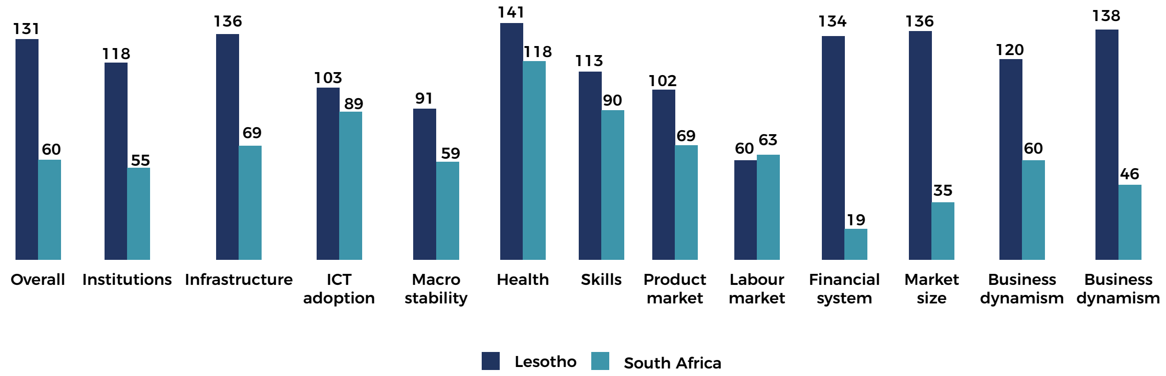
In the services industry, we expect the substitution of public administration with private suppliers, healthcare and ICT to present opportunities for SMMEs in the short term.

3.1.1 Understanding Lesotho's competitiveness

In order to understand the potential for Lesotho to grow its manufacturing base certain competitiveness factors need to be in place. This section analyses these competitiveness factors in relation to South Africa which is the regional manufacturing hub.

114 Quarterly national accounts, 2020, Lesotho bureau of statistics

Figure 12: Competitiveness comparison Lesotho vs South Africa[115], ranking out of 141



From a competitive view point, Lesotho will face difficulty in diversifying its economy when it offers no added advantages to investors compared to South Africa - except in the labour market. The labour market score suggests that there may be some post-textile opportunity for investors to leverage the supply of low-cost labour but given the low innovation and business dynamism score, investors are more likely to invest elsewhere.

Table 27: Comparison of general cost and other indicators - Lesotho

Cost element	Lesotho	Malawi	Ethiopia	Kenya	South Africa	Zambia
Mean monthly wage skilled	115[116]	413	84	150	1 486	350
Weekly working hours	45	48	48	45	45	48
Overtime allowed / week	11	12	25	20	10	No limit

Source: National AGOA response strategy, 2019, Ministry of Trade and Industry

From a global perspective, Lesotho faces competition in the textile industry from other African countries with lower tariffs and cheaper labour. Its current competitive advantage is dependent on its proximity to SA and the favourable trade preferences with the US[117] which has led to an influx of Chinese textile manufacturers. 55% of the establishments operating in the manufacturing industry are fully owned by foreigners and 82.6% of those in the textiles and clothing industry are fully operated by foreigners.[118] If the AGOA agreement is not renewed, the foreign manufacturers are likely to invest in another country with lower labour costs unless they can find a niche in the SA market. There are minimal manufacturing exports outside of the textile industry.

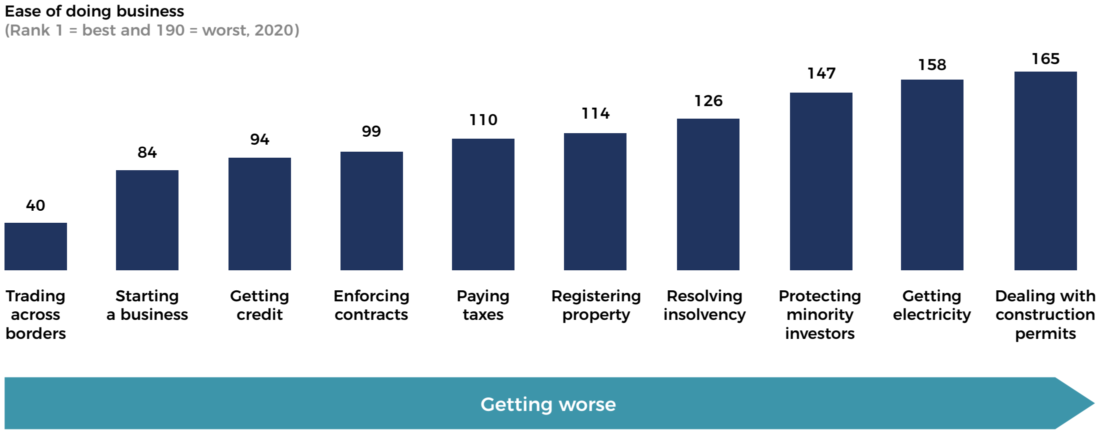
3.1.4 Enabling environment

This section analyses the ease of doing business, SMME-specific support programmes and their efficacy, and, finally, any regulation or policies supporting or hindering SMMEs' growth.

115 http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf
116 Manufacturing report, 2019, Lesotho Bureau of Statistics
117 AGOA is set to lapse in 2025
118 Manufacturing report Q1 2020, Lesotho Bureau of Statistics

Ease of doing business

Figure 13: Ease of doing business Lesotho[119]



According to the 2020 Ease of Doing Business report, Lesotho ranked 122 out of 190[120] economies. Despite establishing reforms aimed at improving the regulatory environment for businesses, Lesotho's rank has been consistently declining year on year.

Apart from trading across borders, the country performs poorly across all metrics. Some of the key issues relevant to SMMEs include:

- Dealing with construction permits - which can take up to 183 days and can delay construction and consequently affect SMMEs supplying bricks, tiles, and other ancillary services to developers
- Getting electricity - The average number of days to get an electricity connection is 114 days which is higher than the SSA average of 109.6 days. The reliability of supply and transparency of the tariff are also extremely low[121].
- Protecting minority investors - This is particularly poor and can detract from attracting angel and venture capital investor for the SMME sector
- Getting credit - Some of the main issues include:
    - » Lack of a unified legal framework for secured transactions
    - » Low coverage of the credit bureau - As at 2018, the bureau had information on only 181,673 individuals or 14% of the total adult population who had access to a formal financial account (1,315,107 individuals122 [123]). This current listing mainly details information on retail consumers[124], efforts need to be made to consolidate data on enterprise clients. Furthermore, banks do not actively use this information. As of December 2018, commercial banks, retailers and insurance companies had all their information live on the system. Microfinance Institutions (MFIs) and Savings and Credit Cooperatives (SACCOs) had submitted 90% and 67% of their data respectively while telecommunication operators were testing the platforms.[125]

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119 Doing Business 2020 - World Bank
120 Lower numerical values (e.g., 1) indicate higher rankings and a more conducive environment for businesses. Higher numerical values (e.g., 190) indicate lower rankings and a less conducive business environment.
121 Doing Business Lesotho, 2020, World Bank
122 Global Findex data, 2017, World Bank
123 Assumed the adult population with a formal financial account in 2017 was the same in 2018
124 Genesis stakeholder engagements
125 Banking supervision annual report, 2018, Central Bank of Lesotho

» Lack of a collateral registry - While this is non-existent in the market, Lesotho is in the process of establishing a modern movable collateral registry[126].

- Starting a business - It takes about 15 days to register a business and in recent years some positive developments have been noted such as the opening of the One-Stop Business Facilitation Centre127. However, the process of receiving business licenses and permits remains cumbersome, and adoption of the Business Legislation and Licensing Bill that is designed to steam line this has been delayed due to the political turmoil[128.]

Lesotho's technological infrastructure is below the South African average with 29.8% of the population having access to the internet compared to 56.2%129 in SA. Additionally, in 2019 the cost of one gigabyte of data was USD 4, which was lower than the average cost of data in South Africa.130 This suggests that there is some potential for the supply of digital services from Lesotho.

Government and donor support schemes

The Government's recent focus on private sector development has increased appreciation of the importance of SMMEs - which has resulted in the development of Government- and donor-led programmes, as summarised below. Additional detail can be found in Annex 5.2.

126 The development of the collateral registry in an ongoing project under the private sector competitiveness and economic diversification project. Additional detail on this will be included upon completion of the stakeholder interviews

127 It facilitates cooperation between different Government agencies such as Lesotho Revenue Authority, the Ministries of Trade and Industry, Labour and Employment and Home Affairs, in order to ease business registration.

128 World Bank, Unlocking the Potential of Lesotho's Private Sector, 2018

129 2017 figures

130 Cheapest prepaid broadband product by country, 2019, Research ICT Africa

Table 28: Comparison of general cost and other indicators - Lesotho

Scheme	Grants	Loans	Equity Funding	Training/ Mentoring	Access to markets	Scale	Distribution
Private Sector Competitiveness and Economic Diversification Project	Yes	No	No	Yes	Yes	Indeterminate	N.A131
Economic Diversification Support Project	No	No	No	Yes	Yes	Low132	N.A133
Basotho Enterprises Development Corporation	No	No	No	Yes	Yes	Low134	High135
Lesotho National Development Corporation	Yes	No	Yes	Yes	Yes	Low136	Low137
National University of Lesotho	Yes	No	Yes	Yes	Yes	Low138	Low139
SMME Support Network	No	No	No	Yes	Yes	Indeterminate	N.A140

Notes: Green - High; Orange - Medium; Red - Low; Yellow - Indeterminate

Policy and regulation

Lesotho's regulatory environment combines challenges that hinder SMME development and positive developments that will assist in growth.

There is no overarching SMME policy, that coordinates efforts between the different programmes and there is no implementation framework. An SMME policy was developed in 2016 but was never implemented. The PSCEDP is assisting the ministry of Small Business Development, Marketing and Cooperatives to review and draft an updated policy. This initiative was driven by the lack of a SMME and street vendor database which impeded the disbursement of Covid-19 relief funds intended for SMMEs.

The Central Bank of Lesotho (CBL) has developed more accommodative regulations which make it easier for banks to lend to SMMEs141. For example, the CBL now does not require banks to assess audited financial statements when assessing loans; unaudited financial statements and qualitative transactional data suffice. The CBL also issued a directive to all banks with the intention of reducing banking fees that were particularly punitive towards SMMEs.

131 This is a fund
132 The 2018 MFI programme is yet to commence. Currently MFIs do not lend to SMMEs and the PED programme is in its piloting phase.
133 This is a fund
134 It has only assisted 35 SMMEs to access finance in the last 5 years and 10 entrepreneurs through the business plan competition
135 Present in nine out of ten districts, three of which are satellite offices
136 Disbursed 65 loans through the PCG out of a pool of 85,173 SMMEs
137 Mandate is to attract foreign direct investment. They have factory shells in Maseru (textiles), Maputsoe (textiles) and an upcoming one in Butha-Buthe (wool and mohair)
138 Only 30 businesses have been incubated and none of these have received the necessary funding required to scale up
139 The innovation hub is at the main campus located in Roma, Maseru
140 This is an association of members
141 Genesis stakeholder engagements

Commercial banks on the other hand still express discontent with current regulations, stating that electronic know your customer (KYC) regulations should be enforced as this would allow for remote account opening.

The legislation regarding KYC credit requirements is also outdated and the risk rating criteria need to be updated. In addition to this, account opening at an agent is prohibited due to anti-money laundering (AML) regulations in the Financial Institutions Act (FIA).

Banks have mentioned difficulties when registering SMME merchants on their electronic wallets (e-wallets). This is because merchants registered with banks are regulated under the FIA unlike merchants who register with mobile network operators (MNOs) are regulated by the National Payment System Act. The FIA imposes more stringent requirements discouraging merchant registration and this in turn lowers the e-wallets merchant payment acceptability across the country.

Mobile network operators (MNOs) face difficulties when attempting to offer credit through mobile money. The laws state that all credit products must be owned by FSPs, and for MNOs to offer these services they must partner with FSPs[142]. From their perspective, the laws are dated and need to be revised.

Box 2: Success of mobile based lending in Kenya

Case study 1: Digital borrowing

In 2019, 13.6% of Kenyan adults borrowed digitally in the past 12 months[143]. For 19% of borrowers, digital loans are the only formal institutional sourced loans and approximately 10% of borrowers rely solely on digital loans. Convenience and ease of use are the main reasons cited for choosing digital loans. These loans are predominantly used for basic consumption and emergencies; however, business/farm investments and infrequent large purchases have also been stated as major uses for these loans[144]

Case study 2: M-shwari

Safaricom in Kenya partnered with the Commercial Bank of Africa (CBA) to launch a savings and loan product called M-shwari in 2012. From inception until 2019, the mobile lending service has disbursed loans amounting to USD 3.9 billion with customer deposits of approximately USD 168.8 million. 42% of all loan disbursements were invested in business ventures. The app's lock saving feature has over 450,000 customers with an average lock savings of USD 80 for an average of 7.5 months.[145]

The Lesotho Revenue Authority (LRA) has developed a number of policies intended at improving the SMME business environment. The piloted simplified business tax (SBT) regime seeks to introduce presumptive tax rates for SMMEs based on turnover. The former tax regime was based on SMMEs self-assessing their turnover and declaring their tax payable. SMMEs' lack of accounting skills or funds needed to employ accountants led to incorrect filing of taxes. The LRA is also running the Lesotho tax modernisation project which aims to address other challenges such as simplification of the border tax regime to allow for self-clearing and to remove the use of clearing agents who increase the costs borne by SMMEs. The authority, however, is yet to introduce online tax payments.

142 This means that MNOs cannot own the product then create the partnership.
143 Digital loans are loans obtained via mobile banking (for example, M-Shwari and KCB-Mpesa) or a smartphone app (for example, Branch and Tala). Airtime advances and other forms of digital borrowing (such as Fuliza) are not included in the definition of digital borrowing
144 Digital credit in Kenya: Facts and Figures from FinAccess 2019, FSD Kenya
145 M-Shwari Loans Hit Sh430bn Since Inception, December 2019, Capital FM Business

The Ministry of Trade and Industry has developed new regulations for business registration and licensing which make it mandatory for all businesses to be registered. This formalisation seeks to assist in the development of a business registry in line with the draft SMME policy. The regulation will also ensure businesses are classified according to international standards in order to assist the LRA's tax regime.

Covid-19 response plans and measures

As in any other economy, the effect of Covid-19 necessitated response plans from various public and private sector institutions. USD 114 million[146] has been set aside by the Government to mitigate the effects of the pandemic. Of this, USD 27 million[147] has been allocated to expand the PCG cover from 50% to 75% of loans; waive all fees; cover all sectors; and increase the maximum guarantee amount from approximately 300,000 to 500,000 dollars[148]. The Government is also offering grant and rent subsidies to SMMEs renting from the LNDC and local Governments. The LRA is also offering tax deferrals for businesses and simplified business taxes for non-essential service providers.[149]

From a monetary perspective, the CBL has reduced the CBL policy rate from 6.25% to 3.5%. In addition to this, the CBL advocated for mobile money transaction fees to be waived temporarily and for mobile money transaction limits to be increased. Other measures include three-month payment holidays by banks and insurance companies.[150]

These programmes have served to reduce the severity of the pandemic's impact in the short term. Clearly, an economic recovery plan is required for sustainable economic growth.

3.1.5 Key enabling environment findings

Based on the analysis above, the following findings emerge:

- Lesotho's economy is heavily reliant on the South African economy for income in the form of SACU revenues, water royalties and remittances.
- The manufacturing sector has seen strong growth driven by textiles exported to the USA - there is a risk that this market collapses if the AGOA is not extended. The capabilities built in textile manufacturing could be used to try and gain a larger share of the SA market, given the learnings and the lower cost of labour. It is unlikely that Lesotho's textile industry is competitive outside of the SA market and the preferential access to the US market.
- For services key opportunities include ancillary services that support the manufacturing and other sub-sectors which includes professional services, catering, repairs and maintenance
- Tourism is a key opportunity for the SMME sector
- Given its small size, openness and proximity to South Africa the country imports almost everything it requires from South Africa. There are limited import substitution opportunities.
- The ease of doing business is deteriorating, mainly caused by poor access to electricity, difficulty in starting a business, lack of a collateral registry, low coverage of the credit bureau across SMMEs.
- Government support agencies have not been able to scale and they lack efficiency to support SMMEs. Most of the facilities remain underutilised (e.g., BEDCO). There is a need to consolidate efforts in order to streamline performance.
- The NUL innovation hub holds potential for the manufacturing sector in Lesotho and could potentially require support in the form of technical assistance and grants to innovators at the hub.

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146 1.9 billion Maloti
147 450 million Maloti
148 5 million to 8 million Maloti
149 Policy responses to Covid-19, International Monetary Fund
150 Ibid

FMT FINMARK TRUST

- Credit guarantee schemes have not taken off due to a poor structure and a lack of trust in Government's ability to honour payments in the instance of default. This would require a detailed analysis of the current credit guarantee scheme in order to understand its strengths and inefficiencies and how to improve it.
- Some of the Covid-19 funds and support measures are ambitious and may require coordination and implementation support.

3.2 Demand-side

3.2.1 Size and structure of SMME sector

According to Lesotho's SMME policy, SMMEs are defined according to three criteria, as shown in the table below.

Table 29: Lesotho's definition of SMMEs

Indicator	Micro Enterprise	Small Enterprise	Medium Enterprise
Number of employees (including owner)	1- 5	6 - 20	21 - 50
Annual turnover (Maloti)	Less than M200,000	Less than M1,000,000	Less than M5,000,000
Annual turnover (Dollars)	Less than USD 12,000	Less than USD 60,000	Less than USD 300,000
Legal structure	Informal	Formal	Formal

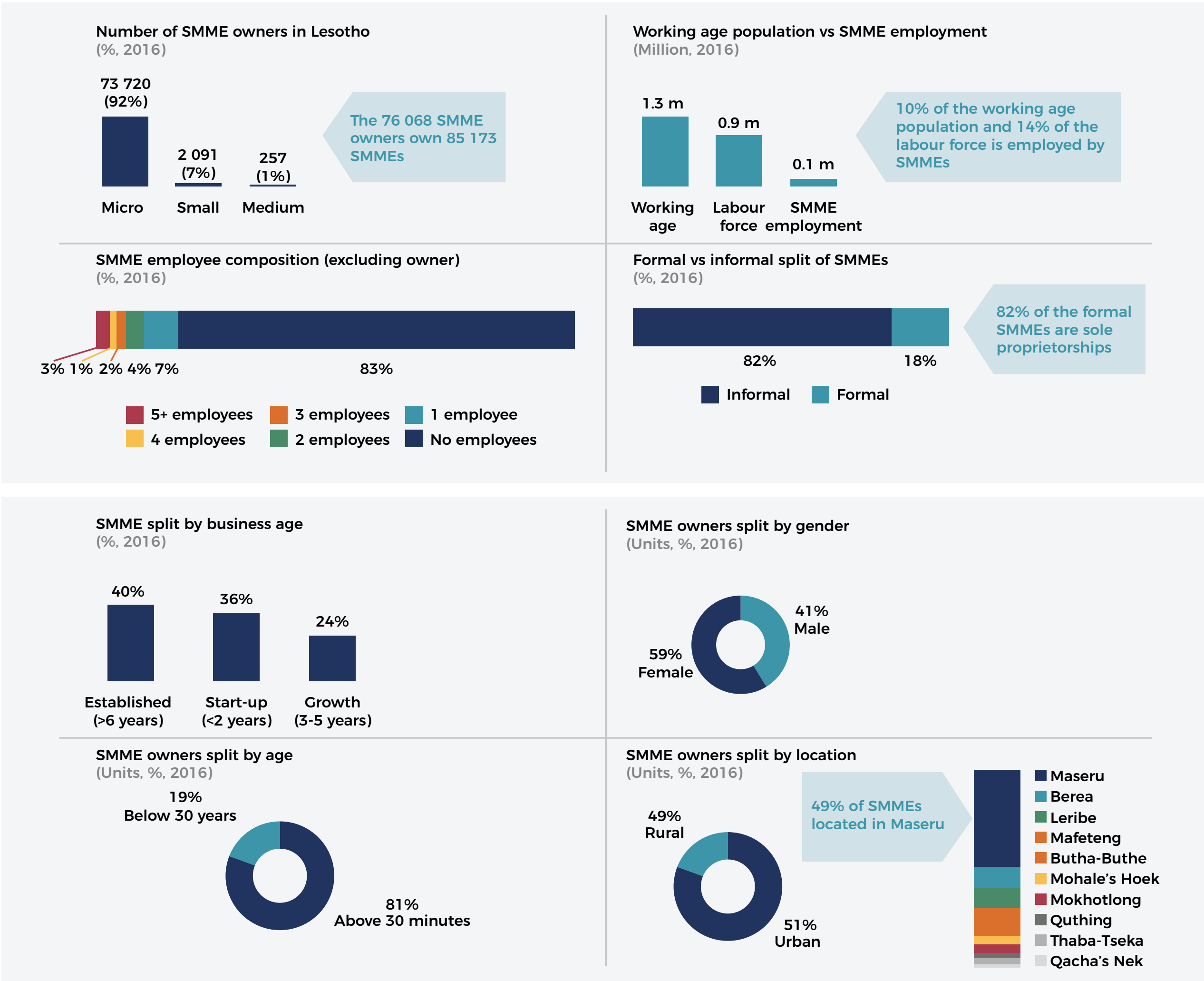
Source: 1. *Lesotho SMME Policy*

As of 2016, there were 85,173 SMMEs in Lesotho and 76,068 SMME owners[151]. The SMME sector employed a total of 131,007 people - which corresponds to only 10% of the working age population[152]. The landscape was largely informal with 82% of SMMEs having no formal registration.

151 FinScope SMME survey, 2016, FinMark Trust

152 The Lesotho government is the largest employer.

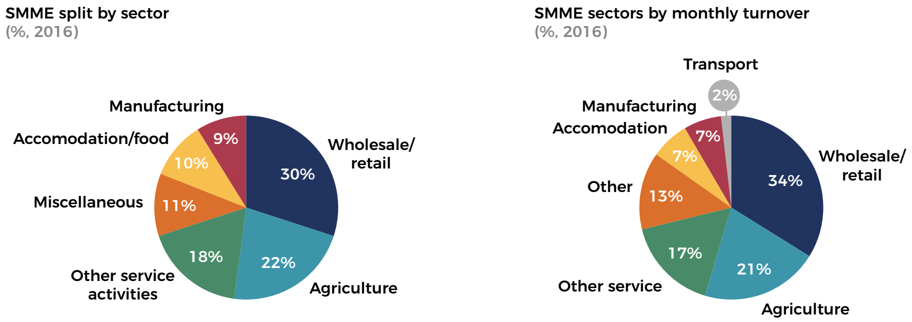
Figure 14: Overview of SMME sector in Lesotho



Most SMMEs have been in operation for over 6 years which suggests a relatively low dynamism in the market.

The SMME landscape was dominated by women, who owned 59% of businesses. Ownership patterns by age are in line with population trends. SMMEs were evenly split between rural and urban areas, however, Maseru has the highest number of SMME owners accounting for 49% of the total business population.

Figure 15: Overview of SMME by sector and turnover in Lesotho



Miscellaneous comprises of transport, arts, construction, health, real estate, education, professional services and electricity

SMMEs mainly operate in the services sector with wholesale and retail trade, accommodation and food services and other services activities accounting for 58% of the total sectoral activity. These sectors generated a combined monthly turnover of USD7 million which is approximately 54% of the total estimated SMME monthly turnover of USD 13 million[153].

3.2.2 Demand-side challenges

Based on the research, there are several key challenges faced by SMMEs in Lesotho. Some of these are discussed below:

A major challenge facing SMMEs is the lack of productive capacity and quality control to increase their competitiveness in both domestic and foreign markets. Their inability to service large orders poses a challenge when establishing market linkages between SMMEs and large suppliers. Above this, the poor quality of goods is another inhibiting factor when trying to access markets. Lesotho has only recently established its own bureau of standards with the intention of increasing the competitiveness of local goods in the export market.[154]

The lack of marketing skills is another challenge that inhibits SMMEs operations. With few e-commerce platforms and inadequate trade exhibitions and symposiums, SMMEs lack the necessary infrastructure and networks to widen their reach.[155]

The main challenges in the textiles industry include: concentration of production in manufacturing of basic apparel with low value addition; weak localisation of the industry with few local exporters, low representation of Basotho in management positions and lack of local suppliers; and declining competitiveness in the U.S. market with uncertain prospects post-AGOA.

Other value chain-specific challenges include high production costs in procuring manufacturing raw materials from South Africa, increasing overall production costs. Most SMMEs also lack access to factory facilities.[156]

153 75% of SMME reported turnover
154 Stakeholder Engagements, Genesis Analytics, 2020
155 Ibid
156 Stakeholder Engagements, Genesis Analytics, 2020

3.2.3 The role of technology in solving demand-side challenges

Like all countries, Lesotho faces opportunities and challenges from the changes in technology that are sweeping the world and are often referred to as the fourth industrial revolution. For SMME new technology can create considerable opportunities various areas:

- The emergence of platform businesses makes it much easier for small firms to connect and market their services to global or regional consumers. Examples of such platforms include Airbnb in the tourism sector. This is a major opportunity for Lesotho given its spectacular scenery and tourism potential.
- New technology is transforming the electricity sector. Solar and wind power are changing the cost and structure of the electricity market, often to the benefit of small businesses which can overcome the delays and cost of connecting to the national grid, can potentially earn from supplying the national grid, and develop new businesses in the sale, installation and maintenance of solar panels, and the development of wind farms in high and windy mountains, and micro hydro in the many steam valleys.
- Digital finance is also transforming SMMEs' ability to make and receive electronic payments and in the process generate the digital data trail that can be used to assess their credit worthiness, beyond traditional asset-based finance.
- Technology is also transforming the definition of a traded goods and the Covid-19 crisis has transformed thinking as to what businesses services can be digitised and delivered from anywhere in the world. The competitiveness assessment suggests that labour costs in Lesotho are competitive relative to South Africa.

Some examples of innovations that are already occurring across Africa that have relevance to Lesotho are shown in section 2.2.3 of the Botswana section.

While these innovations hold high promise for countries that are struggling with a poor enabling environment certain prerequisites need to be in place. The current state in Lesotho against some peers is shown below. Top countries in each category are marked in blue shading.

Table 30: **Current state of the communications, technology and education**[157]

	 Lesotho	 Kenya	 South Africa
Fixed broadband per 100 people	0.3	0.7	2.4
Fibre internet per 100 people	0.1	0.2	0.4
Internet user per 100	29	17.8	56.2
Mean years of schooling	7.1	8.4	10.1
Digital skills score: 1 - 7 (best)	3.5	4.5	3.3
Quality of vocational training: 1 - 7 (best)	3.4	4.3	3.5

Based on this analysis there is a need for reforms/support around vocational training, digital skills training and increasing fiber and broadband access for the digital economy to thrive.

3.2.4 Identification of opportunities in the light manufacturing and services sectors

Value chain analysis

This section aims to deep-dive into key identified value chains to confirm if there are any opportunities in light manufacturing and/or services. The table below shows a high-level summary of the key findings.

157 The Global Competitiveness Report 2019, *World Economic Forum*

Table 31: Summary of value chain/sector analysis - Lesotho

Sector or value chain	Expected sector growth	SMME presence	SMME opportunity	Key issues	Areas of intervention
Textiles and clothing	Moderate • Benefits of AGOA have stabilised	Low • Sole textile mill is foreign owned • Only 3 SMMEs in clothing production • Few local retailers mainly offer support services	Moderate • Ancillary services to the mill • Support services for the clothing manufacturers • Clothing production for local market	• Low cotton production • Value chain dominated by corporates • Dependency on AGOA • Limited skills transfer • Limited factory shells for locals • Outside AGOA, competition from other African markets • Economy is not large enough to accommodate production of synthetic fibres	• Development of a post-AGOA strategy • Support the development of the business curriculum to incorporate training on how to run and operate factories • Supplier development programme to assist SMMEs who offer support services158 sell their produce to large local garment manufacturers and supermarkets
Wool and mohair	High • Increasing exports	Low • Value chain is highly underdeveloped and there is generally low participation except in the ram and goat breeding value chain (farmers and shearers)	Moderate - currently no value addition • Input support to farmers • Merchants • Ancillary services to scouring plant • Small scale spinning for "home knitting" • Synergies with the textile industry	• Despite liberalisation in the auctioneering and brokerage of wool and mohair, Lesotho brokers face stiff competition from SA brokers and the Maseru Dawning Trading Company • Primary processing dominated by large corporates	• Supplier development programme to assist qualifying SMME associations159 sell their produce to Lesotho and SA brokers. • Online sales portal as an access to market tool

158 SMMEs will provide support services such as embroidery, coat hangers/sizers, garment screen printing, waste fabric recycling, carton packaging
159 The Wool and Mohair Promotion Project (WAMPP), Lesotho National Wool and Mohair Growers' Association (LNWMGA)

Sector or value chain	Expected sector growth	SMME presence	SMME opportunity	Key issues	Areas of intervention
Automotive components	Indeterminate growth • Dependent on SA national policy	Low • Dominated by large corporates	Indeterminate • Leverages its cheaper cost of labour to manufacture car components e.g., seat covers • One automotive seat cover manufacturer has expressed interest in Ha-Belo to occupy on the factory shells	• The new South African Automotive Masterplan (SAAM) - effective 2021 - seeks to deepen SA value chains and Lesotho's goods may not qualify as local content • SA's national policy will likely outweigh the benefits of the SACU industrialisation programme	• FMT should not focus on this
Handicrafts, leather and footwear	Moderate • Dependent on utilisation of AGOA	Low • There are only two footwear manufacturers. These are not SMME owned	Low - customs union restricts protectionist policies against cheaper SA imports	• Potential to scale is limited because leather has to be imported • Its exports are tied to the AGOA facility that is set to expire in 2025	• FMT should not focus on this
Packaging and materials	Low • Decreasing exports	Low • Dominated by large corporates	Low - requires high capital requirement and scale in order to be competitive in the export market	• Despite the presence of springs and highlands project, the country lacks local accredited testing facilities • The industry is also dominated by large corporates	• FMT should not focus on this
Consumer electrical and electrical appliances	Low • Decreasing exports	Low • Dominated by large corporates	Low - dominated by large corporates	• Companies assembling electronic and electrical products are large multinationals	• FMT should not focus on this

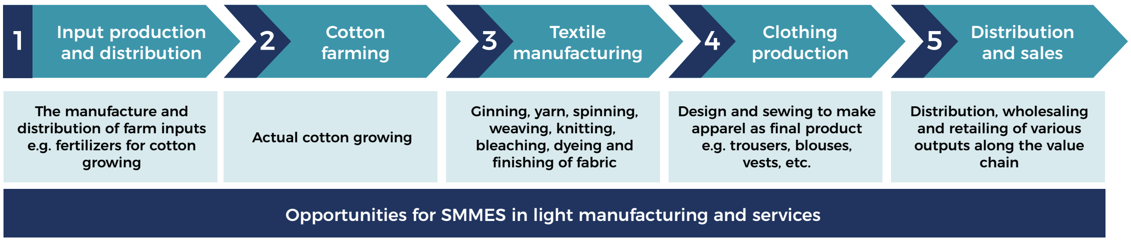
Sector or value chain	Expected sector growth	SMME presence	SMME opportunity	Key issues	Areas of intervention
Tourism	Moderate Focus area of the National Strategic Development Plan (NSDP) II but greatly hit by the pandemic	Indeterminate Data not discernible	High Tourist attraction sites Sports and recreation Accommodation and conferencing Creative arts	Covid-19 pandemic Few accommodation facilities have been graded under the PSCEP. As of Q3 2020, there were only 34 graded facilities	Support institutions that offer conduct the grading of accommodation facilities Assist in marketing the 2021 African Union Region 5 under-twenty games and other attractions

Key: Low - Red; Moderate- Amber; High - Green

Notes: Expected sector growth: Based on export trends | SMME Presence: Based on preliminary research data on the number of participants | SMME growth potential: Based on sector growth, SMME presence and the impact of highlighted key issues.

Textile and Clothing

Figure 16: Value chain activities in the cotton-textile and clothing industry - Lesotho



Analysis of the textiles and clothing industry value chain in Lesotho

The percentage contribution of textiles and related activities to GDP was 13.9% in 2018 and it accounted for 58 % of total exports in 2019. The clothing production stage accounts for the largest economic contribution, employing approximately 80% of all employees in this value chain.

The different stages of the textiles value chain are explored below.

Production and distribution of farm inputs

There are no players at this stage because projects on the viability of cotton farming are still ongoing.

Opportunities:

- None in light manufacturing or services.

Cotton farming

As there is no cotton production in the country, textile mills import their raw material from South Africa, Malawi, Mozambique, Zambia and Zimbabwe. However, LNDC is currently undertaking a feasibility study to establish the viability of cotton production in the mountainous landscape.

Opportunities:

- There is limited opportunity due to the scarcity of arable land.

Textile manufacturing

Lesotho's sole textile mill, Formosa Textiles, is a large foreign-owned enterprise[160]. This vertically integrated mill specialises in the manufacture of woven denim fabric. It also produces a significant amount of yarn, of which 80% is used in-house while the rest is mainly exported to South Africa.

There are no SMMEs at this point in the value chain and no evidence suggests the existence of informal textile manufacturing in the country.

160 Nien Hsing Corporation

Opportunities:

- Lesotho's sole textile mill currently conducts most of its operations in-house. There is an opportunity for SMMEs to support the mill through the provision of ancillary services such as equipment repair and cleaning services.

Clothing production

Clothing production firms in Lesotho can be divided into four categories according to the type of garments produced: denim jeans manufacturers; woven garment manufacturers; knit garment manufacturers; and industrial workwear manufacturers. Knit garment manufacturers account for approximately 63%[161] of the total 52 firms[162]. Of the total 52 firms, only three[163] are SMMEs (which are locally owned). One SMME is in knit production and the other two are industrial workwear manufacturers.[164]

Opportunities:

- Majority of the items are tailored to meet the needs of the export market. There lies an opportunity to cater for local needs, for example, manufacturing school uniforms[165].

Support services

91% of support service businesses are SMMEs. Support services include: embroidery; manufacture of clothing hangers; garment screen printing; waste fabric recycling; carton packaging; and social compliance auditing[166].

Opportunities:

- SMME concentration in this stage of the value chain is already high and there is more potential for growth in other stages.

Exports, distribution and sales

Most garments produced in Lesotho are for the export market and marketing is handled by the corporates that produce the goods. Only three firms have the local market as their main market.

Opportunities:

- There are a number of SMMEs that focus on retail sales to the local market, but this is a very limited market due to size.

Despite the opportunities highlighted above, the growth prospects for this value chain are limited:

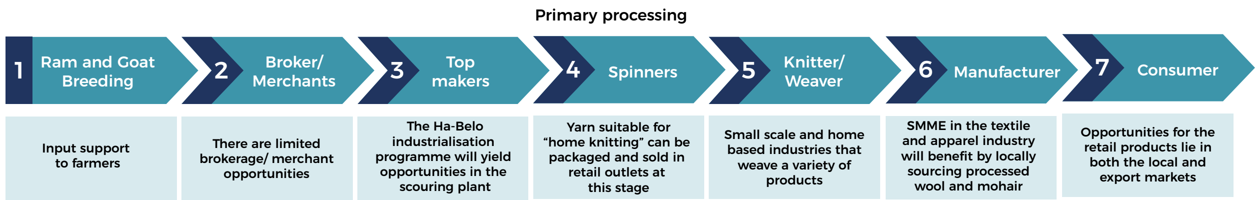
161 33 firms
162 The large garment manufacturers in this stage are mainly owned by Taiwanese and South African investors attracted to the country because of its cheap labour and legacy in garment manufacturing.
163 Tshirt city (knit garments production); Seshoeshoe production (industrial workwear garments); Johane garments (industrial workwear garments)
164 Lesotho's textiles, apparel and footwear manufacturing industry: synopsis publication 2017, Lesotho Ministry of Trade & Industry
165 Stakeholder engagements, 2020, *Genesis Analytics*
166 Lesotho's textiles, apparel and footwear manufacturing industry: synopsis publication, Lesotho Ministry of Trade & Industry

- Prospects for cotton production are unclear.
- A high level of capital, technology and skill is required to process raw cotton into yarn - this segment of the value chain globally is dominated by large corporates.
- There is high dependency on the AGOA trade preference. If this agreement is not renewed in 2025, the industry may collapse when the Chinese manufacturers relocate to other countries where they will enjoy tariff arbitrage and/or lower wages.
- There is limited skills transfer, currently, factories are run and managed by the Chinese with little downstream linkages to the Basotho. This makes it difficult to render the textile industry self-sustainable.
- While the Government of Lesotho through LNDC provides investors with serviced factory shells, demand continues to outstrip supply. For example, firms requiring to dye and launder their denim products are limited by the lack of adequate water effluent treatment facilities. This results in firms having to outsource their work to South African based dyers and laundries, which impacts on competitiveness and speed to market.
- Outside of AGOA Lesotho faces competition from other African countries with cheaper labour.

In conclusion, the textile industry will spur private sector growth and development in the short to medium term, but only creates limited opportunities for SMME development. Its sustainability post AGOA may be influenced by growth in the wool and mohair industry discussed below.

Wool and mohair

Figure 17: Value chain activities in the wool and mohair industry - Lesotho



Analysis of the wool and mohair industry value chain in Lesotho

Wool and mohair are increasingly becoming Lesotho's main agricultural export. Lesotho is one of the top mohair exporters in the world after Australia and South Africa. The Wool and Mohair Promotion Project (WAMPP) works with farmers to improve the quality and quantity produced. The different stages of the textiles value chain are explored below.

Ram and Goat Breeding

There are 1.2 million sheep, 845,000 goats and approximately 40,000 producers in Lesotho. On average, one sheep yields approximately three kilograms of wool and one goat yields one kilogram of mohair[167]. Two breeding centres have been established, the Lesotho National Wool and Mohair Growers Association. Investments have also gone into infrastructure; 43 shearing sheds have been renovated and 22 new sheds have been built. The country has a network of more than 130 shearing sheds.[168][169] Unfortunately, the products are mostly exported as raw materials without any value addition due to the lack of any wool processing facilities.

167 1.2 million sheep yield approximately 3,600 tonnes of wool and 845,000 goats yield approximately 845 tonnes of mohair
168 Spinning yarns – Investing in wool and mohair in Lesotho, 2019, IFAD
169 Wool and mohair farmers in limbo despite victory, 2019, Centre for Investigative Journalism

FMT FINMARK TRUST

Opportunities:

- Some input support to farmers, veterinary services, shearing services, grading services, bailing services and transportation services.

Brokers / Merchants

Brokers assemble wool and mohair from producers, prepare it and organise it for shipment. The Agricultural Marketing (Wool and Mohair Licensing) amendment in 2019 relaxed the regulation imposed in 2018 which restricted the auction of produce through international brokers. The restriction was imposed with the intention of growing the local industry and increasing local farmers' earnings.

Lesotho's wool and mohair producers only benefited slightly from that decision which allowed them to compete with the Lesotho Wool Centre (LWC)[170]. Initially, the centre had the sole Government authorisation to auction and broker all wool and mohair in the country for close to two years. However, since the enforcement of the 2018 regulation, only one other company[171] had received authorisation to start auctioning and brokering commodities. Farmers stated preferring exporting their wool through the South African broker[172] who offered timely payments, better prices, even after incorporating transportation costs[173] and a wider access to international markets.[174] All these shortcomings yielded little opportunities for SMMEs to venture in this space.

Wool and mohair merchants buy mohair directly from producers on the farms before the mohair is sent to brokers. Producers prefer this since goods can be sold before the next auction period and the proceeds received are higher. Merchants re-sort the mohair with greater care than what it was sorted with on the farm and combine a number of producer's clips ultimately compiling higher quality clippings. There is no mention of active merchants in the Lesotho supply chain.

Opportunities:

- There are limited opportunities in the brokerage value chain as SMMEs would not be able to offer competitive prices in comparison to SA. Furthermore, the Chinese secured a deal with the government to auction and export wool and they own the largest brokerage company in the country.
- SMMEs can plug into the value chain as merchants as no monopoly exists in the market.

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170 LWC is an auction venue built by a Chinese broker. Its purpose is to auction wool and mohair on behalf of farmers in a joint business venture between the Lesotho National Wool and Mohair Growers' Association (LNWMGA) and Chinese businessperson, Stone Shi, who runs the Maseru Dawning Trading Company.

171 Maluti Wool and Mohair Centre

172 BKB (Pty) Limited, based in Port Elizabeth

173 South Africa: Kids' mohair sold for R525/Kg and charged a 4% commission on the sale of goods. Lesotho: Kids' mohair sold for R355/Kg and charged a 6.5% commission on the sale of goods.

174 Struggle continues for wool and mohair producers, 2019, The Night's Watch

Primary processing

Wool and mohair can be processed according to two different systems depending mainly on the length of the fibre and the end product for which it is intended. These processes are divided into three components – top making, spinning and weaving.

Top makers

The primary processing of mohair is characterised by high levels of concentration, largely as a result of scarcity and cost and return pressures along the mohair supply chain[175]. Scouring and top making is the first step in the processing chain and it involves scouring, washing and cleaning, carding, webbing and combing of the wool and mohair into tops ready to be spun into yarn.

Opportunities:

- The Ha-Belo industrialisation programme seeks to develop a wool and mohair scouring plant in Butha-Buthe[176][177] which will increase opportunities for SMMEs to support the scouring plant through the provision of ancillary services such as cleaning services or maintenance of the machinery. Currently, Lesotho exports wool that is neither carded nor combed.

Spinners

Spinning the wool and mohair into yarn is the next step[178]. At the spinning stage the mohair is either blended or used as pure mohair when spinning it into yarn based on specifications as required by weavers and/or knitters.

Opportunities:

- The levels of concentration drop significantly from the spinning stage onward through the supply chain[179], however, the field still requires high degrees of specialisation and the opportunity[180] would require capital investments in industrial spinning machinery.
- Generally, yarns are spun for use in apparel, upholstery and knitting (hand and machine). Yarn suitable for "home knitting" can be packaged and sold in retail outlets at this stage increasing SMME revenue streams.

Knitter / Weaver

Weaving or knitting is the final stage in the processing of mohair. It entails the interlacing of yarns to make a fabric.

Opportunities:

- The level of concentration in the weaving and knitting industry is even lower than in the spinning industry. There lie opportunities for small scale and home-based industries that weave a variety of products.[181]

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175 A critical analysis of the South African mohair marketing system in the evolving global agribusiness environment, 2005, University of Pretoria
176 Stakeholder engagements, 2020, *Genesis Analytics*
177 The project is scheduled to end in June 2021 and progress has been delayed due to Covid-19 and supply chain issues.
178 Blankets, coatings, scarves, hand knitting and carpets
179 A critical analysis of the South African mohair marketing system in the evolving global agribusiness environment, 2005, University of Pretoria
180 Spinning wool into yarn
181 A critical analysis of the South African mohair marketing system in the evolving global agribusiness

Manufacturers

Final products that contain mohair vary from exclusive apparel to knitted products to velour, curtaining and upholstery.

Opportunities:

- SMMEs in the textile and apparel industry will benefit if they can locally source processed wool and mohair. Woven cloth containing mohair is widely used in exclusive apparel-like tailored suits. This may create a niche higher quality product for Lesotho's export market. Mohair is also suitable for knitted products and upholstery and carpeting which can be used in car seating and furniture.

Consumer

Opportunities for the retail products lie in both the local and export markets.

Notwithstanding the above opportunities, there remains challenges facing the wool and mohair industry[182]:

- The current lack of upstream value chain facilities is because the current production volumes do not economically justify the high costs of such activities. Potential for growth in the sector lies in volume and quality of raw wool produced and traded or importing wool to augment local production to cover costs.
- Fluctuating international prices.
- Long lead times between selling and receiving payment results in reduction in flock sizes - which points to a need for working capital finance.
- Low yield per animal due to poor husbandry practices183.
- Poor quality of wool due weak range management practices. These factors increase the cost of processing raw wool.
- Farmers in Lesotho are price takers since they lack information on market quality, grade and auction prices.

Other value chains

The two value chains discussed above show the greatest potential for growth in the medium and long term. The ones analysed below also displayed growth opportunities but experience challenges that limit the levels of SMME participation as highlighted in the table above.

Automotive components

The automotive industry has been fundamental to South Africa's economy. In 2018, 610,854 vehicles were manufactured and only 39% of the inputs were locally sourced, significantly lower than its automotive peers and target of 60%. SA's latest automotive policy, the South African Automotive Masterplan (SAAM) 2021 - 2035, aims to broaden and deepen local value chains. The previous Automotive Production and Development Programme (APDP) considered Lesotho's automotive products as local content.

Lesotho could leverage this (and its lower cost labour) in the manufacture of small components of finished products to support the South African Automotive Industry (OEMs). Examples

environment, 2005, University of Pretoria

182 The AGOA response strategy for Lesotho, 2016, Ministry of Trade and Industry

183 The average yield rate of wool in Lesotho is 2.67kg compared with 10kg per animal in South Africa.

include the manufacture of leather car seat covers, plastic and leather interior accessories and electrical components. The ongoing Ha-Belo industrialisation programme seeks to develop an automotive components manufacturing plant[184]. Three investors have expressed interest to occupy the factory shells, one of which is an automotive seat cover manufacturer[185].

There is uncertainty as to whether SMME products will still qualify as local content once the SAAM comes into effect in 2021 limiting the opportunity for SMME participation. South Africa's national policy will likely outweigh the benefits of the SACU industrialisation programme which catalyses development projects within member states. However, according to LNDC, Adient Limited[186] a multinational automotive seating company, is still operational and planning to expand[187].

Handicrafts, leather and footwear

Despite footwear being eligible for export under the AGOA facility, it only accounts for approximately 1% of total exports. This is because Lesotho only has two footwear manufacturers. Majority of the output is for the export market while the domestic market largely relies on imports from South Africa. The potential to scale up in this sector is limited due to the fact that Lesotho has to import the leather for production and the export will be tied to the AGOA facility that is set to expire in 2025. Additionally, Lesotho products will face competition from cheaper South African imports. The Lesotho government cannot impose a protectionist policy in a customs union which requires for free movement of goods and services.

Packaging and materials

The Minister of Trade stated that Lesotho should take advantage of the Covid-19 pandemic and grow more so as to rely less on imports and supply more countries. He highlighted that the country should stop importing bottled water[188]. Lesotho's water is anchored by the Lesotho Highlands Water Project. It also has numerous natural springs and several borehole networks. The bottled water industry in Lesotho is expected to grow in response to local and international demand. The industry can take advantage of the readily available water with very little microbiological and chemical contamination, which eliminates the need for intensive treatment. Its potential to scale is, however, limited by the lack of local accredited testing facilities. Furthermore, the opportunity for SMME involvement is minimal given the large investments required. Additionally, SMMEs will face stiff competition from cheaper imports and larger corporations who have economies of scale.

Consumer electrical and electrical appliances

Electrical machinery and equipment account for approximately 5.1% of total exports. Opportunities exist in the production of manufactured parts or subassemblies of engines, computers, electrical and electronic components to meet the domestic and international markets. 99.7% of all exports go to South Africa and 0.3% go to the United Kingdom[189]. Currently only four companies[190] assemble electronic and electrical products for international and regional brands, there is limited opportunity for SMME participation

184 The project will end in June 2021 and progress is at 70% due to Covid-19 and supply chain issues
185 Factory shells help alleviate unemployment, 2020, Lesotho Times
186 a result of the APDP
187 Stakeholder engagements, 2020, *Genesis Analytics*
188 LNDC sets up new projects in Mafeteng, 2020, Business Digest
189 Trade statistics for international business development, 2019, Trade Map
190 They include: Grabtree, Circuit Breaker International

Sectoral analysis

This section seeks to analyse SMME opportunities in the services sector. Tourism was highlighted as the sector with the largest growth potential.

Tourism

Table 32: Travel activity in the tourism industry - Lesotho

Variable	2015	2016	2017	2018
International tourism receipts (% of total exports)	3.5%	5.1%	2.2%	1.9%
International tourism arrivals (millions)	1.08	1.20	1.14	1.17
International tourism expenditures (% of total imports)	8.8%	12.6%	14.16%	14.2%

Source: World Bank open data

One of the key focus areas of the NSDP II is tourism and creative industries. The government has identified four focus areas: tourist attraction sites; accommodation and conferencing; creative arts and sports and recreation. The sector can act as a vehicle for SMME empowerment directly or indirectly through the accommodation industry or food and beverage industry. Most tourists come from SADC countries (mainly SA), Germany, Netherlands, China, United Kingdom and the United States[191].

Tourist Attraction Sites

The potential of the sector lies in the natural beauty of Lesotho. The country offers a unique experience of an African - Alpine[192] experience. The management of the attraction sites need to be strengthened to better benefit the communities around them.

Opportunities:

- SMMEs can operate as tour guides showcasing the mountains, river valleys, waterfalls, cultural heritage, geological, historical and archaeological sites.
- Locals can leverage Airbnb to market local experiences given its global reach and high level of credibility amongst tourists.

Sports and Recreation

Lesotho was meant to host the African Union Region 5 under-twenty games in 2020 which would have supported sports-related sales and services. The country also has potential to host high altitude sports because of its terrain, altitude and weather conditions. The existing Lesotho Highlands Water Project dams pose a notable opportunity for initiating water-based sporting and recreational activities. In particular the dams are suitable for cruise boats and extreme sporting events. Already the Lesotho Tourism Development Corporation (LTDC) is operating a small cruise on Mohale dam. These types of activities are suitable for both the Katse and Mohale dams. In addition to these two dams, there are further developments in the pipeline, namely Phase II of the highlands water project and the Metolong lowlands water supply reservoir which will generate more opportunities.[193]

191 National Strategic Development Plan, 2019-2023, the Government of Lesotho
192 The presence of mountains and winter snowfall allows for a skiing experience in Africa
193 Lesotho National Development Corporation (LNDC) website

Opportunities:

- The LTDC operation will be transferred to a private operator for more efficient operation and further development and this will spawn more opportunities for SMMEs.

Accommodation and Conferencing

The country is undersupplied with accommodation facilities of appropriate standards. As of September 2019, there were only 34 accommodation facilities graded as per the Lesotho accommodation grading criteria.[194] [195] The lack of accommodation is a major source of revenue leakage from tourism in Lesotho as tourists opt to reside in South Africa and only spend the day in Lesotho.

Opportunities:

- SMMEs have an opportunity to plug into the value chain through offering support services in the accommodation industry as it is one of the government's key focus areas.
- The presence of only 34 star graded facilities catering to over one million tourists highlights the need for alternative accommodation options. Locals can leverage Airbnb to list their homes and this can evolve into a SMME venture.

Creative Arts

Lesotho currently exports its creative art products[196] to the United States of America, Canada and European markets, and there is still potential for more markets and diversification[197].

Majority of the opportunities available are suitable for micro enterprises e.g., conversion of one's home into an accommodation unit via Airbnb or serving as a tour guide. However, successful home conversion can grow into small hotels. The other major opportunity for SMMEs would be the partnership with LTDC in the privatisation of the sports and recreation activities on the dams. However, this may be limited because the government can opt to outsource the service to one large company as opposed to many small enterprises. There lies an opportunity to partner with the Airbnb Africa Academy to support inclusive opportunities in African tourism and boost community-led tourism to alleviate some of these challenges.

3.2.5 Key retailers market mapping

This section gives an overview of the largest corporate retailers present in the above-discussed markets and in the wholesale and retail trade market. These retailers make use of SMMEs to meet market demand. This mapping provides a useful base for any type of supplier development programme within the discussed markets.

Textiles and clothing retailers

The limited skills transfer by the Chinese to the Basotho makes it difficult for SMMEs to plug into the value chain as garment manufacturers. The opportunity lies in the provision of support services such as embroidery, manufacture of coat hangers/sizers, manufacture of cartons, garment screen printing and waste fabric recycling for the already established corporations listed in the table below.

194 Second Private Sector Competitiveness and Economic Diversification, 2019, World Bank
195 The total number of accommodation facilities in the country is not recorded
196 Examples include grass products, pottery, beadwork and molamus (traditional sticks)
197 National Strategic Development Plan, 2019-2023, the Government of Lesotho

Table 33: Supplier mapping[198] - Lesotho

Area of focus	Large corporate
Textile manufacturer	• Formosa Textiles Mill - owned by Nien Hsing Corporation
Jeans garment manufacturers	• Global Garments - owned by Nien Hsing Corporation • Nien Hsing Industrial - owned by Nien Hsing Corporation • C & Y Garments - owned by Nien Hsing Corporation • CGM Industrial - CGM Group • Presitex Enterprises - CGM Group • Humin Jeanswear • Niminta Fashions • Spilla Jeans • Afri-Expo Textiles
Knit garment manufacturers	• Ace Apparel • Basotho Leisurewear • Ever Unison Garment • Fantastic Clothing • Letsema Textiles • Eclat Evergood • Hippo Knitting • Lesotho Precious Garments • Super Knitting • Tai Yuan Garments

Source: Lesotho's textiles, apparel and footwear manufacturing industry: synopsis publication, Lesotho Ministry of Trade & Industry

Wool and mohair retailers

As earlier mentioned, the first commercial processing facility is expected to be operational in 2021 and the only existing processing is at the artisan level producing tapestries for the local and tourist market.[199] Given that processing is yet to commence and the volume and quality of the wool may not be sufficient for large scale production, opportunity lies in the improvement of the sale of the raw wool and mohair. The wool is mainly sold through the Lesotho Wool Centre (LWC) - an auction venue which is largely dominated by the Maseru Dawning Trading Company[200] and BKB (Pty) Limited, a South African broker.

Wholesale and retail trade retailers

The retailers with a large footprint in this category include Shoprite, Pick 'n Pay and Game stores. Shoprite supports SMMEs through its USD 5 million[201] supplier investment fund and has assisted 2,366 small suppliers access markets to date[202]. It also has competitions, such as the Hustle 2020 competition, which seeks to award 20 small businesses in order to increase their scale. Pick n Pay's also has an Enterprise and Supplier Development Programme (ESD) which

198 This list is not comprehensive, it only highlights the major manufacturers
199 The AGOA response strategy for Lesotho, 2016, Ministry of Trade and Industry
200 Owned by a Chinese national
201 85 million rand
202 Provider website

aims to equip small businesses with the skills necessary to supply the retail market[203]. These programmes, however, mainly run in South Africa but can be replicated in Lesotho.

3.2.6 Key demand-side findings

Based on the analysis above, the following findings emerge

- Similar to most economies, majority of SMMEs are micro businesses
- There are several demand-side challenges limiting the growth of SMMEs, these include:
  - » Lack of facilities
  - » High production costs
  - » Poor knowledge on product quality
  - » Poor knowledge on how to access the market
  - » Inadequate marketing skills
  - » Poor access to electricity makes it difficult for SMMEs to conduct business
  - » Inadequate production capacity for large orders. Establishment of SMME exporting consortiums may improve this
- Textile manufacturing holds opportunities for SMMEs growth, however, is entirely dependent on the AGOA programme which may come to an end by 2025. Medium term interventions could focus on
  - » Improving the availability of factory shells
  - » Promoting backward linkages - subcontracting to local firms and developing the local suppliers of goods and services
  - » Promoting the skills of the factory workers and management to improve the productivity of existing enterprises and reduce lead times
  - » Establishing a denim laundering facility in Lesotho
- Vocational and digital skills remain low in the country making it difficult for SMMEs to exploit the use of platforms

3.3 Supply-side

This section provides an overview of the financial sector, looking at the bank-financing and non-bank financing environment for SMMEs

3.3.1 Structure of the financial sector

Lesotho's financial sector consists of four commercial banks, nine insurance companies, 35 microfinance institutions (MFIs), and two money transfer institutions (MTIs).

203 Ibid

Table 34: Overview of Lesotho's financial services sector

Type of financial service provider	Typical Segmentation	Priority sectors	Special emphasis on women-led businesses
Banks	Micro, small and medium businesses	• Small businesses • Wholesale and retail trade	Yes (Standard Lesotho Bank)
Microfinance institutions	Micro, small and medium businesses	Their enterprise loan programmes are still in the nascent stages of development with the ongoing MFI programme	No
Mobile money	Micro, small and medium businesses	• Partnering with a FSPs in order to grant credit via mobile money • Increasing the number of merchants accepting mobile money as a means of payment	Yes (Vodacom had an initiative has been postponed due to Covid-19

Source: 1. Central Bank of Lesotho | 2. Provider websites | 3. National Microfinance Scheme Implementation Plan | 4. Stakeholder engagements

3.3.2 Bank financing

Of the four commercial banks, three are subsidiaries of South African banks and one is a Government-owned bank. The commercial banks in order of asset size include: Standard Lesotho Bank, Nedbank, First National Bank and Lesotho Postbank which is wholly owned by the national government. The latter was founded to provide services to the underbanked in rural and urban areas.

Table 35: Assets, loans, deposits and market share (USD thousands, % - 2019) - Lesotho

Bank	Total Assets	Gross Loans & Advances	Total customer deposits	Market share of assets (%)
Standard Lesotho Bank	642,600	290,861	470,133	52%
Nedbank	287,782	107,737	204,029	23%
First National Bank	191,771	53,592	168,747	16%
Lesotho Postbank	102,830	52,539	74,673	8%

Source: 1. BankScope

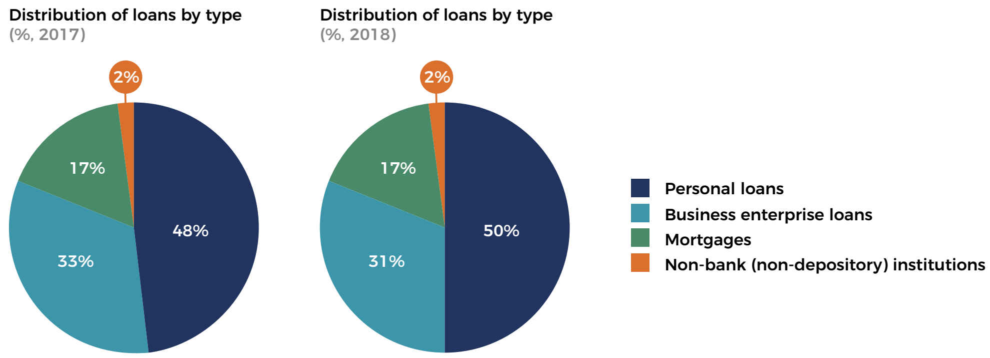
Standard Lesotho Bank dominates the banking sector, accounting for more than 50% of total assets, gross loans and customer deposits.

The provision of financial resources to the private sector is low with domestic credit to the private sector accounting for only 20.7% of GDP - much lower than the 45.5% SSA average[204] and the 133% global average, suggesting the need to implement the financial inclusion policies

204 Open data source, 2019, World Bank

and guidelines issued by the central bank.

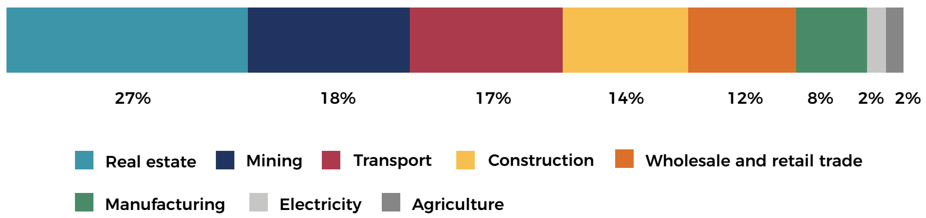
Figure 18: Distribution of loans by type (%) - Lesotho



Source: 1. Banking Supervision 2018, Central Bank of Lesotho

In 2018, mining, real estate and transport and communications received the highest share of lending, amounting to a combined 62%. A breakdown of lending by sector is shown below.

Figure 19: Share of lending by sector - Lesotho



Based on the current lending structure of the banks, manufacturing, electricity and agriculture are relatively underfinanced in relation to other sectors, potentially indicating a potential gap in financing of these sectors.

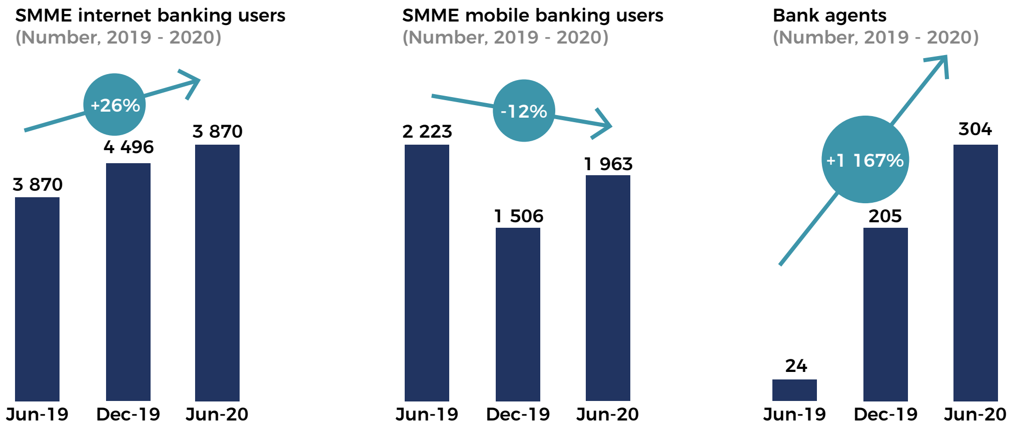
Table 36: Product offerings of all the commercial banks - Lesotho

Bank	Product offering						
	Business account	Short Term loans	Long term loans	Vehicle asset finance	Purchase Order finance	Trade finance	Insurance
Standard Lesotho Bank	✓	✓	✓	✓	✓	✓	✓
Nedbank	✓	✓	✓	✓	✓	✓	✓
First National Bank	✓	✓	✓	✓	✓	✓	✓
Lesotho Postbank	✓	✓	✓	X	✓	X	X

Source: 1. Provider websites
Notes: 1. ✓- yes | 2. x- No | 3. * - to be confirmed with stakeholder engagements

As illustrated above, the majority of banks offer similar services. However, they also provide a range of business services tailored to meet the unique needs of SMMEs with Standard Lesotho having the largest suite of SMME-tailored programmes. Examples of these include: bridging finance, SMME trader loans, letters of credit and business association loans. While banks do provide these products, they have strict credit requirements which include proof of collateral (that should be greater than the value of the loans), several years of financial statements and various company registration documents. There is also a limited number of leasing products available to SMMEs.

Figure 20: Banking channel registration - Lesotho



Source: 1. Central Bank of Lesotho

Table 37: Commercial banks' distribution channels - Lesotho

Bank	No. Branches	No. of ATMS	Internet Banking	Mobile banking	Agency banking	Number of agents
Standard Lesotho Bank	20	90	✓	✓	✓	399
Nedbank	10	*	✓	✓	x	x
First National Bank	7	40	✓	✓	✓	*
Lesotho Postbank	15	18	✓	✓	✓	*

Source: 1. Financial services insurance & investment review - Lesotho review 2020| 2. Provider websites
Notes: 1. ✓- yes | 2. x- No | 3. * - data not discernible

Banks have similar distribution channels with their strategic focus shifting from increasing the number of ATMs to growing the number of bank agents - agents recording an exponential growth of 1,167% between Q2 2019 and Q2 2020. The number of SMME internet banking recorded positive growth of 26% but SMME mobile banking users declined 12% on.[205]

205 Insights as to why this is the case will be incorporated in the report upon concluding stakeholder

Overall, there is room for increased lending to the private sector by making use of partial credit guarantees (if structured attractively) and increasing efforts to improve the data available on the credit bureau - especially among micro and small businesses in order to increase banks' lending appetite.

3.3.3 Non-bank financing

Lesotho's non-bank financial sector consists of nine insurance companies, 47 insurance brokers, 16 microfinance institutions (MFIs), two asset management firms, two money transfer institutions (MTIs)[206] and two mobile network operators (MNOs).

MFIs

As of December 2018, all licensed MFIs were credit only and could not accept deposits. The sector is dominated by foreign-owned companies with market share being highly concentrated between two MFIs[207 208]. MFIs in the country mainly offer loans to salaried government and private employees as this line of lending provides the ability to deduct repayments at source. There has been a slow uptake of unbanked and SMMEs financing as a result of market forces despite regulatory efforts to improve on this209. Interest rates imposed are high with MFIs stating that their average annual interest rate was 24%.[210]

Mobile money

Mobile money operators play a key role in increasing financial inclusion among SMMEs. In 2018, there were 1.26 million registered mobile money customers across the country. The number of active users has improved over time from 31.4% 30-day active accounts in 2016 to 55% as at September 2019. There is still room for improvement because the mobile money market remains largely untapped and underutilised. Services offered include payments, collections, insurance and savings. Recently, one MNO launched a savings product that has gathered 500 users to date and receives approximately USD 300,000 worth of monthly deposits, a large increase from the initial 6,000 dollars monthly deposit. This product has the potential to be successful as it has been in East Africa.

An impediment to the growth of the mobile money products is the lack of credit products being offered in partnership with banks. This could potentially be a cost-effective way of extending credit to thousands of SMMEs.

Private equity and venture capital

Private equity financing remains underpenetrated in Lesotho accounting for less than USD 35 million of USD 3.5 billion in SADC over 2010-2016[211]. This equates to roughly USD 5.8 million dollars per annum. About three deals accounted for the USD 35 million. There is an opportunity to increase this form of funding for relatively smaller ticket sizes.

3.3.4 Supply-side-side challenges

Based on the research, there are several key challenges faced by SMMEs in Lesotho. Some of these are discussed below:

The lack of access to finance is a result of the following constraints raised by commercial banks.

engagement with banks.

206 List of Financial Institutions, April 2019, Central Bank of Lesotho

207 Banking supervision annual report, 2018, Central Bank of Lesotho

208 Information regarding which MFIs have the largest market share has not been provided

209 The slow implementation of the 2018 microfinance programme; lack of sufficient data on the credit bureau related to commercial lending

210 Stakeholder engagements, 2020, *Genesis Analytics*

211 AVCA Spotlight on Southern Africa Private Equity

SMMEs often lack collateral and have an unfavourable track record when honouring debt obligations. This is further compounded by the fact that most businesses lack a business plan. Commercial banks therefore shy away from lending to SMMEs due to the high levels of risk associated with them.[212] Lenders inability to make proper creditworthiness assessments is also a factor of having a nascent credit bureau that has minimal live data on commercial lending portfolios.

The lack of business development skills is closely related to the lack of access to finance. Commercial banks report that SMMEs have inadequate managerial competencies. Their lack of accounting or financial records, poor / incomprehensive project reports and lack of a clear repayment plan makes it difficult for lenders to assess the viability of the business case and loan application.[213]

This is further complicated by the fact that 81% of small businesses owners are unaware of organisations that offer support services. Of those which are aware, 53% of them do not make use of these services. The LRA, BEDCO and the Ministry of Trade and Industry were reported to have the greatest awareness in the country.[214]

Furthermore, cultural norms slow down women empowerment. Some customs require joint ownership of title deeds and married women to receive consent from their spouses prior to applying for a loan. This leads to complications when attempting to access finance, which hampers business growth and should be a key area for intervention through partnering with the federation of women lawyers (FIDA) Lesotho.[215]

3.3.5 Key supply-side findings

Based on the analysis above, the following findings emerge.

- Bank continue to offer traditional products and are not making significant effort to lend to SMMEs
- Bank lending to the manufacturing sector remains low
- MFIs tend to serve salaried government employees, which is counterintuitive to the traditional MFI model of group lending for low-income populations
- The lack of credit on mobile money platforms could be impeding access to finance for SMMEs
- There is limited evidence of leasing products, private equity, and venture capital being provided to businesses in the market
- Banks and MFIs have expressed interest in growing their SMME business but lack detailed analysis of the landscape.

3.4 Recommendations

Based on the analysis, there are several recommendations that donors, policymakers and the private sector can support which have been shown in the table below.

212 Stakeholder engagements, 2020, *Genesis Analytics*
213 Stakeholder engagements, 2020, *Genesis Analytics*
214 FinScope SMME survey, 2016, FinMark Trust
215 Stakeholder engagements, 2020, *Genesis Analytics*

Table 38: Recommendations - Lesotho

#	Theme	#	Recommendation
1	**Enabling environment**	1.1	Improve the usage of the credit bureau through incentives and / or awareness programmes
		1.2	Expedite and support the implementation and usage of the collateral registry
		1.3	Enhance the communication and ICT infrastructure
		1.4	Digitise the business registration process and reduce days to register an entity
		1.5	Consider merging and restructuring government support organisations
		1.6	Explore options to digitise government support programmes
		1.7	Support government institutions raise funds from DFIs by assisting in facilitating introductions216
		1.8	Enhance partnerships between the public and private sector e.g., coordinate efforts between: BEDCO and NUL's innovation hubs; BEDCO and FSPs
		1.9	Support the capacity of the local bureau of standards and support SMMEs to achieve certification
2	**Demand-side**	2.1	Create or enhance vocational programmes for the identified value chains
		2.2	Provide digital skills training relevant for the digital economy
		2.3	Support the development and use of pay-as you go solutions
		2.4	Explore/support the use of buyer programmes to ensure steady demand for SMMEs - supplier development programme (SDP)
		2.5	Support the development and implementation of online marketplaces in order to allow SMMEs to sell domestically and internationally
		2.6	Develop a post-AGOA strategy for the textiles industry
		2.7	Support training on the necessary business development skills and skills required to run and operate factories
		2.8	Commission a SMME demand side survey with a focus on light manufacturing and services
3	**Supply-side**	3.1	Incentivise lenders and mobile money provider to partner to offer merchant credit
		3.2	Support the development of leasing products in the market
		3.3	Restructure credit guarantees to enhance banks' lending to SMMEs
		3.4	Support and incentivise lenders to create cash flow-based lending products which require minimal to no collateral
		3.5	Government is often not effective at direct lending and this should be outsourced to the private sector through wholesale lending mechanism such as credit lines and guarantees
		3.6	Support the establishment/enhancement of private SMME debt and equity funds (e.g., Venture Capital)
		3.7	Share insights from SMME market research studies with banks and MFIs

216 There are minimal development finance instruments in the country. Institutions such as the LNDC are looking for more funding to capitalise its development finance instruments such as its Project Preparation Facility

Similar to Botswana and given the long list of recommendations, there are a few of these where FinMark Trust can have the greatest impact in a short space of time. These recommendations have been highlighted in blue and further expanded upon in the implementation section.

These 'high priority' recommendations include:

Launching a supplier development programme - it is noted that there are relatively few and fragmented opportunities within the value chains and SMMEs are often not able to sell all their products or even get access to finance. The creation of a supplier development programme would enable FinMark Trust to have the most impact in a short space of time within the SMME segment. This could also leverage any partnership established in Botswana with the UNDP. As highlighted in section 3.2.5, there is limited skills transfer to the Basotho in the garment manufacturing value chain therefore, the opportunity lies in the provision of support services such as the manufacture of coat hangers/sizers and cartons, embroidery and garment screen printing. These products can be integrated into the SDP and sold to the foreign manufacturers based in the country. Furthermore, some of the manufactured goods such as cartons can be sold outside the textiles value chain to large supermarkets. For wool and mohair, the SDP would seek to benefit the wool suppliers who face challenges in accessing brokers. The presence of The Wool and Mohair Promotion Project (WAMPP), Lesotho National Wool and Mohair Growers' Association (LNWMGA) will ease the process of identifying and reaching out to the farmers.

Supporting the redesign of the current partial credit guarantee schemes. The scheme is not fully utilised because SMMEs have to qualify for bank credit to qualify for the guarantee, and banks do not have confidence in the Government's ability to honour default payments. A detailed analysis of the current credit guarantee scheme should be conducted prior to commencing on the redesign of the scheme. The support here could range from working with banks and other FSPs to understand key pain points with the guarantee scheme in order to increase uptake. A potential solution is the development of an escrow account, in which the funds can be held in trust by an independent third party, once banks administer loans through the PCG scheme to improve visibility of available funds.

3.5 Implementation plan

The table below outlines an implementation plan for FMT based on the 'high' priority recommendations.

Table 39: Implementation plan - Lesotho

Recommendation	A#	Activity	Partners to work with
.Develop textiles SDP	1.1	Reach out to identified large retailers (buyers)	The research identified the following players (corporates) in the textile value chain[217]: Local Chinese manufactures[218]: Nien Hsing Corporation, CGM Group, Humin Jeanswear, Niminta Fashions, Spilla Jeans, Afri-Expo Textiles, Ace Apparel, Basotho Leisurewear, Ever Unison Garment, Fantastic Clothing, Letsema Textiles, Eclat Evergood, Hippo Knitting, Lesotho Precious Garments, Super Knitting, Tai Yuan Garments
	1.2	Identify qualifying SMMEs (suppliers)	Private sector: SMME support network, Private Sector Foundation Government bodies: BEDCO, LNDC, NUL innovation hub
	1.3	Host separate FGDs with identified sellers and buyers to uncover current issues	FinMark Trust SDP team
	1.4	Select and certify local business development providers[219]	Private sector: SMME support network Government bodies: BEDCO, LNDC
	1.5	Engage banks to provide invoice discounting solutions to selected SMMEs	Banks
	1.6	Design and introduce the programme, formalise agreements and set targets with the SMMEs	FinMark Trust SDP team
	1.7	Implement programme within each buying and supplying companies	FinMark Trust SDP team
	1.8	Documentation of results and analysis for possible replication to other suppliers	FinMark Trust SDP team

217 SMMEs will provide support services such as embroidery, coat hangers/sizers, garment screen printing, waste fabric recycling, carton packaging
218 This list is not comprehensive
219 Incorporate learnings from the Textile Technical Training and Incubation Centre, which is no longer operational due a lack of resources. Some of the services provided include: production techniques, quality control, how to access markets, order procedures etc - This centre was run by Chinese nationals

Recommendation	A#	Activity	Partners to work with
2.Develop wool SDP	2.1	Reach out to identified large retailers (buyers)	Lesotho brokers - Lesotho Wool Centre (LWC)[220] South African brokers - BKB (Pty) Limited
	2.2	Identify qualifying SMMEs (suppliers)	The Wool and Mohair Promotion Project (WAMPP), Lesotho National Wool and Mohair Growers' Association (LNWMGA)
	2.3	Host separate FGDs with identified sellers and buyers to uncover current issues	FinMark Trust SDP team
	2.4	Select and certify local business development providers	Private sector: SMME support network, Private Sector Foundation Government bodies: BEDCO, LNDC
	2.5	Engage banks to provide invoice discounting solutions to selected SMMEs	Banks
	2.6	Design and introduce the programme, formalise agreements and set targets with the SMMEs	FinMark Trust SDP team
	2.7	Implement programme within each of the buyer and supplying companies	FinMark Trust SDP team
	2.8	Documentation of results and analysis for possible replication to other suppliers	FinMark Trust SDP team
3.Restructure credit guarantee schemes221	3.1	Analyse the current credit guarantee scheme[222]	FinMark Trust team
	3.2	Conduct a customer journey assessment to understand and map the pain points	Banks
	3.3	Lobby government on the development of an escrow account[223]	Ministry of Trade and Industry (LNDC), Ministry of Small Business Development, Cooperatives and Marketing (BEDCO)
	3.4	Support the identification of a third party to hold funds, manage and disburse funds in trust	FinMark Trust team
	3.5	Development and set up of the escrow account	Ministry of Trade and Industry (LNDC), Ministry of Small Business Development, Cooperatives and Marketing (BEDCO)
	3.6	Sensitise FSPs on the usage and benefits of the escrow account	Banks

In order to support SMMEs in the service industry, support should also be provided to enterprises that provide ancillary support services.

220 Auction venue built by a Chinese broker who runs the Maseru Dawning Trading Company
221 There are two PCGs in the country
222 This should outline the proper functioning of a PCG, discuss the PCG in Lesotho highlighting its strengths and weaknesses and detailing the recommendations required to improve its efficacy
223 One of the reasons the PCG has a low utilisation rate is because banks do not have confidence in the Government's ability to honour default payments

4. ESWATINI

4.1 Country context

This section provides a contextual overview and macro-economic outlook for Eswatini. It further highlights the main components of an enabling environment for SMMEs in order to diagnose the chief constraints and opportunities for SMME development.

4.1.1 Country overview

Table 40: Key Economic Metrics - Eswatini

Key metrics	Eswatini
Nominal GDP (USD billions, 2019)[224]	4.4
Avg. Real GDP growth - (%, 2014-2019)	2.0%[225]
Avg. Real GDP growth (%, 2020-2025)	1.5%[226]
Nominal GDP per capita (USD, 2019)[227]	3,837
Fiscal balance % of GDP (2019, 2019/20)[228]	-7.3%
Current account balance % GDP (2019, 2019/20)	4.2%
Population (million, 2019)[229]	1.2
Percentage of population below 35 years	74% (2015)[230]
Median age (2020)[231]	21
Income status (2020)[232]	Lower middle-income

Eswatini is a lower middle income, fertile and mountainous country with a population of approximately 1.2 million. It is closely integrated with the South African economy and is largely dependent on agriculture and remittances from South Africa. Weak regional growth, declining SACU revenues (which account for 12% of GDP) and droughts have affected growth in recent years. After a period of subdued growth due to declining private sector investment, droughts and weakening external competitiveness, real GDP growth picked up in 2018, from 0.9% in 2014 to 2.4%[233]. Expansionary budget policies and low SACU revenue have widened the fiscal deficit which reached 7.3% of GDP in 2019.

The impact of the Covid-19 pandemic and lockdowns in neighbouring countries have further exacerbated Eswatini's economic challenges. Eswatini has close economic linkages to South Africa, which it depends on for approximately 81% of its imports and 67% of its exports. The IMF warns that the economic effects of Covid-19 are likely to further challenge the country's already

224 World Bank Open Data
225 Eswatini Ministry of Economic Planning & Development 2020-2023 projections, September 2020
226 Eswatini Ministry of Economic Planning & Development 2020-2023 projections | Genesis Analytics Team 2024-2025 projections
227 World Bank Open Data
228 2019 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director, Botswana, Lesotho, Eswatini
229 World Bank Open Data
230 Swaziland State of youth population report 2015
231 United Nations Population Projection, 2020
232 World Bank Country *and Lending* Groups, World Bank
233 World Bank indicators, 2019

stretched fiscal position and increase debt sustainability concerns. It forecasts GDP to decline by 4.9% in 2020 but increase by 5.4 % in 2021.[234] However, Eswatini's Ministry of Economic Planning & Development projects a decline of 5.6% in 2020 and a recovery of 4.5% in 2021.[235]

4.1.2 Sector and international trade overview

Table 41: Real GDP contribution by sector - Eswatini

Sector	2014	2019	Increase/ decrease
Manufacturing	33.2%	33.5%	Increase
Wholesale and retail trade; repair of motor vehicles and motorcycles	13.9%	14.4%	Increase
Agriculture and forestry	10.3%	8.9%	Decrease
Education	6.9%	7.3%	Increase
Public administration and defence; compulsory social security	6.4%	6.6%	Increase
Financial and insurance activities	5.8%	6.8%	Increase
Other	23.6%	16.6%	Decrease

Source: 1. Eswatini Ministry of Economic Planning & Development | Genesis Analytics Team, 2020 | Notes: shading blue = top four sectors

In Eswatini, manufacturing makes up the largest contribution to GDP (33.5%), followed by wholesale and retail trade (14.4%) and agriculture (8.9%). However, output growth from these key sectors has been dwindling in recent years. The manufacturing sector has become more focused on the SA market given changing tariff regimes affecting the textile industry.

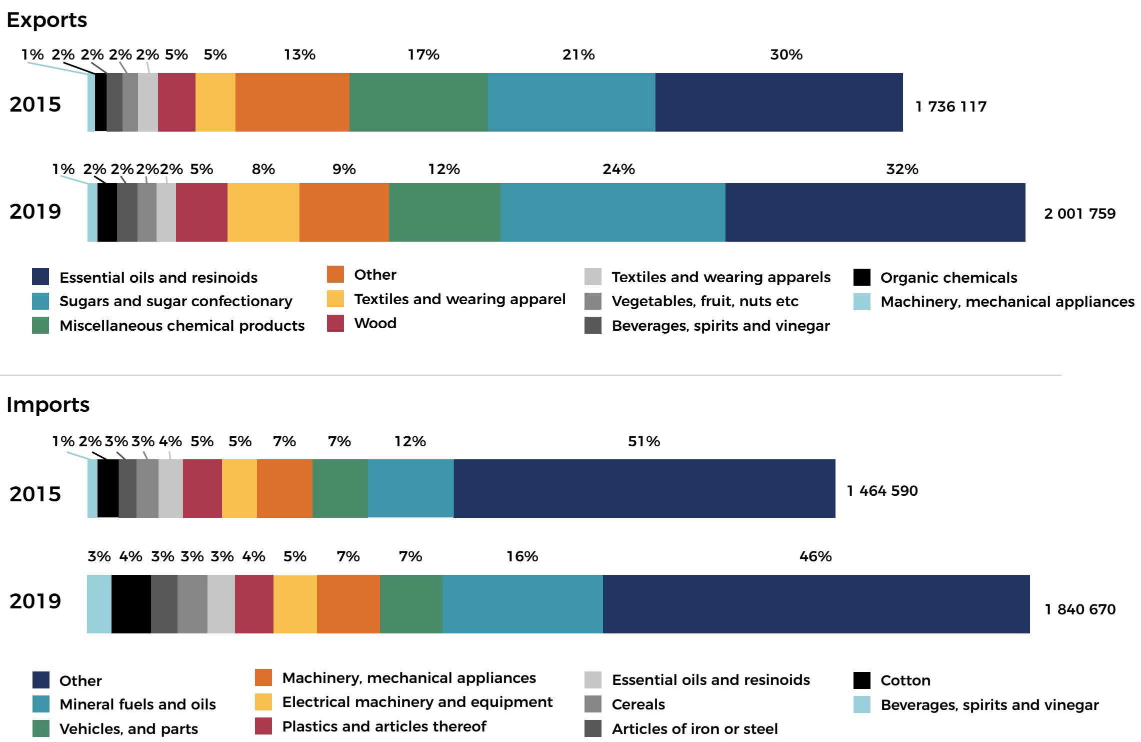
The services sector (which is highly reliant on government spending) has also been declining due to government fiscal constraints. Agriculture on the other hand has been affected by droughts in recent years.

International trade

Total exports grew from USD 1.74 billion in 2018 to USD 2 billion 2019. This is largely made up of essential oils and resinoids (32%), sugar and sugar confectionery (24%), miscellaneous chemicals (12%) and textiles and wearing apparel (8%). Similar to exports, imports grew from 1.46 billion in 2015 to 1.84 billion in 2019. This largely consists of 'other' import products[236] (46%), mineral fuels & oils (16%), vehicles (7%) and machinery (7%).

234 GDP Projections 2020-2023, Sep 2020, Eswatini Ministry of Economic Planning & Development
235 *Ibid*
236 Pharmaceutical products, Paper and paperboard; articles of paper pulp, of paper or of paperboard, Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; etc.

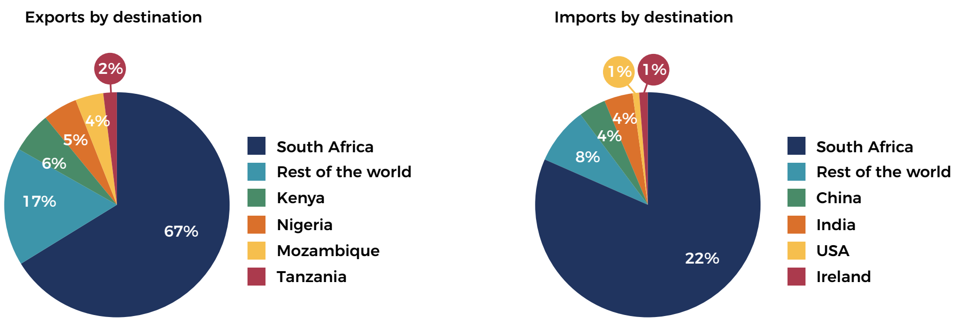
Figure 21: Eswatini top 10 exports and imports



Source: Trade statistics for international business development, Trade Map, 2020

Eswatini's trade by destination is undiversified with South Africa making up 67% and 81% of Eswatini's total exports and imports respectively. The rest of Eswatini's exports are consumed by Kenya, Nigeria, Mozambique and Tanzania. From an import perspective, Eswatini imports the rest of its goods from China, India, USA and Ireland.

Figure 22: Eswatini Trade by destination 2019



Value chain opportunity identification

To identify opportunities within the manufacturing and services sector a two-pronged approach has been used:

- Which high growth export value chains can SMMEs plug into?
- Which import products can be substituted from the current import basket?

The analysis below shows two tables. The first table seeks to showcase export products which have grown rapidly and the second table aims to identify which imports could be substituted.

Table 42: Exports, 2015 and 2019, USD millions - Eswatini

Product	2015	2019	CAGR
Essential oils and resinoids; perfumery, cosmetic or toilet preparations	524	639	5.1%
Sugars and sugar confectionery	362	474	6.9%
Articles of apparel and clothing accessories, not knitted or crocheted	95	157	13.4%
Wood and articles of wood; wood charcoal	78	108	8.5%

Table 43: Imports, 2015 and 2019, USD millions - Eswatini

Product	2015	2019	CAGR
Cotton	37	70	17.3%
Cereals	44	64	9.8%
Beverages, spirits and vinegar	23	52	22.6%
Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	23	33	9.5%
Organic chemicals	19	32	13.9%

Eswatini imports a wide variety of goods but given its openness and proximity to the SA market, and the limited size of the domestic market it is unlikely that import substitution strategies will be effective except for commodities that need to be produced very close to the point of sale.

Manufacturing

Eswatini's manufacturing sector is classified into six sub sectors: food products, sugar, beverages, textiles and wood processing and other manufacturing. GDP contribution data by sub sector is patchy. However, based on the export analysis, it is clear that the sector is dominated by essential oils, sugar, textiles, food processing and beverage manufacturing. There is little evidence of any manufacturing taking place that is related to any advantages in labour costs, and most of the manufacturing is related to the availability of local inputs (sugar, wood etc).

Outside the sugar industry, there is an opportunity to grow the textile and apparel sector's share of total exports. The sector has been growing by an average of 7.5% since 2016 which has gained momentum due to favourable trade agreements with Taiwan[237] and reinstatement into the AGOA programme.

237 Taiwan-Eswatini Economic Cooperation Agreement provides preferential tariff treatment for 153 items including cane sugar, beef, pork, grapefruit, vegetables, pine wood and textile products for which tariffs were immediately or will be in stages reduced to zero.

Services

The services sector accounts for 53%[238] of total GDP in 2019[239]. Services as a category comprises 12 sub sectors namely: wholesale and retail trade, financial and insurance, real estate, accommodation and food service, professional, administration and support services, education, human health and social work, arts, entertainment and recreation and "other" services activities.

Similar to manufacturing, the services sector has also contracted over the years due to a decline in consumer and government spending arising from the deteriorating government fiscal position[240]. The impact of Covid-19 and disruptions in global supply chains have further depressed growth in the sector. The Covid-19 lockdown in South Africa affected the supply of goods that are sold locally.

Table 44: Services sub sectors by share of GDP and average growth rate - Eswatini

Sub sector	Share of GDP	Average growth rates	
	2019	2014-2019	2020-2025*
Wholesale and retail trade; repair of motor vehicles and motorcycles	14.4%	2.7%	1.0%
Transportation and storage	2.8%	3.0%	5.4%
Accommodation and food services activities	0.7%	1.9%	11.5%
Information and communication	3.2%	5.4%	6.3%
Financial and insurance activities	6.8%	5.3%	9.6%
Real estate activities	6.0%	1.7%	1.9%
Professional, administrative and support services	3.9%	1.0%	2.5%
Public administration and defence	6.6%	2.6%	-2.6%
Education	7.3%	3.2%	1.6%
Human health and social work activities	2.3%	3.7%	1.0%
Arts, entertainment and recreation	0.4%	-0.3%	24.5%
Other services activities	0.2%	-2.6%	0.4%
Activities of households as employer own use	0.2%	1.3%	1.1%

Source: 1. Ministry of economic planning and development GDP projections 2020-2023| 2. Genesis Analytics Team, 2020| **Note** blue indicates high growth sectors | * Indicates projections

Amidst the economic despair of 2020, unsurprisingly two services sub sectors that have experienced significant growth are the ICT and health sectors. ICT is estimated to grow by 15.6% by the end of 2020 due to an increased reliance on digital channels for economic, health and social activities. Human health and social work activities are projected to grow by an estimated 9.8% over the same period due to activities related to Covid-19 containment efforts. Going into 2021, all the services sectors are expected to rebound as lockdown restrictions are eased and economic activity picks up in the 3rd and 4th quarters of 2020.

238 This includes all 12 services sub-sectors as detailed above
239 World Bank Indicators, 2019, World Bank Group
240 Central bank of Eswatini Research Bulletin Volume 4, 2020

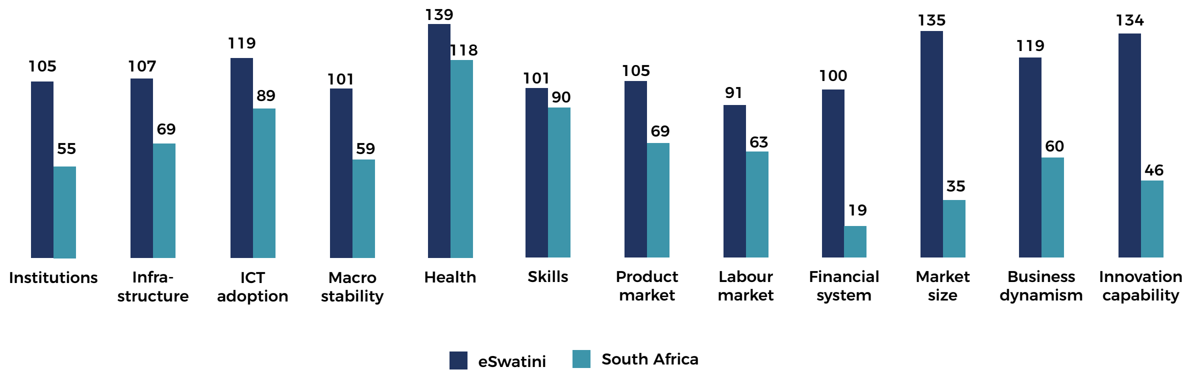
Government projects' growth in three key sub sectors: financial and insurance activities (9.6%), ICT (6.3%), transportation & storage (5.4%)[241] which should benefit the SMMEs in these sectors. The high growth in the arts & recreation and accommodation sectors is a result of a low base in 2020. Construction and energy have also been prioritised in the Covid-19 recovery plan. As these service sub sectors grow it is expected that growth in demand for support services will also grow.

Examples of services opportunities in these sectors could include catering businesses to supply food to construction projects, engineering consultancies, plumbing, wiring, welding, painting, lighting, landscaping, carpentry, interior design, maintenance of infrastructure. For wholesale and retail projects, transport for commuting shoppers and retail employees, shipping & logistics management of stores, storage, cleaning and maintenance services to factories/manufacturing plants and provision of security systems and security services.

4.1.3 Understanding Eswatini's competitiveness

In order for Eswatini to capture the value-chain opportunities above, certain competitiveness factors need to be in place. This section analyses these competitiveness factors in relation to South Africa which is the regional manufacturing hub.

Figure 23: Competitiveness comparison Eswatini vs South Africa[242], ranking out of 141



Eswatini ranks poorly against South Africa in all categories. Overall, Eswatini's competitiveness is weak in relation to South Africa and many other economies globally - significant reforms are required in order to gain some form of competitiveness that could translate into opportunities for SMMEs. Low innovation capability, labour market conditions, infrastructure and so on, place Eswatini in a difficult position to boost manufacturing or its services sectors.

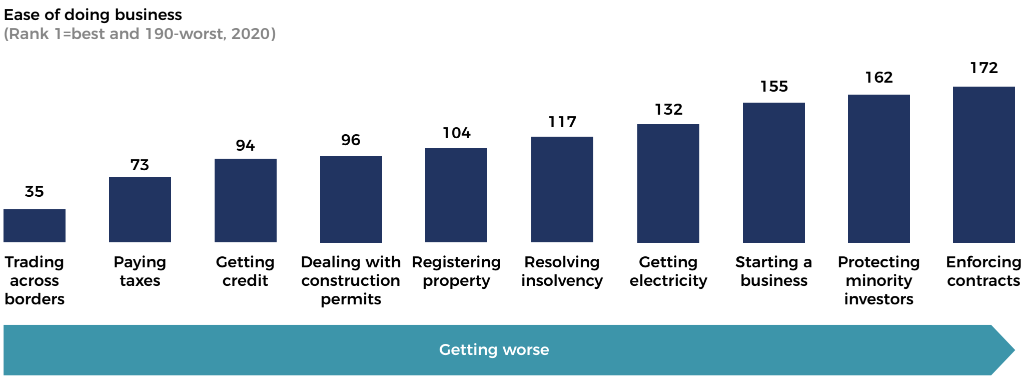
4.1.4 Enabling environment

This section expands this analysis by looking at the ease of doing business, SMME specific support programmes and their efficacy and, finally, regulations or policies supporting or hindering SMMEs growth.

241 Ministry of economic planning and development GDP projections 2020-2023
242 http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

Ease of doing business

Figure 24: Ease of doing business Eswatini[243]



The overall ease of doing business in Eswatini is relatively low at 121 out of 190 countries in 2020. Eswatini has consistently been regressing since 2017 where it ranked 111.

Some of the most concerning issues include:

- Enforcing contracts - this can take up to three years, which can significantly impact SMMEs' ability to get paid. A recurring theme from consultations with financiers is the reluctance of lenders to get into purchase-order financing contracts with SMMEs that have invoices from the government. This is mainly due to non-payment or late payment by the government with SMMEs having little room for recourse.
- Registering a business - this takes about 21 days and requires 12 procedures. Although Eswatini made starting a business easier by introducing a free[244] online service for name reservation and business registration in 2018, this service remains underutilised[245]. This could be a combination of the infancy of the platform as well as the lack of an online payment system for companies to pay the registration fee. Businesses are still required to go and queue at the revenue offices to make their payments. Allowing for online payments could further ease the process of starting a business - especially during Covid-19.
- Getting electricity - it currently takes 125 days to get electricity and can cost up to 542% of the average per capita income.
- Getting credit - Some main issues in this space include:
  - Lack of a collateral registry - there is ongoing work in developing a national centralised moveable collateral registry which could ease challenges faced by financial service providers in providing credit to SMMEs - however, these efforts need to be ramped up
  - Limited use and coverage of the credit bureau - the bureau only covers 364,355 adult (~54%) s and 3,788 firms (~6.3% of firms)

In Eswatini, mobile penetration is high at 97% in 2019. However, coverage is low for 3G at 54% relative to 62.7% for Africa, and 87.9% for the world, while LTE/WiMAX coverage at 54% was relatively higher than the African average (though still lower than the world at 76.3%).

As of 2017, internet penetration was low at 47% although this is likely to reflect mobile internet as fixed broadband is only 0.6%, and households with internet access are low at 27%.[246]

243 Doing Business 2020 - World Bank
244 The usage of the platform is free; however, businesses still need to pay a registration fee.
245 Stakeholder Interviews conducted by Genesis Analytics, 2020
246 International Telecommunication Union, World Telecommunication/ICT Development Report and database, 2020

Of concern, the cost of 1 GB of mobile data in 2020 is high at USD 6.16.247 This creates an unconducive environment for innovation and general business operation in an increasingly digital and mobile world.

Government and donor support schemes

Eswatini has several institutions providing support to the SMME sector, either on the demand or supply-side. Some key institutions are discussed below.

Table 45: Key support organisations in Eswatini

#	Scheme	Grants	Loans	Equity Funding	Training / Ment-oring	Access to markets	Scale	Distribution	Light manu-facturing and services focus
1	Ministry of Commerce, Industry and Trade (MCIT)	No	No	No	No	No	N/A	N/A	No
2	Centre of financial inclusion (CFI)	No	No	No	Yes	Yes	N/A	N/A	No
3	Small Enterprises Development Company (SEDCO)	No	No	No	Yes	No	High	High	No
4	Small Scale Enterprise Loan Guarantee Scheme (SSELGS):	No	Yes	No	No	No	Medium	N/A	No
5	Youth Enterprise Revolving Fund (YERF)	No	Yes	No	Yes	No	High	Medium	No
6	Eswatini Investment Promotion Authority (EIPA)	No	No	No	No	Yes	N/A	N/A	No

Note: Scale=Number of SMMEs reached | Distribution=number of branches | Green=high, Orange=medium, Red=low

MCIT through its SMME unit does not run any programmes directly but has the overall responsibility of coordinating the implementation of the SMME policy. Despite the critical role it plays, there remains a lack of staff capacity and gaps in the support framework248 i.e., lack of SMME tax incentives in the policy and no clear implementation plan. As shown in the table above, most of the institutions say they provide capacity building services. However, these initiatives sit under different ministries and the MCIT doesn't appear to have any control over how these initiatives are run. There is a need to capacitate the unit and provide assistance on how to ensure better coordination of the SMME support agenda in Eswatini.

CFI (a unit of the Ministry of Finance) plays a facilitative role through its engagement with financial regulators, policymakers and the financial sector in the implementation of the country's national financial inclusion strategy. Key focus areas are building rural entrepreneurial capacity and deepening the financial services sector.249 CFI is still in its early stages of

247 1GB basket statistics, 2019, ICT Research Africa
248 Eswatini MAP SMME Diagnostic, 2018
249 This organisation is yet to be interviewed

operation and is currently running the Finclude project which is targeted at creating sustainable livelihoods and incomes, particularly for aspiring and existing women and youth entrepreneurs in the country through creating corporate linkages. The project also intends to assist smallholder farmers access markets. A key challenge initially faced by CFI was ensuring that initiatives were implemented through the appropriate ministries.

SEDCO is a public enterprise under the MCIT established to provide business development services, notably training, coaching and mentoring of SMMEs. Most capacity-building initiatives by external donors/development partners are implemented through SEDCO. SMMEs are also referred to SEDCO by domestic DFIs which require proof of capacity training before they provide the required funding. Despite being the most popular capacity-building organisation in the country, it faces significant capacity constraints of its own[250]. SEDCO's funding from the government has been declining over the past three years and its business development coach-to-SMME ratio currently stands at 1 to 23. However, SEDCO has indicated that the ideal ratio would be 1 to 5 if it had the resources. This creates challenges in providing quality affordable training to SMMEs. As government funding declines, SEDCO has had to cover its operational costs by increasing the cost of training, with the danger that fewer SMMEs purchase the services on offer. There is an opportunity to assist SEDCO through curriculum reform, funding mobilisation and technical assistance as it transforms its operational model towards an online training model.

The **SSELGS** is housed within the central bank and was established to support SMMEs by providing credit guarantees to financiers. However, the scheme has experienced low uptake due to cumbersome claim processes and a general lack of awareness of the scheme amongst SMMEs.[251] Historically, the central bank required banks to prove that they had done everything reasonably possible to recover funds from defaulting SMMEs - including going to court. Often the loan size did not justify the costs of recovery, thereby reducing uptake of the scheme. The structure of the scheme is also not optimal - it is transaction based[252] which increases the burden placed on banks to account for each transaction instead of a portfolio. Finally issues with delayed payments from the Central Bank have further reduced participation from financiers.

SSLEGS is currently under revision to improve the claims process, include DFIs and increase the guarantee amount. Other suggested revisions are to change the scheme from a transaction-based scheme to a portfolio-based one. Financiers have indicated that this would be a more attractive option for them. If successful, this could have significant impacts on the ability of financiers to service the SMME market. Ongoing technical support can be provided to ensure that these changes are designed and implemented to achieve the intended impact.

YERF is a parastatal under the ministry of Sports, Culture & Youth Affairs tasked with promoting youth employment and alleviating poverty among 18 to 35-year olds. Key initiatives include purchase-order financing, skills development for loan recipients, and mentorship to youth owned enterprises and improving linkages for youth enterprises with relevant stakeholders. Similar to SEDCO this organisation is also resource constrained with declining Government funding.

EIPA was established to attract, promote and facilitate foreign and local investment and trade in Eswatini. EIPA supports enterprises, including SMMEs, advising them on available and potential regional and international export opportunities, and advocating for a conducive business climate, including improvements to the cost of doing business in each sector. According to EIPA, there remains a need to improve the awareness of its services amongst SMMEs.

250 Stakeholder interviews conducted by Genesis Analytics, 2020
251 Ibid
252 A scheme that secures a transaction as opposed to a portfolio

In general, SMME support organisations mostly provide training and development support with limited financing support. Given the small size of the SMME market, these support organisations are sector agnostic and do not focus specifically on the services or light manufacturing sectors.

Policy and regulation

Key policies and regulations impacting SMMEs include the revised SMME policy, National Financial Inclusion Strategy (NFIS), National Roadmap for the implementation of the COMESA Simplified Trade Regime (STR), e-Money regulations and the Financial Services Regulatory Act.

The proposed **Revised National Policy** on SMMEs 2018 sets out the vision, intention and strategy for SMME development in the country. The revised policy which is an update from the 2008 policy is still in draft phase. However, it is widely recognised by stakeholders in both public and private initiatives aimed at supporting SMMEs. Overall, the policy does not seem to have achieved the coordination it envisions with many of the SMME support organisations operating across multiple duplicated lines of support that could be harmonised for effective programming and impact.

The National Financial Inclusion Strategy (NFIS) 2017-2022 supports and represents a commitment from the government, particularly the MoF, to transform the local financial system to be more relevant to the needs of the underserved. Although the strategy is primarily focused on individuals and micro-enterprises, it outlines specific activities and targets to increase access to credit in the SMME and agriculture finance sectors. Developments that could improve financial inclusion of SMMEs, include the ongoing work to introduce a central movable collateral registry and a payment switch. These initiatives will make it easier for FSPs to assess the creditworthiness of SMMEs. A payment switch will also improve the ease and efficiency of settling payments within Eswatini which are currently settled in South Africa.

The National Roadmap for the implementation of the COMESA Simplified Trade Regime (STR), as well as the Trade and Transportation Facilitation instruments for the Small-Scale Cross-Border Trade (SSCBT) initiative, were developed by the Government of Eswatini to facilitate SSCBT flows between selected borders. The main objectives of the roadmap are to simplify and streamline documentation requirements as well as import and export formalities, significantly reducing transaction costs associated with trade for small-scale traders. However, SMMEs still struggle to meet the export quality standards determined by their trading partners. The roadmap is under review in the respective ministries and institutions in the country and there is an increased recognition of the need to train SMMEs on how to maintain export quality standards.[253]

Minimum Standards for Electronic Payment Schemes (MSEPS) in September 2010 were developed with the intention of creating viable alternatives to cash while providing suitable risk-mitigated electronic payment options for those with no, or limited, access to financial services. A practice notes for mobile money providers released in 2019 has increased the limits on wallet transactions as well as improving the interoperability of mobile money systems. Through its regulatory Sandbox, the Central Bank's Fintech unit allowed MTN to launch MOMO loans, a mobile money loan product currently offering loans up to E200. The Fintech Unit is working with digital financial providers to pilot and launch their products. However, it does require technical assistance to benchmark its regulations and to ensure that the regulatory environment is conducive for innovation.

253 Stakeholder interviews conducted by Genesis Analytics, 2020

The Financial Services Regulatory Act and the Financial Institutions Act 2005: Regulates non-bank financial institutions (including insurance sector) and banks respectively.

Consumer Credit Act, 2016: Seeks to regulate the cost and provision of credit in Eswatini. There are ongoing developments to introduce interest rate caps for financial institutions. Despite the good intentions of interest rate caps, they are widely recognised as hurting low-income populations by limiting their access to finance, and reducing the amount of credit that is extended to segments that are considered high risk - such as SMMEs. If the interest rate cap is set too low, banks will find it difficult to recover costs and will most likely reduce lending to high-risk segments. Instead, it is likely that banks will divert funds to government securities as was seen in Kenya.

Covid-19 response plans and measures

At the onset of the Covid-19 pandemic the Central Bank reduced the repo rate, capital requirements and requested that banks delay increasing their provisions for NPLs. A lower repo rate made the cost of credit cheaper which proved to be useful for SMMEs which needed to borrow during the period to remain afloat. Reduced capital requirements provided the liquidity buffer banks needed to restructure loans and provide payment holidays for SMMEs. However, on a net basis, banks indicate that these measures did not necessarily translate into increased demand for loans or increased lending to SMMEs. Banks have also indicated that the request to hold off on provisions for NPLs caused conflict with IFRS 9 reporting requirements which supersede the temporary hold-off period mandated by the central bank.

Some fiscal measures to assist business during Covid-19 were tax relief, granting the possibility of filing provisional loss returns with no tax payment, extending by three months the deadline to file tax returns and stepping up payment arrangements for taxpayers facing cash-flow problems. About E90 million (0.13% of GDP) in tax refunds were budgeted for SMMEs that are tax compliant, retain employees, and continue to pay employees during the pandemic.

The government also suspended social contribution payments and wage negotiations in the private sector to preserve jobs. Consideration is being given to providing short-duration cash transfers to SMMEs and laid-off workers, and covering a portion of salaries for vulnerable businesses.

Finally, the government released a Post Covid-19 recovery plan which intends to inject USD 1.38 billion to resuscitate the economy and reignite economic growth through high impact private sector-led projects over the next 18 months. These investments are targeted at priority sectors such as tourism, whole-sale retail trade, manufacturing, construction, energy, agriculture and textiles. The government intends to fund only 16% of the budget while the rest is expected to come from private sector investments. The plan has earmarked 22% (USD 301 million) for SMMEs. However, there are currently no clear procurement regulations or plans to ensure that the intended benefits of these large projects trickle down to SMMEs. The language used by both the plan and public officials is that of "encouragement" to larger businesses to procure the services of SMMEs.

4.1.5 Key enabling environment findings

Based on the analysis above, the following findings emerge.

- Eswatini's economy is highly reliant on remittances from South Africa and SACU revenues
- Eswatini has a small local market highlighting the need for SMMEs to focus on exports for the South African market.
- Key export opportunities include textiles, sugar and sugar-based products, wood-based products, fruit products, animal fodder, production of glassware, beverages and milk-based products for the light manufacturing sector.

- For services it is ancillary services that support the manufacturing sub-sectors which include professional services, repairs and maintenance, transport and logistics, communications and others.
- The country is over-reliant on government spending which will need to be scaled back post-Covid-19 and poses a sustainability risk to the economy and the services sectors
- The ease of doing business is deteriorating, mainly caused by poor access to electricity, difficulty in starting businesses, and low contract enforcement.
- The cost of data is extremely high and impedes the potential uptake of digital financial services and growth in the supply of digital services
- Government agencies are plagued by several issues:
  - » Lack of capacity
  - » Lack of coordination
  - » Dwindling funds.
- The government guarantee scheme **(SSELGS) has had limited reach due to a poor structure and design**
- **Some of the Covid-19 funds and support measures are ambitious but require more coordination and implementation support.**

4.2 Demand-side

4.2.1 Size and structure of SMME sector

The definition of SMMEs in Eswatini described in the revised draft of the SMME policy is provided in the table below.

Table 46: Eswatini's SMME Policy definition of SMMEs

Indicator	Micro Enterprise	Micro Enterprise	Small Enterprise	Medium Enterprise
Sub-category	Informal	Formal	Formal	Formal
Annual turnover (E)	No formal registration	<60,000	>60,000-3 mil	>3 mil-8 mil
Value of assets		<50,000	>50,000-2 mil	>2mil-5 mil
Number of employees	0	0-10	11-20	21-60

Source: Revised SMME Policy of Eswatini 2018 Draft

As of January 2017, the SMME sector in Eswatini was estimated to consist of 59 283 business owners. The census of establishments found that 92% of SMMEs are micro businesses (80% of which are sole proprietors). The sector employs approximately 93,000 people (16% of the total working age population).

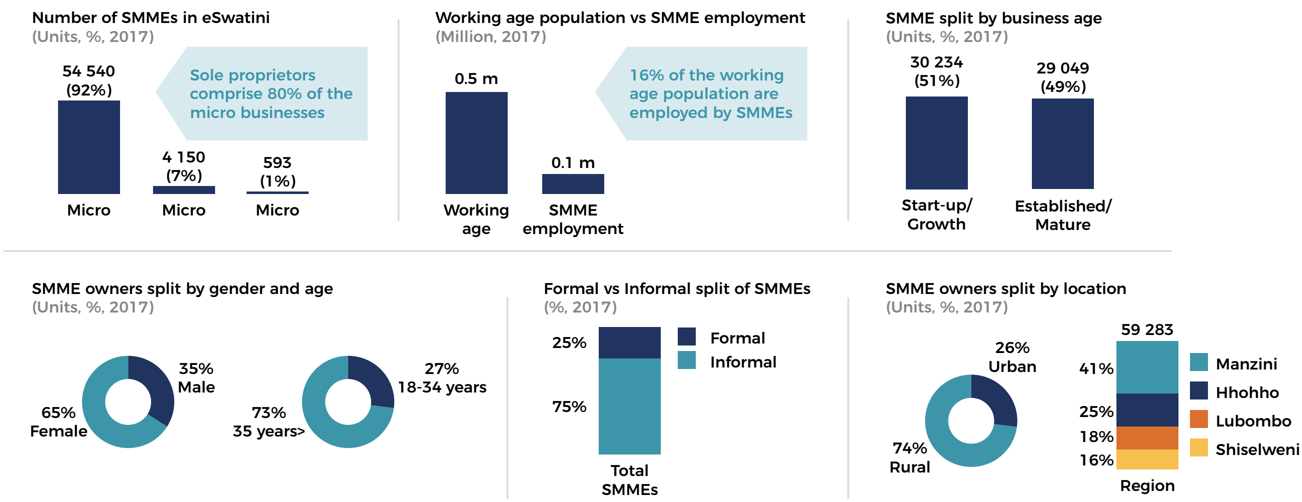
Most SMMEs (75%) operate informally and are micro businesses. Of the registered SMMEs, 56% are owned by individuals (sole proprietors), 23% are private limited companies and 7% are in partnerships. In terms of operating location, the FinScope survey indicated that 41% of small businesses operate from residential premises, with 15% operating door to door and 13% on the street.

SMMEs in Eswatini are relatively established or mature; 68% reported that their businesses had been in operation for more than three years. Although businesses are generally mature measured by firm age, there is still a high number of start-ups which often fail in the first two years of operation. This suggests a need to create targeted programming that helps business graduate across the different life cycles.

From a gender perspective, there are more female SMME business owners (65%) in the individual entrepreneur category with fewer female business owners of larger businesses.

Regionally, most of the businesses are located in Manzini (41%) followed by Hhohho (25%), Lubombo (18%) and Shiselweni (16%). Manzini and Hhohho have the highest population distribution, accounting for around 62% of the Eswatini population. The figures below provide an overview of the structure of the market.

Figure 25: Overview of SMME sector in Eswatini

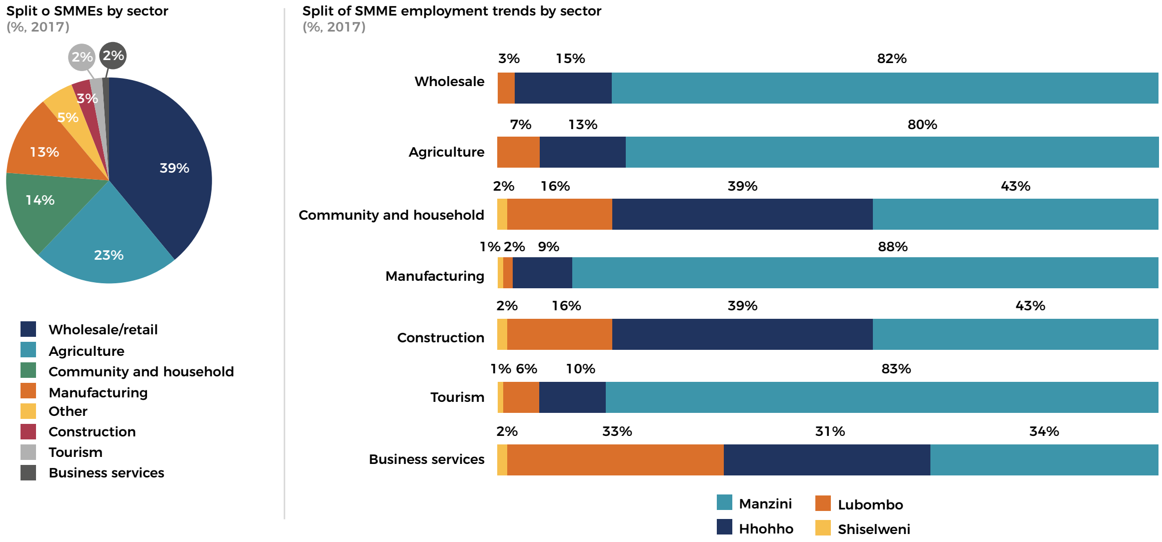


Source: Eswatini FinScope Survey 2017

As can be expected, most SMMEs operate in wholesale and retail trade (39%), followed by agriculture, forestry and fishing (23%), community and household sector (14%), manufacturing (13%), construction (3%), tourism (1%) and business services (1%). However, the data in the figure below indicates that SMMEs in the services and manufacturing sectors are predominantly micro and small business. From a manufacturing point of view this suggests an existence of high informal micro-operations with larger formal players dominating the sector.

The FinScope study does not indicate SMME employment share by sector but it does show employment trends within sectors. Although wholesale retail and agriculture make up a larger share of SMMEs, these sectors have limited employment potential as they are mostly sole proprietors and micro enterprises. SMMEs in the community and household, business services and construction sectors tend to employ more people as classified by the different SMME size categories.

Figure 26: SMMEs by sector and employment (formal and informal) - Eswatini



4.2.2 Demand-side challenges

A larger number of SMMEs are dependent on government tenders for survival.[254] However, with dwindling government spending and the accumulation of arrears to domestic suppliers it is becoming increasingly difficult for SMMEs to survive. The Eswatini Government is estimated to owe SMMEs E2 billion.[255] This further limits SMMEs' access to finance with financiers refusing to accept government invoices as surety for order financing.

Competition and lack of market linkages: SMMEs are unable to effectively penetrate value chains due to poor linkages between big businesses and small enterprises.[256] This stems partly from the lack of strong associations and cooperatives at different stages of the value chain to facilitate SMME involvement. Taking the sugar industry as a case study, the Millers Association appears to be a key driver of value chain activity, facilitating activity between smaller businesses and larger corporates. This model could be replicated in other key growth inducing vale chains such as textiles and food processing.

Lack of procurement incentives through policy and regulation that ensures SMME involvement in growth inducing value chains is another reason for poor linkages. The private sector market is dominated by foreign owned retail stores, who are not seen to be supportive to businesses.[257] SMMEs struggle to provide products of the scale and quality required by the retail chains. Providing larger corporates with incentives to outsource some of their processes to SMMEs could increase the appetite for SMME value chain procurement.

Accessing markets remains a key challenge for SMMEs. A few companies, especially in the agricultural sector, agro-processing, and arts and crafts sector have successfully penetrated international markets.[258] However, the volumes involved are still low. Some companies have benefited from the support EIPA provides for marketing locally manufactured products regionally and internationally. However, a lot more needs to be done to improve accessibility to

254 Stakeholder interviews conducted by Genesis Analytics, 2020
255 Stakeholder interviews conducted by Genesis Analytics, 2020
256 Ibid.
257 Ibid.
258 Eswatini MAP SMME Diagnostic, 2018

markets.[259] To access markets and improve competition, SMMEs require technical expertise to improve the quality of their products and adhere to industry standards. Even though enterprises have portrayed a relatively good understanding of production processes, most enterprises do not follow any production or operational standards.[260] Those targeting the export market need accreditation to international standards such as Hazard Analysis Critical Control Point (HACCP) and Food Security System Certification 22000 (FSSC 22000), which are mandatory for the export market. The Eswatini Standards Authority is not yet recognised regionally and internationally, raising the cost of compliance by local enterprises due to them having to use the South African Bureau of Standards (SABS) and international accreditation experts for compliance.[261]

Other value chain-specific challenges that limit SMME involvement are poor contract enforcement, lack of SMME training by large businesses as well as a general lack of trust and transparency among players.

4.2.3 The role of technology in solving demand-side challenges

Like all countries Eswatini faces opportunities and challenges from technological disruptions that are changing the way businesses operate. For SMMEs new technology can create considerable opportunities in three broad areas:

- The emergence of platform businesses makes it much easier for small firms to connect and market their services to global or regional consumers. Examples of such platforms include Airbnb which could revitalise the tourism sector and the role of SMMEs in the sector.
- New technology is transforming the electricity sector. Solar and wind power are changing the cost and structure of the electricity market, often to the benefit of small businesses which can overcome the delays and cost of connecting to the national grid. SMMEs can potentially earn by developing new businesses in the sale, installation and maintenance of solar panels.
- Digital finance is also transforming SMMEs' ability to make and receive electronic payments and in the process generate the digital data trail that can be used to assess their credit worthiness, beyond traditional asset-based finance.
- Technology is also transforming the thinking as to what businesses services can be digitised and delivered from anywhere in the world.

Some examples of innovations that are already occurring across Africa are shown in the Botswana section. While these innovations hold high promise for countries that are struggling with a poor enabling environment certain prerequisites need to be in place. The current state of ICT and education in Eswatini against some of its peers is shown below. Top countries in each category are marked in blue shading.

259 Ibid.
260 Eswatini MAP SMME Diagnostic, 2018
261 Ibid

Table 47: Current state of the communications, technology and education[262]

	 Eswatini	 Kenya	 South Africa
Fixed broadband per 100 people	0.7	0.7	2.4
Fiber internet per 100 people	N.A	0.2	0.4
Internet user per 100	47	17.8	56.2
Mean years of schooling	8.8	8.4	10.1
Digital skills score: 1 - 7 (best)	3.5	4.5	3.3
Quality of vocational training: 1 - 7 (best)	3.4	4.3	3.5

Based on this analysis there is a need for reforms/support around vocational training, digital skills training and increasing fiber and broadband access for the digital economy to thrive.

4.2.4 Identification of opportunities in the light manufacturing and services sectors

This section provides a deep dive into key value chains with potential for the light manufacturing and services sub-sectors (as identified in the section above). The table below shows a high-level summary of the key findings.

Table 48: Summary of Eswatini value chain analysis

Sector or value chain identified	Expected sector growth	SMME presence	SMME growth opportunity	Key issues	Areas for intervention
Sugar	Moderate • Modest export growth • High regional competition • SACU and EU market threatening to reduce demand	Low • Dominated by large players and small-scale farmers	Low • Limited market for SMME produced goods • Low competitive advantage	Highly structured market • EU and SACU threatening to reduce demand	Limited intervention opportunities
Textiles	High • High export growth • New market penetration	Low • Dominated by large players	Low • Low SMME competitive advantage • US market growth risk due to AGOA expiry	As highlighted in the previous cells	Limited intervention opportunities

262 http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf

Sector or value chain identified	Expected sector growth	SMME presence	SMME growth opportunity	Key issues	Areas for intervention
Fruits & Vegetable processing	Low • Declining exports	Low • Dominated by large players	Low • Production takes place closer to markets in SA • Low SMME competitive advantage	As highlighted in the previous cells	Limited intervention opportunities
Wood processing	Moderate • Moderate growth in exports	Moderate • Dominated by large players	Low • Low SMME competitive advantage • Small domestic market for local goods • Production of final goods takes place in SA	As highlighted in the previous cells	Limited intervention opportunities
Tourism	Low • Declining sector growth • Declining tourist arrivals	Moderate • Mainly micro and large businesses	Moderate • Few tourist assets relative to SA and Mozambique • Declining demand • Non-commercialisation of royal events	As highlighted in the previous cells	FMT could partner with the Vakasha Eswatini Facebook page to help it scale and become a fully-fledged platform that promotes domestic tourism
Support services e.g., transport & logistics, cleaning, security, catering and maintenance for high growth priority sectors	Moderate • Moderate sector GDP growth • High dependence on government induced spending	High • Dominated by SMMEs	Moderate • Lack of SMME procurement policies • No special tax regime for SMMEs	Getting credit: Poor project preparation, lack of collateral (where required), Low diversity of credit options, institutional capacity, credit guarantee claims process and regulations.	Develop a services SDP with the objective of creating better market linkages

Notes: Expected sector growth: Based on GDP growth forecasts | SMME Presence: Based on market size data | SMME growth potential: Based on the impact of highlighted key issues.

Value chain analysis

Sugar Value chain

Figure 27: Value chain activities in the sugar industry - Eswatini

1 Input production and distribution	2 Production	3 Mill processing	4 Downstream industrial sector	5 Distribution and sales
Production and distribution of sugarcane farming inputs e.g. fertilisers, pesticides, etc.	The actual practice of cane growing and harvesting including weeding, planting, irrigation, pesticide application, fertiliser application	The processing of sugarcane by millers and refineries to produce sugar and its by-products	Industries that use sugar and its by-products to produce end-products for the end consumer	• Distribution, wholesaling and retailing of outputs along the value chain • Also includes exports
Opportunities for SMMEs in light manufacturing and services				
• Manufacture of irrigation equipment and handheld implements	• Provision of transport services of cane from farms to the mill	• Provision of transport and distribution services for processed sugar from the mills	• Manufacture of niche sugar products such as sugarcane juice	• None

Analysis of the sugar industry value chain in Eswatini

The sugar industry in Eswatini is highly concentrated, and the state has large stakes in it. The main player in this industry is the Eswatini Sugar Association (ESA) which was created by the Sugar Act of 1967. The ESA is owned equally (50% shareholding each) by the Eswatini Cane Growers Association (ECGA) and the Eswatini Millers Association (EMA).

All sugarcane growers are responsible for delivering their cane to the mill that they are contracted to. Once delivered, the cane becomes the property and responsibility of the respective mill. Sugar processed by the miller remains the property of the ESA, and any refining undertaken on behalf of the ESA is for a fee. The ESA determines the price paid to both millers for sugar processed and the farmers for cane grown[263]. `

A quota or licence is required to grow sugarcane. The aim of the quota system is to ensure that the miller (for which the grower produces) can handle the crop, that the grower has the necessary resources (e.g., water, land and inputs) to grow a disease-free crop and that the grower is conversant with both the rules and legal obligations of growing cane. Similarly, a miller requires a licence from the government to mill cane[264]. This licence is intended to ensure the long-term viability of the industry. A sound investment study is done before a new mill is licensed.

Sugarcane producers have faced recent challenges of high variability in both the timing and amount of total rainfall which has lowered yield potential and increased yield variability in sugarcane production[265].

The different stages in the sugar industry value chain in Eswatini are highlighted below.

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263 Contractual relationships between smallholder sugarcane growers and millers in the sugar industry supply chain in Swaziland, *Micah Masuku et. al.*

264 Determinants of sugarcane profitability: The case of smallholder cane growers in Swaziland 2011, *Micah Masuku*

265 National Disaster Management Agency, 2016

Farm inputs production and distribution

Farm inputs in sugarcane farming include fertilisers, pesticides, crop protection chemicals, irrigation equipment, handheld implements and plastic tanks. Some main players in this field include; Farm Chemicals, Swaziland Agricultural Supplies Ltd and Coverall Concepts.266.

Many SMMEs take part in the distribution and retail of these farm inputs (small retail shops) but overall SMME presence at this point in the value chain is low.

Production

*There are approximately 130*267 registered sugarcane growers in Eswatini. These growers can be grouped into four categories; (i) sugar estates owned by the three sugar mills, (ii) large-scale growers, (iii) medium size growers and (iv) smallholder growers.

This stage of the value chain is concentrated with smallholder cane growers (who are usually part of Small-Scale Farmer Associations) having a 21% market share.

Mill processing

There are only three sugar mills in Eswatini, all with a similar capacity of around 160,000 tonnes of sugar a year; Mhlume Mill, Simunye Mill and Ubombo Mill. More than 50% of the shares of Mhlume and Simunye mills are owned by the state or Tibiyo (the national development fund) while 40% of the shareholding in Ubombo mill is also owned by the state.[268]

There are no SMMEs at this stage of the value chain.

Downstream industrial sector

This sector consists of industries that use sugar and its by-products to produce end- products for the end consumer. These industries include animal feed manufacturers and energy industries that use sugarcane by-products (molasses, bagasse and chemicals) and factories that use sugar to make foodstuffs, beverages, confectioneries etc[269]. The main food and beverage manufacturers that utilise sugar in Eswatini are Kraft Foods, Bromor Foods, Parmalat, Eswatini Fruit Canners and Ngwane Mills[270]. There are also two boutique companies that use sugar to produce limited quantities of rum, vodka and craft gin.

This downstream manufacturing industry requires heavy capital investment and therefore small and micro business presence is low but there may be opportunities for medium-sized businesses.

Distribution, wholesale and retail sector

The ESA is responsible for marketing, selling and exporting all the raw and refined sugar produced in Eswatini on behalf of growers and millers. The revenue obtained through the sale of sugar and molasses is shared between growers and millers based on an agreed process and formula.

Markets served by ESA can be categorised into three - Southern African Customs Union (SACU)[271]; preferential markets (the European Union and United States) and the world market.

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266 *agriculture1.com*
267 *Eswatini Cane Growers Association 2020*
268 Contractual relationships between smallholder sugarcane growers and millers in the sugar industry supply chain in Swaziland, *Micah Masuku et. al.*
269 A profile of the South African sugar market value chain 2013, *Republic South Africa*
270 Southern Africa's cotton, textile and apparel sector: A value chain analysis 2011, AECOM International Development
271 SACU countries include Eswatini, Botswana, Lesotho, Namibia and South Africa

SACU is the most important market for the Eswatini sugar industry, accounting for between 45% – 70% of sugar exports[272].

However, Eswatini sugar exports are undergoing major challenges, challenges which are projected to continue. To begin with, the Kingdom is under pressure from other SACU members who are pushing for lower prices or to be allowed to import cheaper sugar from Brazil and through the United Arab Emirates (UAE). Exports to the EU (historically accounting for between 24% – 55% of total sales273) have declined in recent years, and are projected to continue to decline due to low sugar prices in the EU coupled with the ending of the preferential access for sugar imports from least developed countries[274].

Further, after the 2018/19 year, Eswatini's duty free access to the East African market through its membership in COMESA[275] was withdrawn due to its membership in SADC and SACU. Exports to the East African market have therefore also reduced[276].

In the local market, sugar is sold by large retail groups such as Shoprite under the Usave brand, coupled with small retail shops across the country.

Opportunity areas for SMMEs in the sugar industry in Eswatini

Stemming from the analysis above, the following opportunities exist for SMMEs in this value chain;

- Recognising the heavy capital investment required to set up a mill, SMMEs can provide support services to the three large mills especially in the local market. This can be done through provision of transport and distribution services for processed sugar from the mills.
- In Eswatini, cane growers are responsible for the transportation of cane from the farm to the mills. There is an opportunity for this service to be outsourced to SMMEs
- There is an opportunity for SMMEs to manufacture niche sugar products such as sugar cane juice that are not likely to be produced by the big players for the local market.

Textiles and wearing apparels

The apparel industry emerged in Eswatini during the 90's and early 2000s as a result of quota hopping foreign direct investment arising from the Multi-Fibre Arrangement (MFA), and subsequently benefitting from duty-free access to the United States (US) under the African Growth and Opportunity Act (AGOA). However, starting from 2005 and increasingly over the last decade, Eswatini's apparel industry strengthened its linkages to regional value chains via South African investments attracted by lower labour costs and SACU preferential trade regulations. Between 2011 and 2015 (which period included the suspension of Eswatini from AGOA in 2015), all overseas exporters successfully shifted to supply large South African retailers, including major brands such as Mr Price, the Foschini Group, Pepkor, Edcon, Woolworths, and Truworths. South African retailers are now the biggest buyer of Eswatini textiles making up 99% of total textile exports in 2019. This is followed by the UK (0.85%) and US (0.01%). Majority of these exports are produced by four Chinese and Taiwanese producers namely; Spintex, YKK Africa, Tex-Ray Industrial's United Knitting and TQM Textile. These apparel manufacturers mainly produce jeans, workwear, protective wear, shirts, pyjamas and men's and womenswear.

Eswatini was kicked out of the AGOA agreement for this over-concentration of multinational

272 *Wellington Sikuka 2019*
273 *Lawton Naelley et.al. 2019*
274 *Lawton Naelley et.al. 2019*
275 COMESA countries include Burundi, Comoros, D.R. Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, Uganda, Zambia, Zimbabwe
276 *Lawton Naelley et.al. 2019*

companies taking advantage of the tariff arbitrage due to duty free access to the US. Eswatini has since been reinstated into AGOA but must meet two key conditions. 1) The Government must adhere to international labour standards, respect human rights, democracy and the rule of law and 2) Emphasis must be put on inclusion of small-scale indigenous Swazi companies and cooperatives rather than only big multinational companies as beneficiaries. However, due to the established supply chains between multinational companies and the SA market, this in effect means that the only real market for small scale producers to compete is the US market under AGOA or the small domestic market. AGOA is set to expire in 2025 which threatens the survival of small-scale producers beyond this period.

Opportunity areas for SMMEs in the textile and wearing apparels industry

Majority of the services that could be outsourced to SMMEs are performed by the larger companies' in-house operations or subsidiaries. The other services such as embroidery and provision of card boxes, plastics etc. are provided by multinational companies such as Tex-Ray and Chuan Yi, MandF, Song Chi, Shield Designers, and Embroidery Specialists. Therefore, due to a high concentration of larger manufacturers, a small domestic market, limited demand for support services and a dependence on AGOA for international market access, the opportunity for SMME growth in this value chain is limited.

Fruits and vegetable processing

The main fruits exported by the Eswatini are oranges, grapefruits, bananas, mangoes, avocadoes, lemons, dragon fruits, pineapple and paw paws. Under the category of vegetables, baby vegetables are dominating the export market followed by green maize and a few conventional vegetables.

The major exporters for fruits are United Plantations, Nisela, Ngwane Mills and a number of individual private traders. The main exporters of baby vegetables are the National Agricultural Marketing Board (NAMBoard) and private traders such as EI Ranch and Sdemane Farming. Conventional vegetables are mostly exported by vendors and private traders such as United Plantations, Ngwane Mills, Sdemane and NAMBoard. Major export markets are SA (35%), UK (32%) and the US (12%).

Vegetables and most fruits are exported in raw form, while other fruits are processed and exported as jams, jelly, puree and paste to be canned and labelled mostly in SA. Rhodes Food Group (RFG) is the biggest seller and producer of canned fruit produce in the region with a production base comprising 15 manufacturing facilities across South Africa and a fruit processing facility in Eswatini (Swazican). RFG's canned and bottled jams and marmalades are manufactured at this facility. It employs about 260 permanent staff and up to 2000 seasonal employees. The product range comprises canned citrus (orange and grapefruit segments), canned pineapple (slices, pieces and crush), citrus and pineapple juice concentrate and a range of prepared fruit and jelly products (packed in plastic cups), as well as assorted jams and marmalades.

Opportunity areas for SMMEs in the fruit processing industry

There are very few opportunities for SMMEs to compete in the fruit processing industry. Swazican (the single processing plant) is situated in the fertile Malkerns Valley which borders Durban South Africa. RGS's strategy was to locate close to the source of raw fruits and vegetables (Malkerns Valley), major markets and transport systems for exports (Durban harbour). It is a large operation with an established supply chain and a scale competitive advantage. Therefore, the opportunity for light manufacturing in this value chain is limited.

Wood processing

Eswatini's main forestry export is roundwood which is mainly sourced from man-made forest areas and largely exported as pulp, logs and timber. Main export partners include South Africa (93%), Mozambique (3%) and Namibia (2%). Final wood products such as doors, decking, flooring, pine wood chips and chicken and horse bedding make up a very small portion of total exports (0.01%). Eswatini imports most of its final wood products from South Africa (60%), Italy (26%) and Czech Republic (5%). These goods include furniture and particles thereof, unassembled fabricated houses and other furniture products. Local wood processing is mainly for local (village) use and traditional use in both Eswatini and South Africa[277]. This traditional use is mainly for herbs, traditional medicines, local crafts and housing structures.

Opportunities for SMMEs in the wood processing industry

Growth opportunities for SMMEs in the wood processing value chain are limited due to a concentration of 6 large players who own 85% of the man-made forest area (where most of the commercial wood is sourced). Wood products from sawmills (also owned by these large players) are exported and turned into final goods in South Africa which is closer to the end consumer and larger markets. Any wood processing that takes place locally is small scale local crafts and housing structures likely done by micro businesses and sole proprietors.

Sectoral analysis

Tourism

In 2018, the contribution of travel and tourism to GDP for Eswatini was 5.7 %. Sectors of the economy that act as sub sectors of the tourism industry include retail, accommodation and food services, transport as well as arts, entertainment and recreation. Generally, the contribution of travel and tourism to GDP has fluctuated substantially in recent years and has generally decreased through 1999 - 2018 period. Growth in the accommodation and food service sector has been modest over the 2014-2019 period, while the arts, entertainment and recreation sector declined over the same period.

During the apartheid era in South Africa, Eswatini drew many visitors by adopting different policies than South Africa. Many tourists visited Eswatini during that time in order to watch television programmes or sporting events that they could not view in South Africa. The end of apartheid in South Africa and conclusion of the Mozambican Civil War made Eswatini's neighbours more appealing tourism destinations and the growth of the tourism industry in Eswatini decreased. Many of the tourists who visit Eswatini are traveling between Mozambique and South Africa which is made easier by the Lubombo Route agreement which allows tourists to travel across the three countries with a single visa. Most tourists only stay for one night in Eswatini and many visitors only take day trips to the country.

This decline in the tourism sector is also fuelled by Eswatini's limited tourist assets. The kingdom is the last Monarchy in sub-Saharan Africa which is often cited as the biggest tourist attraction. However, royal celebrations (that are meant to attract tourists) only happen once a year and are not highly commercialised due to cultural preferences. The yearly MTN Bushfire event which is also a key tourist attraction was also suspended in 2020 due to Covid-19.

Growth opportunities for SMMEs in the tourism industry

Eswatini has very few tourist attractions that could drive SMME growth. The opportunities that exist in this sector would likely only induce growth in micro businesses offering tour guide, transport and art and entertainment activities with a potential for locals to turn their homes into Airbnb's.

277 FSC National Risk Assessment for the Kingdom of Eswatini (Swaziland) 2019

Selected value chains

From the above analysis, it is clear that opportunities for SMME growth in light manufacturing is limited. However, there is an opportunity to include more SMMEs in high growth service value chains to provide ancillary services such as transport and logistics, communications, tourism, cleaning and maintenance services.

4.2.5 Key retailers market mapping

This section gives an overview of the largest firms present in the identified high growth sectors. These retailers make use of SMMEs to meet market demand. This mapping provides a useful base for any type of supplier development programme within the discussed markets.

Table 49: Key players in high growth sectors - Eswatini

Retail[278]	Construction[279]	ICT	Financial sector
Swazi plaza	Linda & Neli Construction	MTN	Banks
Savemore supermarket	Inyatsi Construction Ltd	Eswatini Mobile	Local DFIs
Loffler Group: Ematjeni Shopping Centre, Filling Station Golf Course Mbabane	Nthwese Development	Techno Brain	Insurance companies
Manzini supermarket	Camdel Construction (PTY) Ltd	Huawei Technologies	MFIs
Boxer Superstores Simunye	Tornado Construction & Civil Engineering	Technosol	
Yesive Supermarket	BonAccord Estates	CyberTech - Data security	
Lubombo Supermarket	Pots Construction & Plant Hire	Swazi web	
Yesive Supermarket	Juluka Construction	McTech Systems Swaziland	
Hub Superspar	SCATS Construction & General Engine	Aquaritech IT Solutions	
	Construction Associates (PTY) Ltd		

4.2.6 Key demand-side findings

Based on the analysis above, the following findings emerge

- Similar to most economies, the majority of SMMEs are micro businesses
- There are several challenges limiting the growth of SMMEs, these include:
  - Limited market size
  - Lack of facilities

278 Retail has been included due to the service opportunities that lie in large retail plazas and stores.
279 Construction opportunities also exist in the Covid-19 recovery plan's construction projects

    - High production costs
    - Inadequate supply of electricity
    - Poor knowledge on product quality
    - Poor knowledge on how to access external markets
    - Inadequate marketing skills
- Textile manufacturing holds opportunities for SMME growth, however, is entirely dependent on the AGOA programme which may come to an end by 2025
- In the sugarcane industry, there are opportunities for SMMEs to support through the provision of ancillary services and also in the production of sugar-based products e.g., syrups and so on
- Overall, there are limited sustainable SMME opportunities in the manufacturing sector. SMME opportunities for SMMEs lie in providing ancillary services to high growth sectors of the economy.
- Vocational and digital skills remain low in the country making it difficult for SMMEs to exploit the use of platforms

4.3 Supply-side

4.3.1 Structure of the financial sector

The SMME financing landscape in Eswatini contains a range of players, both formal and informal. Examples of informal financial services providers include friends, family, savings groups, and individual micro lenders. The formal financial sector consists of banks, microfinance institutions (MFIs), development finance institutions (DFI), digital financial services providers (mobile money).

Table 50: Overview of formal finance landscape - Eswatini

Type of financial service provider	Typical Segmentation	Priority sectors	Special emphasis on women-led businesses
Banks	Micro, small and medium businesses	Retail, agriculture, commerce, tourism, construction	No
Development Finance Institutions	Micro, small and medium business	Agriculture, Transport, General business	Yes
Microfinance institutions	Micro	Retail and agriculture	Yes
Mobile money	Micro	Sector agnostic	No
Building societies	N/A	N/A	No

4.3.2 Bank financing

There are currently four licensed commercial banks in Eswatini, in order of assets, Standard Bank, First National Bank (FNB), Nedbank and Eswatini Bank. Additionally, there are two building societies, Swaziland Building Society (SBS) and Status Capital Bank (established in 2020). The table below provides a summary of the assets held by banks including the value of their loan advances, the value of deposits and market share by total assets[280].

280 BankScope, 2020

Table 51: Assets, loans, customer deposits and market share (USD thousands, % - 2019) - Eswatini

Bank	Total Assets	Gross Loans & Advances	Total customer deposits	Market share (%)
Standard bank	519,861	281,396	430,140	32%
FNB	404,800	194,023	325,055	25%
Nedbank	377,239	276,558	294,444	23%
Eswatini Bank	318,510*	162,787	177,941	20%

Source: BankScope 2020| *Eswatini bank has not released 2019 figures and thus 2019 was projected based on historical trends.

Standard Bank dominates the market with a total asset market share of 32%, followed by FNB (25%), Nedbank (23%) and Eswatini Bank (20%). Although SBS does not have a commercial banking licence it offers many of the services offered by the banks and hence can be considered a direct competitor to the banks from a consumer perspective.[281] Between them (including SBS), these five institutions account for 85% of total formal credit and 94% of formal deposits (excluding pension fund deposits) in 2019[282]. SMME finance is also heavily concentrated in the banking sector with commercial banks providing 63% of the total SMME credit extended in the market. [283]

Financial depth and development, as estimated by the ratio of private sector credit to GDP, increased marginally from 30.9% in 2018 to 31.7% in 2019.[284] When benchmarked against the global average ratio of private sector credit to GDP of 133%.285 The ratio was also lower than the sub-Saharan African average of 45.5%. Eswatini's banking system (similar to those of Botswana and Lesotho), is small, suggesting capacity for further growth given an environment of stable macroeconomic conditions and prudent credit expansion.

Table 52: Share of credit extension by sector 2018 -2019 - Eswatini

Sector	2018	2019
Distribution and Tourism	28%	23%
Other	15%	10%
Real estate	14%	14%
Agriculture & Forestry	12%	17%
Community, social and personal services	10%	9%
Transport and communication	9%	11%
Manufacturing	5%	6%
Construction	5%	8%
Mining and Quarrying	2%	2%

Source: Central Bank Eswatini | Note: Top 3 sectors in each year are highlighted in blue

281 Eswatini SMME MAP Diagnostic, 2018
282 Ibid
283 Ibid
284 Eswatini Central Bank Financial Stability report, 2019 |Genesis Analytics Team, 2020
285 As reported by the World Bank's indicators

The increase in credit to agriculture, transport and communication, construction and manufacturing sectors is in line with sentiments from banks which indicate a growing interest in these sectors. However, from an SMME credit perspective, banks have a limited appetite for SMMEs in the agriculture (other than sugarcane) and manufacturing sectors. Financial institutions view these as risky and they are currently the most defaulting sectors.

From speaking with banks, they regard the sector split of their loan portfolio as being demand driven rather than through a concerted effort from their part. Banks don't specifically appear to target women or youth by creating tailored products for these segments.

Banks' asset quality, measured as a proportion of NPLs to total gross loans, deteriorated from 7.7% in June 2018 to 9.2% in June 2019. The household (44.4%), distribution and tourism (15.1%), construction (7.9%), and community, social and personal services (4.8%) sectors accounted for the largest shares of NPLs. Interestingly, three out of the four aforementioned sectors are sub sectors of the services sector, which is primarily dependent on government-induced spending - which has been dwindling over the years.[286]

Banks offer SMMEs a relatively wide range of products as shown in the table below. Apart from standard transaction accounts and short- and long-term products, the two biggest banks in the market also offer insurance products to SMMEs which, in some cases, is required as security on loans. However, there is a general lack of diversification outside of standard loan products offered to SMMEs. There appears to be an over extension of short-term credit in the form of order financing due to the ability of banks to de-risk such transactions by imposing a cessation on the SMMEs account to ensure that when the order is paid, the bank is able to cease its payment first. The general lack of collateral among SMMEs thus makes this a more attractive product for banks.

To effectively meet the needs of a heterogeneous market of SMMEs, banks would ideally diversify their product offering and create targeted solutions for SMMEs of different sectors, gender and life cycle, but the market is too small for this to be viable. For export facing SMMEs there is a need to provide more trade financing facilities and hedging instruments for SMMEs that are potentially at risk of volatile commodity prices.[287]

Table 53: Bank product offerings - Eswatini

Bank	Product offering						
	Business account	Short Term loans	Long term loans	Vehicle asset finance	Purchase Order finance	Investments	Insurance
Standard bank	✓	✓	✓	✓	✓	✓	✓
First National Bank	✓	✓	✓	✓	✓	✓	✓
Nedbank	✓	✓	✓	✓	✓	✓	X
Eswatini Bank	✓	✓	✓	X	✓	✓	✓

Source: Various bank websites, 2020 | Blue shading = product is advertised on the website

286 Ibid
287 Stakeholder interviews conducted by Genesis Analytics, 2020

Other popular products are asset financing, property and vehicle, overdraft facilities, business loans, agricultural loans, bridging finance and other forms of financing for short-term contracts.

Banks have a wide range of banking channels through which they provide their services to SMMEs. These include physical branches, automatic teller machines (ATM), internet and mobile phone banking as well as through agents for certain banks. The table below shows the various bank distributions channels.

Table 54: Distribution channels by bank - Eswatini

	No. Branches	No. of ATMS	Internet Banking	Mobile banking	Agency banking	Number of agents
Standard bank	8	69	✓	✓	✓	N/A
First National Bank	12	105	✓	✓	✓	147
Nedbank	12	53	✓	✓	N/A	N/A
Eswatini Bank	10	13	✓	✓	✓	N/A
Total	49	240				1 015

Source: Various bank website, 2020

Although the individual bank data is patchy, the table below shows the overall market distribution channel statistics. The data suggests that the overall banking infrastructure and distribution channel of banks is improving. Particularly in terms of the distribution of ATMs, mobile money agents and bank branches per 100,000 persons (over 18>). Broader distribution of banking channels allows for ease of access to banking services and products. Although agent banking and internet channels seem quite nascent, these developments make a significant contribution to extending financial services to SMMEs operating outside of the main city where most bank services would ordinarily be concentrated.

Table 55: Access points per 100 000 adults (>18 years) - Eswatini

	Bank Branches	Banking Agencies	ATM	POS	Mobile Money Agents
June 2017	0.92	15.4	15.4	564	484.4
2018	10.71	16.3	40.6	340	904.8

Source: Eswatini MAP diagnostic report

4.3.3 Non-bank financing

The non-bank financial sector in Eswatini consists of four MFIs, three insurance companies, and two DFIs and two mobile money operators respectively.

MFIs

The four MFIs operating in the market are namely; Letshego Financial Services, First Finance Bank, Select Financial Services and Amandla Financial Services.[288] According to the MAP Eswatini Diagnostic, micro lending institutions do not serve SMMEs and are primarily focused on payroll lending.

288 Agri-cooperatives that support farmers and not SMMEs are not included in this study

DFIs

There are two main DFIs in the market that provide SMME finance namely; the Eswatini Development Finance Corporation (FINCORP) and the Industrial development Company of Eswatini (IDCE). Both organizations are owned by the Eswatini Government. They accounted for 37% of the credit extended to the SMME sector in 2017[289]. The table below provides an overview of the target size, product offering and target sectors.

Table 56: DFI product offerings - Eswatini

	Target size	Product offering	Sectors
FINCORP	Formal SMMEs and micro enterprises.	Working capital loans Order financing General sugar and agri-loans	Forestry General Agribusiness Property Development Sugar cane Transport & Haulage
IDCE	Rural SMMEs	Order financing Asset financing Short Term loans	Manufacturing Transport Property development Agri-business Tourism Services

Similar to the commercial banks, DFIs have increasingly become risk-averse to sectors such as manufacturing and agriculture, particularly start-up business, which are deemed to be very risky. Mainly the sugarcane industry benefits from credit from both DFIs due to their blended finance operational model. The Central bank has now opened the credit guarantee scheme to DFIs which will allow them to increase credit extension to SMMEs without collateral.

Mobile money

There are currently two players in the market - MTN (MOMO) and Eswatini Mobile's e-Mali offering, introduced in 2018. MTN has an overwhelming dominant market position with 700,000 registered mobile money subscribers and 430,000 active customers in 2020. Eswatini Mobile's e-Mali on the other hand seems to have limited market penetration with the most recent data available indicating that it had a mere 20,000 e-Mali subscribers in 2018 (this has likely increased since then).

Mobile money usage grew quite significantly over the 2014-2018 period with the number of adults with an active account increasing from 48% to 92% respectively.

Key developments in the sector include the diversification of products, interoperability between mobile money operators and commercial banks. MTN has introduced a short-term credit product called MOMO loans which provides MTN customers with loans up to E200.[290]

MTN is also working on a pilot project with the Eswatini Government to allow people to pay for government services through mobile money. This could further ease the process of registering a business where currently SMMEs still need to make a physical payment.[291]

289 Eswatini MAP Diagnostic, 2018
290 UP TO E200 LOANS FOR MOMO SUBSCRIBERS, The Observer, 2020
291 Stakeholder engagements, 2020, *Genesis Analytics*

Insurance

The insurance market in Eswatini is also relatively underdeveloped with only three insurance companies that offer business insurance. One of the companies has targeted agriculture insurance. However, this product has not been accessible to farmers due to high premiums.[292] This underdevelopment of insurance products tailored for SMMEs is not ideal given the severe risks that SMMEs face due to droughts and other general business risks.[293] Private equity and venture capital

There is no local private equity market, and our research has not identified any SMMEs that are owned by SA or offshore private equity companies.

4.3.4 Supply-side-side challenges

The main challenges facing financial institutions in Eswatini relate to poor project preparation/ proposal structuring, lack of collateral (where required), institutional capacity, credit guarantee claims process and regulations and unwillingness of the Private and public sector to partner with DFIs to help unlock finance for contract finance through cessions over proceeds.

Lack of appropriate documentation for financing: Lease agreements are required for bank and DFI funding. However, many SMMEs do not have the capital to invest in land or rent spaces in which to operate. This further limits their ability to access funding. SEDCO has estates in all four regions where SMMEs within its incubator programme can rent space. However, given its resource constraints, assistance can be provided to expand this programme.

Poor project preparation has been highlighted as a key issue that prevents financiers from granting loans to SMMEs. The key areas that have been pointed out lacking are costing of goods and services, cash flow forecasting and general structuring of a business case. Furthermore, key information is often missing in accompanying documents which elongates the process and often results in financiers rejecting loans. This is a recurring theme across the SMME development landscape that needs particular attention. There is a clear gap in what the business development is providing vs what financiers are hoping to see in business proposals.

The lack of collateral is another key challenge that has been identified by financiers which hinders their ability to provide credit to SMME, particularly long-term credit. Alternative means to solve this problem are improving the issues that are currently preventing the usage of SSLEGS but also developing the centralised movable collateral registry.

Institutional capacity to provide the level of support needed to get SMMEs finance ready is also a challenge. Currently, none of the financiers are providing any in house support to SMMEs, beyond referring them to BDS providers such as SEDCO. From a public sector finance perspective, it is a result of limited resource constraints to provide such support while from a private sector perspective, the business case has not yet been developed. This might suggest a need to engage with banks to help them develop internal support programmes that help upgrade their existing network of SMMEs.

Finally, allowing financiers other than banks to put in place cessation agreements with the government and large corporates could go a long way in de-risking SMME related investments. At the moment this is only possible for certain sectors such as the sugar sector through the Millers cooperatives.

Generally, two areas that can be identified as potential areas for high impact are resolving business development related challenges as well as the restructuring of the credit guarantee scheme.

292 Stakeholder engagements, 2020, *Genesis Analytics*
293 Ibid

4.3.5 Key supply-side findings

Based on the analysis above, the following findings emerge.

- Banks have not taken a targeted approach to SMME, youth or gender-based lending given the small scale of the market
- Banks lack diversity and innovation in their products and require further incentivisation to extend credit to SMMEs - products such as leasing are limited within the market
- The share of lending to the manufacturing sector is low
- MFIs are not serving SMMEs and have adopted a salaried based lending approach.
- Credit guarantees are not working well given poor structuring and therefore banks are not keen to adopt the product
- Mobile money loans are probably benefiting lots of micro businesses, but have not been specifically developed for larger SMMEs
- There is no evidence of a private equity or venture capital market.

4.4 Recommendations

Based on the analysis, there are several recommendations that donors, policymakers and the private sector can support which have been shown in the table below.

Table 57: Recommendations - Eswatini

#	Theme	#	Recommendation
1	Enabling environment	1.1	Improve the usage of the credit bureau through incentives and/ or awareness programmes and redesign
		1.2	Expedite and support the implementation and usage of the movable collateral registry
		1.3	Assist government in developing SMME procurement incentives
		1.4	Enhance the communication and ICT infrastructure
		1.5	Digitise the business registration payment process and reduce days to register an entity
		1.6	Consider merging and restructuring government support organisations
		1.7	Explore options to digitise government support programmes
		1.8	Expedite the development of a special tax regime for SMMEs.
		1.9	Provide technical assistance to SEDCO and YERF on curriculum design (business plans, product pricing) and restructuring operational model
		1.10	Support the development of an online and physical one-stop shop for SMME support.
		1.11	Provide technical assistance and funding to SMME incubation/innovation centres to drive SMME product testing and innovation.

#	Theme	#	Recommendation
2	Demand-side	2.1	Create or enhance vocational programmes for the identified value chains
		2.2	Provide digital skills training relevant for the digital economy
		2.3	Support the development and use of pay-as you go solutions
		2.4	Explore/support the use of buyer programmes to ensure steady demand for SMMEs
		2.5	Support the development and implementation of online marketplaces in order to allow SMMEs to sell domestically and internationally
		2.6	Support the creation and scaling of platforms/ aggregators to enhance market access
3	Supply-side	3.1	Incentivise lenders and mobile money provider to partner to offer merchant credit
		3.2	Support the development of leasing products in the market
		3.3	Restructure credit guarantees to enhance banks' lending to SMMEs
		3.4	Support and Incentivise lenders to create cash flow-based lending products which require minimal to no collateral
		3.5	Government is often not effective at direct lending and this should be outsourced to the private sector through wholesale lending mechanism such as credit lines and guarantees
		3.6	Technical assistance to Fintech regulation Sandbox (benchmarking and best practice)
		3.7	Continued support to Fintech innovation hackathon
		3.8	Provide banks with strategic technical assistance on targeting and segmenting high growth SMMEs.

We believe that the list above is too long for FinMark Trust to address and similar to Botswana and Lesotho, there are a few areas where FinMark Trust can have the greatest impact in a short space of time. These recommendations have been highlighted in blue and further expanded upon in the implementation section.

These 'high priority' recommendations include:

Supporting the creation of a supplier development programme in high growth sectors - the creation of a supplier development programme would enable FinMark Trust to have the most impact in a short space of time within the SMME segment. If FinMark Trust is able to partner with the UNDP in Botswana it should be possible to extend and replicate the programme in eSwatini. Design and implementation of such an SDP are detailed in the implementation plan below.

Equally important is supporting the redesign of the current credit guarantee scheme. The support here could take the form of working with banks and other FSPs to understand key pain points with the guarantee scheme in order to increase uptake.

4.5 Implementation plan

The table below outlines an implementation plan for FMT based on the 'high' priority recommendations.

Table 58: Implementation plan - Eswatini

Recommendation	A#	Activity	Partners to work with
1. Develop services SDP targeted at high growth sectors	1.1	Reach out to identified large retailers (buyers)	A full list of key players has been mapped in the value opportunity section across the different high growth sectors. Examples include: Retail: Swazi plaza, Savemore supermarket, Loffler Group: Ematjeni Shopping, Manzini supermarket, Boxer super stores ICT : MTN, Eswatini Mobile Huawei Technologies, Techno Brain Construction: Camdel Construction (PTY) Ltd, Linda & Neli Construction, Inyatsi Construction Ltd, Nthwese Development Financial and Insurance: Banks, Local DFIs, Insurance companies, MFIs
	1.2	Identify qualifying SMMEs (suppliers)	Private sector: Business Eswatini Government bodies: SEDCO, YERF, MCIT SMME unit
	1.3	Host separate FGDs with identified sellers and buyers to uncover current issues	FinMark Trust SDP team
	1.4	Select and certify local business development providers[294]	Private sector: Business Eswatini Government bodies: SEDCO, YERF, MCIT SMME unit
	1.5	Engage banks to provide invoice discounting solutions to selected SMMEs	Banks
	1.6	Design and introduce the programme, formalise agreements and set targets with the SMMEs	FinMark Trust SDP team, buyers and SMMEs
	1.7	Implement programme within each buying and supplying companies	FinMark Trust SDP team
	1.8	Documentation of results and analysis for possible replication to other suppliers	FinMark Trust SDP team
2.Support the restructuring of the credit guarantee scheme (SSLEGS)	2.1	Engage central bank[295] to determine areas of intervention	Central Bank
	2.2	Provide technical assistance (best practice) to Central bank team on ongoing restructuring efforts	FinMark Trust team

294 Incorporate learnings from the Textile Technical Training and Incubation Centre, which is no longer operational due a lack of resources. Some of the services provided include: production techniques, quality control, how to access markets, order procedures etc - This centre was run by Chinese nationals

295 SSLEGS is housed within the Central Bank

5. MALAWI

5.1 Country context

This section provides a contextual overview and macro-economic outlook of Malawi. It further highlights the main components of an enabling environment for SMMEs in order to diagnose the chief constraints and opportunities for SMME development.

5.1.1 Country overview

Table 59: Key economic metrics - Malawi

Key metrics	2019
Nominal GDP (USD billions, 2019)[296]	7.7
Avg. Real GDP growth - (%, 2015-2019)	4.2%[297]
Avg. Real GDP growth (%, 2020-2025)	5.6%[298]
Nominal GDP per capita (USD, 2019)[299]	412
Fiscal balance % of GDP (2017,18)[300]	-3.0%
Public debt to GDP (%, 2018)[301]	62%
Current account balance % GDP (2019/20)	-17.1%
Population (million, 2019)[302]	18.6
Percentage of population below 15 years[303]	44.4%
Median age (2015)304	17.2
Income status (2020)305	Lower-income

Malawi is a small, landlocked country with a population of 18.6 million[306]. The country is divided administratively into three regions: Southern - hilly and densely populated, Central - fertile, well-populated plains and Northern - mountainous and sparsely populated. The main commercial and industrial city of Blantyre is in the South and the capital city, Lilongwe, is in the Central Region while Mzuzu serves as the administrative and commercial headquarters of the North.[307]

As of 2019, Malawi had a GDP of USD 7.7 billion, with a GDP per capita of USD 412.308 Based on this measure, this makes Malawi one of the poorest countries in the world. It is heavily reliant on donor support. Economic growth has been highly volatile as a result of economic mismanagement and excessive public spending around elections and the exogenous shocks as

296 World Bank Open Data
297 Eswatini Ministry of Economic Planning & Development 2020-2023 projections, September 2020
298 Eswatini Ministry of Economic Planning & Development 2020-2023 projections | Genesis Analytics Team 2024-2025 projections
299 World Bank Open Data
300 2019 Article IV Consultation - Press Release; Staff Report; and Statement by the Executive Director, Botswana, Lesotho, Eswatini
301 IMF Country Report No. 19/361
302 World Bank Open Data
303 Ibid
304 United Nations Population Projection, 2020
305 World Bank Country and Lend*ing Groups,* World Bank
306 World Bank Data Indicators, 2019
307 Mastercard Foundation Malawi Diagnostic, 2019
308 World Bank Data Indicators, 2019

a result of the climate change to agricultural production. Agriculture has close linkages to other sectors of the economy and employs more than half of the Malawian population through small-scale subsistence farming. This over-reliance on the agricultural sector, which is predominantly rain fed, leaves Malawi particularly vulnerable to events such as droughts, floods, and natural disasters.[309]

Despite volatile growth, real annual GDP growth remains high averaging 4.2% between 2015 and 2019. Prior to the COVID-19 pandemic, the economy was on a trajectory for its third consecutive year of faster growth in 2020. The full extent of the pandemic's negative impact is uncertain as the crisis is still unfolding, but a host of factors are dampening Malawi's economic growth - including disrupted supply chains that reduced imports of key production inputs, particularly from South Africa and China. The International Monetary Fund (IMF) projects GDP to grow at 0.6% in 2020 and pick up to 2.5% in 2021.

5.1.2 Sector and international trade overview

Table 60: Real GDP contribution by sector - Malawi

Sector	2015	2019	Increase/ decrease
Agriculture, forestry and fishing	30.7%	29.2%	Decrease
Wholesale and retail trade	17.1%	17.1%	Decrease
Manufacturing	10.2%	9.8%	Decrease
Real estate activities	8.3%	8.2%	Decrease
Financial and insurance services	5.5%	5.9%	Increase
Other Services	5.3%	5.5%	Increase
Information and communication	4.6%	5.1%	Increase
Other sectors[310]	18.3%	19.3%	Increase

Agriculture remains critically important to Malawi's economy. The sector contributes almost a third to GDP and generates 2/3rds of household income. It impacts growth in the other sectors by providing key inputs for the manufacturing sector and through household income levels determines demand in the service sectors. The services and manufacturing sectors are the other main sectors.

The poor performance of the agriculture sector in the recent past, particularly the maize sub sector, has had significant implications for Malawi's economy. Persistent droughts dented maize production and depressed hydroelectricity generation. The resulting rise in operating costs and low-capacity utilisation weakened the manufacturing and trade sectors. The challenges around electricity and water supply are critical enabling environmental issues in Malawi.

International trade

As a landlocked country, Malawi is dependent on transport corridors and ports in neighbouring countries for all its trade. Malawi relies on three very long trade routes with very poor roads to access international gateways/ports which is important in determining the cost of production for Malawian firms and the cost of imported products.

309 FinMark Trust MAP SMME DIAGNOSTIC REPORT 2019
310 Includes: Education, Health and social work activities, Construction, Transportation and storage, Public administration and defence, Accommodation and food services, Electricity, gas and water supply, Mining and quarrying and Professional and support services

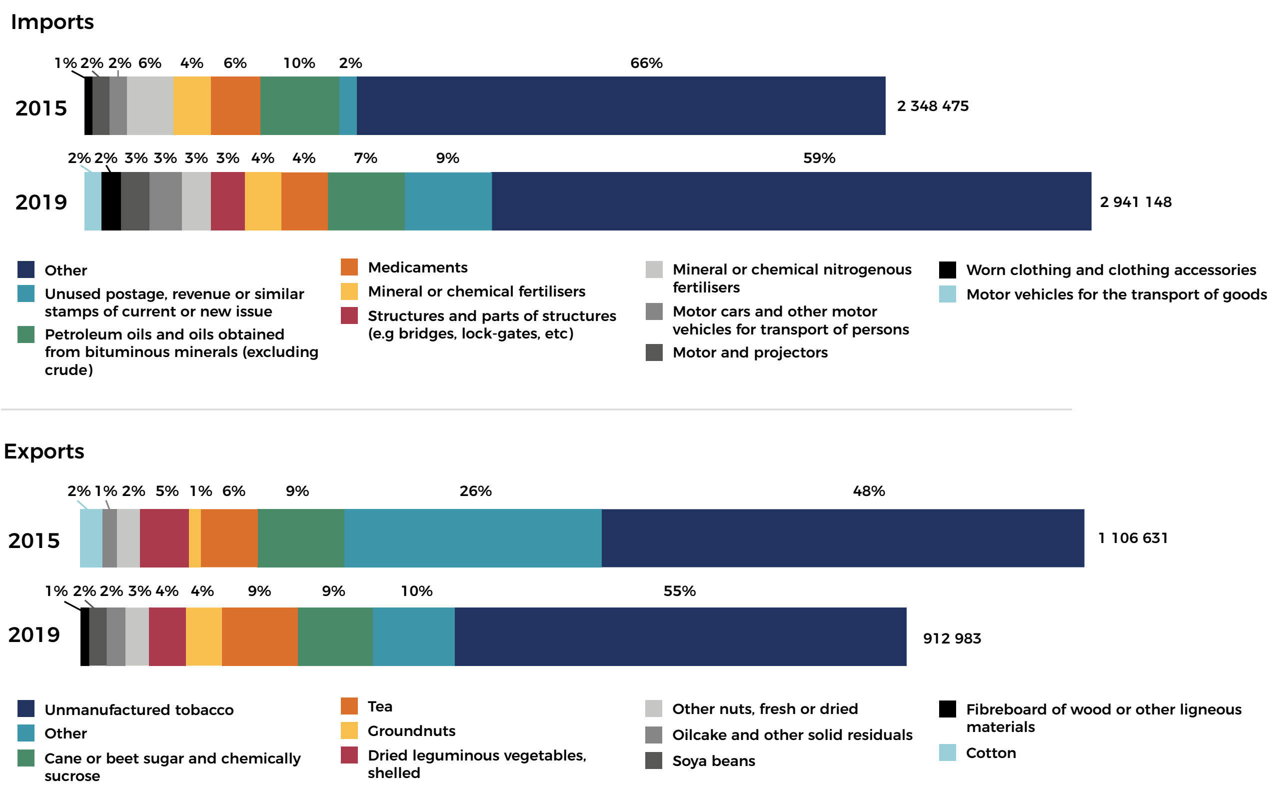
In recent years, there have been some improvements in ports' and corridors' performance given the upgrade of physical infrastructure, regulations and trade facilitation mechanisms through the trade modernisation programme. However, unreliable and unpredictable delivery times still prevent producers from competing in regional and international markets.

These above factors serve to highlight the importance of the Government actively engaging in regional cooperation initiatives such as Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA), African Continental Free Trade Area (AFCFTA), and the New Partnership for Africa's Development (NEPAD) of which Malawi is a member.

In 2019, Malawi had a largely negative trade balance with total imports of USD 2.9 billion exceeding exports of USD 912 million in 2019. Imports were quite diverse with "Other" imports (which constitute a wide variety of low value goods) contributing more than 60% to total imports in 2019. This was followed by petroleum oils (7%) and medicines (4%).

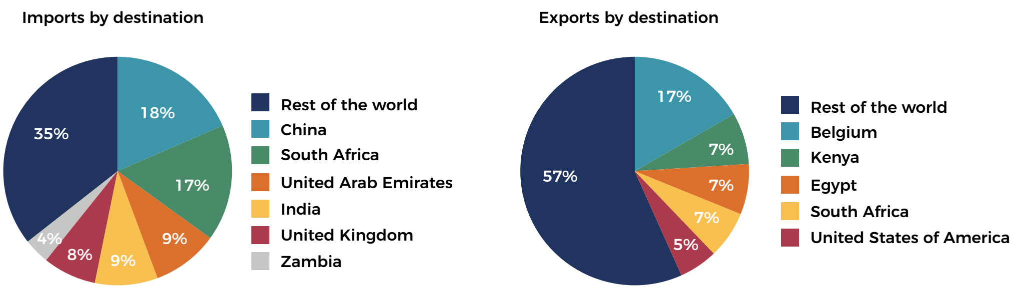
Exports on the other hand were dominated by tobacco products which contributed more than half of total exports followed by "other exports" (10%), and sugar and tea both contributing 9% respectively. The figures below show Malawi's imports and exports.

Figure 28: Malawi's imports and exports by product



Malawi's trade by destination is diversified as indicated by the large share of trade with the "rest of the world". Top import trade partners were China (18%), South Africa (17%) and the United Arab Emirates (9%), while Belgium (17%), Kenya (7%) and Egypt (7%) consumed most of Malawi's exports in 2019.

Figure 29: Malawi Trade by destination 2019



Value chain/sector opportunity identification

In order to identify opportunities within the manufacturing and services sector, a three-pronged approach has been used:

- Identifying which large export value-chains SMMEs can plug into
- Which import products can be substituted from the current import basket?
- What technology trends are creating new opportunities for SMMEs in the market?

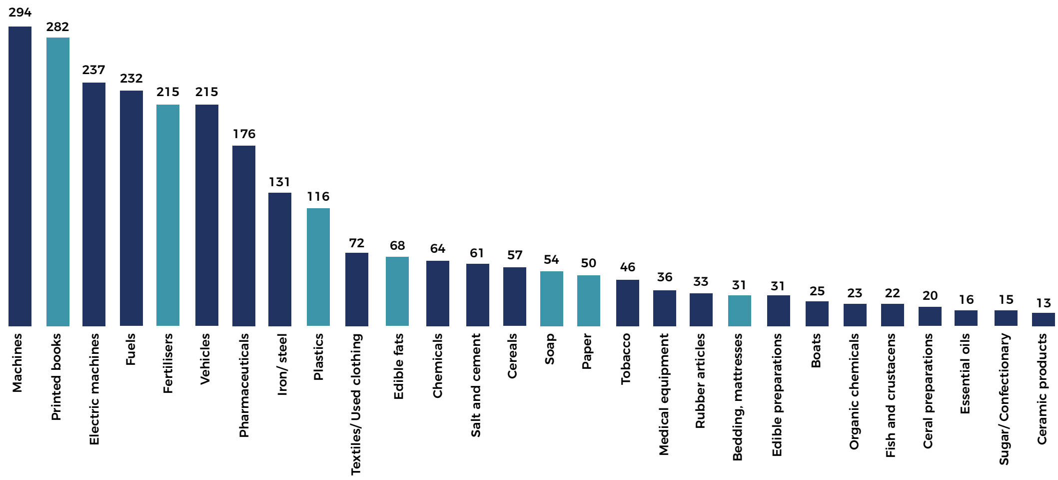
The analysis below shows import and export data. The table seeks to showcase export products which have grown rapidly and the figure aims to identify which imports could be substituted based on their high contribution to the import bill.

Table 61: Exports, USD Thousands - Malawi

Product	2015	2019	CAGR
Tea, whether or not flavoured	64 755	80 097	5.5%
Groundnuts (excluding roasted or otherwise cooked)	10 536	40 282	39.8%
Other nuts, fresh or dried (excluding coconuts, Brazil nuts ...	19 425	31 168	12.5%
Soya beans	5 446	17 368	33.6%
Fibreboard of wood or other ligneous materials	3 227	4 580	9.1%

Source: Trade Map

Figure 30: Imports, USD Thousand - Malawi



Source: Trade Map

Malawi's high growth imports are all manufactured products from China, Japan and the UK which have scale and cost advantages - making them more competitive producers of these products. However, given the logistical difficulties and costs related to importing goods into Malawi, import substitution strategies for products that can be produced close to market at a relatively low cost may be feasible - these items have been highlighted in the figure above in orange (examples include, printed books, fertiliser, plastics, edible fats, soap and bedding/ mattresses). These possibilities are explored in the sector and value-chain analysis sections.

Manufacturing

As highlighted earlier, the poor performance of the agricultural sector has had a negative impact on the manufacturing sector. On average, the sector has grown much slower (2.9%) than the overall economy over the 2015-2019 period.

Figure 31: Malawi manufacturing sector composition[311]

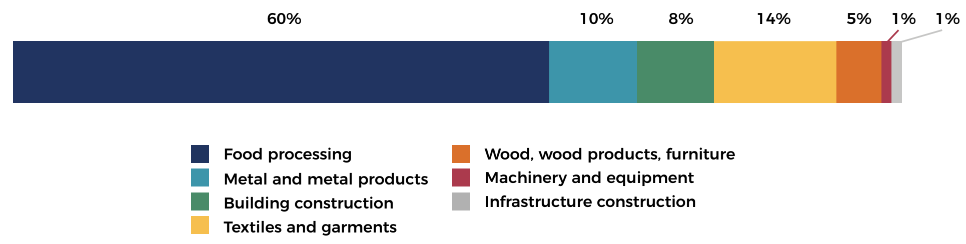


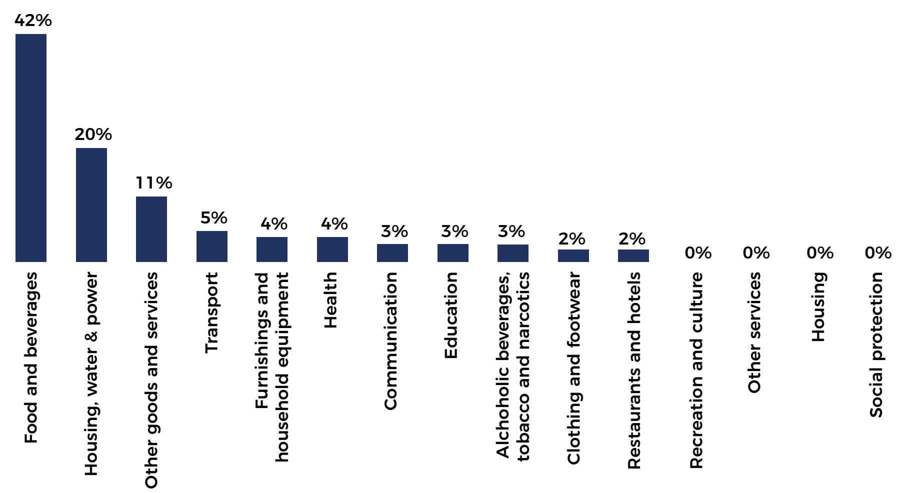
Figure 32: Distribution of agro-processing products[312] - Malawi

Although sub sector performance data is patchy and outdated, the figures above suggest that the majority of the activity in the sector is concentrated in food and beverage production.

Most manufacturing (65%) is concerned with the main agricultural exports - and what light manufacturing there is associated with import substitution does not feature in the top five categories or account for more than 3% of the production[313]. Government's efforts to boost competitiveness in the sector have been hindered by the difficult operating environment (see subsequent section), expensive and irregular electricity and water supply, and the lack of skilled labour to operate machinery.[314]

Despite the aforementioned challenges, the Government expects that as agricultural production rebounds and electricity supply improves, production in the manufacturing sector will also improve. Particularly in sub sectors that use agricultural inputs to produce products that require low to moderate productive capacity and can be produced at relatively low cost. Examples of such products include, processed peanut snacks and peanut oil sourced from ground nuts, soya oil-sourced and animal feed products-sourced from soya beans.

Figure 33: Malawi household consumption,% share, 2010



Source: UN data

311 FinScope Malawi 2019, *FMT*
312 Ibid
313 UNDP, Competitive Industrial Index, 2020
314 IMF, Article IV Malawi, 2018

Household consumption data is outdated, however based on 2010 data, and the very low levels of income, Malawians primarily spend on food, beverages, housing and transport. This severely constrains the opportunities for local demand for any goods and services. The consumption data in 2020 is unlikely to have changed significantly given that the income status of the country has not changed in the past decade. Based on the consumption data, opportunities are expected to be within these services and products. Other light manufacturing opportunities include wood-based furniture, mattresses and plastic bottles for the domestic market.

Agriculture

According to a World Bank study, agricultural—and especially maize—markets in Malawi are particularly fragmented and have volatile supply. Although 94% of farmers produce maize, only 14% sell it to consumers in the local market. Tobacco, rice and groundnuts are the main products that are sold locally in Malawi where 96%, 58% and 36% of farmers sell these products locally respectively.[315]

According to the Malawi labour force survey conducted in 2013, Malawi has been undergoing structural transformation from agriculture to the non-farm sector, but the pace of job creation has been slow— the annual job growth rate was 1.5% which is lower than population growth at 3% during between 1998 and2013. Although 1.1 million jobs were created, the agricultural sector lost 180,000 jobs, while the industry sector gained 218,000 jobs, and the service sector gained 1.06 million jobs. As a result, the share of jobs in the agricultural sector shrank from 84% to 64% over the same period. This trend has continued through to 2019.

In addition to slow job growth, Malawi exhibits a very slow pace of urbanisation as the percentage of urban population has stagnated at around 15% since 1999. Although the relationship between urbanisation and economic growth is non-linear, urbanisation in many sub-Saharan African countries has been an important catalyst for growth and poverty reduction.[316] Therefore, even small increases in the pace of urbanisation and level of urban investment could enhance Malawi's long-term economic prospects by accelerating growth and bringing more meaningful structural change.

Instead, a massive structural transformation has been taking place within rural areas - nearly 83% of new jobs were created in rural areas between 1998 and 2013. The number of jobs in agriculture declined while those in wholesale and retail, government services and construction increased substantially. The biggest job creation occurred in the rural service sector with an annual growth rate of 11.2% followed by the rural industry sector (including manufacturing) with an annual growth rate of 7% over the same period.

The ongoing structural transformation increased productivity of the whole economy and, interestingly, agriculture, but reduced productivity of the non-farm sector, especially services. The shift of employment from a low productivity sector (agriculture) towards more productive sectors (manufacturing and services) contributed to growth and productivity at the national level. But, the productivity of the service sector declined at an annual rate of 3.5%. Such a reduction in productivity occurred likely due to low human capital of former farmers and the poor "quality" of new jobs in the services sector, much of which is informal.

Declining productivity of the non-farm sector is worrisome because it weakens the competitiveness of the sector. Despite some sectoral growth in employment, the share of manufacturing to GDP has remained stagnant and relatively small at around 10%. The sector mostly produces for the domestic market and manufacturing firms are operating on average at just 68% capacity utilisation. Mainly due to a lack of appropriate skills, poor electricity

315 Malawi Systematic Country Diagnostic: Breaking the Cycle of Low Growth and Slow Poverty Reduction, 2018

316 World Bank Malawi Systematic Country Diagnostic: Breaking the Cycle of Low Growth and Slow Poverty Reduction, 2018

supply and market access issues. This suggests that, with the right policy framework, Malawi's private sector could produce as much as a third more than current levels. Therefore, the manufacturing sector has great potential for economic growth as well as job creation and income diversification.

The structural shift of Malawi from rural agriculture to rural manufacturing creates a unique opportunity to support this transition within rural areas and catalyse growth.

Services

Services as a category comprises 11 sub sectors namely: wholesale and retail trade, financial and insurance, real estate, accommodation and food service, information and communication technologies (ICT), professional and support services, public administration and defence, education, health/social work activities and "other" services.

Table 62: Services sub sectors by share of GDP and average growth rate - Malawi

Sub sector	Share of GDP	Average growth rates	Share of jobs (% of total employment) [317]
	2019	2015-2019	2018
Wholesale and retail trade	17.1%	4%	1.3%
Real estate activities	8.2%	3.9%	0.4%
Financial and insurance services	5.9%	5.9%	0.5%
Other Services[318]	5.5%	5.0%	13.3%
Information and communication	5.1%	6.3%	1.1%
Education	3.2%	7.6%	0.6%
Health and social work activities	3.1%	6.2%	1.1%
Transportation and storage	3.0%	5.3%	1.4%
Public administration and defence	2.3%	6.3%	1.1%
Accommodation and food services	2.1%	5.0%	0.4%
Professional and support services	0.3%	4.6%	0.7%

Notes: Sub sectors with growth of more than 5% are shaded in blue

Overall, the services sector has grown at an average rate of 5% since 2015, increasing its contribution to GDP from 53.8% to 55.8% in 2019. Similar to manufacturing, growth in the wholesale and retail trade (the biggest services sub sector) was dampened by low growth in the agricultural sector. However, this has picked up as agriculture recovers.

Growth in Malawi's services sector is driven by increases in disposable income from agriculture and demand for products and services in other sectors. However, improved access to technology for businesses could be a critical enabler in stimulating growth by reducing costs, increasing productivity and expanding access to markets. This relates to the expansion of online booking and payment platforms to stimulate tourism and hospitality, development and scaling of e-commerce platforms, improving digital skills and access to affordable and reliable ICT infrastructure.

317 Malawi Statistical Abstract, 2020 | Note: share of jobs does not add to 100% as this only takes into account service sectors.

318 Other services include: Arts entertainment and recreation, activities of households as employers; undifferentiated goods-and services-producing activities of households for own use and activities of extraterritorial organizations and bodies

Indicators on technology usage by businesses in Malawi are limited however there is evidence of appetite - according to a Malawi Confederation of Chambers of Commerce and Industry, 32% of companies plan and budget to benefit from new technology.

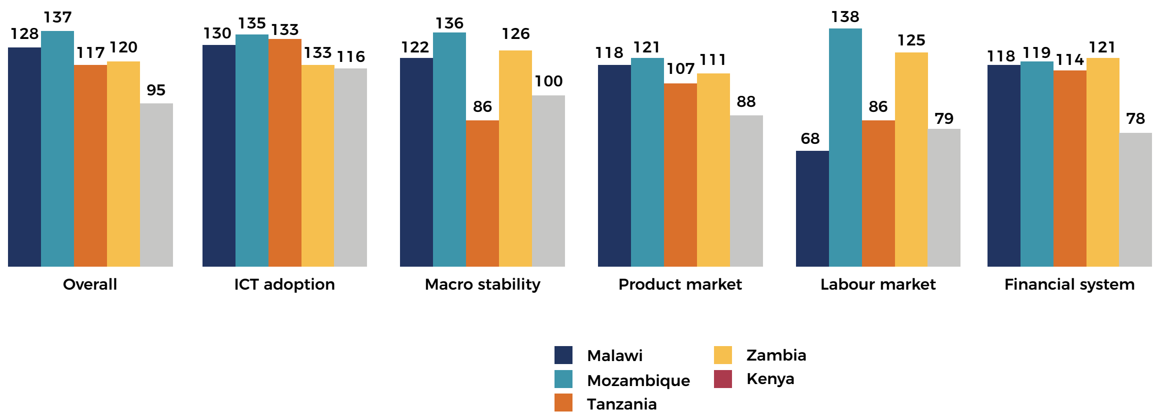
Individuals are becoming increasingly accustomed to the use of digital financial services. The use of digital channels for bill payments is growing. This is a broad driver and enabler of e-commerce and other digital platforms that facilitate the trade of products and services which is still nascent in Malawi. This is highlighted by the fact that Malawi ranks 140th out of 152 countries in the UNCTAD B2C E-commerce Index 2019.

Based on the above assessment, Malawi is in the emerging phase of readiness for digital technology, product and service usage. However, given the significant challenges in internet access as result of high costs of data and poor ICT infrastructure it is likely that digital tech solutions will still be limited to USSD enabled tech. In order to move to the mature phase of readiness, significant reforms are still needed as highlighted in the enabling environment section of this report.

5.1.3 Understanding Malawi's competitiveness

In order for Malawi to capture the value-chain opportunities above, certain competitiveness factors need to be in place. This section analyses these competitiveness factors in relation to Malawi's neighbours/key trading partners in Africa i.e., Mozambique, Tanzania, Zambia and Kenya. The figure below displays selected competitiveness rankings between Malawi and these countries.

Figure 34: Competitiveness comparison on selected metrics - bordering countries, ranking out of 141 - Malawi



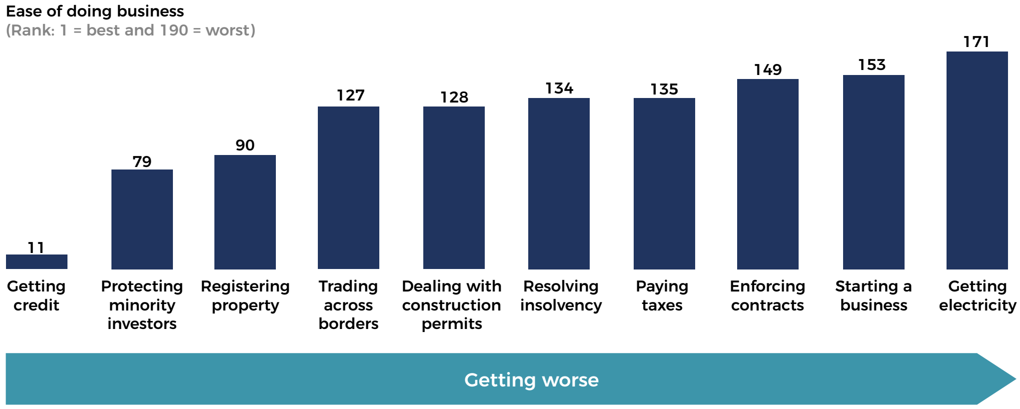
Overall, Malawi competitiveness is weaker than most of the surrounding countries except Mozambique. Low ICT adoption, weak macroeconomic stability, low business dynamism, and so on, place Malawi in a difficult position to boost manufacturing or its services sectors. Amongst the five countries, Malawi's labour market ranks the highest. To improve its competitiveness, significant reforms are required in order to gain some form of competitiveness that could translate into opportunities for SMMEs.

5.1.4 Enabling environment

This section analyses the ease of doing business, SMME-specific support programmes and their efficacy and, finally, any regulations or policies supporting or hindering SMMEs' growth.

Ease of doing business

Figure 35: Ease of doing business[319] - Malawi



Doing business in Malawi is becoming less difficult. Malawi was ranked 109 out of 190 countries in 2019 - an improvement from 171 in 2014. Some improvements include more access to credit information, faster tax processes, decentralised property transfer system, and improvements in enforcing contracts. However, an ease of doing business rank of 109 indicates that there are still key challenges that businesses in Malawi face. Some of the main issues include

- Getting electricity: is slow and extremely costly. It currently takes 127 days to get electricity and can cost up to more than 1000% of the average per-capita income.

Box 3: The State of Electricity Supply in Malawi[320]

Malawi has one of the lowest electricity access rates in the world. Currently, the electricity access rate stands at 11% of households with severe disparities between urban (42%) and rural areas (4%). The current power generation mix in Malawi is 76% hydro and 24% diesel. The country has the capacity to generate 439 megawatts (MW), though Malawi's heavy reliance on large hydro is often constrained by drought and low water levels. The country's per capita consumption of electrical energy is still low, estimated at 93 kWh per year compared with an average of 432 kWh for Sub-Saharan Africa and 2167 kWh per year for the World average

As part of the government's commitment to achieve "Sustainable Energy for All", as enshrined in Sustainable Development Goal (SDG) number 7. The government intends to tap into Malawi's off-grid renewable energy generation potential, including hydropower, solar, wind and biomass.

319 Doing Business 2020 - World Bank | Note: The World Bank has highlighted some irregularities in the 2018 and 2020 reports which may impact the integrity of Ease of doing business report findings. However, the conclusions made in this report have been sense checked with multiple sources and key stakeholder interviews to ensure that the conclusions reflect the reality in Malawi.

320 USAID, Malawi Power Africa fact sheet 2020 | World Bank Malawi Electricity Access Project note, 2019

Rural energy demand is expected low for at least a couple of years before they start using higher power consuming appliances. Therefore, solar represents the best and fastest pre-electrification alternative. The Business Innovation Facility (BIF) conducted a small off-grid lighting and phone charging study in 2016, capturing a snapshot of household technologies, habits, and expenditure. The study highlights that 13% of off-grid households use solar lighting, 9% portable solar lights, and 4% fixed solar lights. Promoting the use of solar, including for productive use, presents an important pre-electrification option. The World Bank-supported off-grid market assessment suggests up to 3.7 million households could require off-grid solar solutions by 2030. This translates to a potential market of about USD 22 million a year.

Despite this potential for solar, limited access to finance is the primary factor that prevents the solar companies from expanding their businesses and customer base. There are no local manufacturers in Malawi, and all systems are being imported, mostly from China.

There is a USD 30 million financing gap for off-grid solar companies according to the World Bank market assessment. 70 to 80% of the gap is required to finance inventory (working capital financing), while 20 to 30% would be required to invest in the development of the distribution network (e.g., agents and distributors).

Currently, commercial banks are currently not lending to the solar enterprises; only one microfinance institution (MFI) and one commercial bank have started to pilot consumer finance for solar. Solar companies have been relying on a mix of own equity and grants to invest and support their business. To make products affordable, solar companies are also providing consumer financing through a pay-as-you-go (PAYG) system, allowing instalment payments for up to 18 months (with only 20% up-front payment). This means companies are taking credit risk and locking in their working capital, thereby limiting their capacity to grow. The cost of credit in Malawi is also a prohibitive factor (30% interest to over 100% for micro loans), making commercial debt unaffordable for off-grid solar companies, most of which are in their early years of operation or new entrants.

- Starting a business: registering a business can take up to 37 days and requires seven procedures to complete. The Registrar of companies has developed an online registration process to resolve some of these issues, however, the platform is not yet operational.
    - » Enforcing contracts: was made easier through the adoption of new civil procedures that regulate time standards for key court events. However, it still takes 522 days to resolve contract issues and can cost up to 69% of the claim value.
    - » Paying taxes: was made easier and less time consuming for companies by encouraging the use of electronic systems. It now takes 169 hours a year on average to pay taxes in 2019 compared to 177.3 in 2018.
    - » Resolving insolvency: is still a lengthy process which takes on average 2.6 years to complete with a recovery of only 15.6 cents on the dollar and costing 25% of the estate.
    - » Dealing with construction permits: is a long process taking up to 153 days and requires 13 procedures.

Getting credit is Malawi's best performing indicator ranked at 11 out of 190, however this ranking is at odds with the various findings from surveys that have been conducted across the market. For example, the MAP Malawi MSME diagnostic 2019, highlights access to credit as key inhibitor to business growth with 38% of SMMEs reporting access to credit as their biggest issue[321]. This raises a concern that this ease of doing business ranking may not be an accurate reflection of the reality on the ground. The establishment of a new credit bureau in 2018 has made it easier to access credit information and thus enabled lenders to more effectively

321 MAP Malawi MSME Diagnostic, 2019

conduct risk assessments of clients. Malawi ranked seven out of eight in the depth of credit information index (eight being the best performing rank). However, knowledge and coverage of the credit bureau remains limited, covering only 40% of individuals (including firms). Credit information sharing through for SMMEs credit reference bureaus (CRBs) remains in its infancy, having begun in 2016. The ease of doing business reports that only 273,757 firms were registered with the credit bureau in 2019. Despite continued efforts by CRBs and the Reserve bank of Malawi (RBM), financial service providers (FSPs) still face challenges around data quality, the usability of templates and compliance. Therefore, the depth of credit information collected and shared is still low322 and a key inhibitor for SMMEs securing credit at favourable rates.

From a general infrastructure perspective, limited electrical and road quality remains a key driver of low productivity which ultimately limits the facilitation of domestic production and international trade. In 2019, the World Economic Forum (WEF) ranked Malawi 132 out of 141 countries for the state of its infrastructure. Malawi's road network has improved following significant spending on the road infrastructure averaging 4% of GDP since the early 2000s. The MGDS 2017-2022 highlights the GoM's intentions to rehabilitate and upgrade both rural and urban roads with a budgeted amount of USD 713 million[323]. The prioritised roads can be classified as main roads of which 90% pass through rural areas. Improvements in rural road infrastructure could support the structural economic transformation of rural areas by reducing high costs and limited access to reliable transport of goods and services.

Mobile penetration in Malawi stands at about 85% of the adult population and internet penetration is at 28% of the adult population. Only 2.1% of the total population were active social media users. This low internet penetration is largely driven by the cost of data and that the cost of devices on which to access the internet are out of reach to most of the population.[324]

In terms of data affordability, Malawi ranked 98th out of 190 countries. For the internet to be considered affordable, the cost of 1 gigabyte (GB) of unbundled mobile data should be 2% or less of a person's average monthly income. In Malawi, the cost of 1 GB of unbundled mobile data is about 17% of a person's average monthly income[325].

Of the 28% internet users only 36% access the internet from laptop or desktop computers.

In an SMME development context, it is critical that the provision of electricity, road networks and ICT infrastructure continue to be developed to provide a suitable environment for small businesses to operate and compete globally.

SMME support schemes

This section provides an overview of SMME support schemes, their challenges and successes. The table below provides a summary of the types of services provided by the various schemes.

322 Key stakeholder consultations with commercial banks, 2021
323
324 datareportal.com/reports/digital-2020-malawi
325 The average monthly income in Malawi is USD 40.6 and 1 GB of unbundled data costs USD 6.9.

Table 63: Summary of key support institutions - Malawi

Scheme	Intervention areas				
	Access to finance	Access to skills/BDS	Access to markets	Enhancing the business environment	Sector
Ministry of Industry, Trade and Tourism	✓	✓		✓	Agnostic
Small and Medium Enterprise Development Institute (SMEDI)	✓	✓	✓	✓	Agnostic
Technical, Entrepreneurial and Vocational Education and Training Authority (TEVET Authority)		✓			Agnostic
National Economic Empowerment Fund (NEEF)	✓		✓		Agnostic
Malawi Agriculture and Industrial Corporation Plc (MAIC)	✓	✓			Agriculture Manufacturing
Malawi Confederation of Chambers of Commerce and Industry (MCCCI)		✓		✓	Agnostic
Malawi SME Association (SMEA)			✓	✓	Agnostic
mHub	✓	✓			ICT and general SMEs
Mzuzu Entrepreneur Hub	✓	✓			Agnostic

Ministry of Industry, Trade and Tourism: is responsible for the overall coordination of SMME development in Malawi. Their policies and coordination extend across nine priority areas: namely, legal, regulatory and institutional environment; access to finance; access to markets; entrepreneurship development; business information and skills; operation of value chains; business infrastructure; SMME networks and clusters; and other cross-cutting issues. Majority of the priority areas are implemented through the private sector while the ministry plays a supportive role. The Ministry's current focus is to implement an incubation strategy that aims to reduce the failure rate of businesses in Malawi and link trained SMMEs to financing. The strategy, although still to be formalised and documented, is being implemented through incubation centres such as mHub, Mzuzu Entrepreneur Hub and the Innovation Hub in partnership with UNICEF and the University of Malawi, Polytechnic. SMMEs who receive training through the relevant incubation centres will also qualify for a 50% reduction in the cost of certifying their products with the MBS. Each of the incubation centres have specific target sectors from agro-processing to ICT, while general preference is given to youth and women owned SMMEs. However, formalised details of this strategy, including official timelines and funding are still being considered by the Ministry.

From an access to finance perspective, the Ministry in partnership with the World Bank has operationalised an SMME funding facility (i.e., line of credit) that will channel funding to SMMEs through all banks and MFIs. The Ministry expects that the fund will disburse its first loan by mid-2021. The fund will focus on supporting SMMEs that have been affected by COVID-19. The Ministry is also working with various development partners such as the World Bank and MAIC to de-risk SMME lending through credit guarantee schemes and SMME training through provided by SMEDI. The target beneficiaries include SMMEs involved in agro-processing, export-orientated SMMEs, general light manufacturing and women and youth owned SMMEs. The key issue facing the Ministry is capacity challenges to effectively execute its broad mandate.[326] In addition, the Ministry also lacks specific capacity around sustainable enterprise development.[327]

SMEDI: SMEDI is a parastatal organisation under the Ministry of Industry, Trade and Tourism. SMEDI's main roles include SMME research and policy advocacy; help and support in the implementation of SMME related policies; business management training and advisory services which include best financing options for SMMEs; and improving information availability, product standards and quality in the market. At present, SMEDI has three regional offices in Mzuzu, Lilongwe and Blantyre, and an incubation centre in Mponela focused on agro-processing.

In addition to providing working spaces and training, SMEDI also has a walk-in store in Mponela[328] where SMME products are displayed to potential buyers. However, the reach is limited to that particular region. At present, SMEDI is unable to provide assistance at scale to SMMEs due to limited resourcing and regional reach. Subject to resource availability, SMEDI intends to improve the linkages between training, financing and markets through establishing incubation centres focused on agro-processing of raw materials farmed in a particular region, while approaching financiers to fund SMME graduates. The first of these centres will be in Phalombe which will focus on agro-processing of soya, groundnut, sunflower and penguin pea. From an access to markets perspective SMEDI will increase the number of SMME walk-in stores. However, with the appropriate support, greater scale could be achieved by establishing an online store (e-commerce). Finally, SMEDI is in the process of digitising its training programmes but still needs support in developing online material and obtaining the relevant IT skills.

TEVET Authority: Established to integrate and create a TEVET system in Malawi. The TEVET Authority seeks to contribute to human resource development by enabling sustainable training and development. The TEVET Authority's exact roles include: monitoring gaps between supply and demand for skills; supporting the adoption and application of appropriate technologies; promoting managerial, business and entrepreneurial skills; facilitating sound and sustainable financing and funding mechanisms for technical education and training; and to promote growth in the sector.

Since the enactment of the TEVET Act in 2013 and the launch of the second edition of the TEVET Policy, a number of key developments have taken place in the TEVET sector. Among others, a TEVET Qualifications Framework (TQF) has been developed in order to regulate and harmonise the award of TEVET qualifications; the government has established Community Technical Colleges (CTCs) to increase access to TEVET; the government rolled out a new curriculum for TEVET (leading to the award of the Malawi TEVET Certificate) in 2017, and the awarding body, the Assessment and Certification Unit, (ACU), is being set up; and TVETA has initiated a gradual conversion of its TEVET programmes to use competence-based education and training (CBET). However, the sector still faces some of key challenges which include: insufficient number of training institutions to meet the huge demand for skills training, issues with quality and relevance of programmes, lack of skills and experience of instructors and management in TEVETs, and equipment that is outdated or out of service. In recent years the Government and donors have been working to improve some of these challenges through training workshops and providing better equipment.[329]

NEEF: Formerly known as the Malawi Enterprise Development Fund (EDF) is a development financial institution wholly owned by the RBM. It assists Malawians to set up small business ventures by providing them with affordable loans and sustainable technical, entrepreneur, financial and management skills. The MAP Malawi Diagnostic 2019 suggests that before NEEF

326 FinMark Trust, MAP Malawi MSME Diagnostic, 2019
327 Ibid
328 Located in the Central region
329 TVET policy review Malawi, United Nations Educational, Scientific and Cultural Organization, 2019

was restructured in 2020, it was not operating as intended. In a number of instances, instead of providing funding to an SMME with an export opportunity, the NEEF would, in fact, take over the contract and deliver the export goods itself. The SMME would then be paid a 15% finder's commission. Where loans were provided, the NEEF would seek guarantees or collateral as would be required by banks. This suggested a need to re-evaluate the implementation of the NEEF's mandate. The restructuring mainly includes a change in the governance structure and a rebranding. It remains to be seen if the restructuring will achieve its intended purposes.

MAIC: MAIC is a development finance entity initiated by the Government but led by the private sector. Officially launched in 2020, MAIC solely provides financing and technical advice for start-up or growing businesses in agriculture and manufacturing (i.e., industrialisation) sectors. MAIC's shareholding structure consists of Malawi Government's stake at 20% and 80% expected to be from the private sector (i.e., the general public and foreign investors). The government has already provided the initial seed capital of USD 25 million and MAIC is engaging local financial institutions, the private sector and international development finance institutions to raise USD 1 billon by 2030. The World Bank committed USD 16 million through the financial inclusion scaling project to support SMMEs by providing training through SMEDI and concessional funding directly from MAIC. Women and youth owned SMMEs involved in agro-processing, exporting of goods, and general light manufacturing will be given preference.

MCCCI: carries out business facilitation services including the following: providing business and economic information for decision making; issuing certificates of origin; organising trade promotion events, providing business management training; representing the business community at national, regional and international fora and offering business premises to small enterprises. The chamber also carries out research and analyses policies and regulations to identify obstacles to doing business in the country to ensure a conducive environment for private sector development. The research and analysis provide MCCCI with a basis for lobbying on issues that need to be addressed by the Government. SMMEs as a membership category was only added in 2019.

The SMME training is outsourced to BDS providers at a cost. However, uptake of this is limited due to affordability. According to MCCCI, demand for these services is high and uptake increases when training is subsidised by donor organisations. The MCCI is currently working on developing an online marketplace for SMMEs to be able to trade their goods locally. However, this is still in the proposal stage and the MCCCI estimates that they would need approximately USD 38,000 to develop and market the platform. [330] Given that SMEDI intends to do the same, there is potential for collaboration between the two organisations.

SMEA: is a membership organisation that aims to provide a better business environment by unifying SME associations, cooperatives and business clubs. This will be achieved by broadening local and international networks, exploring business opportunities, accessing better skills, carrying out lobbying and advocacy activities and increasing quality production to improve SME competitiveness. The chamber will also provide business groups with more bargaining power due to the prevalence of common business opportunities and challenges applicable to many industries.

Given the recent addition of the SMME cluster within the MCCCI, the role of SMEA may be a duplication. However, given the limited resources and influence that SMEA has, there is an opportunity to merge the MCCCI and SMEA.

mHub: is Malawi's first technology and innovation hub located in Lilongwe, Malawi with a working space in Blantyre, Malawi and Lusaka, Zambia. It has a growth accelerator programme that supports early stage innovative and impactful entrepreneurs with investment of up to

330 Stakeholder Interviews conducted by Genesis Analytics, 2021

USD 40,000 in financing, technical assistance and mentorship. The programme is supported by UNDP and the Royal Norwegian Embassy. The programme is implemented by mHub and Growth Africa.

Similar to SMEDI, mHub also intends to improve the linkages between its graduates and financiers[331] from the current referral process to a more formalised participation of FSPs in the programmes. It also intends on expanding its support to start-up businesses who are currently excluded due to donor funding requirements that have a greater focus on SMMEs already in operation. Sectorally, mHub has also expanded its focus from just ICT to SMMEs in other sectors, particularly in agro-processing. Key issues facing mHub are limited co-working spaces and funding constraints.[332]

Mzuzu Entrepreneur Hub is an organization registered under company's incorporation Act with the aim of providing office space, business incubation programs as well as a platform for upcoming entrepreneurs to access information on investments, trade, banking, business registration, technology and other resources that can help upcoming entrepreneurs to grow their business ventures in the city of Mzuzu. The Mzuzu Entrepreneur Hub also runs Mzuzu Pitch Night which is a platform for entrepreneurs to present their business to potential customers, investors and partners.

Other incubation centres in Malawi, include Innovation Hub, InCUBE8 and BeeBiz which mainly aim to provide entrepreneurs with a co-working space, training and mentorship as well as market intelligence.

In general capacity issues, affordability, poor linkages and duplication across support institutions suggests there is an opportunity for intervention. BDS in particular is largely unaffordable to business start-ups and most SMMEs in general. Incubators, on the other hand, do not cater for pre-start-ups enterprises but rather focus on acceleration as opposed to incubation. There remains a need for improved services and linkages amongst programmes that are aligned to the needs of entrepreneurs at all stages of the entrepreneurship developmental path. Institutions like MCCCI and SMEA could be merged, while mHub and SMEDI could partner to leverage the synergies within the programmes.

Policy and regulation

Below we list some of the policies that impact SMMEs sector in the services and light manufacturing sectors.[333]

SMME Policy, 2018: aims to increase productivity and growth of SMMEs, increase value addition, empower Malawians economically, enhance economic inclusion, enhance policy coherence and enhance the competitiveness of SMMEs. The key interventions outlined in the policy include: facilitating access to finance through encouraging development of innovative financial products for SMMEs; creating a conducive legal, regulatory and institutional framework for SMME development through reviewing and amending current policies and legislations; enhancing policy coherence through improved collaboration among ministries; promoting development of inclusive markets, focusing on marketing and capacity building and entrepreneurship development through curriculum changes at school level. The policy is regarded as a useful guide by most of the institutions providing SMME support in Malawi. However, the MAP Malawi Diagnostic highlights a need to focus the policy on government priority sectors, while improving the monitoring and tracking capacity.

331 mHub is currently funded by the UNDP and leverages its informal networks with FSPs to link graduates to financing

332 Stakeholder Interviews conducted by Genesis Analytics, 2021

333 A comprehensive list of policies that directly and indirectly impact SMMEs is available in the MAP Malawi Diagnostic 2019

Public Procurement and Disposal of Public Assets (Participation by Micro, Small and Medium Enterprises) Order 2020: The GoM recently gazetted the SME order 2020 that creates a provision for SMMEs to supply goods and services to the government and its agencies. The order lists several sectors, goods and services that can be supplied. They span from construction, cleaning services, goods made in Malawi to services provided by Malawians, general SMME suppliers will also be considered. To qualify SMMEs need to be tax paying formal businesses and need to be certified with Public Procurement and Disposal of Assets Authority (PPDA). Given the recency of the policy the efficacy remains to be seen. However, stakeholders suggest that in order to be effective, the government needs to implement appropriate monitoring and evaluation processes. Government also needs to pass the 60/40 public procurement regulation which intends to set a minimum quota that 60% of government procurement should come from SMMEs.

Malawi Growth and Development Strategy (MGDS) III, 2017 - 2022: aims to move Malawi to a productive, competitive and resilient nation. This is to be achieved through investing simultaneously in areas that can spur growth through the linkages they have with the other sectors of the economy. The policy also details the government's commitment to support rural economic transformation through integrated rural development, transport infrastructure, energy generation among others. Some of the key focus sectors for economic development include agro-processing, value addition, manufacturing and trade.

National Trade Policy, 2016: aims to address weak linkages between trade and other binding constraints (such as market-access barriers, imperfect business operating environments, narrow productive base and high costs of entry), that hinder Malawi's ability to take full advantage of existing and emerging market-access opportunities such as bilateral, regional and multilateral-trade agreements. The policy recognises the role that SMMEs can play towards achieving this goal and seeks to support their growth and operations.

National Industrial Policy (NIP), 2014: aims to enhance the country's productive capacity through "structural transformation to a more diversified and industrialised economy". This aims to ensure rapid long term economic growth that raises per capita incomes, creates sufficient rural and urban jobs, widens the tax base and addresses unsustainable trade deficits in an environmentally and socially-sustainable way. The policy makes specific mention of supporting SMMEs to achieve its overall vision. The objectives of the Industrial Policy are to enhance the provision of appropriate skills and technology; improved business environment for the manufacturing sector; improved access to key business services; promote support infrastructure (enablers); facilitate participation of SMME in manufacturing and market linkages; address the environmental and social sustainability of industrialisation; and address the governance challenge in terms of policy formulation and implementation.

National Export Strategy (NES), 2013 - 2018: The duration of the NES officially ended in 2018. The strategy is currently under review with a new strategy expected to be developed for the period 2019 to 2023. The new strategy is expected to maintain the overall export growth focus, but may identify new products for export.

National Agriculture Policy (NAP), 2016 - 2020: defines the Government's vision of the agriculture sector by 2020. This Involves transforming the sector towards profitable commercial farming through the specialisation of smallholder farm production, output diversification at the national level and value addition in downstream value-chains. This is aimed to expand farm household incomes, improve food and nutrition security and increase agricultural exports. Some of the key priority areas of the policy will be to increase agricultural productivity through improved access to finance, business development and efficient production techniques; diversification of agricultural production and marketing; increased mechanisation of farming and agro processing activities, increasing access to markets through better market linkages and reducing compliance constraints.

Covid-19 response plans and measures

This section provides a view on some of the response programmes that the Government and donors have put in place in Malawi to support SMMEs during the pandemic. Some of the measures include:

- Tax waivers on the imports of essential goods to manage and contain the pandemic.
- Fees on mobile money transactions have been temporarily waived to encourage cashless transactions.
- The MRA issued a six-month voluntary tax compliance window to allow taxpayers with arrears to settle their tax obligations in instalments without penalty.
- Further, the Government increased loan funds to Malawi Rural Development Fund (MARDEF) by MK2 billion to support affected SMMEs.
- The RBM announced agreements with commercial banks and MFIs regarding a 3-month moratorium on interest and principal repayments for all loans contracted by SMMEs.
- The RBM resolved to cut the Liquidity Reserve Requirement (LRR) on domestic deposits to 3.75% from 5.0% to ease liquidity and increase the availability of loanable
- The World Bank has also approved a USD 20 million credit facility to support SMMEs that have been affected by COVID-19. The World Bank in partnership with the MICT will distribute these funds through banks and MFIs. The first disbursement of loans is expected to be mid-2021.

In general, Malawi has a robust policy framework in place that creates a conducive environment for SMME development. However, most of these policies are faced with lack of coordination, poor integration and patchy implementation. Stakeholders attribute this to the lacklustre attitude of the previous government which they expect should be different under the new regime.

5.1.5 Key enabling environment findings

Based on the analysis of above, the following findings emerge.

- The economy has been slowly diversifying but still remains largely agriculture based.
  - » This issue is highlighted and prioritised by the MGDS and NIP.
- Any opportunities for manufacturing stem from the abundance of raw agriculture produce, in sectors where there are opportunities for value addition close to the source of production i.e., groundnuts and soya beans.
  - » The MITC has highlighted as part of its pending incubation strategy while SMEDI also intends to target incubation centres close to the availability of raw materials.
- Based on local consumption information, opportunities for SMME lie in food/beverage manufacturing, transport services and household improvement items.
  - » This is an area highlighted and prioritised by the MGDS, NIP and the NAP.
- The enabling environment is improving but is far from ideal. Difficulty in starting a business, poor access to electricity and water, poor ICT infrastructure, and high cost of data make it difficult for SMMEs to operate.
- There are a range SMME support programmes and policies but with generally weak implementation due to both a lack of skills and funding as well as weak monitoring and evaluation capacity.

The aforementioned issues are within the mandate of the SMME policy which is meant to play a coordination role.

5.2 Demand-side

This section focuses on the size and structure of the SMME sector, analyses key challenges faced by SMMEs and finally identifies key value chain opportunities.

5.2.1 Size and structure of SMME sector

Based on the FinScope MSME survey 2019, there were a total of 1.14 million SMME owners in Malawi.[334] From the survey the following key findings that relate to the services and manufacturing sectors can noted:

- The SMME owners in the services sector constitutes 75% of the total SMME population, while the manufacturing and agro-processing sectors make up 5.2% collectively.
- SMMEs in services (mainly retail trade) and manufacturing are predominantly micro and small businesses.
- In general, majority of SMMEs are informal with only 11% of SMMEs registered.
- 78% of SMMEs are in rural areas
- Skill levels among SMMEs remain low as most only have up to a secondary level of education.
- The average number of employees per SMME was 1.1

From these statistics, it is evident that most SMMEs in the services and manufacturing sectors do not create a significant amount of employment and are characterised by low levels of formalisation and skills.

Below we provide more detailed information on the structure of the SMME market, however, these statistics are well documented in the FinScope survey for reference.

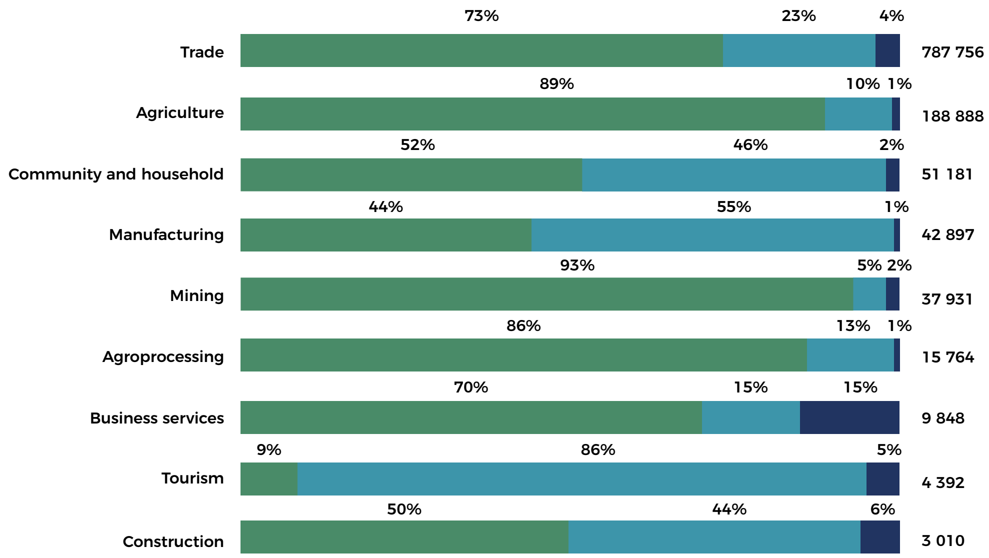
The FinScope Malawi survey classifies SMMEs using the definitions as provided by the Malawi Micro, Small and Medium Enterprises Policy (2019). i.e.:

- Micro-enterprises are those that employ less than five people and an annual turnover of less than USD 6,500.
- Small enterprises are those engaging between five to 20 people and an annual turnover between USD 6,501 and USD 65,500.
- Medium enterprises employ between 21 to 100 people and have an annual turnover between 65,501 and USD 655,000.

334 This is based on a definition where SMMEs are classified as having 100 employees or less.

Below we present some statistics on the structure of the sector.

Figure 36: Distribution of SMMEs by sector and size - Malawi



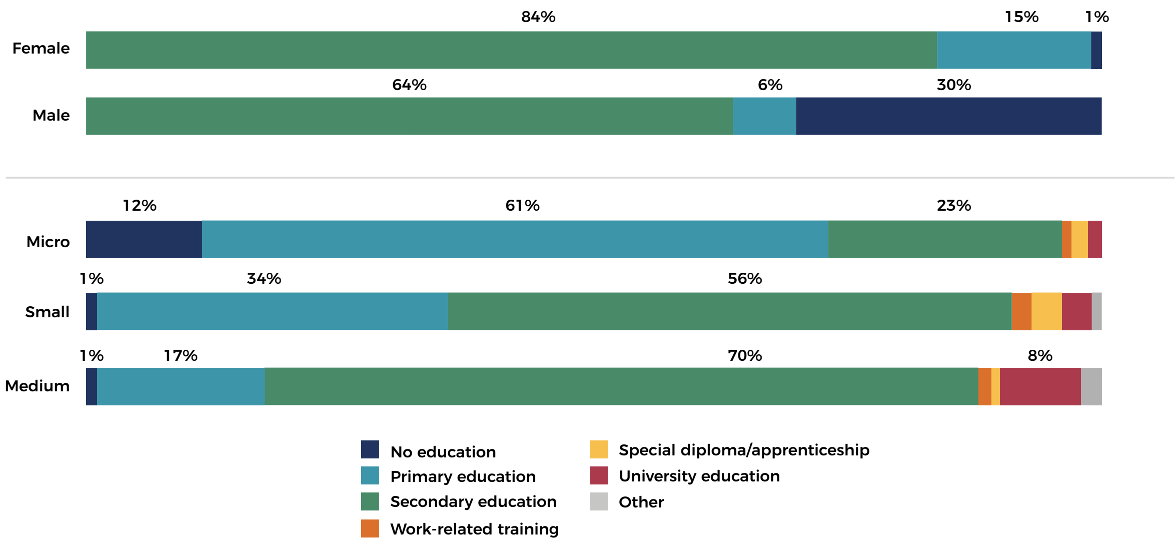
Source: FinScope Malawi, 2019

In Malawi, 74% of businesses are micro, 23% small and 3% medium. Majority of SMMEs are concentrated in the trade and agriculture sector which together account for 86% of all SMMEs in the country.

The sectors with the highest share of micro enterprises are trade, agriculture (smallholder farmers), and mining, agro-processing and business services. The sectors with the highest share of small enterprises are community/household, manufacturing, tourism and construction. Finally, the sectors with the highest share of medium enterprises are business services, tourism, construction and trade. The survey identified a total of 429 medium-sized manufacturing enterprises in Malawi.

Once again, the data indicates that there are a large number of informal enterprises across most sectors which indicates the need for increased formalisation and organisation of these SMMEs. Some of the reasons for not registering include the small size of the businesses (47%), a lack of information regarding registration (19%), and the costs, which amount to USD 4 in 2019. Further reasons are discussed in detail in the MAP Malawi Diagnostic 2019.

Figure 37: Gender and education levels of SMMEs - Malawi

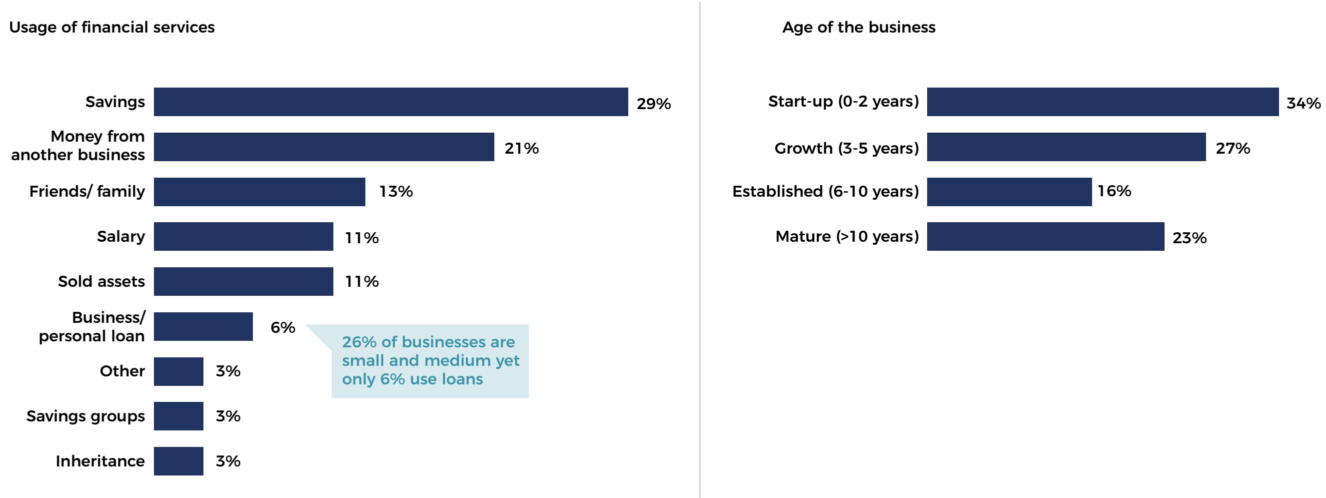


Source: FinScope Malawi, 2019

From the FinScope survey, female owners are generally more prevalent in the micro-enterprise space. Male owners tend to be more prevalent in medium businesses. This trend may indicate that more support may be required for females to increase their participation in medium-sized businesses.

Expectedly, micro-enterprise owners tend to have lower education levels than small or medium-sized business owners. This indicates that further training and support is required for micro-businesses to increase their likelihood of graduation and scaling. Medium-sized businesses owners tend to have secondary education or higher.

Figure 38: Usage of financial products and age of SMMEs - Malawi



Source: FinScope Malawi, 2019

Majority of businesses use internal sources of finance and only 6% of businesses use bank loans compared to there being about 26% small and medium businesses within the sample. This may indicate that small and medium businesses still struggle to gain access to finance.

From an age perspective, 34% of businesses are in a start-up phase, 27% of businesses are between three to five years old and 39% are older than six years. The high percentage of young businesses may indicate a need for great early-stage and incubation support mechanisms to assist businesses to grow and survive.

Based on the SMME demographics, several findings emerge:

- Few businesses in the services and manufacturing sector hire more than five employees which suggests that SMMEs face challenges in growing and expanding their businesses. This could be linked to a lack of effective businesses graduation programmes and financing that supports businesses at different stages of development.
    - » Improvements in the training, market and financing linkages among incubators (SMEDI), accelerators (mHub) and FSPs (banks and MAIC) could improve these statistics.
- There is a high concentration of SMMEs in trade and agriculture and therefore these are the sectors where SMMEs would need the most support.
    - » These sectors are in line with the various support programme sector targets.
- Formalisation has remained a key issue in the market due to cumbersome registration processes, lack of incentives and high tax burden.
    - » Expediting and effectively operationalising the registrar of companies online registration platform which is currently not operational could resolve some of these issues.
    - » The SMME procurement order also creates an incentive for SMMEs to formalise.
- Education levels are low across micro and small businesses prompting the need for vocational and business management training.
    - » This issue is within the mandate of TVETA which could resolve some of these issues in partnership with the various donor agencies such as World Bank, EU and MasterCard who made commitments in this area.
- Female ownership is concentrated in micro-businesses indicating more support for women-owned businesses to help them scale.
    - » Most of the SMME initiatives are increasingly prioritising women and youth owned SMMEs.

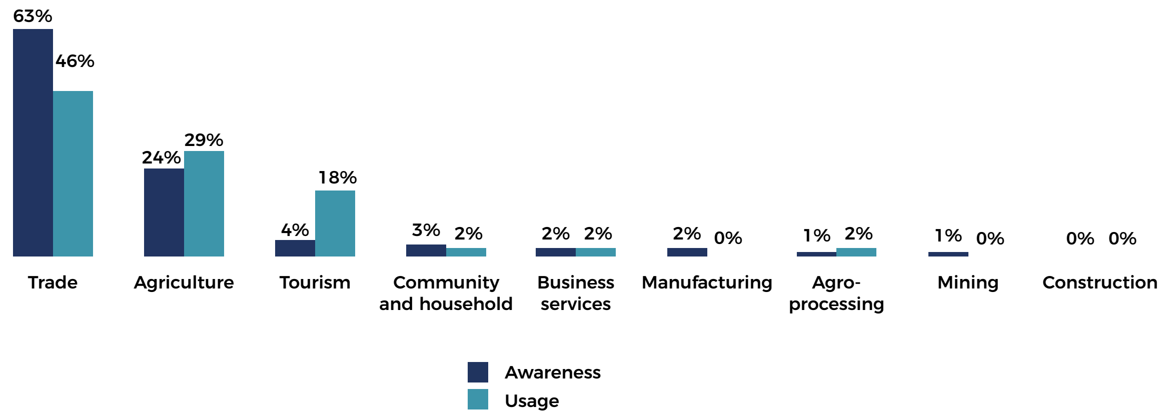
5.2.2 Demand-side challenges

When assessing the demand-side challenges that SMMEs face, there are several issues that arise from the FinScope 2019 report:

Low access to markets: 68% of SMMEs sell their products to direct consumers and 22% sell to other businesses. The remainder of 10% sell either to brokers, Government or other entities (e.g., NGOs). This relatively low business to business (B2B) sales indicates the need for more linkages between buyers and sellers in the business space. In the FinScope survey, it was also highlighted that SMMEs selling to the Government is low. Only 3% of SMMEs were able to tender for Government procurement. This is likely to increase due to the newly gazetted SMME order that encourages government procurement of SMME goods and services. However, this policy will only benefit those SMMEs that are tax compliant.

Low usage and awareness of business support programmes: With the exception of the trade sector, awareness and usage of business support services remains below 30% of the sample. Although BDS providers insist that the costs are subsidised through donor programmes and government support schemes, SMMEs still find it difficult to pay the costs which limits uptake. There is therefore a need to subsidise training further and increase the awareness of the various business support services.

Figure 39: Awareness and usage of business support services - Malawi



Source: FinScope Malawi, 2019

Lack of water: based on the survey only 63% of SMMEs had access to water. The percentages in the manufacturing sector and services were 47% and 25% respectively.

Lack of electricity: Only 26% of SMME had access to electricity. The percentages in the manufacturing and services sector were 15% and 30% respectively.

Within the manufacturing sector, lack of access to markets, lack of electricity and access to finance (availability and cost), theft, corruption and transportation are the main challenges faced by manufacturing SMMEs.

Key issues facing SMMEs in the manufacturing sector are lack of access to markets, which is mainly due to weak market linkages, poor product quality, and general uncompetitiveness of local products as a result of high transport costs of imported supplies. Within the agro-processing sector, inadequate marketing, procurement of material inputs, lack of storage facilities, lack of transportation, bad road conditions and high cost of fuel are the main challenges cited by SMMEs

5.2.3 The role of technology in solving demand-side challenges

Like all countries, Malawi faces opportunities and challenges from the changes in technology that are sweeping the world and are often referred to as the fourth industrial revolution. For SMMEs new technology can create considerable opportunities in three broad areas:

- The emergence of platform businesses makes it much easier for small firms to connect and market their services to global or regional consumers. Examples of such platforms include Airbnb in the tourism sector and Uber in the transport industry (although Uber has not yet launched in Malawi there a platform called Ecoride that offers a similar solution)
- New technology is transforming the electricity sector. Solar and wind power are changing the cost and structure of the electricity market, often to the benefit of small businesses which can overcome the delays and cost of connecting to the national grid, can potentially earn from supplying the national grid, and develop new businesses in the sale, installation and maintenance of solar panels.

- Digital finance is also transforming SMMEs' ability to make and receive electronic payments and in the process generate the digital data trail that can be used to assess their credit worthiness, beyond traditional asset-based finance.
- Technology is also transforming the definition of a traded goods and the Covid-19 crisis has transformed thinking as to what businesses services can be digitised and delivered from anywhere in the world.

Some examples of innovations that are already occurring across Africa that have relevance to Malawi are shown below:

Table 64: Innovations to learn from and encourage

Innovation	Description	Applicability to the local market
M-KOPA SOLAR	• Provides pay as you go solution to electricity issues in East Africa using solar solutions	• This could solve some of the power issues in the country and enable entrepreneurs to conduct business
LYNK	• An online platform in Kenya to connect blue-collar workers (e.g., repairmen, plumbers etc) to consumers	• This would solve access to market issues
SweepSouth®	• An online platform to find a cleaner	• This would allow people to find part time work (micro entrepreneurs)
airbnb	• Online platform for property rental	• Increased awareness of such a platform could help the tourism industry
takealot.com	• Online e-commerce player in South African linking thousands of businesses to consumers	• Would solve access to market issues for SMMEs
mastercard **Kionect**	• Digital ordering system that facilitates digital payments between kiosk owners and wholesalers allowing kiosk owners to order fast moving stock	• Provides a digital log of transaction data that qualifies these micro-retailers for loans to stock inventory from a partner FSP. With every loan that is paid on time, the kiosk owner has the opportunity to take out a larger loan for a longer term and further contribute to the growth of their business.
Business Process Outsourcing solutions	• Platforms that support local and international corporates with non-core tasks e.g., call centres and cleaning services.	• It can provide part-time work to many micro entrepreneurs

While these innovations hold high promise for countries that are struggling with a poor enabling environment certain prerequisites need to be in place. The current state in Malawi against some peers is shown below. Top countries in each category are marked in blue shading.

Table 65: Current state of the communications, technology and education[335]

	Malawi	Tanzania	Zambia
Fixed broadband per 100 people	0.1	1.5	0.2
Fiber internet per 100 people	0.0	0.2	0.0
Internet user per 100	13.8	25	14.3
Mean years of schooling	5.7	6.8	7.9
Digital skills score: 1 - 7 (best)	2.8	3.9	3.5
Quality of vocational training: 1 - 7 (best)	3.5	4.2	3.5

Blue shaded areas indicate the country with the highest scoring among the three.

In comparison to two of Malawi's neighbouring countries - Tanzania and Zambia - Malawi scores poorly in all of the above-listed competitiveness metrics. Tanzania has a relatively higher rate of fixed broadband and fiber internet than both Malawi and Zambia. The low levels of internet connectivity among the Malawian population are cause for concern. Digital skills and the level of vocational training in Malawi is low. Such factors likely filter heavily into the potential for individuals to own and run businesses and will likely be key inhibitors in realising digital innovations in Malawi. However, some of the aforementioned digital solutions such as the Mastercard Kionect solution is feasible as it USSD enabled and doesn't require significant ICT investments. To realise the other solutions, there is a need for reforms around internet availability, vocational training and digital skills training.

5.2.4 Identification of opportunities in the light manufacturing and services sectors

This section provides an analysis of product value-chains related to light manufacturing and several sectoral opportunities for the services sector. The table below shows a high-level summary of the key findings and further analysis is provided below the table.

335 The Global Competitiveness Report 2019, *World Economic Forum*

Table 66: Opportunities in the light manufacturing and services sectors - Malawi

Sector or value chain	Expected growth	SMME presence	SMME opportunity	Key issues for SMMEs	Areas of intervention for FMT
Soya beans processing	High • Increasing global demand	Low • Dominated by large players	Low • High substitutes for soya products • Low export potential • High costs of production	• Low potential for medium and high-value product export • Dominance of large players • High substitutes for high value products • High oil extraction costs	• FMT could partner with SMEDI to help establish the Phalomba agro processing Incubation centre which will include SMMEs involved in Soya bean processing
Groundnut processing	Moderate • Moderate global demand • Production constraints • EU market restrictions	Low • Dominated by large players	Low • Low potential for export market • Low value products for domestic market	• Low potential for medium and high value export • Low seller global bargaining power • Dominance of large players • High groundnut production constraint (quality of seeds, production techniques, climate risks, aflatoxin risks and associated EU market restrictions)	• FMT could partner with SMEDI to establish the Phalomba agro-processing incubation centre which will include SMMEs involved in groundnut processing • FMT could partner with the Mastercard foundation skills development programme

Sector or value chain	Expected growth	SMME presence	SMME opportunity	Key issues for SMMEs	Areas of intervention for FMT
Wood-based manufacturing	Moderate • Growing population and incomes will increase demand for products • Increasing import substitution of products	Moderate • Formal market dominated by large players • Likely high presence of micro and small business serving local markets	Moderate • Increasing import substitution of products • High production costs for scale may limit growth	• High production costs for scale • Limited skills • Low access to finance • Limited export potential • Formal market dominated by large players	• Partner with SMEDI and the MICT to establish a wood-based manufacturing incubation centre in rural areas where there is an increasing number of small informal producers. • Partner with Mastercard skills development programme or the EU Zantchito Skills for Jobs programme that aims to increase technical skills in Malawi.
Miscellaneous goods manufacturing	Moderate • Growing population and incomes will increase demand for products • Increasing import substitution of products	Low • Products are currently imported suggesting few local producers	Moderate • Increasing import substitution of products • Low technical skills and productive capacity limit growth	• Low technical skills • Low productive capacity that might limit the ability to produce at scale and price that is cheaper than import countries	• Partner with UNDP Innovation challenge fund manufacturing window focusing on solving access to finance challenges Partner with the EU Zantchito[336] Skills for Jobs programme that aims to improve technical skills while linking graduate entrepreneurs to finance through providing funding and technical assistance to deal with capacity issues

336 The EU Zantchito Skills for Jobs Programme is an EIB funded programme that aims to increase the provision of quality technical skills in Malawi by capacitating the TVET sector, while linking entrepreneurs and graduates to financing. The programme will also include capacity building for BDS providers.

Sector or value chain	Expected growth	SMME presence	SMME opportunity	Key issues for SMMEs	Areas of intervention for FMT
Tourism	High • Sector expected to rebound as the vaccine becomes widely available • Increasing investments into the sector • High Pre-Covid-19 growth projections till 2028	High • Over 90% of SMMEs in the sector are micro and small	High • Increasing investments into the sector and overall projected sector growth will create more opportunities for SMMEs	• Poor skills • Sector is not technologically enabled • Infrastructure challenges • High staff turnover due to low salary levels • Poor coordination between tourism and other sub-sectors	• Support the Ministry of Trade and Tourism in developing partial guarantee loan scheme targeted at Tourism • Partner with the EU Zantchito Skills for Jobs programme to support in funding mobilisation efforts for infrastructure projects

Value-chain analysis

Light manufacturing value-chains analysed include food processing resulting from soybean and groundnut production. Wood-based furniture production and other manufactured products for domestic consumption are also analysed. Tourism was analysed given its linkages to other services sectors such as hotels, restaurants, entertainment and wholesale and retail trade.

Soya beans processing

Soybeans are a major source of world oil production. On average, they have about 18% oil and 38% protein. Almost all world production is processed for oil, which is mostly used for cooking and frying foods. Once the oil is extracted, it can be assigned to margarine production or other edible uses. What remains – soybean meal - is baked then used as an ingredient for animal feed due to its high protein content. Soybean is a high value and profitable crop due to its general high input-to-yield ratio, its relative resistance to droughts and its significant nutritional value.

Soybean cultivation is dependent on the use of its two main sub-products, meal and oil, which account respectively for about two and one-third of the crop's nominal value. Only a very small percentage of soybean production is processed for human consumption in products such as soymilk, soy flour, soy protein, tofu and a wide variety of retail food products. Soybeans are also used in many non-food (i.e., industrial) products such as biofuels or composites. Soybean provides considerable value-addition at the lower levels of processing, after which the output is shipped in bulk to large-scale processors around the world. In general, small-scale soybean farmers are excluded from global trade because large quantities of soybean are required for trade.[337]

Soybean cultivation is highly concentrated geographically, with only four countries, United States, Brazil, Argentina and China, accounting for almost 90% of world output. While the United States and Argentina compete for the title of the biggest producer, Argentina is the world's leading exporter of soybean products, accounting for over 40%. In Africa, the regions

337 United Nations Conference on Trade and Development (UNCTAD), Harnessing Agricultural Trade for Sustainable Development, Malawi , 2019

account for only 5% of global production.[338]

Global soybean trade has been growing rapidly from USD 4 billion in 1990 to USD 92 billion today. The biggest driver was the increasing demand from China which is the world's biggest buyer and accounts for 64% of soy global trade. Over 80% of imported soybeans are processed into animal feed in China, which is also the world's largest pork producer and consumer.

In Malawi, Soybean is an important crop, produced in almost all districts as a source of food, livestock feed and for improving soil fertility. It is also an important source of income and export earnings. The major producing areas are Kasungu, Lilongwe and Mzuzu, which account for 80% of the country's total soybean production.[339]

Malawian soybean exports (mainly oil cakes) are mostly to low and low middle-income neighbouring countries such as Kenya (34%), Tanzania (25%), and Zimbabwe (15%). In 2019, Malawi's soybean oil cake exports increased by an average of 11.2%. However, in value terms, they were still low and only amounted to USD 21 million (0.1% of global soyabean oil cake exports) over the same period.[340]

Marketing structures and key players

Locally, there is high demand for soybeans, especially from large traders and processors such as Rab Processors Ltd, Global Trading, Farmers' World and Export Trading.[341] The majority of farmers (85.2%) sold their produce to traders and 29.6% sold directly to consumers at government markets. The traders consisted of vendors, retailers, wholesalers, companies and individual households or fellow farmers.

The livestock and poultry industry also consumes a large quantity. Commercially, direct consumption is mostly as infant and baby formula and handled by companies such as Rab Processors. A substantial amount is used by various non-governmental organisations (NGO)[342] in supplemental food programmes in schools (lunch programmes), hospitals, orphanages and refugee relief programmes, by enriching maize flour with up to 20% soybean flour. Vendors, traders in the district towns, traders in the cities, wholesalers, and consumers at local produce markets also purchase soybeans. However, research conducted by Tinsely[343] suggested that there was a general lack of interest in soybean from oil manufacturers due to the limited recovery of oil compared to ground nuts and sunflowers. Furthermore, the efficient recovery of oil from soybeans requires a solvent extraction process, which is expensive as well as relatively dangerous.[344] Opportunities for SMMEs:

Much of Malawi's soybean production is concentrated in small-scale farming and low-value processing done by large players. Although there may be an opportunity for import substitution of the increasing animal feed imports, this would likely be executed by large players due to associated costs of oil extraction. Therefore, opportunities for SMME growth in this value chain are limited.

Groundnut processing

Groundnuts, or peanuts, are a legume, root crop. They are native to South America but, over the

338 United Nations Conference on Trade and Development (UNCTAD), Harnessing Agricultural Trade for Sustainable Development, Malawi , 2019
339 FinMark Trust, Map Malawi MSME ME Diagnostic, 2019
340 Trade Map, 2020
341 Ibid
342 World Food Program (WFP), United Nations Children's Education Fund (UNICEF), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), and Mary's Meals
343 Tinsley, R.L. (2009). Value Chain Analysis for Soybeans | Research is outdated and will be checked against stakeholder interview insights
344 United Nations Conference on Trade and Development (UNCTAD), Harnessing Agricultural Trade for Sustainable Development, Malawi , 2019

years, have been cultivated in many tropical and subtropical parts of the world, with significant presence in Asia and, more recently, Africa. Groundnuts contain about 49% oil and 27% protein and are also a rich source of dietary fibre, minerals and vitamins.

Groundnuts can vary from pale brown to pink to deep reddish brown and have different shapes and processing characteristics according to variety. Each variety may be particularly suitable for specific uses in the food industry. The ratio of crude oil production to meal from groundnuts may differ. The pink variety is mainly for cooking and other edible uses while the brown variety is used for the animal feed or as an ingredient in other edible products. Groundnuts are largely sold in three main forms i.e., raw nuts, oil and feed (oil-cake). Feed is a by-product of the process in which oil is made.

The biggest buyers of groundnuts are in Europe (mainly Netherlands). India, China, the United States and Argentina dominate the global groundnut exports. In sub-Saharan Africa, only Senegal appears as a global player and fifth largest exporter of the 'in-shell' groundnuts category, while Sudan is the second largest exporter of groundnut oilcake. Senegal and Sudan are also among the top five global exporters in the crude groundnut oil category.[345]

In 2019, Malawi was the fifth biggest exporter (by value) in sub-Saharan Africa of crude groundnut oil, but with very low value (USD 9,060) compared to Senegal (USD 23.6 million) or South Africa (USD 0.45 million). Malawi also features as a significant exporter of groundnut seed, for which it is third in the world based on value (USD 2.6 million) behind Myanmar and the United States and marginally ahead of the Netherlands and Uganda in 2019.[346]

Between 2015 and 2017, Malawi's main value-added exports within the groundnut value-chain were to South Africa and comprised groundnut meal, including peanut butter (USD 253,880), prepared groundnuts, roasted or sweetened (USD 17,630), and groundnuts and other nuts in mixed form (USD 89,840). During the same period, the value of exports of refined groundnut oil was rather small, principally to Mozambique (USD 13,170) and South Africa (USD 2,920).[347]

In 2019, the top two buyers of Malawi's groundnuts were Kenya and Tanzania accounting for more than 75% of exports.

Market structure and key players

It is estimated that smallholder farmers are responsible for 93% of production. Estates[348] represent only 7% of total production and are mainly concentrated in the central region.[349] The Agricultural Development and Marketing Corporation (ADMARC), a statutory corporation, used to be the sole buyer and supplier of produce and inputs. However, the Government has liberalised the market since the mid-1980s. Due to the informal nature of the sector, groundnut markets remain generally unstructured. Buyers include large-scale traders and processors, in addition to notable companies like Afrinut, which produces Fair Trade peanut butter.

Currently, several companies process groundnut into roasted nuts, peanut butter and as an ingredient in 'Ready to Use Therapeutic Foods' (RUTF). Processors at this level absorb 40% of the country's production with 15% of this quantity formally exported to South Africa and other regional markets.[350] These companies include Rab Processors, Transglobe, Mulli Brothers and Equator Nuts.

345 United Nations Conference on Trade and Development (UNCTAD), Harnessing Agricultural Trade for Sustainable Development, Malawi , 2019

346 Ibid

347 Ibid

348 The Land Act classifies land into public (government or unallocated customary land) or private (freehold, leasehold, and customary estates). Customary estates are defined as all land owned, held or occupied as private land within a traditional land management area (TLMA). These are typically between 10 and 30 hectares in size.

349 FinMark Trust, MAP Malawi SMME Diagnostic 2019

350 United Nations Conference on Trade and Development (UNCTAD), Harnessing Agricultural Trade for Sustainable Development, Malawi, 2019

Opportunities for SMMEs

Value-added exports of groundnut products are small value and mostly exported by large scale traders and processors. Furthermore, growth in this segment is limited due to groundnut input production constraints such as[351]:

- Most groundnuts produced in Malawi are grown on a small scale by smallholder farmers for subsistence purposes with limited commercial producers. The farmers are also highly fragmented. This affects their production capacity and adoption of advanced technologies i.e., post-harvest technologies.
- Smallholder farmers use inefficient production techniques meaning that they experience low yields comparable to what is possible:
- Use of recycled seeds
- Inability to adopt advanced harvest technology due to high cost of accessing harvesting machines
- More than 80% of the groundnuts producing areas (land) remain under rainfed cultivation. This affects groundnuts productivity owing to weather shocks and natural disasters e.g., droughts and floods.
- Poor storage techniques lead to large losses before crops can be brought to market.
- Inability to control Aflatoxin levels, preventing them from exporting to the EU.
- Reliance on a few export markets leaving the country's exports vulnerable to any destabilisation in the markets.

The demand for exported groundnut products is limited because there is a greater number of uses and facility for substitution among higher value-added products containing groundnuts, relative unpopularity of medium value-added products in final consumer markets (groundnut oil only entered the world market in recent years), and a relatively small number of "hub"[352] countries featured in the value chain. This implies that, globally, producers of groundnuts face a lower bargaining power.

Therefore, any real opportunity for SMMEs would be in producing and selling low value groundnut products such as roasted nuts and snacks for the local market. Large scale production of groundnut products for export will be limited and mostly supplied by large scale producers who have the productive capacity and scale to supply regional markets. There may be some opportunity to solve some of the supply-chain issues within the groundnut value-chain e.g., provision of aggregation services across many small-holder farmers, supply of seeds, inputs and training farmers on different production techniques to name a few.

Wood-based products

The formal primary wood processing industry in Malawi is essentially a saw milling industry with some complementary production of value-added products such as furniture, plywood, block boards and matches. In addition, a substantial volume of firewood is collected for domestic purposes.

In 2019, Malawi exported USD 7.9 million worth of wood and its associated products which included fibre board, plywood and softwood for flooring.

351 United Nations Conference on Trade and Development (UNCTAD), Harnessing Agricultural Trade for Sustainable Development, Malawi, 2019

352 "hub" countries – i.e., countries that buy the low-value product at a relatively lower price, process it, then resell it on the internal or international market.

There is an increasing trend in the number of informal word processing over the years. This trend is likely to continue given the large number of plantations and farms where anyone can engage in this activity barring any future regulations.

Overall, the demand for timber is expected to increase driven by a rising population. For example, there is a growing construction industry, growing furniture demand and growing demand for coffins.[353]

Market structure and key players

Wood based products market for export is largely concentrated and dominated by large players due to the associated scale costs of producing high density wood products for export. Main players are ITL furniture manufacturers who manufacture hardwood beams for the export market (South Africa, Zambia, Tanzania and Zimbabwe) and the local construction industry. Other prominent furniture and furniture component manufacturers include Mapanga Furniture, Vision Furniture, SMK, Sunder Furniture, Capital Furniture, and Wudsteel. SMMEs are likely small informal operations that produce for the local market.[354]

Opportunities for SMMEs

Wood based products whether raw or processed have a high density which raises transport costs which in Malawi's context creates a major incentive to locating processing facilities close to production sites. Below is a list of wood-based products that Malawi has been increasingly importing that could potentially be substituted for local products creating opportunities for SMMEs.

Table 67: High growth wood-based imports 2019 (USD 000) - Malawi

Product	2015	2019	Growth
Builders' joinery and carpentry, of wood, incl. cellular wood panels, assembled flooring panels, shingles and shakes, of wood	680	1 563	23.1%
Plywood, veneered panel and similar laminated wood	555	785	9.1%
Railway or tramway sleepers "cross-ties" of wood	93	272	30.8%
Hoopwood; split poles; piles, pickets and stakes of wood, pointed but not sawn lengthwise; wooden sticks, roughly trimmed but not turned, bent or otherwise worked, for the manufacture of walking sticks, umbrellas, tool handles or the like; chipwood, wooden slats and strips and the like	121	172	9.2%
Tableware and kitchenware, of wood	42	62	10.2%
Wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness of > 6 mm	5	45	73.2%
Wood marquetry and inlaid wood; caskets and cases for jewellery or cutlery, and similar articles, of wood; statuettes and other ornaments, of wood; wooden articles of furniture	6	39	59.7%

Source: Trade Map 2020

353 Food and Agriculture Organisation of the United Nations (FAO) Malawi country report, accessed 2020
354 Ibid

Production of miscellaneous manufactured products

The table below shows a list of miscellaneous manufactured products that have shown high import growth in recent years that could potentially be substituted for by SMME production.

Table 68: Imports of other manufactured products (USD 000) - Malawi

Product	2015	2019	Growth
Sanitary towels (pads) and tampons, napkins and napkin liners for babies, and similar articles, of any material	2 591	6 288	24.8%
Brooms, brushes, incl. brushes constituting parts of machines, appliances or vehicles, hand-operated mechanical floor sweepers, mops and leather dusters; prepared knots and tufts for broom or brush making; paint pads and rollers; squeegees of rubber or similar flexible materials	636	871	8.2%
Pencils, crayons, pencil leads, pastels, drawing charcoals, writing or drawing chalks and tailors' chalks	171	187	2.3%
Slates and boards, with writing or drawing surfaces, whether or not framed	52	120	23.3%
Cigarette lighters and other lighters, whether or not mechanical or electrical and parts thereof	11	18	13.1%

Source: Trade Map 2019

It is worth noting that any import substitution strategies for these products would rely on the cost savings of producing these products locally versus importing from South Africa, China and Kenya where most of these miscellaneous products are sourced. However, the general import trends in the total miscellaneous manufactured basket of goods have been declining since 2015, which may suggest a trend towards local production.

Services opportunities

Tourism

Tourism and hospitality have a significant part to play in Malawi's economy. It contributed approximately 7.7% to GDP and employed over 0.5 million people in 2019.[355] Prior to the COVID-19 pandemic the sector was expected to grow its contribution by 63% in 2028. The total contribution to employment was also expected to rise to 0.7 million jobs by 2028.[356] Despite the sector being one of the hardest hit due to global travel restrictions and lockdowns, it is expected the sector should make a recovery as vaccines become widely available over time especially in developed countries where most tourists reside.

In terms of long-term growth of Malawi's travel and tourism industry, the World Travel & Tourism Council (WTTC) ranked Malawi 66 out of 185 countries globally as a tourist destination, significantly higher than South Africa for example (121 out of 185 countries).[357] The Malawi Growth and Development Strategy III (MGDS III) has also highlighted the role of tourism as a priority sector for growth. It stated that Malawi would be established as a principal and leading ecotourism destination in Africa and domestic tourism would be increased.[358]

The country's greatest tourism assets include Lake Malawi, its rich diversity of flora and fauna, its nine national parks and wildlife reserves, and its beautiful landscapes of the green, lush country, highlands, forests, and mountains. Currently, Malawi's conservation areas, including

355 Koenma Malawi Tourism Statistics, 2019
356 FinMark Trust, MAP Malawi MSME Diagnostic, 2019
357 FinMark Trust, MAP Malawi SMME Diagnostic 2019
358 Malawi Growth and Development Strategy III (MGDS III) 2017-2022

national parks, forests and wildlife reserves, support the small but growing ecotourism subsector.

Despite the potential the sector holds for value creation, Malawi is relatively underdeveloped in terms of its infrastructure and skills development, which has hindered the achievement of Malawi's tourism potential. A Travel and Tourism Competitiveness Index report released recently by the World Economic Forum (WEF), ranks Malawi 123rd out of 136 world economies that were measured for competitiveness in 2016. Malawi scored poorly on some key benchmarks, namely air transport infrastructure, health and hygiene, and tourist service infrastructure, all of which Malawi has failed to register tangible improvements. The cost of air travel to Malawi, and poor access options are also a major constraint for operators targeting international business and tourist visitors. For example, there is a lack of direct long-haul flights to Malawi, which discourages potential visitors from other continents.[359] This could explain why tourist arrivals have only grown at a modest rate of 2.6% between 2015 and 2018.[360]

A summary of key challenges facing the sector include:[361]

- Education and training: Malawi mostly have small and/or undeveloped training institutions such as the Malawi Institute of Tourism which offer diplomas to its students. These institutions usually have inadequate or no up-to-date equipment and personnel to deliver the courses. The training is also mainly focused on on-the-job hospitality and catering training, which means there are gaps in entrepreneurial skills needed to develop original tours and leisure activities. A lack of training in soft skills is also a gap in the training.
- Digital enablement: The sector is also not technologically enabled, particularly relating to reservation systems (i.e., being able to make a booking online), phone connectivity, and the use of technology to capture and extract customers. This affects the sector's ability to attract and improve its value proposition to potential travellers.
- Infrastructure: Poor road networks to tourist areas, inadequate supply of electricity, water supply, hospitals, airports, and ICT infrastructure also discourage travellers from visiting more remote destinations.
- Access to finance: High interest rates charged by banks also make it difficult for businesses to access loans to invest in existing or prospective establishments.
- High staff turnover: The industry is characterised by low salary levels. As a result, many who were in the sector (especially skilled staff) have joined other industries. This forces operators to employ less trained and skilled staff, which eventually compromised on the quality service provided.

The challenges faced in the sector are made worse by coordination challenges inherent in the sector's cross-cutting relations to other sectors which call for sector-wide approaches to planning, programming, and implementation that should consider complementary and support sectors such as agriculture linkages, environment, infrastructure development, and private sector providers of travel and accommodation services.[362]

In order to improve the economic contribution of the sector, the Government has already undertaken a number of development interventions with a view to transforming the tourism sector landscape. These include expansion of hotel and catering training institutions; construction of access roads to tourism sites in Mangochi; improvements of airports and airstrips; construction of Mpale Cultural Village in Mangochi and the 1500-seater Bingu International Conference Centre, and 5-star Presidential Hotel in Lilongwe. In addition, Malawi

359 FinMark Trust, MAP Malawi SMME Diagnostic 2019

360 World Bank Data Portal, 2020

361 Mastercard foundation, Malawi Diagnostic, 2019

362 FinMark Trust MAP Malawi MSME Diagnostic, 2019

has experienced increased investments in the travel and tourism sector and the private sector has invested in new and more modern hotels, lodges, motels and rest houses throughout the country.

Opportunities for SMMEs:

- SMMEs can operate as tour guides showcasing Malawi aforementioned tourist attractions.
- Locals can leverage Airbnb to market local experiences given its global reach and high level of credibility amongst tourists.
- SMMEs have an opportunity to join the value-chain through offering support services in the accommodation industry as it is one of the Government's key focus areas.

Majority of the opportunities available are suitable for micro-enterprises e.g., conversion of one's home into an accommodation unit via Airbnb or serving as a tour guide. However, successful home conversion can grow into small hotels.

5.2.5 Key retailers market mapping

This section gives an overview of the largest corporates and retailers present in the market. Some of these retailers make use of SMMEs in their supply-chain and this mapping may provide a useful base for any type of supplier development programme. It is useful to note that a supplier development programme in the context of Malawi might be less effective given that the market is largely rural (83% rural population) and less organised than some other SADC countries such as Botswana (30% rural), Lesotho (71% rural) and Eswatini (76% rural).[363] Given rural structure of Malawi, most of Malawians shop at informal independent stores e.g. kiosks and therefore there are not many large formal retailers, with sufficient volumes to support an SDP with impact. Large retailers who would procure SMME goods and services are based in urban areas, which creates logistic challenges between buyers and sellers (i.e., poor quality roads, costly transport and storage). Furthermore, rural SMMEs are still characterised by poor production techniques and financing challenges that prevent them from being able to produce goods at the scale and quality required by retailers.

363 World Bank Data Indicators

Table 69: Main corporate and retailers in the country - Malawi

Retail	Groundnut processing	Soybean processing	Wood-based manufacturing	Tourism
Spar	ADMARC	Rab Processors Ltd	ITL furniture manufacturers	Marriott
Shoprite	Afrinut	Global Trading	Mapanga furniture	Peermont Hotels, Casinos and Resorts
Shoprite U-save	Rab Processors,	Farmer's World and export trading	Vision furniture	Protea Hotels
Chipiku stores	Transglobe	World Food Programme[364]	SMK	Africa Wild Truck
Game stores	Mulli Brothers	United Nations Children's Fund	Sunder furniture	Budget Safari
Chiku's Supermarket	Equator Nuts	GIZ	Capital furniture	Central African Wilderness
First Choice Supermarket		Mary's Meals	Wudsteel	Cycle Malawi
			GUB Furniture Industries	Kayak Africa
			Sakaramenta	Fisherman's Rest Tours
			Malawi Chair	Lilongwe Wildlife Trust
			GY Imports and Exports	Jambo Africa

5.2.6 Key demand-side findings

Based on the analysis above, the following emerges:

- Informality remains a key challenge in the Malawian market requiring a different type of approach to business registration and therefore access to finance.
- Trade and agriculture have the highest concentration of SMMEs and by default may require the most support.
- Skills and literacy remain a key issue amongst SMMEs.
- Access to market and access to finance are significant issues requiring a targeted approach as most businesses sell directly to consumers given the informal nature of the market.
- Basic amenities (electricity and water) are lacking across the market causing issues in production and sustainability of SMMEs.
- Adoption of technology is inhibited by low digital literacy skills and internet coverage.
- Opportunities with the groundnut and soybean value-chains are limited by the large capital investment required in downstream activities e.g., processing of oil, feed and consumables.
- There is some opportunity in wood-processing for the local and export markets. Examples include fibre board, floor boards and so on.
- There is some opportunity in general manufacturing of basic commodities for local consumption e.g., plastics, bedding, furniture, household items and so on.
- Malawi has good tourism (accommodation and food services) potential and this is a sector where SMME involvement could be boosted given the high contribution to the services

364 A substantial amount of soybean products is used by various non-governmental organisations (NGO) in supplemental food programmes in schools (lunch programmes), hospitals, orphanages and refugee relief programmes.

sector. Post the stabilisation of the COVID-19 pandemic, there are opportunities for SMMEs in the tourism sector through the provision of tours, guides and similar services.

Supplier development programmes may not work in the context of Malawi as the market is highly fragmented and informal. Partnerships with large producers could be considered e.g., Coca-Cola, Unilever to provide business support and financing facilities to local informal retailers.

5.3 Supply-side

This section provides an analysis of the supply of finance to the SMME segment in Malawi. Within the section key sectors that support the SMME segment using financial products are assessed to draw out insights on ways to improve the financing of SMMEs in light manufacturing and the services sectors.

5.3.1 Structure of the financial sector

This section deep-dives into the main sub sectors that focus on providing financial services to SMMEs. In 2018, the estimated credit or finance extended to SMMEs stood at USD 82 million, which is about 18% of total credit to the private sector.[365] Most of which comes from banks and MFIs as indicated in the table below.

Table 70: Overview of institutions in Malawi providing SMME financing 2018

Type of provider	Number of institutions	Credit and financing (USD millions)	Share of credit to SMMEs
Banks	9	55.6	68%
MFIs	49	14.5	18%
Donors	N.A	6.8	8%
SACCOSs	37	2.6	3%
VSLAs	2 3071[366]	2.3	3%
Total	N.A	81.8	100%

Source: 1. MAP Malawi, 2019

5.3.2 Bank financing

In Malawi, there are a total of nine commercial banks operating within the market. The table below provides a summary of key banking sector statistics[367].

365 MAP for MSMEs: Malawi diagnostic 2019
366 Note: This is 2017 figure is the latest number available
367 BankScope, 2020

FINMARK TRUST

Table 71: Key banking sector statistics - Malawi

Variable	2015	2019	CAGR (%)
Total assets (USD billions)	1.37	2.5	16%
Deposits (USD billions)	0.93	1.56	14%
Net loans (USD billions)	0.53	0.81	11%
Loan-to-asset ratio (%)	38%	32%	
Net loans to GDP	8.2%	10.5%	

Source: The Registrar of Financial Institutions: Annual report 2019

Between 2015 and 2019, total bank assets grew by 16%, gross loans by 11% and deposits by 14%. However, the share of gross loans to total assets, as shown by the loan-to-asset ratio, decreased from 38% to 32% over the same period. This suggests that banks have increasingly begun to invest in Government securities. Over the same period, net loans to GDP have increased from 8.2% to 10.5%, amongst the lowest in the world.

Table 72: Sector lending distribution - Malawi

Sector	2015	2019	Increase
Wholesale and retail trade	22%	23%	Yes
Agriculture	24%	19%	No
Manufacturing	21%	14%	No
Community, social and personal services	10%	11%	Yes
Electricity, gas, water and energy	1%	7%	Yes
Other	22%	25%	Yes

Source: The Registrar of Financial Institutions: Annual report 2019

From a sectoral perspective, trade, agriculture, and manufacturing have accounted for 60% of gross loans over the last four years, however, the share of agriculture and manufacturing has been declining, while loans to the energy and water sector have been increasing .

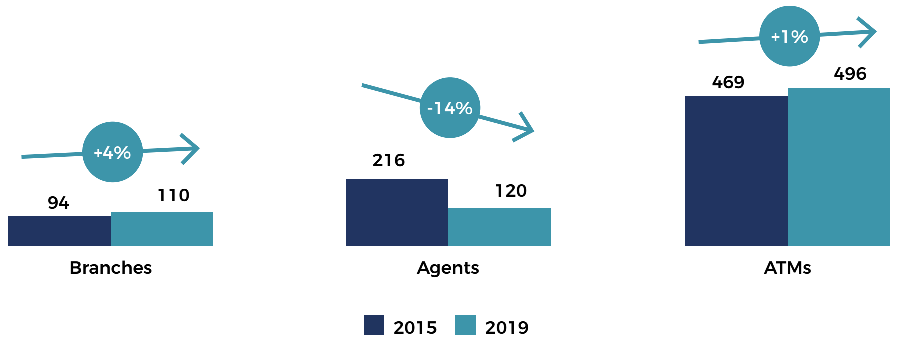
Based on the MAP Malawi 2019 diagnostic, lending rates in Malawi are in excess of 30% and banks tend to focus on formal and well-established small and medium-sized enterprises, these make-up a very small proportion of all the SMMEs in the market. In the same report, it was indicated that some banks are exhibiting increased interest in the SMME segment, however, segmentation and targeting of the segment remains underdeveloped.

Based on 2019 diagnostics report, there are key challenges that banks face when lending to SMMEs and these include:

- A lack of robust lending models results in the reliance on traditional forms of collateral, which are often limited for SMMEs. As such, banks continue to perceive lending to SMMEs as risky.
- Low literacy levels of SMME owners and entrepreneurs inhibit SMMEs from meeting the requirements to formal finance e.g., development of cash flow projections and business plans.
- There is no obvious SMME financing product gaps from a bank perspective. However, there seems to be a lack of well-trained sales personnel particularly in rural areas that are able to understand the consumer needs and adequately match them with bank products and services. Similarly, time taken to process loans are reportedly too long due to manual processes.

- Within the market there are two credit bureaus[368], however their usage remains limited mainly due to low awareness.
- Despite continued efforts by the credit bureaus and the Reserve Bank of Malawi (RBM), financial service providers (FSPs) still face challenges around data quality, the usability of templates and compliance.
- Uptake and usage of the PPSR remain limited because of current design limitations and limited consumer education on it.

Figure 40: Bank channel distribution - Malawi



Source: The Registrar of Financial Institutions: Annual report 2019

Bank branches and automated teller machines (ATMs) have experienced moderate growth from 2015 to 2019. Unlike other developing markets, bank agent numbers have decreased from 216 in 2015 to 120 in 2019. This was reportedly a result of some agents being converted into branches. Similarly, liquidity management was a key inhibitor to agent operations, particularly in rural areas.

5.3.3 Non-bank financial services

Microfinance institutions

Total MFI assets grew from USD 16 million in 2013, to USD 48.2 million in 2018, reflecting a CAGR of 21%. Total MFI net loans and leases grew at a CAGR of 25% from USD 9 million to USD 24 million over the same period. MFIs have a higher average loan to asset ratio of 52% compared to banks which suggests a high appetite for overall loan extension, however off a much lower base. Agriculture and trade sectors are estimated to receive up to 60% of overall loans. The MFI sector serves close to 400,000 clients as of 2019.

Based on the MAP Malawi diagnostic some of the key barriers faced by MFIs in extending credit to SMMEs are:

- Weak capital bases and the limited ability to raise long-term funds of non-deposit taking MFIs affects their ability to extend credit.
- MFI products and services are mainly generic and retail focused, limiting use cases for businesses. This is, in part, related to the limited capital bases, and a lack of capacity to develop more complex products like asset finance.
- Limited risk management capabilities have resulted in the sector facing high default rates of up to 40%. Similarly, the current structure where the Government deducts loan repayments

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from Government employees and remits them late to the MFIs, negatively impacts MFIs cash flows and the ability to lend out the funds to additional customers.

- High operating costs that are driven by the high cost of funds, poor infrastructure, high administration costs, and rising regulatory compliance costs.
- A directive from the RBM has in effect created an interest rate cap, where MFIs cannot charge more than 6% interest per month. The industry reflected that this was insufficient to cover the cost of funds, operating expenses and price for risk, thereby constraining lending - however this lending rate is close to 72% on an annualised basis which is quite high.
- Governance challenges exemplified by high senior staff turnover rates which affect market perceptions of MFIs
- High moral hazard associated with guarantee schemes where consumers are unwilling to pay back the funds they were lent.

Mobile money operators (MMOs)

As at Q3 2020, there were 7.7 million subscribers of mobile money (roughly 77% of the adult population) - of this 90-day activity rates were 62%.

Monthly value of transactions averaged USD 23 million and the projected annual transaction values were USD 276 million for 2020 (4% of 2019 gross domestic product (GDP). 47% of these transactions were cash in or out, 24% were business to business payments, 8% were person to person, 4% business to person and 17% were other types of transactions.

There were close to 76,000 agents in Q3 2020 translating into 760 agents per 100,000 adults.[369]

Based on the current data, there is limited usage of mobile money for person to business payments and business to person payments.

Mobile money has assisted in reducing the incidence of cash robbery and improved convenience of business transactions. That said, there are still reservations among SMMEs around the fear of fraud and high costs of digitisation. This implies that despite high growth witnessed in the digitisation of payments, there is still room to increase sensitisation and scaling of digital payment methods and mobile money. At present MNOs only provide payment solutions to SMMEs with no short-term ambitions of including credit or savings products. This is a result of MNOs focusing on consumer education of their existing services as the uptake by SMMEs still remains low.

Key challenges MMOs face providing payment solutions to SMMEs are as follows:

- The high proportion of cash-out transactions mean agents would need additional cash float to manage liquidity over and above their day-to-day business needs.
- Low literacy levels among agents inhibit the growth of mobile money.
- Malawians in rural areas, many of whom have never used banks, do not have sufficient trust in financial services to take up mobile money

SACCOs

SACCOs are generally tailored to serve smallholder farmers and employees, and not SMMEs due to their membership structures that make it difficult to have SMME as members. Key products offered by SACCOS are highlighted in the table below.

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Table 73: Key SACCO product offerings - Malawi

Product offering	
Term/Normal loans:	Short to medium-term loans of between six to 24 months. Can be up to 200% of shares of members and their capacity to repay the loan
Business loans	Examples include business women group loans largely used for working capital.

SACCOs, with the help of Malawi Union of Savings and Credit Cooperatives (MUSCCO) have developed a triangular-cooperative model which has been piloted in two villages. This integrates management information systems (MIS) between financial, marketing, and production cooperatives to more effectively link the cash flow of members across their business cycles. Similarly, there is interest to move towards a guarantor-based lending approach, where business owners could rely on their networks to gain access to loans. Lastly, there is also a push towards more digital payments and automation of internal processes. However, many SACCOs still lack the financial and skill resources to effectively migrate. Key barriers to SACCOs extending credit to SMMEs are as follows:

Key barriers to SACCOs extending credit to SMMEs are as follows:

- SACCOs are not tailored to focus on small and medium-sized enterprises. Similarly, their lending models rely on individual savings and/or shares.
- The majority of SACCOs are located in urban areas and have limited reach in rural areas.
- They face limited capabilities, such as in corporate governance, lending and risk management.
- Operations are largely manual - raising the cost of operations.

VSLAs

Similar to SACCOs, VSLAs are mainly focused on smallholder farmers and groups, and therefore are not generally well suited to serve SMME clients. Loans are therefore generally short term and micro in size.

VSLAs are largely supported by a number of donor agencies. These agencies provide both financial and implementation support (for example Care Malawi, Action Aid, OXFAM and World Vision). These donors provide specific sectoral focus such as food security and nutrition, women empowerment, health and HIV, education and community resilience to climate change.

There is increasing interest from other financial institutions such as banks, to grow wholesale lending to VSLAs at reduced rates to encourage VSLAs to on-lend to their customers. This coupled with the large rural reach of VSLAs has the potential to extend other forms of financial services such as agricultural insurance and payments.

Based on the MAP diagnostic report 2019, the key barriers to VSLAs extending credit to SMMEs are as follows:

- VSLAs currently charge approximately 20% interest per month (792% annualised) for low-value loans (microloans).
- VSLAs would be interested in investing their excess cash. However, accessibility to formal financial networks is difficult due to their rural locations.
- The large financial and implementation support offered by donors means that any change in their funding cycle or area of focus could interrupt VSLA operations.
- Less than 20% of VSLAs grow to become SACCOs or MFIs, suggesting a lack of adequate support to ensure sustainability and scale.

Non-DFI impact investing

Non-DFI impact investing in Malawi is relatively small at an estimated USD 38.9 million as at 2015. Relative to the overall financial sector, this reflects only 3% of total assets in the same year. The average non-DFI impact capital deal size in 2015 was USD 2 million, suggesting this was targeted at big-ticket deals aimed at corporates and not SMMEs.

Likewise, DFI impact capital was reportedly worth USD 187.5 million, with an average deal size of USD 7 million. Agriculture accounted for 68% of non-DFI impact capital, while financial services and infrastructure accounted for 58% of DFI impact capital. This suggests that investment-ready corporates enjoy the majority of the impact of investing, with limited investment going to SMMEs.

General insurance

General insurance penetration in Malawi increased from 0.6% in 2015 to 0.9% in 2019 representing a 16% annual growth in gross premiums. Gross premiums written in 2019 amounted to USD 72 million.

The insurance industry is still underdeveloped and is generally not tailored for micro businesses. Fire and motor insurance represented 75% of all gross premiums in 2019 and the remaining 25% was accounted for by other categories. Notably fire insurance has been growing rapidly since 2015 at a CAGR of 24% till 2019.

The key barriers to serving small and medium sized businesses include:

- Insurance firms lack adequate capacity to build suitable products to meet the specific needs for businesses. Product gaps mentioned include products that cover against climate and weather changes, disease outbreaks for livestock, theft and fraud. The lack of insurance in these categories impacts supply-chains and therefore output of the light manufacturing and services sectors.
- There is a lack of skilled insurance sales teams in rural areas to ensure businesses can match their main risks to existing insurance products

Donor agencies

Donor agencies in Malawi offer both direct and indirect forms of financing to SMMEs. Financing is often coupled with technical assistance which provides useful business skills for SMMEs. The direct financing involves the offering of grants, matching grants and business plan competitions to businesses within a few sectors including agriculture, manufacturing, and agribusiness.

Current examples of these include the Malawi Innovation Challenge Fund (MICF). The Malawi Innovation Challenge Fund (MICF) is a USD 22 million competitive grant finance for innovative, inclusive business projects within the manufacturing, agricultural, irrigation, financial and more recently the tourism sectors within Malawi. It is supported by the United Nations Development Programme (UNDP), UK Aid, International Fund for Agricultural Development (IFAD) through the Programme for Rural Irrigation Development (PRIDE), the Government of Germany through Bank aus Verantwortung (also known as KFW), and the Norwegian Government.[370] It is important to note that the UNDP will not be launching any further funding rounds for their manufacturing window and will focus on scaling up the finance window. The finance window aims to improve access to finance by assisting FSPs develop digital solutions that would increase lending to SMMEs. Examples of such solutions include digital credit scoring models, automation of loan processes, and development of digital loan products.[371]

370 https://www.micf.mw/about-us

371 Stakeholder interviews conducted by Genesis Analytics, 2020

The MasterCard Foundation, through various programmes such as the MasterCard Foundation Scholars programme in collaboration with Camfed International, aims to support 3,500 girls from economically disadvantaged rural communities to succeed in secondary school and also equip school graduates to make the transition from secondary education into entrepreneurship, employment or further study. The programme includes bespoke training, support and mentorship, enabling young women to launch and grow new businesses in their rural communities.

More recently, the World Bank made available a USD 86 million loan for the Government to increase access to financial services and promote the entrepreneurship and capabilities of SMMEs in Malawi, including addressing the negative economic effects of COVID-19. The credit line is to ensure SMMEs continuously supply essential goods and services to the economy and to mitigate the risk of failure/bankruptcy. In addition, the project will facilitate opportunities for SMMEs that have potential for high growth to thrive and grow over the medium-to-long term by providing training, particularly for youth- and women-owned businesses, followed by measures to connect trainees with market opportunities. Finally, the project is also expected to address some of the market failures that limit the supply of affordable finance and develop solutions for a more conducive business environment for dynamic business creation, including building capacity of institutions and business development thereby sustaining the lending and investment. At this stage the implementation of the programme is not clear and may require support.[372]

The EU recently launched the Zantchito Skills for Jobs programme which is a EUR 55 million programme which aims to increase the capacity of the duty bearers - namely the state - to promote the right to work and provide technical and professional education, specifically in the TVET sector, through the expansion and improvement of equitable, safe and gender-balanced vocational education and training (VET). Secondly, the action will create a framework that can support and accompany TVET graduates and other youth, in particular women, to successfully start their own businesses, through tailored pre-incubation, incubation and post-incubation services, including access to seed financing.

UNDP and United Nations Capital Development Fund (UNCDF) are also running several programmes in Malawi:

- UNDP Resilience and Sustainable Growth (RSG) - Through its innovation challenge pillar, the RSG has also partnered with 20 companies to bring market-based solutions to development challenges such as water purification and affordable irrigation technology.
- UNCDF Mobile Money for the Poor (MM4P) - It encourages FSPs to deliver products and services to those segments of the population that are currently underserved and it enables policymakers and regulators to understand current policies and regulations that are inhibiting market growth and to develop a strategic vision on financial inclusion and the possible delivery modalities.

Based on the Foreign Commonwealth and Development Office (FCDO) tracker,[373] the UK Government envisages spending GBP 134 million in 2021, GBP 93 million in 2022 and GBP 69 million in 2023 through various implementing partners such as the British Council, UNDP, the World Food Programme, Coffey International Development, AgDevCo, the World Bank and many others. There could be opportunities to work with the various implementing partners on projects related to SMME development.

Based on a review of these direct support programmes there is an opportunity for FMT to consider partnerships with these donors where there are capacity and financial gaps.

372 www.worldbank.org/en/news/press-release/2020/09/03/world-bank-approves-86-million-to-improve-access-to-financial-services-for-micro-small-and-medium-enterprises-in-malawi

373 https://devtracker.fcdo.gov.uk/countries/MW

Indirect forms of finance involve the offering of risk-sharing facilities to FSP providers to extend the offering of financial services. Some examples of running risk-sharing facilities include:

- World Bank Malawi Agricultural Commercialisation Project: The project seeks to increase the commercialisation of agricultural value chain products. It falls under the Financial Inclusion and Entrepreneurship Scaling project. In part, it involves a partial credit guarantee fund targeting 150 loans from FSPs worth USD 12 million in value by 31 May 2023.
- African Guarantee Fund (AGF): The AGF has partnered with FDH Bank to offer a credit guarantee scheme worth USD 3 million to extend financing to SMMEs
- USAID Development Credit Authority Activity: As at 2019 there were two active loan portfolio guarantee programmes in partnership with First Capital Bank. The first, launched in 2013 worth USD 4.25 million focused on SMMEs in the agriculture sector, while the second, launched in 2016, worth USD 15 million focused on women- and youth-led SMMEs in agriculture.

Some challenges faced by donor agencies in providing financing to SMMEs include:

- Financing is linked to specific programmes which run the risk of being discontinued should funders' objectives change. This affects the sustainability of the model. However, efforts to ensure businesses match financing, and to catalyse the development of new products within FSPs, serve to try and address this.
- Donor financing develops 'donor darling' businesses that win multiple rounds of financing by continually adapting their business models to suit the specific financing window requirements. This runs the risk of concentrating financing within a few businesses, limiting the overall impact.

There are a limited number of staff members to provide the technical assistance offered which limits the ability to scale coverage.

5.3.4 Key supply-side findings

Based on the analysis above, the following findings emerge.

- Loan and bank financing to SMMEs remains low due to various challenges such as low literacy levels of SMMEs, insufficient credit history, poor credit processes, lack of collateral and many other factors.
- MFIs perform better than banks in lending to underserved segments, however there are efficiency concerns.
- SACCOs and VSLAs are successful at reaching underserved segments but are limited by funding constraints and are not scalable solutions for providing financial services.
- There several donor programmes all providing similar support within the market, there is a potential opportunity for partnerships, support with implementation and support with coordination across all these programmes.

5.4 Recommendations

Our recommendations highlight interventions with the greatest potential for impact. These recommendations are further expanded upon in the implementation section of the report. These 'high priority' recommendations include:

Issue 1: Malawi is undergoing a structural transformation whereby rural areas are seeing a transition of jobs from agriculture to manufacturing and services. The 'new' jobs created are a positive indication of development, however, the quality of jobs is not good due to low literacy levels.

Recommendation 1: **There is an opportunity to partner with other donors such as the EU on their Zantchito Skills for Jobs programme or the MasterCard foundation jobs for youth programme that are both focused on improving skills within rural areas to enable women and youth to become successful entrepreneurs. The Zantichito programme also aims to improve skills development in Malawi through the development of the TVET sector and capacitation of BDS providers while linking entrepreneurs to funding.**

Issue 2: Access to finance remains critical despite the ease of doing business indicating otherwise. Given the fragmented and rural structure of retailing and the low market share of formal large-scale retailers, it is unlikely that a supplier development programme will have much traction. However, there are large multinationals like Unilever and a distributor development programme is likely to have a greater impact.

Recommendation 2: **There is an opportunity to support local independent rural retailers to gain access to finance through digital distributor financing mechanisms. Such a programme would involve the development of a digital ordering system that empowers local retailers to order and pay for products from wholesalers via SMS. Orders submitted via a feature phone helps create a digital record for the local retailer to get access to micro-loans to stock inventory and grow their businesses. This could be done by partnering with MNOs such as Airtel that already specializes in mobile money payment solutions for businesses. Large manufacturers such as Unilever or Coke partnering with an FSP to provide short-term credit and invoice discounting for rural retailers who sell Unilever and Coke products.**

Issue 3: High operational costs of lending to SMMEs prevent banks and other financiers from effectively serving the market. In the short term, continued technical assistance to financial institutions is probably still required. This would involve much more careful consideration of where the constraints lie in the market and ensuring that support to any institution achieves a sustainable and material change in its operational cost with respect to SMME lending.

Recommendation 3: **There is an opportunity to partner with the UNDP Innovation hub financing window for the development of solutions targeted at improving the bank's operational costs of lending to SMMEs. The UNDP makes a contribution to the project however, the participating bank has to match the grant. Increasing the financial resources of the programme would allow the UNDP to reduce the matched grant contribution requirement placed on banks thus likely driving more participation.**

Issue 4: There are early indications that donor and Government support programmes may be poorly implemented due to lack of funds or capacity. There is also a clear need for better coordination among donors that aim to de-risk SMME lending.

Recommendations 4: **The World Bank and the EU have both committed to supporting SMME lending by providing risk-sharing credit guarantee schemes to various banks in the market. There is an opportunity to consolidate these efforts to reduce the duplication as well as the increased administrative burden placed on FSPs to participate in multiple credit guarantee schemes.**

Issue 5: Low access to electricity for SMMEs remains a key challenge in Malawi with only 26% of SMMEs having access to electricity. For the manufacturing and services sectors this amounts to 15% and 30% respectively. Although there have been improvements increasing the rate of electrification, there is still a significant unmet demand and an over-reliance on unpredictable hydroelectricity which is affected by variable rain patterns. Solar energy presents an opportunity to increase the rate of power access in Malawi, however, solar companies (particularly SMMEs) face significant challenges accessing finance.

Recommendation 5: FMT could engage the World Bank to provide support the World Bank's Malawi electricity access project 2019-2024. The proposed project intends to bring a transformative change to the energy value chain in Malawi by supporting a rapid scale-up of the country's electricity access agenda, by meeting the investment needs of a distribution expansion plan, and by promoting private sector participation for the deployment of solar home systems (SHS) and mini-grids. The Off-grid market development fund (USD 30 million: USD 24 million IDA Credit and USD 6 million equivalent IDA Grant) component will address the challenges to scaling up the off-grid market by providing financing through three windows - a working capital window, a results-based financing (RBF) window, and a mini-grid window. The first two windows will be available to Off-grid solar companies and the third window will be available to mini-grid developers.

In the proposed project, IDA concessional resources are strategically deployed to present de-risked opportunities to the private sector to participate as service providers or financiers and contribute to the GoM's access vision. Public funding provided is supporting the development of a solar market by providing financial resources that are currently not available for solar companies, allowing these companies to scale up their businesses and new market players to come in. In addition, the TA provided under the project will provide training and awareness raising for financial institutions, especially commercial banks, on solar technologies and the market, allowing FSPs to become more comfortable over time to lend to solar companies – contributing to enabling the environment for the private sector. Technical support is being provided by the World Bank Group's Lighting Africa Initiative that focuses on catalysing commercial markets for the delivery of clean, affordable, and reliable energy services. FMT may be best placed in supporting the project through funding and TA for projects that aim to de-risk lending to solar companies.

Implementation plan

Table 74: Implementation plan - Malawi

Recommendation	A#	Activity	Partners to work with
1. Partner with the EU Zantchito Skills for Jobs programme	1.1	Engage with the EU to assess possible synergies and areas for collaboration. FMT may be best placed to assist with creating better financing linkages between graduates and financiers.	EU delegation in Malawi SMEDI
	1.2	Engage with the EU to propose additional target sectors to include FMTs priorities in the light manufacturing and services sector. Suggested sectors include: Wood-based manufacturing Agro-processing Manufacturing of miscellaneous goods Tourism	EU delegation in Malawi SMEDI MCCI
2. Support local independent rural retailers to gain access to finance through digital distributor financing mechanisms 3.Develop a challenge fund	2.1	Engage Mastercard to explore opportunities for piloting the project in Malawi	Mastercard
	2.2.	Support the identification of qualified retailers to be part of the pilot	FinMark Trust team MICT MCCI SMEA
	2.3	Support the identification of partner wholesalers and logistic partners	FinMark Trust team MICT MCCI
	2.4	Facilitate engagements with Airtel to support the development of the payment facility on their existing mobile money app	FinMark Trust team Airtel Limited
	2.5	Facilitate engagements with local banks or MFIs to provide the financing required	FinMark Trust team Banks and MFIs
	2.6	Implement and provide tailored technical support for the project	FinMark Trust team Implementation partner
	2.7	Monitor and evaluate project outcomes	Implementation partner
3. Partner with UNDP Innovation challenge fund financing window	3.1	Engage UNDP to develop a memorandum of understanding (MOU), particularly on meeting any funding gaps	UNDP FinMark Trust Team
	3.2	Commit and approve grant amount	FinMark Trust Team
	3.3	Provide continued technical assistance to implementing partners for projects	FinMark Trust Team UNDP
4. Support consolidation of credit-guarantee schemes in the market	4.1	Engage MICT, the World bank and the EU to support the establishment of a national SMME credit guarantee scheme	FinMark Trust Team World bank MICT EU delegation in Malawi

Recommendation	A#	Activity	Partners to work with
5. Support the World Bank Malawi electricity access project	5.1	Engage with the EU to assess possible synergies and areas for collaboration. FMT may be best placed in supporting the project through funding and TA for projects that aim to de-risk lending to solar companies	FinMark Trust Team World Bank

6. CROSS-CUTTING THEMATIC RECOMMENDATIONS

From the analysis of the four countries, it is clear that there are some common issues and solutions that could be implemented as cross-cutting programmes. Some of these are explored below.

Credit guarantees and other financing mechanisms - Due to the low uptake of existing credit guarantees schemes, there is an opportunity to support the restructuring of existing credit guarantee schemes in each market to increase efficiency. There is also scope to improve the design of existing schemes to include women, youth and SMME specific targeting.

Mobile-based credit products - Across all markets, the usage, uptake and products of mobile money and mobile based credit are underdeveloped. There is an opportunity to support the enhancement and expansion of mobile based credit products through supporting exposure visits for local MNOs and FinTechs to other markets e.g., Kenya.

Electronic movable collateral registries - electronic collateral registries in each country are a new development and there is scope to support initiatives that focus on increasing usage and awareness of the collateral registry. There is also scope to support FSPs to develop credit products using alternative and innovative collateral e.g., livestock and warehouse receipts.

Government procurement policy - in all markets there is scope to support the development and enhancement of existing legal and policy frameworks to cater for women, youth and the SMME segment more explicitly e.g., setting minimum percentage limits on public procurement in these segments.

Digital platforms and supporting off-grid electricity - access to electricity in all markets is low. There is an opportunity to support innovators and existing off-grid electricity providers through funding and technical assistance (e.g., market scoping, securing funding, access to market and business plan development etc.).

The design principles of these programmes are expected to be similar across all three markets and therefore there is merit in implementing these initiatives in a centralised manner to ensure value for money.

7. APPENDIX

7.1 Stakeholders interviewed

Botswana

#	Classification	Organisation
1	**Banks**	First Capital Bank
2		Stanbic
3		ABSA
4		FNB
5	**Government organisation**	Economic Diversification Drive - Ministry of Investment, Trade and Industry Botswana
6		Local Enterprise Authority
7		Botswana Bureau of Standards
8		Botswana Innovation Hub
9	**Business and Industry association**	Botswana Federation of Trade Unions
10		Business Botswana
11	**Non-bank lender**	Bayport
12		Citizen Entrepreneurial Development Agency
13	**Insurance**	BECI (Export Credit Insurance and Guarantee Company)
14	**MFI**	Women's Finance House Botswana
15	**Donors**	UNDP supplier development programme
16	**Credit Bureau**	Experian (previously Compuscan)
17	**Mobile Network Operator**	Orange Money

Lesotho

#	Classification	Organisation
1	**Banks**	Lesotho Postbank
2		Standard Lesotho Bank
3		First National Bank
4		Nedbank
5	**Business and Industry associations**	Association of Lesotho Employers and Businesses (ALEB)
6		Private Sector Foundation of Lesotho
7		Mineworkers Development Agency
8		Small, Medium and Micro Enterprise Support Network
9		Innovation Hub at the National University of Lesotho
10	**Donor/ Government organisation**	Implementing consultant for AFDB and World Bank
11	**Donor Organisation**	UNDP

#	Classification	Organisation
12	**Government Body**	Ministry of Finance
13		Central Bank of Lesotho
14		Ministry of Trade and Industry
15		Bureau of Statistics (BOS)
16		Ministry of Small Business Development
17		Lesotho National Development Corporation (LNDC)
18		Basotho Enterprise Development Corporation (BEDCO)
19		Lesotho Revenue Authority
20	**MFI**	Letshego Financial Services
21	**Mobile Network Operator**	Vodacom Lesotho
22		Econet
23	**SACCO**	Lephola Savings and Credit Cooperative

Eswatini

#	Classification	Organisation
1	**Government bodies**	Central Bank (Credit Guarantee Team)
2		Central Bank (Bank Supervision)
3		Central Bank (Fintech Unit)
4		Ministry of Trade (SMME Unit)
5		Registrar of companies
6		Centre of financial inclusion
7	**Business development Institutions**	Small Enterprise Development Company (SEDCO)
8		Youth Enterprise Revolving Fund (YERF)
9	**Business and industry association**	Business Eswatini
10	**Banks**	Standard bank
11		First National bank
12		Nedbank
13		Eswatini bank
14	**Development Finance Institutions (DFI)**	FINCORP
15		Industrial Development Company of Eswatini (IDCE)
16	**Mobile network operator/Mobile Money provider**	MTN
17	**Donor Organisation**	World Vision Eswatini

Malawi

#	Classification	Organisation	Name	Role
1	**Government bodies**	Ministry of Commerce, Trade and Industry	Alexander Mtsendero	Principal enterprise development officer
2		Malawi Investment and Trade Centre	Tendai Banda	Investment promotion officer
			Patricia Kaupa	Senior investment officer and one-stop shop coordinator
3		Malawi Bureau of Standards	Wanangwa G. Sindani	Deputy Director of Quality Assurance Services
4	**Business development Institutions**	Small and Medium Enterprise Development Institute	Rodrick Chattaika	CEO
			Edward Chilima	Director of Information and Training
5		mHub	Vincent Kumwenda	CEO
			Elijah Lumbani Mkandawire	Head of M&E
6	**Business and industry association**	Malawi Confederation of Chamber of Commerce	Hope Chavula	Director
7		Small and Medium Enterprise Association Malawi	James Chiutsi	Executive secretary
8		Malawi Union of Savings and Credit Cooperatives	Fumbani Nyangulu	CEO
9	**Banks**	National Bank of Malawi	Roger Ndhlozi	Senior Manager
			Peter Chipeta	Account relationship manager
10		Standard Bank	Pempho Chalamanda	Head of Commercial Banking
11		First Capital Bank	Jaco Viljoen	CEO
			Ewen Hiwa	Acting Chief Commercial Officer
12	**Mobile network operator/Mobile Money provider**	Airtel Malawi Limited	Polycarp Ndekana	Director of Airtel Money
13	**Donor Organisation**	United Nations Development Programme	Cinzia Tecce	Private sector development specialist
			Titus Kavalo	Programme analyst
14		European Delegation in Malawi	Joost Bakkern	EU Delegation
15	**Corporates working with SMMEs**	Shoprite Malawi	Richard Mankomba	Buyer

7.2 Government and donor support schemes

Botswana

The Citizen Entrepreneurial Development Agency (CEDA) is Botswana's largest SMME funding support institution. It has an SMME loan book size of about P 2.4 billion[374] - this figure represents around 40% of commercial banks' business loans and advances[375]. CEDA provides financial products to SMMEs that range from manufacturing and services business loans, to equity finance and loan guarantees. CEDA also outsources business advisory services to buffer the risks that it takes on by funding start-up and micro businesses. CEDA uses the size of lending to classify the businesses that it supports[376], and it recently increased its maximum lending amount from P 30 million to P 50 million. CEDA has also updated its security requirements, loan tenure and interest rates to make SMME financing easier. With only 14 operational branches across the country, a key challenge faced by CEDA is their ability to manage their growing book of SMMEs[377]. Their cost to serve is increasing rapidly, and they would benefit from digitisation and automation of administration, management and monitoring processes[378]. The government cut its funding to CEDA as it had a high rate of non-performing loans. The Government requested that the institution revise its business and operative plans.

The Local Enterprise Authority (LEA) is Botswana's main SMME development support agency. It was created to implement the objectives of the Small Business Act of 2004. LEA provides over-the-counter business advisory services to micro enterprises from 13 branches across the country while small and medium businesses are supported through highly subsidised (up to 85%) advanced interventions such as capacity development and business diagnostic reviews[379]. LEA's annual budget was recently reduced (by approximately 40%) which may pose challenges to its stated plan to ramp up its capacity to provide more market-access opportunities for its SMMEs and upskill its staff[380]. Along with CEDA, LEA was also requested to revise its operational plans.

The Economic Diversification Drive (EDD) is an initiative by the Ministry of Investment, Trade and Industry (MITI) to help manufacturing, services, and agricultural enterprises in securing business from the Government and parastatal organisations. The EDD forms a key part of the country's private sector growth plan and its objective is to ensure that Botswana's economy is diversified ahead of diamond depletion[381]. EDD's short term strategy lacked sufficient monitoring and evaluation processes, and so outlining its challenges and successes is difficult. Its longer-term strategy is focused on developing sustainable industries - for which manufacturing, pharmaceuticals and agro-processing form part of their priority areas. A key issue faced by the EDD is the lack of support from other government institutions. As it stands, the EDD has no legislative power to enforce its strategy.

UNDP Botswana has created the Business Supplier Development Programme (SDP) to foster supplier-buyer relationships within various value chains. The programme's first year focused on value chains in the mining, construction, processing, textiles and leather sectors[382]. Between 2017 and 2021, the UN extended a budget of USD 49.68 million to meet the objectives of the United Nations Sustainable Development Framework (UNDSF) in Botswana[383]. It is unclear what

374 Stakeholder engagement, 2020, *Genesis Analytics*
375 Banking Supervision Annual Report 2019, *Bank of Botswana*
376 Micro: lending of P500 - P300,000; Small: P 300,000 - P 1 mil; Medium: P 1 mil - P 10 mil; Large: P 10 mil +
377 CEDA currently has more than 8000 SMMEs on book
378 Stakeholder engagement, 2020, *Genesis Analytics*
379 Stakeholder Engagements, 2020, *Genesis Analytics*
380 Stakeholder Engagements, 2020, *Genesis Analytics*
381 Covid-19 Pandemic Recovery Plan for the Private Sector
382 Stakeholder Engagements, 2020, *Genesis Analytics*
383 Government of Botswana and United Nations Sustainable Development Framework (UNSDF) 2017 -2021, *UNSDF*

proportion of this budget has gone into the SDP. Although still in its early stages, the SDP has identified networks of large-scale companies and SMMEs to support - so far, the programme has reached 47 SMMEs and aiming to scale 100 in 2021. The first year of the programme saw seven buyer companies, and the programme aims to extend this to 12 in its second year of implementation. A constraint in SDP's model is that it only takes on SMMEs that are already supplying its buyers. The SDP has flagged further donor support and partnerships as a key for unlocking further reach and growth of the programme. With the programme going into its second year of implementation from November 2020, there is room for further support in identifying target sectors, suppliers, and buyers for the next year. The SDP's budget from the UNDP is limited, and it is seeking partnerships to assist in expanding its reach.

The Botswana Innovation Hub (BIH) provides grants to technology and digitally-focused individuals and businesses. Incubation services range from co-working spaces to financial-model training. Most of BIH's members (approximately 200) are start-ups[384]. The organisation has been successful in assisting its members to build business cases. The hub is funded almost entirely by the Government, and currently needs support in attracting counterpart funding from angel Investors and other funders.

Tokafala was initially created as a four-year programme designed to help SMMEs in Botswana overcome business challenges. The programme offered mentorship and advice to over 200 SMMEs between 2014 and 2016, and is still in operation today. A hub was established through this project, and a key focus area of the hub is in assisting SMMEs to identify value chains that speak to their product lines. Tokafala provides similar services to those provided by LEA, and at a smaller scale.

A donor programme that incorporated SMME development into its strategy, but is no longer running, was the Private Sector Development Programme (PSDP). The European Union (EU) in partnership with the Ministry of Investment, Trade and Industry and the Centre for Development of Enterprise (CDE) developed the PSDP in 2012. The PSDP was initiated by Business Botswana and executed (funded) by the EU from 2013 until 2017. The programme's overall objectives were to create employment, grow the economy, and reduce poverty[385]. The programme also sought to capacitate SMMEs through value chain optimisation, better access to finance and an improved business environment. The PSDP came to an end in 2017.

Lesotho

The Private Sector Competitiveness and Economic Diversification Project (PSCEDP) is a project whose key mandate is to facilitate private sector investment by improving the business environment and diversifying sources of business growth. Its activities are overseen by the Ministry of Trade and Industry and Ministry of Small Business, Cooperatives and Marketing and receives funding from the World Bank. Through its Lesotho Enterprise Assistance Programmes (LEAP), SMMEs are provided with business grants which assist in accessing markets and improving operational efficiency. The PSCEDP is also working with the Lesotho National Development Corporation (LNDC) to pilot the commercialisation of industrial estates through public-private partnerships. In its efforts to strengthen the private sector, PSCEDP has experienced cash-flow challenges in implementing its grant scheme and in coordinating numerous ongoing projects[386]. It requires assistance in diversifying its sources of funding and improving on its project-management capability.

The Economic Diversification Support Project (EDSP), funded by the African Development Bank (AfDB) seeks to support the private sector through improving partnerships, entrepreneurial and skills development and investment promotion. One of the project's support programmes was

384 Stakeholder Engagements, 2020, *Genesis Analytics*
385 http://botspsdpmande.org/faq.php
386 Stakeholder Engagements, 2020, *Genesis Analytics*

the introduction of the 2018 microfinance programme which aimed to design and implement a suitable MFI programme. The implementation, however, has been delayed and MFIs are yet to commence SMME lending. The EDSP also launched the Promoting Enterprise Development (PED) arm under the Basotho Enterprise Development Corporation (BEDCO) to support the development of SMMEs through business incubation services, development of strategy and implementation plans and business plan competitions. The programme is still in the pilot phase.

BEDCO is the implementing arm of the Ministry of Small Business, Cooperatives and Marketing and its mandate is to establish and develop indigenous Basotho-owned enterprises by coordinating efforts between private sector businesses development service (BDS) providers. In addition to the PED programme, BEDCO also has an incubation programme but this has also not enjoyed much traction. It also assists SMMEs to access finance through evaluating business plans for loan applications. Over the past five years it has assisted approximately 35 SMMEs[387] to access finance. Although the government has recently increased its efforts in private sector development, its institutions do not have a decent impact because they lack the necessary funds and coordination. Its parent organisation, the Ministry of Small Business, has a Partial Credit Guarantee (PCG) fund which seeks to support micro and small enterprises[388]. By the end of August 2020, 4 million dollars[389] had been disbursed since inception and 564 SMMEs have been supported to date. This corresponds to less than 1% of all the SMMEs[390] which is extremely low.

The LNDC is the implementing arm of the Ministry of Trade and Industry. Its mandate is to initiate, promote and facilitate the development of manufacturing and processing industries, mining and commerce. It promotes investment through equity finance and project preparation facilities (grants). It also has a partial credit guarantee (PCG) scheme which seeks to support medium to large enterprises[391] by addressing the issue of lack of collateral. Over the past nine years, 65 loan applications worth 2 million dollars[392] have been issued. Only four of these (6% of total loans) worth 200,000 dollars[393] defaulted. The low utilisation rate of the facility is a factor of two items: SMMEs have to qualify for bank credit to qualify for the guarantee, and banks do not have confidence in the Government's ability to honour default payments. LNDC is looking for more funding to capitalise its development finance instruments - a potential area for intervention.

The National University of Lesotho (NUL) innovation hub promotes private-sector development through offering SMME support in three phases: incubation, acceleration and tenancy in its industrial park. The last two phases are yet to be operationalised due to a lack of funding but the institution may potentially receive funding from DFIs. Through the incubation programme, aspiring entrepreneurs are able to develop their products and convert them into start-ups. The innovation hub currently has 15 physical and 15 virtual fully incubated businesses but lacks the funding to propel these businesses into the market. The university's innovation fund has attempted to raise funds through partnering with commercial banks, development banks, venture capital firms, private equity firms and Government institutions but with limited success. Some of the challenges faced include lack of appetite to fund start-ups from commercial banks. There is also a lack of development banks and private equity investments in the country reducing the channels to access funding while LNDC's development finance programmes are inefficient and require support. Furthermore, the university's effort to partner with BEDCO in the development of the incubation hub has been disrupted and should be revived.

387 0.05% of the total SMME population
388 Average loan size is 110,000
389 67 million Maloti
390 85,173 as of 2016
391 Minimum loan size is 200,000 Maloti and maximum is 8 million Maloti
392 34 million Maloti
393 3.3 million Maloti

The SMME support network is a consortium of 11 BDS providers. It was set up to bring together individuals, entities and organisations that deal with SMMEs to promote their development. The network offers capacity building specific to the manufacturing sector. For example, it provides training on quality management, technical skills, product development and factory premises layout. It is also planning to launch a virtual BDS. The main impediment in its operation is the lack of cooperation between the relevant stakeholders and this is a potential area for intervention.

Eswatini

MCIT through its SMME unit does not run any programmes directly but has the overall responsibility of coordinating the implementation of the SMME policy. Despite the critical role it plays, there remains a lack of staff capacity and gaps in the support framework[394] i.e., lack of SMME tax incentives in the policy and no clear implementation plan. As shown in the table above, most of the institutions say they provide capacity building services. However, these initiatives sit under different ministries and the MCIT doesn't appear to have any control over how these initiatives are run. There is a need to capacitate the unit and provide assistance on how to ensure better coordination of the SMME support agenda in Eswatini.

CFI (a unit of the Ministry of Finance) plays a facilitative role through its engagement with financial regulators, policymakers and the financial sector in the implementation of the country's national financial inclusion strategy. Key focus areas are building rural entrepreneurial capacity and deepening the financial services sector.[395] CFI is still in its early stages of operation and is currently running the Finclude project which is targeted at creating sustainable livelihoods and incomes, particularly for aspiring and existing women and youth entrepreneurs in the country through creating corporate linkages. The project also intends to assist smallholder farmers access markets. A key challenge initially faced by CFI was ensuring that initiatives were implemented through the appropriate ministries.

SEDCO is a public enterprise under the MCIT established to provide business development services, notably training, coaching and mentoring of SMMEs. Most capacity-building initiatives by external donors/development partners are implemented through SEDCO. SMMEs are also referred to SEDCO by domestic DFIs which require proof of capacity training before they provide the required funding. Despite being the most popular capacity-building organisation in the country, it faces significant capacity constraints of its own[396]. SEDCO's funding from the government has been declining over the past three years and its business development coach-to-SMME ratio currently stands at 1 to 23. However, SEDCO has indicated that the ideal ratio would be 1 to 5 if it had the resources. This creates challenges in providing quality affordable training to SMMEs. As government funding declines, SEDCO has had to cover its operational costs by increasing the cost of training, with the danger that fewer SMMEs purchase the services on offer. There is an opportunity to assist SEDCO through curriculum reform, funding mobilisation and technical assistance as it transforms its operational model towards an online training model.

The SSELGS is housed within the central bank and was established to support SMMEs by providing credit guarantees to financiers. However, the scheme has experienced low uptake due to cumbersome claim processes and a general lack of awareness of the scheme amongst SMMEs.[397] Historically, the central bank required banks to prove that they had done everything reasonably possible to recover funds from defaulting SMMEs - including going to court. Often the loan size did not justify the costs of recovery, thereby reducing uptake of the scheme.

394 Eswatini MAP SMME Diagnostic, 2018
395 This organisation is yet to be interviewed
396 Stakeholder Engagements, 2020, *Genesis Analytics*
397 Ibid

The structure of the scheme is also not optimal - it is transaction based[398] which increases the burden placed on banks to account for each transaction instead of a portfolio. Finally issues with delayed payments from the Central Bank have further reduced participation from financiers.

SSLEGS is currently under revision to improve the claims process, include DFIs and increase the guarantee amount. Other suggested revisions are to change the scheme from a transaction-based scheme to a portfolio-based one. Financiers have indicated that this would be a more attractive option for them. If successful, this could have significant impacts on the ability of financiers to service the SMME market. Ongoing technical support can be provided to ensure that these changes are designed and implemented to achieve the intended impact.

YERF is a parastatal under the ministry of Sports, Culture & Youth Affairs tasked with promoting youth employment and alleviating poverty among 18- to 35-year-olds. Key initiatives include purchase-order financing, skills development for loan recipients, and mentorship to youth owned enterprises and improving linkages for youth enterprises with relevant stakeholders. Similar to SEDCO this organisation is also resource constrained with declining Government funding.

EIPA was established to attract, promote and facilitate foreign and local investment and trade in Eswatini. EIPA supports enterprises, including SMMEs, advising them on available and potential regional and international export opportunities, and advocating for a conducive business climate, including improvements to the cost of doing business in each sector. According to EIPA, there remains a need to improve the awareness of its services amongst SMMEs.

398 A scheme that secures a transaction as opposed to a portfolio

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