

Performance and Competitiveness of Small and Medium Sized Manufacturing Enterprises in Botswana



**Botswana Institute for
Development Policy Analysis**

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Performance and Competitiveness of Small and Medium Sized Manufacturing Enterprises in Botswana

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**BOTSWANA INSTITUTE FOR
DEVELOPMENT POLICY ANALYSIS**

Performance and Competitiveness of SMEs in Botswana

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Table of Contents

Acronyms and Abbreviations	7
List of Tables	9
List of Figures	10
Preface	11
Acknowledgements	13
Executive Summary and Recommendations	15
Background	15
Findings of the Study	15
<i>The International Perspective</i>	17
<i>Firm-Level Survey Findings</i>	18
Conclusions of the Study	21
<i>Major Conclusions</i>	21
<i>Conclusions on Institutional Issues</i>	22
<i>Recommendations</i>	27
1. Introduction	30
2. Approach and Methodology	32
Data Collection Methods	32
<i>Sampling:</i>	32
<i>Pre-Testing</i>	33
<i>Data Collection</i>	34
<i>Institutional Interviews</i>	34
Data Analysis	34
3. Macroeconomic Review	35
Economic Performance	35
<i>Sectoral Performance</i>	36
<i>Inflation</i>	37
4. Background of Manufacturing Enterprises in Botswana	39
Manufacturing Sector Performance	39

<i>Output</i>	40
<i>Employment</i>	41
<i>Exports</i>	41
5. Government Policy and Private Sector Initiatives	43
Government Policy	43
<i>SMME Policy and the Small Business Act</i>	43
<i>Industrial Development Policy</i>	45
<i>Procurement-Related Policies and Programmes</i>	46
6. The International Perspective of SME Competitiveness	47
Globalisation and SMEs: Opportunities and Challenges	47
<i>Opportunities</i>	48
<i>Challenges</i>	48
Policy and Regulatory Environment	49
<i>Fiscal and Monetary Setting</i>	49
<i>Taxation</i>	54
<i>Policies Affecting the Cost of Doing Business</i>	56
<i>Policies that Facilitate Business Transactions</i>	58
Technology Development	60
Conclusion	62
7. Firm-Level Survey Results	64
Introduction	64
Overview of Firm-Level Survey Data	64
Firm Management	68
<i>Gender Inequalities in Firm Ownership</i>	68
<i>Youth and Firm Ownership</i>	69
<i>Managerial Capabilities of Firm Managers</i>	70
Firm Production	72
<i>Firm Expansion</i>	75
<i>Cost of Utilities</i>	76
Access to Finance	79
Business Support Services	81
Regulatory Issues	83
Conclusions	84
8. Institutional Support for the SMEs in Botswana	88
Introduction	88
Entrepreneurial Development	88
<i>Department of Industrial Affairs</i>	89
<i>Enterprise Botswana (EB)</i>	90
<i>Local Enterprise Authority (LEA)</i>	91

TABLE OF CONTENTS

<i>Department of Vocational Education and Training</i>	91
<i>Botswana Bureau of Standards (BOBS)</i>	92
Enabling Business Environment	92
<i>The Small Business Promotion Agency (SBPA) and the Small Business Council (SBC)</i>	93
<i>Registrar of Companies and its Support for SMEs</i>	94
<i>Botswana Confederation of Commerce, Industry and Manpower (BOCCIM)</i>	95
Financial Institution Support	96
<i>Citizen Entrepreneurial Development Agency (CEDA)</i>	96
<i>National Development Bank</i>	98
<i>Botswana Development Corporation (BDC)</i>	99
<i>Commercial Banks</i>	100
Export Promotion Support: Exporters Association of Botswana (EAOB)	101
<i>Challenges</i>	101
Sectoral Development	102
<i>National Food Technology Research Centre</i>	102
<i>Constraints</i>	103
<i>Rural Industries Promotions Company (RIPCO)</i>	103
<i>National Master Plan on Arable Agricultural And Dairy Development (NAMPAAADD)</i>	105
<i>Skills Training</i>	107
<i>Challenges</i>	107
<i>Department of Agricultural Research</i>	108
<i>Challenges</i>	109
Conclusion	109
9. Conclusions and Recommendations	111
<i>General Conclusions</i>	111
<i>Major Conclusions</i>	112
<i>Cross-cutting Issues</i>	114
<i>Recommendations</i>	117
References	120
Annex A: List of Institutions and Persons Interviewed	122

Acronyms and Abbreviations

AGOA	African Growth and Opportunity Act
ATTC	Auto Trades Training Centre
BDC	Botswana Development Cooperation
BECI	Botswana Credit Insurance and Guarantee Company
BEDIA	Botswana Export Development & Investment Authority
BIDPA	Botswana Institute for Development Policy Analysis
BMC	Botswana Meat Commission
BNPC	Botswana National Productivity Centre
BOBS	Botswana Bureau of Standards
BOCCIM	Botswana Confederation of Commerce, Industry and Manpower
BOTA	Botswana Training Authority
BOTEC	Botswana Technology Centre
BSS	Business Support Service
BTC	Botswana Telecommunication Corporation
CEDA	Citizen Entrepreneurial Development Agency
CSO	Central Statistics Office
DIA	Department of Industrial Affairs
EAOB	Exporter Association of Botswana
EB	Enterprise Botswana
EBRD	European Bank for Reconstruction and Development
ECA	Economic Commission for Africa
DVET	Department of Vocational Education and Training
FAP	Financial Assistance Policy
FIAS	Foreign Investment Advisory Service
GDP	Gross domestic product
ICT	Information, Communication and Telecommunication
IDM	Institute of Development Management
IFS	Integrated Field Services
ILO	International Labour Organisation
IMF	International Monetary Fund
JAB	Junior Achievement Botswana
JFS	Japan Finance Corporation for Small Business
LEA	Local Enterprise Authority
LPP	Local Procurement Programme
MTI	Ministry of Trade and Industry
NAMPAADD	National Master Plan on Arable Agricultural and Dairy Development

NDB	National Development Bank
NDP	National Development Plan
NGO	Non governmental organisation
NFTRC	National Food Technology Research Centre
OECD	Organisation for Economic Cooperation and Development
PEEPA	Public Enterprises Evaluation and Privatisation Agency
RIIC	Rural Industries Innovation Centre
R&D	Research and development
RIPCO	Rural Industries Promotions Company
RSBF	Russian Small Business Fund
SACU	Southern African Customs Union
SADC	Southern African Development Community
SBC	Small Business Council
SBPA	Small Business Promotion Agency
SIDBI	Small Industries Development Bank of India
SME	Small and Medium Enterprises
SMME	Small, Medium and Micro Enterprises
SPRDP	Scelebi Phikwe Regional Development Project
TIPA	Trade and Investment Promotion Agency
UB	University of Botswana
UNTAD	United Nations Conference of Trade and Development
UN	United Nations
UNIDO	United Nations Industrial Development Organisation
VAT	Value Added Tax

List of Tables

Table 2.1.	Manufacturing firms sampled by location	33
Table 4.1.	Employment in the manufacturing sector	41
Table 6.1.	<i>Interest rate spread in selected countries; 2004</i>	50
Table 6.2.	Interest rate spread for selected countries (2004)	50
Table 6.3.	Taxation of corporate income	55
Table 6.4.	Burden of government regulation for selected countries	56
Table 6.5.	Setting up a business, selected countries, 2005	57
Table 6.6.	Starting a business in SADC, 2005	58
Table 6.7.	Selected indicators (ranking) of technological infrastructure, 2003	59
Table 6.8.	Ranking on quality of infrastructure of selected countries	60
Table 6.9.	Ranking on selected indicators of technology development	62
Table 7.1.	Distribution of firms by location	65
Table 7.2.	Distribution of firms by employment level	66
Table 7.3.	Distribution of firms by annual turnover	67
Table 7.4.	Distribution of firms by products	67
Table 7.5.	Distribution of firms by gender and ownership	68
Table 7.6.	Distribution of firms by age and ownership	70
Table 7.7.	Educational attributes of firm owners	71
Table 7.8.	Other training and experience for the owners	71
Table 7.9.	Length of time taken by firms to order and receive inputs from outside the country	72
Table 7.10.	Length of time taken by firms to order and receive inputs from outside the country, Gaborone vis-a-vis other Botswana locations	73
Table 7.11.	<i>Factors that can influence the firm not to expand production</i>	76
Table 7.12.	Has the firm ever applied for a loan?	79
Table 7.13.	Attempt to access loans by age of the firm	79
Table 7.14.	Attempt to access loans, and age of the principal owner	81
Table 7.15.	Any loans from other institutions other than the formal banks?	81
Table 7.16.	Lack of business support services as an obstacle for firms to expand	82

List of Figures

Figure 3.1	Growth in real GDO (constant 1993/1994 prices)	35
Figure 3.2.	Average share of sector to real GDP (constant 1993/1994 prices) for 1990-2003	36
Figure 3.3.	Simple annual inflation 1990-2003	37
Figure 4.1.	Manufacturing sector performance 1989/90-2003/04	40
Figure 7.1.	Main problems that are faced by firms	74
Figure 7.2.	Problems that firms have with electricity, water and telephones	77
Figure 7.3:	Security problems faced by firms	78
Figure 7.4:	Reasons why firms do not apply for loans	80

Preface

Even though Botswana was rated as one of the poorest countries at Independence in 1966, within a period of three decades the country had become a middle income developing country. This “economic miracle” was mainly due to the prudent financial management of the country’s windfall receipts from minerals, mainly copper/nickel and diamonds, as well as beef exports to the European Commission. In fact Botswana’s economic growth has been comparable to that of the East Asian Newly Industrialised Countries. However, as early as 1982, government chose to pursue a policy of economic diversification not only because dependence on diamonds (capital-intensive) and beef (land-intensive) has limited benefits for the majority of people in the country who are not able to find employment in these sectors, but also because it is hard to achieve economic growth with a human face through primary export-led growth. One of the ways that have been identified to have potential for economic diversification is the development of manufacturing Small and Medium Enterprises (SMEs). This motivation comes from the fact that it has now been established globally that SMEs are a major source of entrepreneurial development, industrial development as well as economic growth, and hence employment creation for poverty reduction.

However, in spite of this recognised importance, the performance of SMEs in the Botswana economy, especially when it comes to manufacturing for export, has been very limited. This SME study, which covered a sample of 142 SME firms countrywide, indicates that the role and contribution of SMEs’ to the economy of Botswana is still very small. In particular, the study indicates that SMEs contribution to the economy is still hampered by, among others:

- Lack of information on SME programmes due to inadequate publicity of available SME programmes;
- Lack of effective implementation of programmes that are meant to support SME activities;
- Inadequate institutional support such as the administrative bottlenecks SMEs’ encounter when they register as companies, the need for SMEs to come to Gaborone for registration, and the general high cost of factory shells for business operations;
- The limited commercial bank financial support for SMEs which makes them solely dependant of government for support;
- The inherent government procurement policy bias towards large firms limits SMEs opportunities for business development;

- SME lack of access to reliable and bigger markets which is due to their inability to produce larger output and thus satisfy large domestic and foreign markets unless they are organised into clusters.

In addition to an assessment of the performance of SMEs and the problems they face, this study assessed whether SMEs in Botswana have the institutional support that allows them to be competitive both domestically and internationally. Ironically, the results indicate that SMEs in Botswana generally have a lot of institutional support. However, this support is limited by a lack of proper coordination, which has in some cases resulted in duplication of efforts and hence wastage of both the financial and human resources that the sector needs for its growth and development. It is however encouraging to note that the Local Enterprise Authority (LEA) has now been created. LEA's mandate is to consolidate all the activities of various institutional support organs (government, parastatal, private sector and civil society) for SMEs with a view to create a supportive financial, legal and regulatory environment for the successful operation of SMEs. Consequently, there is now hope that SMEs will grow and play a significant role that they potentially have for the economy of Botswana.

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In addition, the valuable contribution of the following parastatals and private sector entities is acknowledged: the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM); the Citizen Entrepreneurial Development and Investment Agency (CEDA); National Development Bank (NDB); Botswana Development Corporation (BDC); Exporters Association of Botswana (EAOB); Botswana Export Development Authority (BEDIA); and the commercial banks, namely Bank of Baroda, Barclays Bank, First National Bank, Stanbic Bank and Standard Chartered Bank.

We would like to express our gratitude to CEDA, who in collaboration with BIDPA generously provided funding for the study, as well as providing extensive participation in data collection, analysis and dissemination of the study. In addition, we would like to acknowledge the generous financial support of the United Nations Office for Project Services (UNOPS), who provided funding for the field survey of this project, and the Africa Capacity Building Foundation for funding the publication of the study.

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Executive Summary and Recommendations

BACKGROUND

Small and Medium Enterprises (SMEs) play a crucial role in achieving the industrial and economic development objectives of an economy. While their diverse nature makes their actual contribution to the economy somewhat complex, SMEs play an important role in employment creation, especially for the unskilled and semi-skilled, and they also possess the potential to earn foreign exchange. However, for SMEs to realise their full potential as an engine of growth, it is important to create a favourable environment that allows them to expand and prosper.

Despite the Government of Botswana's past and present notable initiatives to make the environment conducive for SMEs and other businesses through such schemes as the Financial Assistance Policy (FAP) and the Citizen Entrepreneurial Development Agency (CEDA), recent studies seem to bemoan the existence of a business environment that still needs a lot of improvement. This study is an expedition to find out, using a more inquisitive approach, the state of affairs for doing business vis-à-vis the performance and competitiveness of the SMEs. As a firm-level survey, the study more closely investigates the SME firms in an attempt to answer questions pertaining to their performance and competitiveness.

The study therefore addresses the following specific objectives:

- i) to analyse the performance and competitiveness of the manufacturing SMEs;
- ii) to identify the constraints that SMEs (especially export-oriented ones) are faced with;
- iii) to analyse the macro- and micro-economic environment within which the SMEs operate; and
- iv) to identify policy reform needs.

FINDINGS OF THE STUDY

An outlook of the Botswana economy still presents a picture of mineral-led growth and pronounced dependence on one commodity - diamonds. Despite diversification being the current main policy objective and the initiatives that have been introduced to achieve this, very minimal headway has been made. The manufacturing sector, in particular, continues to post very unimpressive performance. As a share of GDP,

it accounts for less than 5%, and its share of exports is still dwarfed by that of diamonds.

It is notable, however, that there has been some diversification within the manufacturing sector since Independence: the share of meat and meat products had fallen from 95% to about 15% in 1994 as the shares of other manufactured products (beverages, textiles, agro-products, metal and metal products) increased. While there is growth in the manufacturing sector, the exceptional growth in the mineral sector has overwhelmed this. Thus, in proportionate terms, the performance of the manufacturing sector remains unimpressive. There is also marked limited linkages between manufacturing and primary products, notably diamonds.

The quest to enlarge and develop further the SMEs and the manufacturing sector has for a long time been evidenced by the formulation and implementation of different policies. The Financial Assistance Policy (FAP) of 1982 was in existence for almost two decades, and has made some strides in employment creation and industrial development. The FAP has since been replaced by the Citizen Entrepreneurial Development Agency (CEDA), which is continuing to provide financial assistance but with greater emphasis on the mentoring of businesses. The manufacturing SMEs have access to this valuable assistance.

Complementary to the FAP and other existing policies, in 1999, the Small, Medium and Micro Enterprises (SMME) policy was adopted. The SMME policy was a product of the findings of a task force whose job was to comprehensively address SMME issues and steer the development of a policy for the SMME sector. The SMME Policy document identifies the following constraints:

- lack of finance;
- lack of entrepreneurial skills;
- bias of the education system against self-employment;
- lack of business start-up training;
- shortage of business premises;
- excessive government laws and regulations;
- lack of information on government assistance programmes;
- lack of marketing skills;
- lack of data on SMMEs; and
- inherent biases against SMMEs.

Subsequently, in 2003 the Small Business Act was enacted, which established the Local Enterprise Authority (LEA) and the Small Business Council (SBC). The Small Business Council acts as an advisory body to the Minister of Trade and Industry at policy- and programme-formulation level. Section 4 of the Act spells out the functions (13 in number) of the LEA. The SBC and LEA are very new institu-

tional dispensations and their intended achievements are very critical to the growth and development of SMEs.

Other policies and programmes that are geared toward the development of the SMEs, albeit indirectly, include the Industrial Development Policy of 1998. This policy spells out some initiatives that will facilitate the development of SMEs. Such initiatives include improved availability of infrastructure; the establishment of Business Assistance Centres and Business Associations; refocusing of the role of the Integrated Field Services (LEA has since been established); the promotion of linkages between SMMEs and larger competitive industries; and the promotion of linkages between SMMEs and other sectors of the economy, such as agriculture, minerals and wildlife and tourism, in order to facilitate the production of value-added products for exports.

Government procurement can be a very beneficial link between government budgets and commercial activities. It can be used profitably to enlarge and develop SMEs. There are some initiatives within the government procurement system that are geared towards SME development. Such initiatives include the Local Procurement Programme (LPP), and lately the guidelines on the use of locally manufactured goods and services, which require that central and local government institutions and parastatal organisations procure all their goods and services from locally based firms, provided these firms meet the required delivery time and standards, and are appropriately priced.

The International Perspective

A look at international experience shows that the conditions under which SMEs can thrive can and should be made better than they currently are in Botswana. Against the manifestation of the realities of globalisation, there are opportunities to be gained (bigger and differentiated markets, information and communication technology diffusion, and opportunities for inter-firm linkages). There are also challenges facing the SMEs, which include fierce regional and international competition, increased demands of differentiated consumer preferences, and high and sophisticated standards.

Botswana generally compares well with developing countries, particularly in terms of the existence of conditions that are conducive for SMEs to thrive, even though it is clearly surpassed in some indicators by South Africa and Namibia, fellow members of SACU and close competitors. Comparison with developed economies depicts Botswana as fairly far from creating an enabling environment for SMEs to grow and develop. Against this background, it is recommended that more effort be put on improving the efficiency of the banking sector by making finance accessible

and affordable to SMEs. Also, continued efforts should be put into developing the overall infrastructure with the needs of SMEs in mind, and considerable efforts should be made to streamline the processes of starting a business and to make it cheaper for businesses to be set up.

Against the background of the above, this study has come up with some firm-level survey conclusions (discussed in Chapter 8). The institutional issues' conclusions summarised here are captured in Chapter 9. The recommendations of the study, which are consolidated under Chapter 10, follow in the subsequent section of this summary.

Firm-Level Survey Findings

- General data collection, processing and maintenance on the SMEs in Botswana seem to be weak. The available information on SMEs is outdated; as such it does not give a representative picture of the state of the SMEs - not even of their basic characteristics. It is for this reason that some of the firms, having gone through some changes in terms of size, needed to be included in the sample because the database did not reflect such changes. It should be emphasised that, while surveys are essential in order to get specific data about firms, it is important that the basic information about the overall population of the SMEs be available in an up-to-date state. This would allow surveys to focus on specific issues rather than provide the basic information that should be available at all times.
- During the field survey, it was evident that for different probable reasons it is becoming increasingly difficult to obtain information from firms. One observation is that firm owners and/or managers seem to be somewhat fatigued by enumerators knocking on their business premises looking for information. In a number of cases, the potential respondents turned away the enumerators. A sizeable proportion of them kept empty promises, pledging to respond to the questionnaire but never did. The third group felt the questions were too intrusive and they were not willing to respond to them. As a result, it has not been possible to achieve the targeted sample in this study. This calls for convincing the firms of the importance of information in research and policy formulation and evaluation. This can be achieved through a collaborative undertaking between the relevant stakeholders, including the CSO, CEDA, LEA, research organisations and business organisations.
- It is evident from the CSO data that there is a high concentration of firms in the capital city. To an extent, this is supported by information on the state of infrastructure in rural areas as well as the views of the firms concerning the

availability, reliability and cost efficiency of certain types of infrastructure, such as roads, telephones, electricity and water. Factory shells are generally not available in areas outside cities and towns. Also, serviced land is rarely available for businesses to put up their own structures. It can be concluded that, while the state of infrastructure in the country is generally satisfactory, infrastructure is still unavailable or highly lacking in the rural areas. It therefore makes sense that many businesses would choose to settle where infrastructure is readily available, reliable and cost efficient.

- Although not conclusive, it seems evident that the impact of the termination of the FAP programme and the exhausting of the grants that accompanied it is portrayed in the data. This can be inferred from the number of workers that FAP-supported firms are currently employing, which have gone down compared to what is reflected in the CSO database. It is also highly probable that a sizeable number of firms would have closed down when the FAP funds dried up, had they not received other forms of 'free' money similar to the grants. The positive picture portrayed by these data is that perhaps the firms that still survive, even without the FAP, are prepared to meet the challenges in the market. These are more likely to continue operating without grants. It can only be emphasised that such firms, however, need to be supported institutionally and nurtured in order for them to become mature and stand up to the challenges that come from competition, especially from imports.
- The dominance of garments in the product lines of SME firms is also a probable result of the impact of FAP on the manufacturing sector. During FAP's fourth review, sewing and knitting made up 67% of all the industrial small-scale FAP financed projects. This picture, it seems, has been transmitted into the current product distribution of the manufacturing sector. It can be concluded that, while the FAP has come to an end, its effects will still be felt for some time to come.
- A sizeable proportion of the firms are managed by their owners. This can be seen as a positive situation in that full commitment to the operations of the firms will be realised, especially in this era where there are very limited forms of grants similar to FAP.
- There is an unambiguous imbalance in terms of the participation of women and youth in firm ownership, despite some initiatives that have been put in place to encourage their participation. On the part of women, this scenario is expected to worsen in that - with the termination of FAP - the affirmative action initiatives in their favour have been reduced. This calls for the need to devise deliberate strategies aimed at developing, promoting and nurturing entrepreneurship among women and the youth.

- The educational qualifications and experience of the managers of the SME firms are reasonably satisfactory. However, there is a need to complement the managers' knowledge and experience through retraining, mentoring and institutional support, taking into account the current dynamic nature of doing business, especially with the advent of globalisation and the competition coupled with it.
- It is evident from the analysis that a sizeable proportion of the firms source their production inputs from outside the country, mostly from South Africa. This calls for the betterment of all issues relating to trade facilitation in order to make the firms' transactions more efficient in order to avoid any disruptions in production.
- Competition from imports is identified as the most important problem that the firms are faced with. There is a need for concerted efforts to ease this competition on the SMEs, including - among others - reservation policies in public procurement and their more efficient implementation and monitoring. This kind of affirmative action in favour of SMEs, however, should take into account issues of quality, timely delivery and outstanding business-client relations in order to further nurture the firms and prepare them for competition in the domestic market. Subsequently, the firms would have to be ushered into the international market where there exists even stiffer competition.
- Business support services are generally lacking. This is characterised by a lack of retraining, mentoring and institutional support. It will be fitting for the Local Enterprise Authority to take into account these issues as it sets up its operations.
- Lack of credit is also identified as one of the problems faced by manufacturing firms. Even though CEDA funding is available, it should be noted that SMEs are a peculiar group of businesses. Therefore, further assessment is necessary to determine if there is need for a special dispensation to improve SMEs' access to finance. Such dispensation need not lead to an establishment of a financing organisation, but can be dispensed within the existing organisations, such as CEDA, BDC, etc.
- In addition to a lack of credit for these firms, the apparent fear of debt among firms should be taken seriously. This also raises the issue of a lack of capacity to manage finances (including borrowed funds) by the firms. This will have negative effects on the growth of the firms.
- Issues relating to the availability, reliability and cost of utilities are not raised as a great concern by the firms countrywide. However, reliability and availability of electricity in rural areas, it would seem, are an important concern. Also, the cost of electricity and telephone services calls for attention. For electricity, this

has more to do with the initial capital costs of installation. The seemingly apparent divide between the city and the rural areas in terms of infrastructural development seems to be responsible for the locational distribution bias of firms in favour of cities. There is a need for targeted development of industrial areas in the rural areas. Such industrial areas should be fully equipped with utilities and other physical infrastructure. The possibilities of subsidising electricity installation for the SME firms in rural areas should also be considered.

- Complaints about theft in the firms are evident and should be taken seriously, and efforts should be made to address the issue. If left unattended, such a scenario can have debilitating effects even on future potential businesses.
- The simplification of licensing procedures has long been identified as important. There is a need to speed up the process for the benefit of the businesses. Such a move will not only ease the administrative burden on the relevant government institutions but will also reduce what sometimes prove to be exorbitant costs that the SMEs incur by relying on third parties (consultants) to process licensing on their behalf.

CONCLUSIONS OF THE STUDY

Major Conclusions

As indicated in the title of the study, the major question the study had to grapple with was whether SMEs in Botswana can be said to be competitive both regionally and internationally. Even though there are no definitive indicators to answer this question, some indications suggest that SMEs in Botswana are generally competitive. This position is supported by the following factors:

- SME firms in Botswana are open to both domestic and foreign competition, in particular competition from imports from South Africa, China and other countries. This environment of free trade means that only firms that are competitive will be able to survive. Even though there is some protection under the SACU common external tariff, firms remain exposed to the threat of South African imports;
- The managerial capabilities of owner/managers would also suggest that SMEs in Botswana have the potential to be competitive. Owner/managers with a university education account for 24% of those studied. When those with senior secondary education, certificates and diplomas are added, this figure rises to 72%. This suggests that the SMEs are not only owned and run by people with fairly high levels of education, but also by people who would understand the more complex world of business under globalisation. The entrepreneurs

themselves should understand that they are operating in an economy that is open to external competition, and thus should be embracing competitiveness as a necessary tool for survival. Indeed, this is evident in the sample, where most firms locate in the cities and peri-urban areas where there is enough infrastructure and other business amenities to allow them to compete effectively. Further, the firms rank competition and a lack of demand high among the problems they encounter in business, suggesting that their survival strategies would anchor around overcoming these in their business operations.

- SMEs in Botswana receive various forms of institutional support from government and non-state actors, ranging from the provision of entrepreneurial development support, an enabling business environment, financial institutional support and export promotion, all the way to targeted sectoral development. This high level of support, even though not well coordinated as revealed in the study, suggests that firms generally work within a business-friendly environment that helps them compete.
- Most important, the survival rate of SME firms in the sample suggests that they are fairly competitive. Out of a total of 142 firms in the sample, 93 (66%) had been in operation for more than five years. If those which have been in operation for five years only are added, the figure comes to 101 firms (71%). Given that studies suggest that the survival rate of SMEs is in the range of 50% in most developing countries, the fact that more than 50% of the firms in the sample have survived over five years in the market indicates that the firms are fairly competitive.

Conclusions on Institutional Issues

Institutional support is essential for the development of SMEs and the enhancement of their competitiveness. Through consultation and discussions with institutions, weaknesses, strengths and ideas for the development of effective institutional support of the SMEs have been compiled. The conclusions are enumerated below. Institutionally, there are five major areas that were assessed. They are entrepreneurial development support, an enabling business environment, financial institutional support, export promotion and sectoral development.

On average, it is evident from the study that there is a lot of development support for SMEs in Botswana, especially from government. However, this support has not had the desired impact because of:

- A lack of coordination and focus, which has resulted in overlaps and duplication of efforts, and led to waste of limited financial and manpower resources;

- Limited coordination within government departments and between the government and stakeholders;
- A weak SMEs sector due to lack of business culture, and an unfriendly business environment for SME growth and development; and
- Limited access to productive resources, such as serviced land, factory shells and financial resources, as well as modern management skills and technology for successful business ventures.

On the private sector side, the results are mixed. While BOCCIM is generally very supportive to its clientele countrywide, support from other sectors, especially the commercial banks, has generally not been adequate, mainly because SMEs fail to meet the required minimum standards set by these institutions.

In addition to these general conclusions, there are cross-cutting issues that affect the performance and competitiveness of SMEs in Botswana which were highlighted by respondents. These are summarised below.

Cross-Cutting Issues

Here the Report highlights issues that were suggested by some/all the institutions interviewed as having a bearing on the performance and competitiveness of SMEs in one way or the other. These include both opportunities and challenges/constraints for the SMEs:

1. On information dissemination, many institutions reported that information dissemination is done through the media, mainly television, radio, newspapers and other forms of official communication. The internet is also used in some cases, albeit rarely. Even though these are the most effective means of communication and marketing of various programmes, in general they are not adequately used. Other forms of information dissemination include face to face meetings, seminars, workshops and public education campaigns, which are commonly used by most institutions.
2. Lack of effective implementation of policies that are meant to support SMEs is seen by many respondents as a major constraint for their development in Botswana. This may be due to a lack of resources (manpower, infrastructure and funding) and a general failure to implement development programmes, which has now become a national concern.
3. Both the market interest rates charged by commercial banks and the subsidised interest rates charged by CEDA are generally seen as major constraints to SMEs' access to financial resources, because these increase the cost of doing business

for them. Hence, some institutions suggested that these need to be further subsidised to make loans more affordable for SMEs.

4. The respondents also felt that utility costs are a major concern. They are seen as one of the factors that prevent Botswana from attracting foreign investors because they are relatively high compared to those in neighbouring countries. It is suggested that government subsidises SMEs by offering lower utility rates during the businesses' infancy.
5. With regard to taxation, respondents pointed out that there is not enough knowledge and understanding of the Tax Act's provisions for SMEs, suggesting the need to increase and improve methods of information dissemination on tax matters. In addition, the tax rate is generally seen as prohibitive to SME competitiveness, suggesting the need to have special rates for SMEs to minimise the impact of taxation on them, as is the case in many developed countries.
6. Most respondents reported that the Botswana government is doing a lot to develop and support SMEs on both the supply and demand sides. It has programmes aimed at improving quality and productivity and also buying from SMEs. The respondents further pointed out that what is required now is to improve the quality and delivery of such programmes. On the other hand, some respondents felt that the private sector in Botswana is not giving SMEs adequate support because it is impatient and unwilling to mentor SMEs. For instance, SMEs generally face:
 - High finance costs, which exacerbate the cost of imported raw material inputs;
 - Longer liability terms and unhealthy financial status;
 - Banks that are risk-averse and prefer to lend at favourable rates only to firms that appear to be more financially viable;
 - High collateral requirements for most commercial banks; and
 - A lack of credit history.
7. In terms of manpower training, most Institutions generally felt that the education system in Botswana does not adequately train people with the requisite skills for the job market - it trains job seekers rather than job creators. In addition, there is still a huge gap between what the industry and the market needs and what the current institutions of manpower training deliver. As a result, the number of unemployed educated people increases because there are no synergies between training and industry's needs. Technical skills should be coupled with entrepreneurial skills and institutions should produce technicians with relevant industry experience. In this era of competitiveness, Botswana is

still ranked low on students pursuing science and technology courses, compared to countries she competes against. The establishment of BOTA will definitely narrow this gap, even though this is a long-term exercise.

8. With regard to legislation, many respondents view the Acts as adequate but more suitable for developed country environments. There is very little education and awareness of the various pieces of legislation, e.g. the Labour Act, Employment Act, etc., and health and safety issues are not adequately addressed.
9. Some respondents felt that some Acts are outdated and thus needed review. In general, the Acts are not reader-friendly and there is a need to produce versions that are accessible to non-specialists and ordinary people.
10. Further, respondents pointed out that, in some cases, legislation does not favour SMEs because administrative procedures and their costs are the same for small and large businesses. The registration of companies is done only in Gaborone, thus making it costly for SMEs outside Gaborone to register. This calls for a decentralisation of this service.
11. On the public procurement system, most respondents felt that the public procurement system does not promote growth because it is biased towards large firms and thus fails to assist SMEs. Hence, there is a need to break down big tenders into components and activities which could be undertaken by SMEs. Likewise, on issues of unfair competition, the respondents felt that SMEs face unfair competition from imports - anti-dumping legislation is inadequate and the public procurement system seems to favour imported goods rather than locally manufactured goods.
12. Most respondents pointed out that entrepreneurial development faces a lot of constraints due to uncoordinated institutional support for SMEs. A host of institutions deal with SME development issues, and there seems to be a lot of duplication and a lack of focus and coherence; and policies are generally fragmented as there is no coherence in labour, immigration and land policies, etc. These policies also appear to be in conflict instead of supporting and complementing each other. The same goes for the licensing and registration of companies.
13. Respondents reported that low productivity is generally a problem for the development of SMEs. Apart from poor work ethics, a lack of appropriate technology, a lack of modern business management skills and a mindset for productivity, SMEs owners, being generally in the informal sector, are the most targeted when it comes to taking care of HIV/AIDS patients. Likewise, when

they are sick themselves, the business may come to a complete halt for those SMEs with self-employed owners, or may suffer a major skills gap due to the loss of a specialised skilled worker. Consequently, some respondents suggested the need for SMEs to have an HIV/AIDS policy.

14. With regard to HIV/AIDS, respondents felt that there is a need to do more on HIV/AIDS management at the workplace, and voluntary testing should be encouraged. Intensive education campaigns on HIV/AIDS should be put in place.
15. Respondents also reported that there is a need for clear policies and procedures to manage and direct the development of SMEs. There is a need to focus on a common purpose and a sense of drive to achieve. Also, there is a need to develop and determine a corporate culture and have people work to attain that culture.
16. On exporting, it was pointed out that the majority of SMEs sell locally, not because their products cannot penetrate international markets but because there is no organisation specifically tasked with marketing SME products regionally and internationally. Clustering products for both domestic and export markets is seen by many as a strategy that could help overcome this problem.
17. Some respondents felt that financial resources are generally adequate but the financial support is sometimes not directed towards real entrepreneurs, hence the benefits of financial support are not as forthcoming as expected.
18. Respondents pointed out that, in some cases, infrastructure is poor and inadequate, especially road networks. Even when factory shells are available, they are generally not accessible - particularly to SMEs - because they are mostly highly priced.
19. Some respondents pointed out that, in some cases, SMEs are forced to operate from informal setups like homes due to a lack of serviced land or, in cases where it is available, the high cost of accessing it. This has an impact on the image, growth, accessibility and visibility of businesses. Lack of serviced land also denies SMEs the opportunity to use land as collateral and thus access important needed credit.
20. Generally, the respondents view the development of SMEs in Botswana as being constrained by the following:
 - Limited access to markets both domestically and internationally, because most SMEs in Botswana are uncompetitive;

- Lack of capacity to produce at the most efficient plant size and thus achieve economies of scale and competitiveness;
- High cost of raw material imports; and
- High rents for operating space (factory shells).

Recommendations

Based on the findings and subsequent conclusions, the study makes the following recommendations for consideration by different stakeholders:

1. The results of the study indicate that the most commonly used forms of official communication are face to face meetings, seminars, workshops and public education campaigns. While these need to be maintained, there is also a need to strengthen information-dissemination by television, radio, the internet and newspapers, because these transfer information more quickly while simultaneously covering a much wider audience at a fairly lower cost. Once fully operational, LEA, in collaboration with the Ministry of Trade and Industry, should devise strategies to develop radio and television programmes that impart knowledge to SMEs in order to give SMEs a better appreciation of issues concerning them, including policy, problems, challenges and opportunities.
2. CEDA has programmes that are targeted toward the needs of the SMEs. However, due to the challenges of globalisation, the needs of SMEs are becoming more complex and numerous. Consequently, there is a need for CEDA to continue to strengthen its programmes to meet emerging challenges for SMEs.
3. The Small Business Council, whose main role is to identify the constraints faced by SMEs, should, through the Ministry of Trade and Industry, seek further avenues to remove the various bottlenecks that have been identified in this study and in other reports as impediments to SME operation in Botswana.
4. Support from the private sector, including chain-stores, through buying SME products is limited. Likewise, even though financial institutions such as banks are generally moving towards designing packages that are exclusively made for SMEs, their support in this area has not been adequate. There is therefore a need for the private sector to play a more pronounced role in the support and promotion of SMEs. It is therefore recommended that government should intervene by putting in place policies and legislation that can promote a developmental relationship between big businesses (and relevant private sector institutions) and SMEs.

5. The Local Enterprise Authority (LEA) as the umbrella institution under which SMEs are to be developed will need to strengthen the link between all institutions that support SMEs in order to help coordinate SME activities.
6. One major impediment to SMEs' performance and competitiveness is the lack of access to more reliable and bigger markets. This problem generally emanates from the smallness of SMEs and their inability to produce enough in terms of both quantity and quality in line with the demands of the modern sophisticated consumer. This therefore calls for both BEDIA and LEA to strengthen the marketing assistance they give to SMEs. Concerted efforts should be made to address market issues, especially through collating external market information. Further, LEA and BEDIA, in collaboration with the EAOB, should encourage and assist SMEs to form clusters which will enable them to meet the quantity and volume needs of retailers and consumers in both regional and international markets.
7. Infrastructure has been found to be one of the major impediments to SME performance and competitiveness, either because of its inadequacy or its inaccessibility due to high charges. To this end, there is a need for the relevant authorities to put in place affordable infrastructure such as factory shells, serviced land and transport, along with information, communication and telecommunication (ICT) facilities, in order to support the performance and competitiveness of SMEs in the country. Also, there is a need for concerted efforts and collaboration between the Ministry of Trade and Industry, LEA, BDC, BEDIA and CEDA to devise and implement strategies that will ensure the development of central business points that are conducive for doing business. Such business points should have reasonable access to markets and sources of inputs, and they should be fully equipped with water, electricity, telecommunications and usable road networks.
8. The study has shown that current programmes on women and youth participation in business have not yet brought about the desired outcomes. There is now a call for a holistic approach to youth and women entrepreneurship development in order to strengthen their participation in business. This can be done by strengthening training, mentoring and the benchmarking of business owners in order to help them acquire business competencies. Further, it is now widely recognised that the education system should incorporate entrepreneurship as part of the curriculum in order to inculcate entrepreneurship in youth at an early stage of their development. It is also recommended that the work of Junior Achievement Botswana (JAB), which focuses on these issues, should be extended to cover the whole country.

9. Strategies to support marketing should be developed and targeted at SMEs. Marketing is one of the essential non-price aspects of competing in the market place and most SMEs may not have the capacity to pursue effective marketing strategies. Given the high number who identified competition from imports (40%) and the lack of demand (58%) as major impediments to the expansion and growth of SMEs, it appears that intensifying the development of marketing strategies for SMEs cannot be overemphasised.
10. There is a lot of institutional support currently for SMEs that is less effective because it is not well coordinated. As LEA takes up this mandate and co-ordinates the work and activities of all stakeholders involved in SME's support, it is recommended that they first undertake a needs assessment of the form and type of support SMEs need to ensure that support directly addresses specific SMEs' needs.
11. It has been found that the administrative procedures of starting up a business can be long and thus costly. While the Ministry of Trade and Industry is reported to have undertaken to implement the recommendations of the FIAS report that raised the same issues, the impacts of such implementation are yet to be realised. It is thus recommended that efforts should be made to ensure the speedy implementation of the new registration procedures for firms so as to further reduce the time and cost burdens incurred by SMEs in starting their businesses.
12. Security concerns, especially relating to theft, were singled out as a major problem for businesses in Botswana. We therefore recommend that measures to curb crime be intensified to ensure that the country is a safe investment destination for both local and foreign investors.

1. Introduction

Small and Medium Enterprises (SMEs) play a crucial role in achieving the industrial and economic development objectives of an economy. While their actual contributions to the economy differ because of their diverse nature, SMEs play an important role in employment creation and possess foreign exchange earning potential. For example, studies have concluded that small enterprises have a high labour absorptive capacity. The average capital cost per job created is lower compared to that of large enterprises, and their role in technology innovation is vital. Medium-sized enterprises on the other hand are better placed to be export-oriented given their size and structure. As such they possess a foreign exchange earning potential and also create jobs for skilled and semi-skilled workers.

To realise their full potential as engines of growth it is important to create a favourable environment that allows them to expand and prosper. The Government of Botswana has taken some initiatives to develop the SME sector. Some of the notable measures that Government initiated are the Financial Assistance Policy (FAP) and the Citizen Entrepreneurial Development Agency (CEDA). FAP provided start-up grants and business support. When it was terminated, government established CEDA to provide start-up capital through interest-subsidised loans. Also, the Policy on Small, Micro and Medium Enterprises (SMMEs) of 1999 identifies the needs, constraints and challenges of SMMEs and provides policy interventions for facilitating a conducive environment for them to operate successful businesses.

In the face of increased competition as a result of globalisation, SMEs now require more support than before. Particular attention is essential in areas such as the development of favourable macro-economic and business environments, marketing, and technological and financial support systems. Large firms often have resources and the capacity to explore and exploit opportunities available in the market. SMEs often lack resources and skills to exploit market opportunities, and may benefit from external support systems to complement their own efforts.

The purpose of this study is to evaluate the performance and competitiveness of manufacturing SMEs in Botswana. The study is expected to identify the reform needs of manufacturing SMEs with a view to enhance their competitiveness amidst stiff global competition.

The specific objectives of the study are as follows:

- To analyse the competitiveness of the manufacturing SMEs;
- To identify the constraints that export-oriented SMEs face;
- To analyse the macro- and micro-economic environment within which SMEs operate; and
- To identify policy reform needs.

2. Approach and Methodology

The major objective of this study is to evaluate the performance and competitiveness of manufacturing SMEs in Botswana. To this end, the study will:

- Assess the performance of SMEs in the manufacturing sector, and whether this is adequate for them to be competitive in both the domestic and global economy; and
- Identify areas of policy intervention where government could assist the SMEs in achieving their objectives.

In order to achieve the study's objectives, a sample of SMEs was drawn and a structured questionnaire applied to them in order to derive the required information to address the objectives of the study. This involved sampling, the setting of structured questions and pre-testing them, data collection and analysis.

DATA COLLECTION METHODS

Sampling

The Central Statistics Office (CSO) maintains a database of all business establishments in the manufacturing sector. This study looked at small and medium enterprises, which are defined for this study as manufacturing firms employing between 6 and 99 employees. Thirty-two per cent of these SMEs country-wide were selected to be in the sample (see Table 2.1). Table 2.1 shows the number of firms in areas that were included in the sample. Some areas were removed from the sample on account of the significantly high cost that the data collection exercise would entail if they were to be covered. These areas were far from the researchers' base, Gaborone, and far from the main towns and villages that were covered in the sample. However, it should be noted that the number of firms in these areas is very negligible. Including these areas would have resulted in significantly high per capita costs of questionnaire administration, hence the decision to leave them out of the sample. The removal of these areas did not have a significant impact on the sample since they represent only about 7% of the country-wide total.

Due to a time lag in the recording and compilation of data at the CSO, the CSO database had to be augmented with a list of manufacturing firms from CEDA.

Consequently, a list of manufacturing firms that were funded by CEDA¹ were also used in the sample. To avoid any biases, not all the CEDA firms were included in the sample. Proportional sampling measures were applied to the CEDA list in order to ensure their unbiased representation. CEDA-funded firms are important in that they allow for comparison with non-CEDA funded ones. This assists in an appraisal of CEDA-funded businesses, which was relevant to this research project.

Table 2.1. Manufacturing firms sampled by location.

Place	Number of Firms (CSO Database)	Number of Firms (CEDA)	Sample
Francistown	74	12	24
Gaborone	566	53	165
Kanye	14	9	4
Lobatse	46	-	15
Mahalapye	9	9	3
Mochudi	17	20	5
Molepolole	20	1	6
Serowe/Palapye	21	13	7
Selebi Phikwe	41	3	11
Total	758	120	240

Source: Central Statistics Office; CEDA.

Note:

- There is some convergence of the two data sets (CSO and CEDA) in that some of the firms from the CEDA list may have been captured by the CSO database.
- Gaborone firms include those in the peripheral urban villages of Mogoditshane, Tlokweng and Ramotswa.
- Maun and Gantsi were not covered in the sample for cost reasons.

Pre-Testing

Pre-testing of the questionnaire was done in Gaborone and Mogoditshane with 10 firms, following which the questionnaire was strengthened based on field observations.

1. The CEDA-funded firms from which the sample was selected were the ones that had been in operation for at least one year. This rule applied to all other firms that were in the sample. The argument is that firms that have operated for at least one year would have some information to share in terms of their operations.

Data Collection

The main survey tool used was a structured firm questionnaire covering issues that the study is investigating. The administration of the questionnaire entailed both face-to-face interviews and self-administration. The questionnaire was detailed and covered the following issues:

- Owners' and managers' entrepreneurial and managerial capabilities;
- Production and input costs;
- Access to finance;
- Firm and client/supplier relationships;
- Infrastructure;
- Regulatory issues and taxes;
- Investment and firm expansion; and
- Business support services.

Institutional Interviews

Some key institutions that have a significant role to play in the operations of the SMEs were interviewed in order to establish the extent of institutional support systems. There seems to be a new and significant institutional restructuring in the arms of government that work with SMEs. The Ministry of Trade and Industry has recently been restructured, resulting in, among other things, the creation of the Department of International Trade, the Small Business Council and the Local Enterprise Authority. Given this development, it is expected that the Department of Integrated Field Services (IFS) will be dissolved. Not much restructuring has taken place in the private sector. However, it will be essential to engage in discussions with the champions of these institutions to establish the problems, challenges and lessons relating to servicing the SMEs. A list of institutions that were interviewed is given in Annex A.

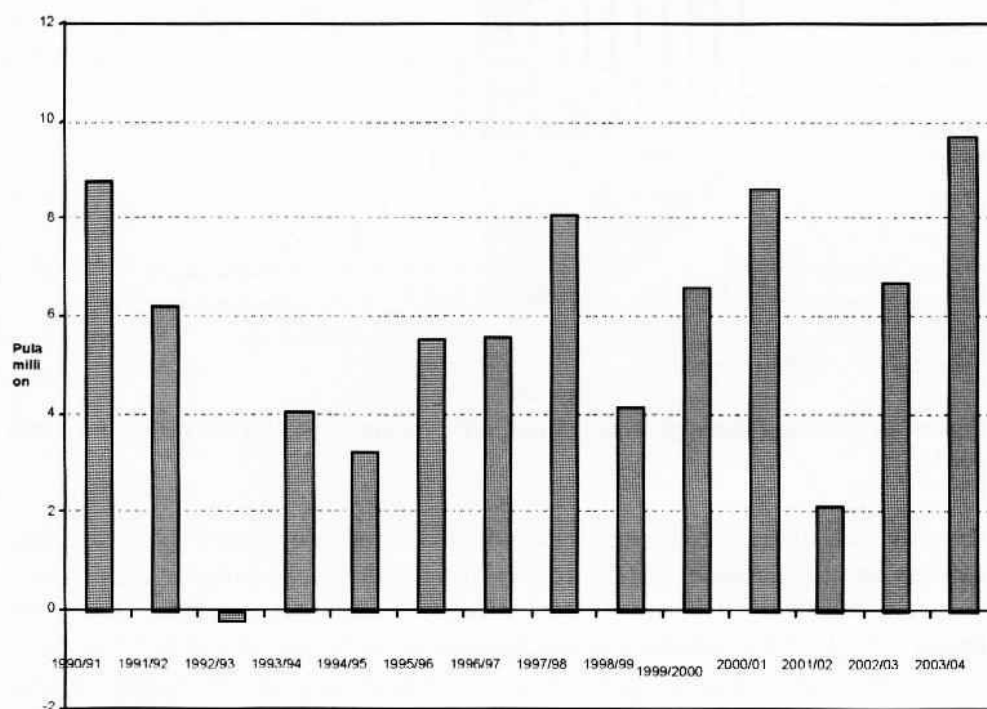
DATA ANALYSIS

The firm-level data was processed and analysed using the SPSS software package.

3. Macroeconomic Review

ECONOMIC PERFORMANCE

Botswana had the fastest growth in per capita income in the world between 1966 and 1989, with real GDP growth averaging above 9.5% per annum. During the period 1990 to 2003, real national income continued to grow steadily, averaging 5.4% per annum, with the exception of adverse growth in 1992 and 2001 (see Figure 3.1). The economy suffered a downturn in growth in 1992 as a result of a drop in the demand for its exports due to global recession. The noticeable drop in growth in 2001 is attributed to a contraction in mining production, largely reflected by a reduction in diamond production. Continuous growth was achievable as a result of favourable macroeconomic policies, including the maintenance of low levels of foreign debt, the accumulation of international exchange reserves and budget surpluses, and prudent exchange-rate management.

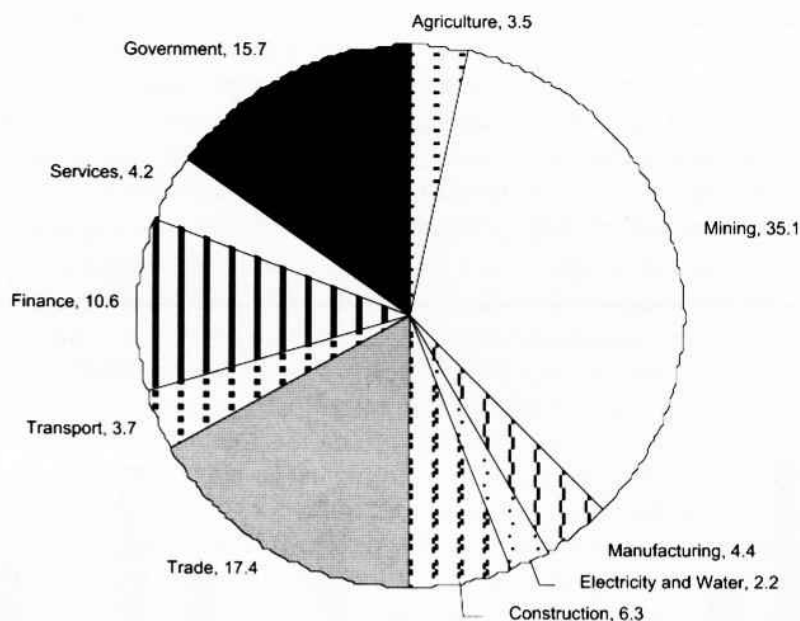


Source: Bank of Botswana.

Figure 3.1. Growth in Real GDP (constant 1993/1994 prices).

Sectoral Performance

Before the discovery of diamonds, agriculture production was the main source of national income and export earnings. However, as a result of severe prolonged periods of drought and recurring foot and mouth disease, agriculture production has declined, representing a relatively small annual average of 3.5% of real GDP (constant 1993/1994 prices) for the period 1990 to 2003 (see Figure 3.2). The sector contracted at an average real annual rate of 0.3% during the period 1990 to 1996, and registered marginal recovery of an average real annual rate of 0.6% during the period 1997 to 2003.



Source: Bank of Botswana.

Figure 3.2. Average share of sector to real GDP (constant 1993/1994 prices) for 1990-2003.

From the late 1970s, the mining sector, which is chiefly dominated by the diamond industry and to a lesser extent the copper-nickel industry, became the main economic contributor to GDP, government revenue and export earnings. During the period 1990 to 2003, the share of the mineral sector to real annual GDP averaged 35.1% (see Figure 3.2), to government revenue 50.2%, and to export earnings 82.3%. However, the average annual real growth of the sector was modest (4.7%).

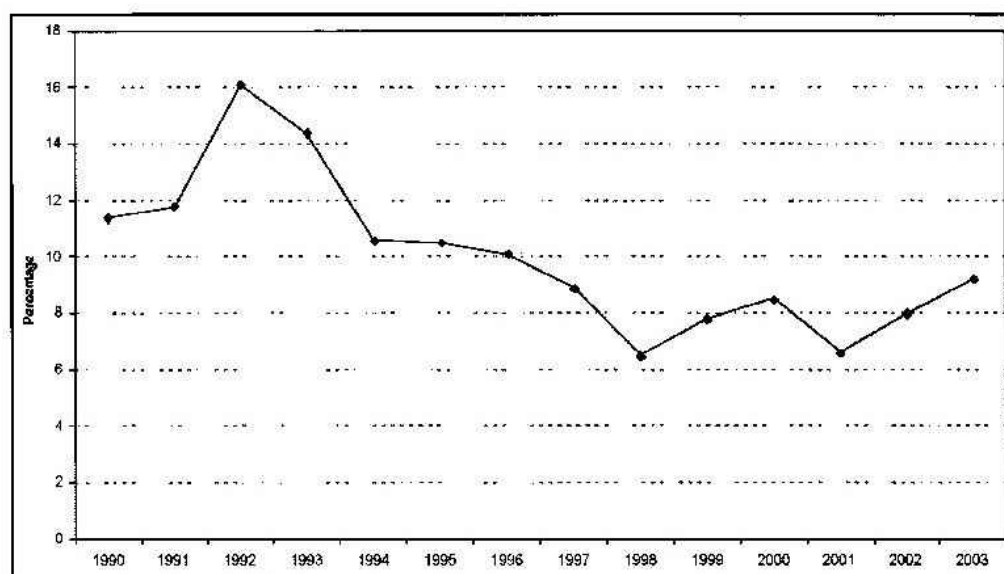
During the period 1990 to 2003, the trade and government sectors represented 17.4% and 15.7% of average real GDP (constant 1993/1994 prices). The average

annual real growth for the trade sector was the highest during the period (8.7%), whilst the government sector represented a declining average annual growth rate (6.9%). Tourism activity was the main driver in the trade sector.

The finance sector accounted for an average annual contribution of 10.6% to GDP (in constant 1993/1994 prices) for the period 1990 to 2003. Growth in real GDP is mainly attributed to increased business services. Botswana received “A” grade credit ratings by Moody’s Investors and Standard & Poor for the years 2002 to 2004. The manufacturing sector on the other hand recorded a 4.4% share of annual average GDP during the period, and registered real average annual growth of 4.3%.

Inflation

During the period 1990 to 2003, inflationary pressures fell progressively from an annual average rate of 12.1% for the period 1990 to 1996 to a single figure average of 7.9% for the period 1997 to 2003 (see Figure 3.3). However, in a bid to maintain export competitiveness against an appreciating Pula, the Pula was devalued by 7.5% in 2004 and by a further 12% in 2005, at which point a crawling peg policy was adopted for setting the exchange rate. Pervasive effects have since placed inflationary pressures on the economy, as have increases in global petroleum prices.



Source: Bank of Botswana.

Figure 3.3. Simple annual inflation 1990-2003.

Economic performance continues to depend highly on the performance of the mineral sector. For the period 1990 to 2003, Botswana experienced budget deficits of 6% of GDP in 1998/1999, 3% in 2001/2002, and 4% in 2002/2003, coinciding with a global economic downturn. Therefore, broadening the economic base from mining remains important and a challenge for Botswana, even though there are signs that diversification to service exports such as tourism, financial services and transportation is taking place. Tackling HIV/AIDS, poverty and unemployment also remain challenges.

4. Background of Manufacturing Enterprises in Botswana

Manufacturing has always been considered essential to development in Botswana because it is expected to play a significant role in economic diversification as well as employment creation. The Government of Botswana has initiated incentive schemes to encourage the development of the manufacturing sector. Some of the notable incentives schemes are the Financial Assistance Policy (FAP) and its successor CEDA, the Selebi Phikwe Regional Development Project (SPRDP), and the Local Preference Scheme and its successor the Local Procurement Programme (LPP). Also, on the local procurement front, the Ministry of Trade and Industry has recently developed guidelines for government and parastatal organisations that will require them to source their goods and services from locally based businesses, provided such businesses meet clearly defined conditions. In addition to these schemes, government has worked on the macroeconomic environment and the legal and regulatory environments. The objective of this study is to assess the performance and competitiveness of SMEs in Botswana given these incentive schemes and the country's policy environment, to ensure that the schemes support the growth and development of SMEs.

MANUFACTURING SECTOR PERFORMANCE

The Industrial Development Policy (1998) estimates that about 95% of Botswana's manufacturing output at Independence was meat and meat products. While the share of meat and meat products remained significant in the 1970s and 1980s, it fell to about 15% in 1994 as the shares of other manufactured products (beverages, textiles, agro-products, metal and metal products) increased.

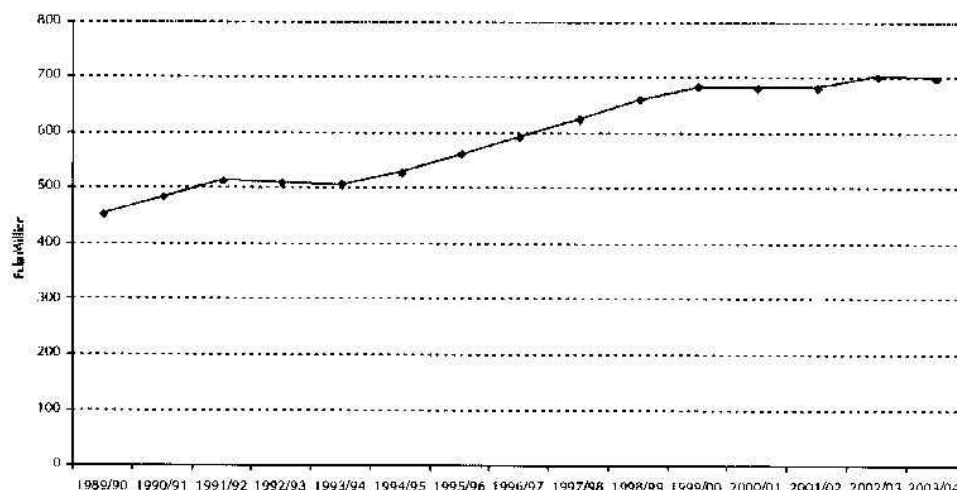
The expansion of the manufacturing sector in the 1970s and 1980s was attributed to:

- Rapid economic growth;
- A rise in export demand for manufactured goods; and
- The introduction of FAP.

The study is expected to establish the actual and/or potential contribution of manufacturing SMEs in the transformation of the manufacturing sector.

Output

Manufacturing sector output increased between 1990 and 1992, declined slightly between 1993 and 1994, increased steadily up to 2001, and stagnated thereafter (see Figure 4.1). The increase in the second half of the 1990s is attributed to productivity gains (Bank of Botswana, 1999).



Source: Bank of Botswana.

Figure 4.1. Manufacturing sector performance 1989/90-2003/04.

In terms of growth, the manufacturing sector grew at an average of 4.2% during the 1990s. Average growth was well below the National Development Plan (NDP) 7 and NDP 8 target growth rates, which stood at 6.9% and 7.3% respectively. The lower than targeted growth in manufacturing was attributed to the slow growth in government spending in the 1990s, which in turn slowed down expansion of the construction sector. In addition, the housing boom came to an end, due in part to the suspension of the Botswana Housing Corporation construction programme. The combined effect of these two factors had a negative impact on construction-related manufacturing output.

The implementation of the structural adjustment programme in Zimbabwe in 1991, which included the depreciation of the Zimbabwean dollar and the liberalisation of exchange controls, reversed the gains Botswana made in exporting to Zimbabwe. Some FAP-beneficiary firms were reaching the end of their five-year financial support period at that point; and, as a significant number of these firms were still not sustainable, they collapsed.

A decline in manufacturing sector output was recorded in 2000/01 following the closure of the Hyundai vehicle assembly plant in 2000. Zero output growth was recorded in 2001/02 due to the reduction in cattle slaughtered by the Botswana Meat Commission (BMC) following the outbreak of foot and mouth disease and drought conditions. The closure of some manufacturing firms during 2002 also had an adverse impact on manufacturing sector output (Bank of Botswana, 2002).

Output increased by 3% in 2002/03 due to an increase in cattle slaughtered by the BMC and increased beverage production. New manufacturing projects, in particular confectionary and electrical equipment, also contributed to increased manufacturing output (Bank of Botswana, 2003). Output again contracted in 2003/04; this decline was attributed to a significant contraction in the production of textiles and the poor performance of beverage production and meat and meat products. However, the fall in textile output was inconsistent with the sharp increase in textile exports.

Employment

Manufacturing sector employment increased at 0.2% per annum between September 1990 and 1999. However, the employment figures have to be interpreted with caution because of changes in reclassifications in the 1996 and 1997 figures.

Manufacturing output employment growth averaged 2.4% between 2000 and 2002. However, yearly figures indicate that the 6.4% growth in employment in 2000 was followed by significant declines in subsequent years (see Table 4.1). The fall in employment in 2001 was consistent with the decline in output attributed to the closure of the Hyundai vehicle assembly plant.

Table 4.1. Employment in the manufacturing sector.

	2000	2001	2002
Manufacturing Employment	29,800	30,000	30,000
Employment Growth (%)	6.4	0.7	0

Source: Central Statistics Office.

Exports

In terms of export performance, the main manufactured exports consist of vehicles, textiles and beef. The share of vehicles, textiles and beef exports to total exports averaged 14.9% from 1996 to 1999. The figure reached an average of 19.7% when all manufactured exports were included.

Vehicles, textiles and beef represent significant shares of manufacturing sector exports. Figure 4.1 shows export trends for selected manufactured exports for the period 1989/90 to 2003/04.

Exports of these products were characterised by fluctuations and declines. Exports of some products, for example jewellery, declined sharply from 1998. Performance of other products, including vaccines, packaging containers and pasta, was marked by fluctuations. While reasons for export performance varied, the main reasons for poor performance were small and declining market shares probably due to stiff competition, as well as limited response to increased world demand, (for example, jewellery), probably due to capacity constraints in production.

The export of some products, e.g. vaccines, increased steadily, especially between 1999 and 2001. The increase in vaccine exports corresponded with average annual growth in the value of global exports of vaccines and related products, which was 17% between 1998 and 2002 (BIDPA, 2004).

Despite the dominance of beef and beef products and textiles exports in total exports, other products contributed to manufactured exports. Initiatives aimed at export development and promotion could be bearing fruit but should be intensified to increase the share of other exports, and where possible to add value to existing exports.

5. Government Policy and Private Sector Initiatives

GOVERNMENT POLICY

Small and medium enterprises operate within a macroeconomic and regulatory environment that has a bearing on how they perform. In this section, we review the relevant macroeconomic policies that have an impact on the operations of the SMEs. Government policies and programmes are schemed within the confines of the national development plans (NDPs), which consolidate national development objectives over the six-year plan periods and enumerate the mechanisms through which such objectives will be achieved. The theme of the current NDP 9 is “Towards the realisation of Vision 2016: Sustainable and Diversified Development through Competitiveness in Global Markets”, which is similar to the previous NDP 8 whose theme was “Sustainable Economic Diversification”. The need to diversify the economy away from the traditional sectors has been acknowledged for a considerable length of time. NDP 9 echoes the constraints of a small domestic market and proposes improving the competitiveness of local firms in global markets as a means to achieve sustainable development through economic diversification. SMEs that are globally competitive are vital if in-roads are to be made in the external markets.

Government policies that have been identified for review include the Policy on Small, Medium and Micro Enterprises (SMMEs) of 1999, the Policy on Industrial Development of 1998, the Financial Assistance Policy of 1982, and the Fourth Evaluation of FAP that led to the termination of the policy and its replacement by the Citizen Entrepreneurial Development Agency (CEDA). In the last decade or so, the debate around citizen economic empowerment has taken centre stage within the private sector, and consultations with government have yielded initiatives such as the Citizen Entrepreneurial Development Agency, preference schemes for the procurement of locally manufactured goods and services, and other supportive mechanisms to enhance the growth and development of local enterprises. The growth and development of small and medium enterprises will be seen to be indicative to the successful implementation of these programmes and regulations.

SMME Policy and the Small Business Act

Adopted in 1999, the SMME Policy is a product of the findings of a task force whose job was to comprehensively address SMME issues and steer the development of a policy for the SMME sector. The SMME Policy document identifies

several constraints to SMME success: lack of finance, lack of entre-preneurial skills, bias of the education system against self-employment, lack of business start-up training, shortage of business premises, government laws and regulations, lack of information on government assistance programmes, lack of marketing skills, lack of data on SMMEs and inherent biases against SMMEs. It was important to go back to the field and focus specifically on the SMEs to validate and/or update these constraints.

The SMME Policy further set out guiding principles for the development of the SMME policy, which include:

- Creating an enabling environment within which SMMEs will flourish and grow;
- Providing an integrated approach to SMME development that ensures cohesion and linkages between the various programmes;
- Ensuring that the SMME policy is implemented effectively and assessed against measurable objectives; and
- Discouraging dependency upon government.

The Policy's emphasis is on the role of government in creating a conducive macroeconomic and regulatory environment for doing business. Recent reports have come up with numerous observations about the current unfriendly environment, an issue that has been found to be one of the reasons for the failure to attract foreign direct investment and encourage local investment. The issues raised by the Foreign Investment Advisory Service (FIAS) report cover inefficient regulatory and licensing procedures, a lack of access to serviced land, unclear and inefficient trade and customs procedures, and the ineffectiveness of tax administration.

The Small Business Act was enacted in 2003. The Act establishes the Local Enterprise Authority (LEA) and the Small Business Council (SBC). The Small Business Council is to act as an advisory body to the Minister of Trade and Industry at policy- and programme-formulation levels. Section 4 of the Act spells out the functions (13 in number) of the LEA. The functions cover the crucial issues concerning the SMMEs, including assistance in start-up processes, improvement of business skills, improvement of access to financial resources, entrepreneurship development, monitoring and mentoring of businesses, simplification of the regulatory framework, development of capacity to export, and promotion of linkages between SMMEs and larger firms and between SMMEs and government, especially through the procurement of goods and services produced by the SMMEs.

The functions of the LEA are already within the mandates of other institutions, such as the Citizen Entrepreneurial Development Agency (CEDA), the Botswana Export Development and Investment Authority (BEDIA), the Ministry of Trade and

Industry (MTI), and the Botswana Development Corporation (BDC). The establishment of an institution such as the LEA is a positive step in that it could play a major role in consolidating the efforts of the other institutions for the benefit of the SMMEs in particular. The other institutions listed here have broad mandates and constituencies, thus their focuses are not squarely on SMMEs. LEA is only beginning its work; once it is fully operational SMMEs should receive positive assistance from it.

Industrial Development Policy

The Industrial Development Policy of 1998 acknowledges the advent of globalisation and its possible effects on the domestic economy through changes in external markets as a result of tariff reductions as well as increased competitiveness, improved technology use and business procedures throughout the world. These are challenges but also opportunities upon which effective industrial development processes should be based. The policy seeks the establishment of industries that are productive, innovative and internationally competitive. One of the principles of the Industrial Development Policy is therefore the encouragement of highly productive export industries.

In terms of policy responses to the needs of the SMMEs and initiatives to facilitate their development, the Industrial Development Policy endeavours to achieve the following:

- Improved availability of infrastructure through partnerships with local authorities and the private sector;
- Establishment of Business Assistance Centres and business associations through a co-operative approach between government, local authorities and NGOs. These are expected to boost consultative mechanisms and co-operation in delivering well-targeted and well-focused training and financial assistance to SMMEs;
- Review of the Integrated Field Services in order to re-focus the role it plays in providing assistance to rural small business entities. The Local Enterprise Authority has since been established as a step toward reforming the Integrated Field Services;
- Promote linkages between SMMEs and larger competitive industries; and
- Promote linkages of the SMMEs with other sectors such as agriculture, minerals, wildlife and tourism in order to facilitate the production of value-added products for export.

Procurement-Related Policies and Programmes

In the Botswana economy, where commercial activities are inherently linked with the government budget, government procurement is very essential for the prosperity of the SMEs. While SMEs can also benefit from their linkages with larger firms, it is also important that they be directly linked with government in terms of providing goods and services to government organs. Over the years, government has put in place deliberate mechanisms to foster business linkages with local firms. These include the Local Procurement Programme (LPP), which required government departments and parastatal institutions to reserve 30% of their procurement budget for local firms. Recently, government has come up with guidelines on the use of locally manufactured goods and services, that require central and local government institutions and parastatal organisations to procure all their goods and services from locally based firms, 'provided that the goods and services are locally available, competitively priced and meet tender specifications...' (GoB, 1999). These and other initiatives should go a long way in promoting and nurturing local firms. But can these initiatives be effectively implemented?

6. The International Perspective of SME Competitiveness

The significance of SMEs is being acknowledged globally because of their role in economic development. In east and southeast Asia, for example, the SME sector accounted for 90% of all firms outside the agricultural sector (Bulletin on Asia Pacific Perspectives, 2002/03). The SME sector was also the biggest source of employment and provided a livelihood for over three quarters of the region's workforce (Bulletin of Asia Pacific Perspectives, 2002/03). In the European Union, the UN-ECE (1998) estimated that, out of 19 million enterprises, SMEs accounted for 99.8% and SMEs were a source of two-thirds of all jobs in the region. The UN-ECE (1998) also indicated that between 1990 and 1997, SMEs accounted for 43% of net job creation in the United States of America.

Data on SMEs in Botswana is not available. However, the Task Force Report on the Policy on SMMEs in Botswana (1998) indicated that SMMEs employed 125,000 people including business owners, and contributed 30-45% to GDP.

Given the crucial role that SMEs play in economic development, it is increasingly being acknowledged that globalisation has both increased opportunities and challenges for SMEs. The ability of SMEs to compete in global markets depends on their access to critical resources, among others finance, technology and managerial skills. The policy environment within which SMEs operate also plays a role in their competitiveness. If the policy environment is onerous and creates a burden on the operations of SMEs, it is likely to compromise their competitiveness. The purpose of this chapter is to review the international perspective of issues relating to SME competitiveness. These include the policy environment, and access to finance and technology.

GLOBALISATION AND SMEs: CHALLENGES AND OPPORTUNITIES

Globalisation has presented opportunities as well as challenges for SMEs. For some it has opened up opportunities for growth and expansion, while for those that are not so competitive it has increased exposure to fierce and intense competition from all over the world.

Opportunities

Globalisation has provided the following opportunities:

- It has presented opportunities for expansion and growth. An increasing proportion of global output is now exported. For example, in the 1990s world exports comprised about 20% of production compared to 12% in the early 1980s (ESCAP, 2000);
- The scope and opportunity for inter-firm linkages has increased. This presents opportunities for increased competitiveness through enhanced collective efficiency using technological and innovative capabilities. These linkages could be in the form of international production or supply chain networks, sub-contracting and outsourcing relationships; and
- The wide-spread diffusion of information and communication technology (ICT) resulting from the ICT revolution has pushed productivity levels up and increased the resilience and flexibility of economic activities.

Challenges

While globalisation has provided opportunities for SME growth and development, it has also provided challenges. These include:

- Fierce regional and international competition for all enterprises, including SMEs. For SMEs, the capacity to exploit opportunities resulting from globalisation may be limited by non-price competitive aspects, that may not be available in most SMEs such as marketing, distribution and after-sales services. The ability to use technology to develop innovations could be hindered by limited research and development (R&D) activities in SMEs. These non-price competitive aspects require significant financial outlays and may not be affordable to most SMEs; and
- Consumer preferences and market standards have become more sophisticated and are constantly changing. Non-price competitive factors, such as quality, health and safety, ecological compatibility of products and processes are becoming important.

In addition to the challenges discussed above, the Egyptian Ministry of Finance and Development Planning (2004) identified further constraints to competitiveness that are especially acute for SMEs in developing countries. These include:

- The small size of production imposes a cost on SMEs, especially in high-risk activities where technology changes quickly and activities depend on sizeable research and development (R&D) investments. The costs of certification and adherence to product and process standards have proved prohibitive for smaller

firms and have reduced the opportunities for value-chain integration;

- The segmentation of factor markets, which is a characteristic of many developing countries, has placed SMEs at a disadvantage on issues such as inputs, credit, labour, and information technology markets; and
- Public policies, even those intended to support them, tend to disadvantage SMEs. Some of these policies include import and export policies, taxes and administration, and the legal and regulatory framework, which disproportionately increase transaction costs for SMEs. For example, poorly targeted tax incentives can lead to a proliferation of enterprises below the taxable size. Policies that reserve certain industrial products for SMEs (e.g. India's textiles policy) might stifle competition and retard technological upgrading within the affected sectors.

POLICY AND REGULATORY ENVIRONMENT

The preceding section discussed some of the challenges that impede the competitiveness of SMEs. This section makes a comparative analysis between Botswana's performance and the best performers at international level in response to these challenges.

According to the Economic Commission for Africa (2001), the promotion and development of SMEs requires an enabling policy and regulatory framework which should include:

- A stable fiscal and monetary setting with reasonable interest rates, and a system of financial markets that provides incentives to save and mechanisms to channel savings into investments (such as a lower tax rate on initial earnings) and to increase investments as appropriate;
- Policies that minimise the cost of doing business (such as licensing and registration) while safeguarding the public interest; and
- Policies that facilitate business transactions, such as infrastructure development.

These are discussed below.

Fiscal and Monetary Setting

Access to Finance

Access to finance has been cited as one of the main constraints faced by SMEs globally. SMEs tend to acquire capital from their own savings or from family members and friends. Given that SMEs often lack collateral, financial institutions often regard them as high risk, hence their access to loans may be limited. In cases

where SMEs do get loans, these are usually at high interest rates. A survey conducted by ECA in 2000 revealed that two of the major constraints faced by SMEs was high interest rates and difficult collateral requirements.

The interest rate spread (the difference between the lending and deposit rates) is an indicator of the efficiency of the banking system. Botswana's spread ranked 71 out of 116 countries surveyed (Global Competitiveness Report, 2005/06). Table 6.1 shows selected countries and their ranking on interest rate spread.

Table 6.1. Interest rate spread in selected countries (2004).

Country	Rank
Botswana	71
United Kingdom	1
Spain	2
Japan	3
Luxembourg	4
Taiwan	5
South Africa	48
Namibia	52
Zimbabwe	86
Nigeria	56
Singapore	48

Source: Global Competitiveness Report, 2005/6.

These data are generally consistent with the International Monetary Fund's (IMF) international financial statistics data, shown in Table 6.2 for selected countries.

Table 6.2. Interest rate spread for selected countries (2004).

	Lending Rate (%)	Deposit Rate (%)	Interest Rate Spread (%)
Botswana	16.21	9.95	6.26
Spain ¹	8.06	2.08	5.98
South Africa	11.29	6.55	4.74
Luxembourg ¹	3.15	2.05	1.1
Namibia	11.88	6.35	5.53
Zimbabwe	278.92	103.21	175.71
Singapore	5.3	0.41	4.89
Mauritius	21	8.15	12.85

Source: International Monetary Fund.

1. Rate for new business for loans at a floating rate/up to one year fixed rate.

Table 6.2 highlights the following:

- With the exception of Zimbabwe and Mauritius, Botswana has the least efficient banking system in the SADC region; and
- Compared with the rest of the world, Botswana, (after Zimbabwe and Mauritius) has one of the least efficient banking systems.

While access to credit may not be the only factor that SMEs need in order to enhance their competitiveness, the tables above suggest that, compared to the rest of the world, Botswana needs to do much to improve the efficiency of the banking system by improving access to credit, especially for SMEs.

It should be noted however that, despite the high interest rate spread in Botswana, the Citizen Entrepreneurial Development Agency provides loans to enterprises at rates between 5% and 7.5%. These subsidised rates are much lower than the lending rates of commercial banks.

Specialised SME Finance

Some countries have established specialised financial institutions for SMEs. The experiences of these institutions have been mixed. While these institutions have played a key role in the finance needs of SMEs, they have faced problems of poorly performing loans, declining profitability, and in some cases losses and questionable financial viability. These institutions therefore tend to diversify their operations, by providing loans for larger enterprises and relying on low-cost funding from government and external donors for SMEs.

The success of specialised SME financial institutions has been due to relatively stable macroeconomic conditions, high degrees of operational autonomy, diversification of their assets and sources of income, and by maintaining reasonable levels of profitability. Below are examples of specialised financial institutions and programmes.

Japan Finance Corporation for Small Business (JFS)

Specialised financial institutions in Japan are often cited as a success in terms of their contribution to financing SMEs. The JFS is a government financial institution established in 1953. Its objective is to provide long-term financing at low interest rates. This kind of facility is difficult to obtain from private financial institutions. JFS adopted the “agency loan system”, which uses private financial institutions to provide loans. Eligible agencies are healthy financial institutions with appropriate borrower information which enables them to screen and monitor borrowers.

JFS shares liability with its agencies, with the former assuming 20% of the risk while the latter assumes 80%. JFS pays its agencies a commission for their services

in order to cover their costs associated with lending. In addition to the agency option, JFS also makes direct loans to SMEs through its network of branches (61) throughout the country.

JFS offers a wide range of funding. These include funding for entering new markets; funding to address environmental problems; funding for overseas investment and operations; and loans for disaster recovery, which are made to SMEs that are affected by changes in the economic and financial environments or by natural disasters. JFS not only offers loans to SMEs but also to business information services which help SMEs to solve their management problems. The business information services also provide an opportunity to network and expand business opportunities.

In 2000, JFS created a new programme called “Loans that Foster New Business with Growth Potential”. The new programme supports venture companies and SMEs entering new businesses with high growth potential. The scheme finances enterprises with insufficient collateral and also accepts bonds issued by companies.

Small Industries Development Bank of India (SIDBI)

SIDBI is a specialised financial institution of the Government of India, established in 1990 to promote, finance and develop SMEs. SIDBI provides low interest funds to financial institutions, which in turn provide loans to SMEs. SIDBI provides assistance to SMEs through:

- Direct financing (working capital loans, equity, foreign currency loans, etc.) through its 38 branches;
- Indirect financing (e.g. refinancing); and
- Promotional and development services (provision of loans, grants, technical support to NGOs, and to institutions dealing with technological and managerial aspects which are in line with SIDBI's programmes).

SIDBI programmes not only focus on providing credit to SMEs but also on development and support services in the form of technology upgrading, human resource development, enterprise promotion, environmental and quality management, and market promotion.

Türkiye Halk Bankası (Halkbank)

Halkbank is a public bank established in 1938 to support SMEs. Its focus is on productive and export-oriented SME projects. Halkbank has a complement of 15,000 staff, 806 branch offices, three partner banks in Hungary, the Netherlands and Turkmenistan, and representative offices in Belgium and Switzerland. Halkbank has a leasing company, an insurance company and venture capital institution, and also established a Credit Guarantee Fund (with the participation of

chambers of commerce and GTZ, the German government aid development agency).

In recent years, Halkbank has focused on a special programme for SMEs called “Incentive Fund Credits”. The programme grants credit based on the type of region the SME operates in (developed or undeveloped) and the scale of the enterprise (micro, small or medium). Interest rates, credit limits and equity participation vary according to these criteria.

Halkbank has also developed a credit programme known as the “Young and Women Enterprise Credit Line”, which is aimed at the business needs of young people and women entrepreneurs.

In addition to financial services, Halkbank has established consultancy and information services, and has five technical consultancy centres as well as 15 local and international information services centres.

European Bank for Reconstruction and Development (EBRD)

The key objective of the EBRD is to support the development of micro, small and medium-sized enterprises in Central and Eastern Europe and the Commonwealth of Independent States (former Soviet Union). An example of the EBRD programme is the Russian Small Business Fund (RSBF). The RSBF has two main goals:

- To finance micro, small and medium enterprises; and
- To reinforce the lending capacity of Russian banks, and ensure sustainable long-term access to finance for micro and small enterprises.

Since 1994, the RSBF has granted more than 58,000 loans amounting to US\$615 million to micro and small enterprises in 80 towns and cities in Russia (UNCTAD, 2001).

In addition to credit, EBRD offers technical assistance to help ensure that the activities being financed are viable.

From the specialised finance schemes discussed above, it is clear that measures to improve access to finance are country-specific and would differ depending on country conditions. However, what is clear from the above discussion is that:

- i) Access to finance should be complemented by other products and support services, such as credit insurance, business information services, management, marketing, etc;

- ii) Specialised finance should be decentralised to all areas, including rural areas;
- iii) Finance schemes could be biased towards the development of SMEs in regions that are underdeveloped. This could include setting interest rates, credit limits and equity participation based on the type of region the SME operates in (developed or undeveloped) and the scale of the enterprise;
- iv) SME finance should cover a range of activities and in some cases target specific groups, e.g. the young and women enterprises, businesses with growth potential, etc;
- v) SME finance should be viewed as complementing and not replacing the lending capacity of commercial banks; and
- vi) With their existing network of branches and capacity to screen and monitor borrowers, commercial banks can be used to do agency work for specialised financial schemes.

Taxation

Governments use tax policy to achieve equity and efficiency. However, the tax burden can have adverse impacts on economic growth by discouraging new investment and entrepreneurial incentives. The key challenge governments face is to design an efficient, fair and simple tax system that does not retard economic growth.

Many OECD countries have lower tax rates for SMEs in order to foster their competitiveness (Table 6.3). The lower tax rates are often introduced to achieve efficiency and equity objectives. With regard to the former, it is reasoned that small businesses are prone to market failure when compliance with regulations incurs high costs. The equity objective, on the other hand, is based on the fact that SMEs earn lower profits.

Botswana does not have a specific tax rate for SMEs. However, the statutory tax rate is low at 25%. There is also a 15% tax regime that is applied to manufacturing companies and to companies operating within the International Financial Services Centre.

Table 6.3. Taxation of corporate income.

	Basic Tax Rate (%)	SME Rate (%)	Difference (%)
Belgium	40	29	11
Canada	29	13	16
France	33	19	14
Greece	40	25	15
Ireland	24	12	12
Japan	30	22	8
Korea	28	16	12
Luxembourg	30	20	10
Mexico	35	0-2	35-32
Netherlands	35	30	5
Portugal	32	20	12
Spain	35	30	5
UK	30	10-20	10-20
USA	35	15	20

Source: OECD.

Value Added Tax (VAT)

Some OECD countries either have VAT exemptions or special VAT provisions for small businesses in order to lower their compliance and administrative costs. Countries that exempt small businesses from VAT include Canada, the Czech Republic, France, Germany, Greece, Ireland, Italy, Japan, New Zealand, Poland, Portugal and the United Kingdom (OECD, 2002).

Botswana does not have a VAT exemption for small businesses. However, the VAT Act has the following provisions:

- Input tax deduction, which allows firms (including manufacturing ones) to claim back VAT paid on inputs. This provision becomes applicable if enterprises (big and small) have registered with the Director of VAT; and
- Enterprises with a turnover of less than P250, 000 are not required to register for VAT but may do so if they intend to use the input tax deduction provision of the VAT Act.

The field survey revealed that some SMEs (small firms in particular) did not have proper accounts systems; it is therefore unlikely that these firms could benefit from the input tax deduction provision. Given that the VAT exemption only covers firms with an annual turnover of less than P250,000, it is likely that a majority of SMEs, especially the medium ones, cannot benefit from the exemption.

The discussion above suggests that SMEs in Botswana are unlikely to benefit from exemptions and special provisions in the VAT Act. This might imply that consideration be made to review, for example, the thresholds for exemption in the VAT Act to ensure that SMEs benefit from these exemptions. However, the OECD (2002) advises that tax incentives to small firms (including lower corporate tax rates, investment tax credits, VAT exemptions, etc.) should be evaluated to ensure that they address market failure and do not induce economic distortions or encourage tax evasion.

Policies Relating to the Cost of Doing Business

Bureaucratic red tape and inefficient systems can exert tremendous pressure on the operations of SMEs. In view of their typical shortage of personnel, SMEs can spend considerable amounts of time attending to bureaucratic processes rather than the productive activities of their firms.

Table 6.4 Burden of government regulation for selected countries.

Country	Rank/117
Botswana	26
Singapore	1
Hong Kong	2
Malaysia	3
Taiwan	4
Finland	5
South Africa	66
Namibia	44
Zimbabwe	100
Ghana	16
Tanzania	23

Source: Global Competitiveness Report, 2005/6.

Table 6.4 shows the burden of government regulations for a selection of countries. While there may not be a specific set of administrative requirements for SMEs, they usually suffer most since they often do not have staff dedicated to working with government bureaucracy.

According to Table 6.4, Botswana is not doing badly in terms of its burden of government regulations compared to other countries in the SADC. However, when

compared to the rest of the world, there is room for improvement for it to reach the level of Singapore, Hong Kong, Malaysia, etc.

In terms of setting up a private company, the World Bank/International Financial Corporation data on selected countries indicates that the time taken to start a business ranges from 5 to 48 days, with costs ranging from \$0 to \$1,800 (Table 6.5).

Table 6.5. Setting up a business, selected countries (2005).

	Number of Procedures	Time in Days	Typical Cost (US\$)
United Kingdom	6	18	247
Ireland	4	24	1809
Denmark	3	5	0
Austria	9	29	1,851
France	7	8	353
Finland	3	14	379
Sweden	3	16	250
Hong Kong	5	11	908
Singapore	6	6	265
Malaysia	9	30	973
Taiwan	8	48	883
USA	5	5	210

Source: World Bank/International Finance Corporation-Doing Business.

In SADC, the time taken to start a business ranges from 35 to 155 days, with the cost ranging from \$81 to \$6,600 (Table 6.6). Botswana is among the highest, in terms of the number of days and costs incurred, to start a business. Given that SMEs bear the greatest burden when procedures are lengthy and costly, it is important to address the high costs and delays experienced in starting a business in Botswana.

Despite the high costs and delays in starting a business in Botswana, it is encouraging to note that the government is committed to removing impediments to private sector development. According to the Budget Speech (2005), the government conducted a number of comprehensive reviews and developed new policies, legislation and regulations with a view to creating a supportive business environment. One of these initiatives was the review of Industrial Development Act in order to simplify licensing procedures for, among others, manufacturing. The Companies Act was also reviewed to simplify the registration of companies, with new regulations being finalised for their implementation to start in April, 2006. Also, the implementation of new regulations for the Trade Act has commenced.

While these initiatives are not specific to SMEs, SMEs stand to benefit from simpler procedures. The momentum of such measures should be maintained to reduce further, the costs and delays associated with starting and operating a business.

Table 6.6. Starting a business in SADC (2005).

Country	Number of Procedures	Time in Days	Cost (US\$)
Angola	14	146	6,621
Botswana	11	108	475
Congo, Democratic Rep.	13	155	604
Lesotho	9	92	415
Malawi	10	35	237
Mozambique	14	153	238
Namibia	10	95	444
South Africa	9	38	313
Tanzania	13	35	532
Zambia	6	35	81
Zimbabwe	10	96	97

Source: World Bank/ International Finance Corporation-Doing Business.

Policies that Facilitate Business Transactions

Infrastructure is an essential prerequisite for firm- and country-level competitiveness. UNCTAD (2005) makes two distinct definitions of infrastructure - the narrow definition of technological infrastructure and the broader interpretation of infrastructure.

The narrow definition of technological infrastructure covers telephone landlines, personal computers and mobile telephones. Technological infrastructure makes it possible for SMEs to use information and telecommunication technology to access global markets.

Table 6.7 below shows the ranking of some of the indicators for technological infrastructure for selected countries.

Table 6.7: Selected indicators (ranking) of technological infrastructure (2003).

	Telephone Lines/100 people	Ranking	Personal Computer/ 100 people	Ranking	Internet Users/ 10,000 people	Ranking	Mobile Phones 100 people	Ranking
Botswana	7.5	83	4.1 ¹	69	227	91	29.7	57
Luxembourg	79.7	1	62	5	3,765	25	119.4	1
Sweden	76.6	2	62.2 ¹	4	6,300	2	98.1	5
Switzerland	72.7	3	74.2	1	3,985	23	84.6	19
Norway	71.3	4	52.8 ¹	10	3,457	27	90.9	12
Denmark	66.9	5	57.7 ¹	7	5,410	8	88.3	15
South Africa	10.4	78	7.31	58	682 ¹	67	36.4	52
Namibia	6.6	87	9.9	49	338	87	11.6	84
Mauritius	28.5	39	14.9 ¹	40	1,229	52	26.7	63
Taiwan	59.1	12	47.1	13	5,194	12	114.1	2
Korea	53.8	17	55.8	8	6,097	3	70.1	30
Singapore	45.2	27	62.2 ¹	3	5,088	13	82.9	21

Source: Global Competitiveness Report, 2005/6.

1. 2002.

In terms of technological infrastructure, Botswana occupies a very low ranking in all the indicators. While Botswana is comparable with most countries in the SADC region, it lags far behind countries such as Luxembourg, Sweden and Switzerland.

While the indicators above are not specific to SMEs, exposure to and the use of information technology provides an opportunity to access global markets as well as network with other firms. The Budget Speech (2005) outlines some efforts aimed at improving Botswana's international connectivity and providing more reliable telecommunication linkages within the country and the region. In addition, discussions on the Draft Policy on Information and Communications Technology are in progress. The policy proposes changes in legislation which are essential for the development of e-business and e-government.

These developments in ICT are a step in the right direction, but they should be intensified to ensure that technological infrastructure is developed to levels comparable to the OECD and some East Asian countries. Trade via the internet has become an intrinsic part of an increasing number of SMEs in developed countries. About half of the SMEs in Europe maintain an e-mail contact address or presence in the World Wide Web (Bulletin on Asia-Pacific Perspectives, 2002/03).

The broader definition of infrastructure covers electricity, transport, clean water, etc. Inadequate water and power supplies, limited telecommunications and poor roads make it difficult for SMEs to operate. Where these services are not available, SMEs have to incur additional costs to provide them, and recovering the costs may prove to be a difficult task given the low economies of scale on the part of SMEs.

Table 6.8. Ranking on quality of infrastructure of selected countries.

Country	Overall Infrastructure	Railroad Infrastructure Development	Airport Infrastructure Quality	Quality of Electricity Supply	Postal Efficiency	Telephone/fax infrastructure
Botswana	42	47	68	51	42	92
Denmark	1	5	6	4	3	5
Singapore	2	7	1	13	6	4
Germany	3	4	3	2	4	1
Switzerland	4	2	21	8	5	6
France	5	3	7	6	16	8
South Africa	26	43	13	49	81	79
Namibia	37	35	45	54	74	70
Mauritius	46	89	43	46	44	55
Korea	23	12	31	27	24	38
Malaysia	14	10	15	31	31	45
Taiwan	20	15	20	28	11	23

Source: Global Competitiveness Report, 2005/6.

In terms of overall infrastructure, Botswana compares well with other SADC countries. Despite this good regional performance, Botswana still ranks low compared to some developed countries such as Denmark, Germany, Switzerland and France, and to some developing countries such as Singapore, Korea and Taiwan. Botswana needs to pay particular attention to areas such as telephone infrastructure. It is essential to upgrade telephone infrastructure to support the technological infrastructure discussed earlier. For firms importing from and exporting to international markets, the development of technological infrastructure is very important.

TECHNOLOGY DEVELOPMENT

SME development requires two different kinds of technology - industrial technology and information and telecommunications technology. Industrial technology is important for SME development because it improves productivity and the quality of the product. Information and telecommunication technology was discussed in the previous section.

According to the “technological gap” theory, innovation creates a competitive edge because innovative countries gain an advantage and export products and technologies to countries that do not have these yet. UNCTAD (2003) and Lall (2000) consider innovation, and research and development (R&D), important for developing, promoting and deepening local technological capabilities. R&D can be used as a measure of the technological effort taken to master new technologies (UNCTAD, 2005).

Purchasing of know-how, patents, licences and blue prints is a channel for technology transfer. R&D, patents, licences and blue prints are all modes of acquiring and developing technology, and they complement each other.

The following conclusions can be drawn from Table 7.9:

- Botswana fares relatively poorly in all the aspects of technology development, particularly regarding a typical firm’s absorption of technology. This indicates that Botswana firms may not possess the necessary capacity to take advantage of technology transfer;
- South Africa and the East Asian countries ranked high in their prevalence of technology licensing. These countries probably have a more developed capacity to master and adapt technology transfer; and
- Firm-level expenditure on R&D is highest in developed countries, followed by the East Asian countries. This is generally consistent with the findings by UNIDO (2002) that East Asia spends most on R&D.

R&D is gaining increasing importance in the global economy. While Botswana is doing relatively well in technology development, perhaps more should be done in terms of ensuring effective technology transfer, especially to SMEs. Some studies (e.g. UNIDO, 2002) indicate that the different modes of acquiring and developing technology complement each other. This suggests that successful technological development and transfer requires a commitment of resources to develop skills, R&D, etc., in order to make that transfer effective. Focus should be given to ensuring that the skills in this country are sufficient to make effective use of technology.

Table 6.9. Ranking on selected indicators of technology development.

	Prevalence of Technology Licensing	Firm Level Technology Absorption	Quality of Scientific Research Institutions	Company Spending on R & D
Botswana	66	80	35	59
United States	22	1	1	1
Japan	12	2	7	2
Germany	23	14	5	3
Switzerland	26	13	2	4
Israel	13	5	4	5
Finland	41	5	6	6
South Africa	3	30	26	22
Namibia	51	62	96	64
Mauritius	25	44	50	59
Singapore	2	7	8	10
Korea	34	8	19	8
Taiwan	1	4	16	12
Malaysia	9	16	22	18

Source: Global Competitiveness Report, 2005/6.

CONCLUSION

Globalisation has provided opportunities for the growth and expansion of SMEs but has also presented challenges. SMEs that will take advantage of these opportunities are those that have the competitive edge. SMEs need support to enhance their competitiveness and to effectively benefit from globalisation.

A comparative analysis between Botswana's enabling business environment for SMEs and some of the best at international level reveals that:

- Using the interest rate spread as an indicator of efficiency of the banking system, Botswana should initiate measures to improve the efficiency of the banking system to levels comparable with those of the developed countries and some developing countries;
- Access to finance plays an essential role in the competitiveness of SMEs. Experience in selected countries with specialised finance schemes reveals that access to finance should be complemented with other products, such as credit

insurance, business information services and marketing. Decentralisation to all geographic areas is an important aspect to ensure access to all potential beneficiaries, and deliberate efforts should be made to ensure that such specialised schemes have a deliberate bias towards under-developed regions, with the criteria used (e.g. interest rates, credit limits, etc) reflecting this bias;

- Botswana's performance in overall infrastructure is comparable with SADC countries, but it is still lower than the best countries at international level. Telephone infrastructure, in particular, is a cause for concern that needs attention;
- Technological infrastructure also needs attention, since Botswana ranked very low compared to countries such as Luxembourg, Sweden and Switzerland; and
- The cost of - and the number of days involved in - starting a business in Botswana are not comparable with the best performers at international level. Efforts should be intensified to remove this burden to businesses, especially to the SMEs.

7. Firm-Level Survey Results

INTRODUCTION

This Chapter discusses the firm-level survey results. It is divided into thematic issues that the study investigated. It starts by describing the data that was obtained from the firms through a structured questionnaire, including the problems encountered in the field and the limitations of the data. The following subsections analyse the data under different topics, including firm management, firm production, access to finance, business support services, access to physical infrastructure, labour issues and regulatory issues. In the analysis, an effort was made to compare firms located in Gaborone and its environs to those located elsewhere in the country.

OVERVIEW OF FIRM-LEVEL SURVEY DATA

The CSO database, complemented by the CEDA list of firms, shows a much skewed distribution of firms in favour of Gaborone and its environs. The total number of firms in this location, according to the CSO database and the CEDA list, was 619 out of a total of 878 in the areas covered, translating into 71% of the firms. Francistown accounted for 86 firms (or 10%) of all the firms, and the rest of the locations accounted for the remaining 19%, with each of the areas accounting for 5% or less.

In total, 240 firms were included in the sample (see Table 7.1). However, the questionnaire was successfully administered to only 142 firms. The problems relating to the failure to cover all the sampled firms are discussed under the section on the limitations of the study. Table 8.1 shows the distribution of the surveyed firms by location. With the exception of the two cities, Francistown and Gaborone, the response rate was well over 90% of the sampled firms. In Gaborone, the response rate was 45%, while in Francistown it was 50%. The problems relating to data collection from these two cities were somewhat similar, including the high mobility of firms and the apparent "survey fatigue" and/or lack of interest on the part of the potential respondents.

Table 7.1. Distribution of firms by location.

Location	Number of Firms	Per cent
Gaborone and its environs	75	53
Francistown and its environs	12	9
Selebi Phikwe and its environs	10	7
Mahalapye	3	2
Serowe-Palapye	13	9
Molepolole	6	4
Mochudi	5	4
Kanye	4	3
Lobatse	14	10
Total	142	100

Two defining characteristics for choosing the firms for this survey were drawn from the SMME Policy of 1998. The first definition is employment-based and the second one is turnover-based. When selecting the sample, the intention was to exclude the micro enterprises, which by the first definition would have been employing less than six² employees; such firms fall within what is defined as the informal sector, which is a sector in its own right and could be studied independently. Also, including informal sector firms in the sample would make it difficult to interview them as many of them have no permanent physical addresses, a factor that was likely to significantly increase the cost of the study.

The employment-based definition was very useful in assisting the researchers to sample firms according to their size. However, the CSO database publishes information on employment levels of firms but does not publish information on turnover. Thus, it would not have been possible to sample the firms using the turnover-based definition of small and medium enterprises. While the use of employment-based selection with the exclusion of turnover-based selection may have led to the exclusion of some firms that would otherwise qualify to be in the sample on account of higher turnover, the impact may have been insignificant. The information obtained from the surveyed firms shows a close relationship between the two definitions (see Tables 7.2 and 7.3).

While it would have been expected that all the data would show strictly small and medium enterprises, as per the employment-based definition, this was not the case. As explained in the earlier sections of this report, the CSO database that was used was fairly outdated, and the firms surveyed may have experienced some changes

2. In our analysis, we have modified the employment-based definition slightly by reducing the upper limit for micro firms from 6 to 5. Table 7.2 shows the defining parameters for small and medium firms.

over the years. Depending on the age of the firm and the firm-related activities (especially relating to government-related financing) undertaken at the time when the information about the firm was obtained, the employment level may subsequently have changed thereafter. There are a variety of reasons why the employment levels in firms may increase or decrease, in some cases significantly, over the years.

Table 7.2. Distribution of firms by employment level.

	Number of Firms	Per cent
Less than 5 Employees	25	18
5 - 24 Employees	77	54
25 or more employees	30	21
Total	132	93
Missing	10	7
Total	142	100

The FAP grants included conditions that tended to encourage the employment of more workers³, since some part of the additional expenditure on them was covered by government. In fact, these grants were largely tied to the number of jobs that the beneficiary firms created. In consequence, many firms that received FAP grants laid off workers when the financial assistance expired; in the worst cases the entire firm was closed down.

It was fairly difficult to capture information on turnover from the firms because a significant number of their managers viewed information on turnover - and any other related financial information - as highly confidential and would not reveal it. Even the persistent assurance that the information collected for the survey would be kept confidential by the researchers would not persuade some of these managers to provide the data. As shown by Table 7.3, 24 of the firms would not reveal information on their turnover, thus only 118 firms (83% of the surveyed sample) could be categorised by turnover in line with the turnover-based definition.

The picture portrayed in Table 7.3 suggests that most of the firms fall within the small category as opposed to the micro and medium categories.

3. One of the original objectives of FAP was the creation of employment opportunities; during the subsequent years, the administration of the policy would suggest that this objective was still being pursued. During the last review of the policy (in 2001), which led to its termination, the incentives that encouraged high levels of employment in FAP beneficiary firms were still in place.

Table 7.3. Distribution of firms by annual turnover.

Annual Turnover	Number of Firms	Per cent
Less than P60,000	25	18
P60,000 - P1,500,000	63	44
More than P1,500,000	30	21
Total	118	83
Missing	24	17
Total	142	100

Table 7.4. Distribution of firms by products.

Type of Products	Number of Firms	Per cent
Beverage/Ice Products	8	6
Garments	51	36
Leather	2	1
Metals	22	16
Rubber and Plastics	3	2
Wood	12	9
Paper	8	6
Chemicals	5	4
Dairy	3	2
Grain products	13	9
Cement	7	5
Glass	2	1
Printing & Publishing	3	2
Medical	1	1
Jewellery	1	1
Hair products	1	1
Total	142	100

Garment production dominates the surveyed firms, accounting for about 36% of the total number of firms (see Table 7.4). The second largest type of product is metal products, most of which are produced by small welding firms employing between 5 and 24 employees. Both wood and grain products account for about 9% of the surveyed firms. Each of the remaining product types accounts for less than 6% of the total number of firms. In terms of the distribution of the products by location, about 50% of the garments firms and about 60% of the metal firms are in Gaborone. Unlike the garments - and, to a limited extent, metals and grain products - other products are not widely distributed by location. Some of the products are repre-

sented by very few firms, and all such firms were located in Gaborone. This applies to rubber and plastics, printing and publishing, medical, jewellery and hair products.

FIRM MANAGEMENT

Gender Inequalities in Firm Ownership

This section briefly looks at the capacities of managers and owner/managers to run their businesses. It investigates qualifications, training, experience and other related attributes of the management personnel of the firms.

Out of the 142 firms, only 31 (or 22%) are managed by people other than their owners; thus most of the businesses are owner-managed. This is a very encouraging picture in that one expects that owners managing their own businesses will be fully committed to their success. However, in cases where the owner-managers are not fully trained and experienced in firm management, the firms stand to lose rather than gain from the expected high level of commitment from the owner-managers. An analysis of firm owners, therefore, can be used to give an indicative picture about the managers of firms.

Table 7.5. Distribution of firms by gender and ownership.

	All Owners	Per cent	Principal Owners	Per cent
Male	159	64	106	76
Female	88	36	34	24
Total	247	100	140	100

Table 7.5 shows that 76% of the firms have males as principal owners and 24% have female principal owners. The cumulative number of all owners is 247; out of this number, 64% are male and only 36% are female. Female ownership improves marginally when looking at the cumulative number of owners, even though proportionately the number is still very low compared to male owners. Also, the marginal improvement of female ownership when looking at the cumulative number of owners, but this also shows that most of the females are non-principal owners of firms. This would probably imply that not only did most of the women owners not establish the firms or play a key role in their establishment but also that they probably are not very influential in the decision-making of the firms.

The rather clear bias against women in firm ownership exists despite the numerous schemes that are tailored to assist women venture into business. Examples of such initiatives include those administered by the Women's Affairs Department in the

Ministry of Labour and Home Affairs. During the FAP period, affirmative action in favour of women included a reduced funding contribution percentage for business projects pioneered by women (women contributed 10% of the initial capital cost of their projects while men contributed 15%). It would appear that these initiatives have done relatively little in terms of promoting women ownership of businesses. With the termination of FAP, the imbalance should be expected to progress further, and there is thus a need to devise strategies that are aimed at deliberately developing, promoting and nurturing entrepreneurship among women.

Further, certain cultural connotations that Botswana society subscribes to affect women's participation in business. These cultural issues seem to limit women's participation in businesses, politics and other positions of power. This cultural mindset has even been reflected in certain legislation, such as the old Marriage Act that originally limited the decision-making powers of women in their homes as well as their access to and control of finances. The recent amendment of the Marriage Act gives women equal powers with men, which it is hoped will have a positive impact in terms of ensuring the improved participation of women in businesses.

Youth and Firm Ownership

The participation of youth in business is very important, especially in light of the current high rate of youth unemployment - even among young university graduates. Concerns have been raised about the quality of graduates, especially from the Technical Colleges and from the Faculty of Engineering and Technology of the University of Botswana, with regard to their capability to employ themselves through the establishment of productive business ventures along their lines of training. In this report, we categorise youth as those aged between 24 and 34 years.

From Table 7.6 the youth make up only 19% of all firm owners. When looking at principal ownership, only 14% are youth. This suggests that there is a bias against the youth in business ownership. The same argument follows as for women - that despite the existence of initiatives for the promotion of youth participation in business ventures, very negligible numbers among the youth are actually participating in businesses.

The scenario concerning the youth calls for more concerted efforts towards empowering the youth entrepreneurially and financially to take up the challenges of doing business. There is a need for a holistic approach in addressing the problem of low participation of the youth in business. Issues that will need to be tackled include improvements in the education system. Despite high literacy rates, especially among youth today, there would seem to be little inculcation of business acumen among the youth during their years of schooling. Unemployment among the youth

Table 7.6. Distribution of firms by age and ownership.

	All Owners	Per cent	Principal Owners	Per cent
Below 25	7	3	2	1
25-29	11	4	5	4
30-34	29	12	13	9
35-39	41	17	22	16
40-44	43	18	25	18
45-49	35	14	20	14
50+	79	32	53	38
Total	245	100	140	100

is said to have risen significantly, to the extent that some young university graduates are unemployed. In this study, it is evident that a higher proportion of youth firm owners have higher education levels than their elderly counterparts: 65% of the youth have at least a certificate while only 52% of the elderly have the same qualification levels. There is a need to revise the education curriculum with a view to putting more emphasis on business development subjects during the earlier years of schooling. This should help change the current setup that seems to emphasise producing human resources that are tailored to formal employment as opposed to self-employment.

One reason for the low participation of youth in businesses is a lack of start-up funds (and of collateral in cases where loans are from financial institutions). Policies and programmes that would make finance available to the youth should be introduced and implemented more keenly. The latest developments regarding a form of affirmative action to avail CEDA funds for the youth to participate in agricultural projects, and increased financial assistance to youth business projects from P3 million to P30 million, are commendable but will need to be implemented with vigour (and perhaps be complemented with other programmes).

Managerial Capabilities of Firm Managers

The educational achievements of managers and owner-managers are essential attributes in a firm. Formal education is important, but in most cases it delivers better results if it is complemented by vocational and informal training that is more focused towards business skills development. In some cases experience tends to be the best teacher, thus some entrepreneurs and managers have not gone through any training whatsoever yet are successfully running firms. It is important to look at these management attributes because they provide managers with the skills to make decisions and drive the process of firm production.

Table 7.7. Educational attributes of firm owners.

	All Owners	Per cent	Principal Owners	Per cent
No Education	9	4	6	4
Primary	30	12	21	15
Junior Secondary	31	13	17	12
Senior Secondary	41	17	21	15
Certificate	23	9	10	7
Diploma	54	22	29	21
University Degree	39	16	23	17
Post Graduate Degree	19	8	12	9
Total	246	100	139	100

The information in Table 7.7 shows that 55% of all owners, and 53% of principal owners, have post-secondary education. In 46% of the firms the owners have at least a diploma, and in 24% they have a university first degree or better. Thus firm owners are generally well educated as far as formal education is concerned. It is however also important to look at other forms of education and business experience that the firm owners have.

Table 7.8 shows whether or not the business owners received other forms of training apart from formal schooling, and whether or not they had any experience in their line of business before they ventured into it. The information shows that most owners have received other training, (61% of all the owners and 70% of the principal owners). Of all the owners, 55% had experience in their line of business before starting their own business, with 64% of the principal owners having had previous experience. In both cases, the principal owners had both more education and experience than the non-principal owners, which may emphasise the key role that the principal owners play in the running of the firms. Generally, the level of education and exposure to training other than formal schooling is satisfactory among the owners of businesses.

Table 7.8. Other training and experience for the owners.

	Other Form of Training				Did the Owner Have Prior Experience			
	All Owners	Per cent	Principal Owners	Per cent	All Owners	Per cent	Principal Owners	Per cent
Yes	150	61	97	70	134	55	88	64
No	95	39	42	30	108	45	50	36
Total	245	100	139	100	242	100	138	100

FIRM PRODUCTION

In this section we look at the production processes of the firms, particularly the costs of operation, related to material inputs and machinery, as well as the accessibility of such inputs. This should help us assess whether the cost of production in Botswana impedes SME competitiveness both domestically and internationally.

Sourcing materials from outside the country is a very crucial production factor for Botswana firms. A substantial proportion of inputs are obtained from outside the country, either through direct procurement or from local wholesalers, which would have obtained the materials from outside and added a mark-up. Most of these inputs are from South Africa. Some firms travel to South Africa to physically obtain their inputs, some hire transporters, while others have arrangements with their suppliers to deliver to their businesses. Tables 7.9 and 7.10 show the length of time in days that these companies take to place orders and receive their inputs from outside the country.

Table 7.9 shows the length of time it takes firms to obtain inputs from outside the country. It is evident that most of the firms seem not to be experiencing delays in obtaining their input goods - 80% of the firms need at the most 14 days to receive goods ordered from outside the country. This length of time is reasonable, and if firms make proper arrangements concerning orders for their inputs, there should be no unnecessary disruptions in their production processes.

Table 7.9. Length of time taken by firms to order and receive inputs from outside the country.

Number of Days	Number of Firms	Per cent	Cumulative Per cent
1-7	57	57	57
8-14	23	23	80
15-21	4	4	84
22-28	1	1	85
29-35	7	7	92
36+	8	8	100
Total	100	100	

Table 7.10 undertakes to compare delivery times for firms located in Gaborone vis-a-vis those located elsewhere in the country. More or less the same proportions of firms in Gaborone (74%) and firms located elsewhere (70%) procure some of their inputs from outside the country.

Table 7.10. Length of time taken by firms to order and receive inputs from outside the country.

Number of Days	Gaborone Firms	Per cent	Cumulative Per cent	Firms Elsewhere	Per cent	Cumulative Per cent
1-7	28	52	52	29	63	63
8-14	14	26	78	9	20	83
15-21	1	2	80	3	7	89
22-28	1	2	81	0	-	89
29-35	4	7	89	3	7	96
36-	6	11	100	2	4	100
Total	54	100		46	100	

It is interesting to note that the firms located elsewhere generally obtain their inputs from outside the country relatively faster than those located in Gaborone, contrary to what one would expect. At least 83% of the firms located elsewhere obtain their inputs procured from outside within 14 days as opposed to 78% for those located in Gaborone. While 52% of the firms located in Gaborone obtain their procurements from outside the country within 7 days, 63% of the firms located elsewhere obtain their procurements within the same space of one week.

A possible explanation for this scenario is that perhaps a higher proportion of the Gaborone-based firms obtain their inputs from further afield, that is beyond South Africa and the southern African region. Another possible explanation would be that the procurement and delivery arrangements of Gaborone firms contribute to delays. For instance, if Gaborone-based firms mostly rely on their suppliers to deliver their orders, it may take more time for them to receive their goods as opposed to when they obtain supplies directly from their suppliers.

A second possible explanation may be deduced from the information regarding how firms deliver raw materials to their production sites. A slightly higher proportion of firms located outside of Gaborone prefer to transport their raw materials themselves as opposed to hiring transport companies or having their suppliers transport the goods for them. Of the 29 firms located elsewhere that are able to order their raw materials from outside the country and receive them within one week, 16 firms transport their raw materials themselves. On the other hand, only 8 out of 28 Gaborone-based firms that order and receive their raw materials within one week transport them themselves.

Firms were asked to identify problems that they deemed to be very constraining to the operation of their businesses. Figure 7.1 shows those problems that a sizeable

number of firms claim to be severe in terms of constraining the operations of their businesses.

Competition from imports is the most important problem that the firms say they face. Overall, 40% of all the firms (57 out of 141) identified competition from imports as a problem that affects their operations. Sizeable proportions of firms producing metals, paper and chemicals view competition from imports as a problem, as 50% or more of these firms claim that this is a problem.

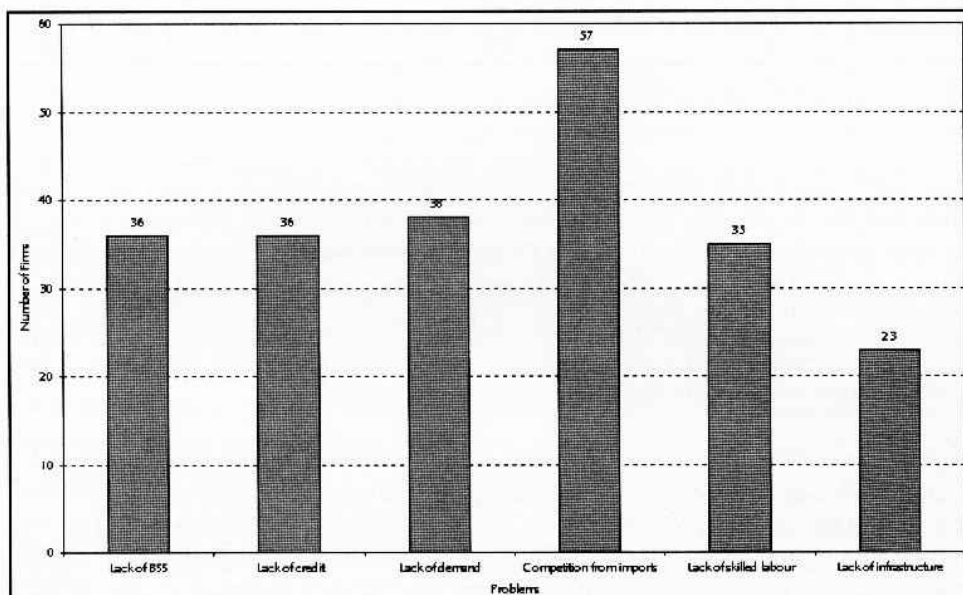


Figure 7.1. Main problems that are faced by firms.

The lack of demand, credit and business support services (BSS) show similar patterns in terms of the firms' views that these inhibit the operations of their business. Between 26% and 27% of the firms claim that these are the main problems that constrain their businesses. Other problems identified by the firms are a lack of skilled labour and lack of infrastructure. Lack of infrastructure, in particular, is identified by a smaller number of firms, which is perhaps an acknowledgement that the basic physical infrastructure is generally in a good state. However, other infrastructure (especially factory shells) are generally unavailable, although this usually affects medium- and large-scale firms, rather than the small and micro firms.

It is noted that, overall, the proportion of firms that identify these problems seems to be relatively small, with the possible exception of those noting competition from imports. The probable reasons for these rather low responses could be that most of

the firms responding were either micro and small, accounting for more than 75% of the total sample, which could have had a bearing on the way the business owner managers would view the issues that were being put before them and the extent to which the problem would apply to their firms. For instance, except in the case of highly specialised products, one would not expect a micro or small firm to identify the lack of skilled labour as a problem; the expectation is for such firms to produce using locally available labour that is minimally trained. The question may have limited the usefulness of the responses, as it asked the firms to identify only three main problems from a list of 22 possible ones. However, this factor can be viewed as a reason for the scattering of the responses among the problems in the list, and that a problem that is identified by a sizeable number of firms should be taken seriously, even though in percentage the firms response would seem to be less significant.

FIRM EXPANSION

Certain factors are likely to influence a firm's decision to expand, and these are related to the main problems that a firm faces. Information on how firms rank different factors that could influence their decision to expand was therefore sought.

Table 7.11 shows the levels of importance of different factors that the firms would consider as obstacles to their expansion. Competition from imports stands out as an important factor. Sixty per cent of the firms would view competition from imports as a possible obstacle if they were to make a decision to expand their business operations, if we consider the cumulative responses from 'slight obstacle' to 'very severe obstacle'. If we consider only the cumulative responses 'obstacle' to 'very severe obstacle', at least 53% of the firms would take into account competition from imports as a possible limiting factor to their decision to expand production. Perhaps, related to this obstacle is lack of demand for the products, which the firms fear as an obstacle to their decision to expand. Fifty-eight percent of the firms would consider lack of demand for their products as a deciding factor on their decision to expand. This factor is related to the fear of competition from imports in that the firms are probably considering that the market is already saturated because of the imports of substitutes of the products that they are currently producing.

A lack of business support services (BSS) is the second most important factor that the firms considered an obstacle to expanding production. This scenario may be explained by uncertainty regarding the ability to find markets for the bigger quantities they will produce, or of being exposed to other obligations commensurate with their size, such as paying taxes, for which they may require professional support services.

Table 7.11. Factors that would influence the firm not to expand production.

	Lack of BSS*	%	Lack of Infra- structure	%	Lack of Credit	%	Lack of Demand	%	Competition from imports	%	High Utility Price	%
No obstacle	59	42	64	45	62	44	59	42	56	40	66	47
Slight obstacle	17	12	14	10	19	13	20	14	11	8	20	14
Obstacle	21	15	23	16	24	17	14	10	16	11	22	16
Severe obstacle	23	16	18	13	13	9	14	10	5	4	11	8
Very severe obstacle	21	15	22	16	23	16	34	24	53	38	22	16
Total	141	100	141	100	141	100	141	100	141	100	141	100

* BSS means Business support service.

During the administration of the questionnaire, there was a sizeable proportion of firms that relied on consultants to fill the questionnaires. It took a lot of persuasion to convince such firm owners that an interview with them would be more accurate and time-saving. This in itself shows a need for business support services for some of these firms, and it became obvious that the absence of such a service plays a role in firms' decisions regarding expansion. Perhaps firms would rather remain small than grow bigger and face bigger challenges without business support services.

Other factors that are considered to be an obstacle and would influence firms' decision to expand include a lack of credit (56% of the firms), lack of infrastructure (55% of the firms), and high utility costs (53% of the firms). It is interesting that while a lack of credit is among the most likely obstacles that firms would face if they were to decide to expand, it is surpassed by other factors such as lack of business support services, lack of demand and competition from imports.

Cost of Utilities

Utilities - that is electricity, water and telecommunications - play an essential role in the production processes of a firm. The level of importance and cost of the different utilities may differ from one firm to another depending on what a specific firm produces. The high cost of utilities has been cited as one of the constraints that firms face in Botswana, as well as one of the reasons for Botswana failing to attract more foreign direct investment.

A fairly small proportion of firms report that electricity, water and telephones do give them some problems that impact on their operations (see Figure 7.2). However, it is worth looking at the nature of the problems raised concerning these utilities. Out of the 50 firms that say electricity is a problem to them, 25 complain about instability of supply emanating from power outages, while only 6 complain about non-supply. Out of the 25 complaining about instability of supply, only 9 firms are Gaborone-based, which suggests that the electricity supply is more reliable in the capital city than elsewhere. Eighteen of the firms complain that electricity is expensive, with only 7 of these 18 firms being Gaborone-based. It should be noted that most of the firms located outside the capital city that complain about electricity costs are referring in most cases to the connection fees. Thus, complaints about costs relate more to the initial fees than to the consumption charges. The more important problem with electricity supply is therefore its reliability rather than its cost.

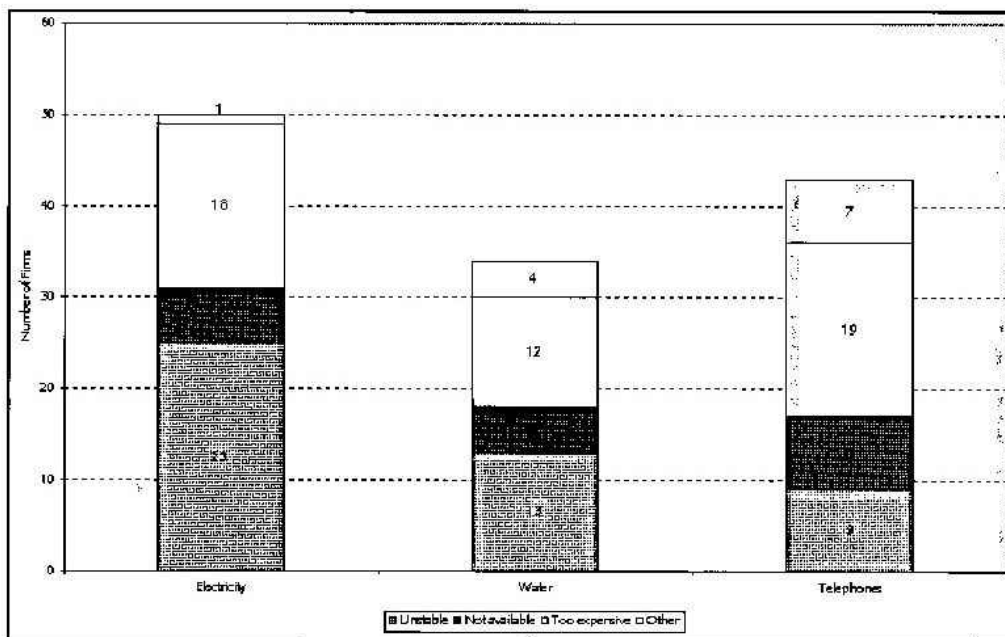


Figure 7.2. Problems that firms have with electricity, water and telephones.

In case of water, however, reliability and cost seem to be equally important to firms. More or less the same number of firms report that they experience unstable water supplies and that water is expensive for their firms. A similar pattern in the differences between Gaborone-based firms and firms based elsewhere is displayed; about a third of the firms in Gaborone complain about both unreliable supply and high cost.

A somewhat different pattern is depicted regarding telephones in terms of differences between Gaborone-based firms and those based elsewhere. More of the

complaints about the high cost of telephones are associated with Gaborone-based firms, whereas a higher proportion of firms based elsewhere complain about non-availability and a lack of reliability of telephones.

Security also appears to be a serious problem for some firms. Fifty-seven of the firms say that security is a problem, with 44 (or 77%) of them citing theft as an issue and 7 (12%) complaining about armed robberies. This development should be taken seriously in that inadequate security can have a negative impact on existing businesses and contribute greatly in frightening off potential investors. Surprisingly, higher proportions of firms based elsewhere than Gaborone complain about theft in their firms, suggesting that Gaborone is more secure for businesses than other places in the country. However, a higher proportion of firms in Gaborone complain of armed robbery.

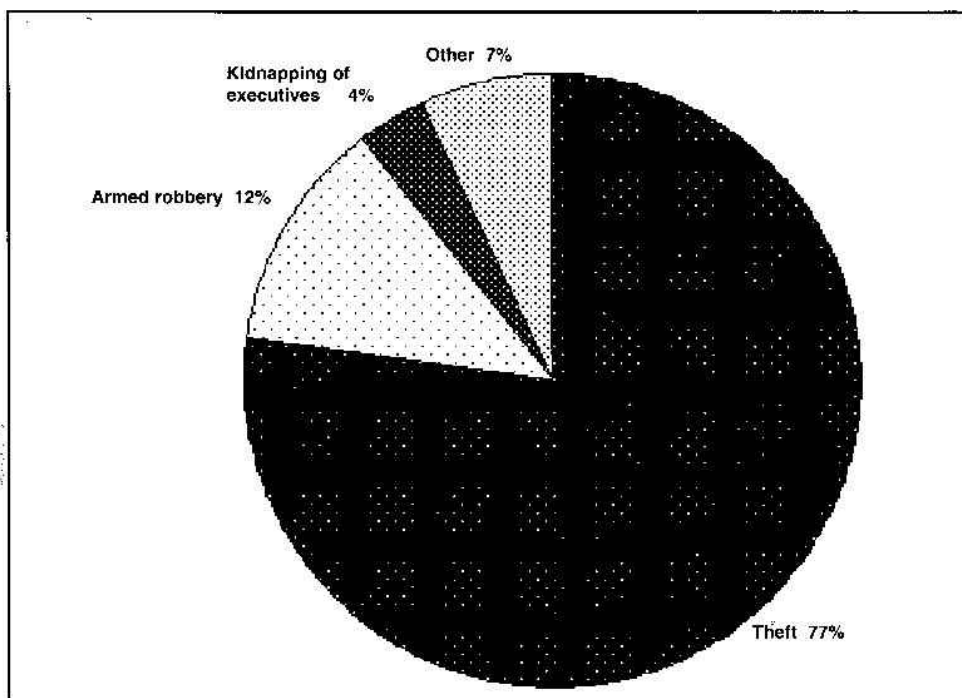


Figure 7.3. Security problems faced by firms.

Other problems cited by the firms relate to roads. Altogether 37 firms say that roads have an impact on their operations. Nineteen of these firms complain that the roads are not in good condition while 11 say that they are congested. As would be expected, a higher proportion of firms based elsewhere than Gaborone complain about the bad condition of roads, while a substantially higher proportion of Gaborone-based ones complain about congestion. Also, 41 firms raise waste disposal services as a

problem, with 22 of these firms citing the non-availability of these services. More complaints about waste disposal are from Gaborone-based firms.

ACCESS TO FINANCE

Access to finance is a very crucial factor for SMEs in a developing economy like Botswana. Besides government financial schemes, there are other forms of financial assistance available to SMEs from private sector financial entities. This section will assess the extent to which SMEs have access to all the available financial assistance providers.

Table 7.12. Has the firm ever applied for a loan?

Response	Number of firms	Per cent
Yes	85	60
No	57	40
Total	142	100

Out of the 142 firms, 57 (40%) of the firms have never applied for a loan (see Tables 7.12 and 7.13). It is interesting that out of the 57 firms that have never applied for a loan, 23 of them have been in existence for less 5 years while 34 of them have been in operation for more than 5 years. Among the 25 firms employing less than 5 people, 15 (60%) of them have never applied for a loan. Twenty-eight out of 41 of the ones employing 5-24 people (36%), and 9 out of 21 of the ones employing more than 25 people (30%), have never applied for a bank loan. A somewhat similar picture is portrayed when looking at the size of the firm using the turnover definition. While one would have expected firms to avoid private sector borrowing during the period when financial grants were available through the Financial Assistance Policy, it is surprising that even 5 years after the termination of the FAP,

Table 7.13. Attempt to access loans by age of the firm.

Age of the firm	Has the firm ever applied for a loan?		
	Yes	No	Total
Less than 1 year	3	2	5
1-2 years	7	11	18
3-4 years	11	7	18
5 years	5	3	8
More than 5 years	59	34	93
Total	85	57	142

firms would generally not attempt to access finance through loans. It is therefore important to look at the reasons advanced by firms for this seeming reluctance to approach financial institutions for loans.

Figure 7.4 below shows the 57 firms that have never applied for a loan and the reasons they advance for not doing so. The two most important reasons why firms would not attempt to access loans are that they do not need a loan (23 firms (or 40%)), and that they are afraid of incurring debt (18 firms (32%)). While it can be inferred that the 23 firms that claim they do not need a loan have adequate finance to run their businesses, it would be interesting to find out whether they have access to other sources of credit, (for instance, purchasing inputs through credit facilities with their supplier). However, for the 18 firms that are afraid of incurring debt, it would be reasonable to conclude that their access to credit is highly hampered by their attitude towards being indebted - they are risk-averse and would avoid debt regardless of the financing needs of their firms.

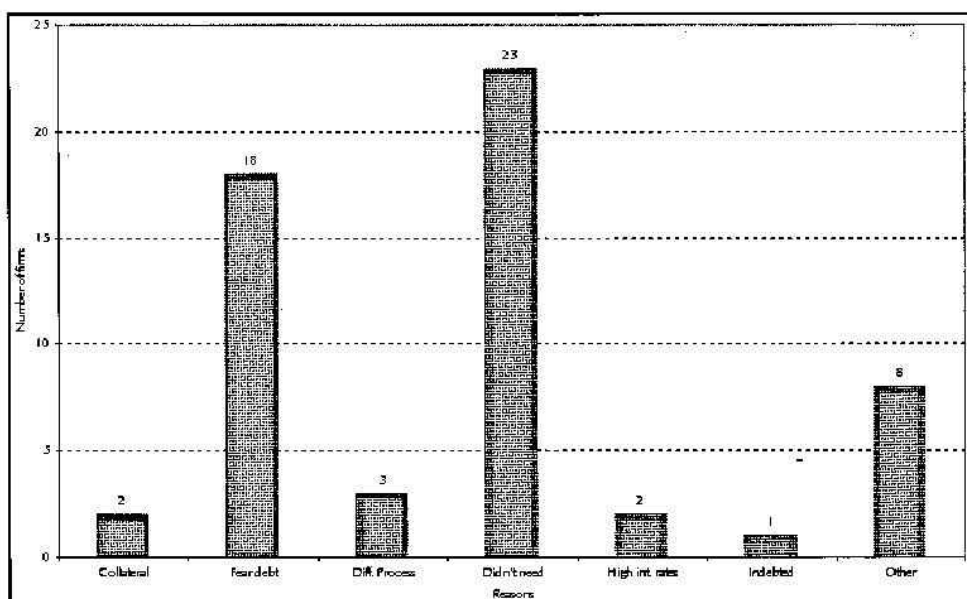


Figure 7.4. Reasons why firms do not apply for loans.

Table 7.14 shows that most of the youth had not attempted to secure loan money from financial institutions. Only 35% of the firms whose principal owner is a youth have applied for loans at least once during the life of the firm. This compares with 65% for the firms owned by the elderly. In addition, the youth mostly own smaller firms. Thirty-five per cent of young principal owners owned firms employing less than 5 people, comparing with only 16% of the elderly owning the firms of the same

Table 7.14. Attempt to access loans and age of the principal owner.

	Youth	% Youth	Elderly	% Elderly	Total	% Total ¹
Yes	7	35	78	65	85	61
No	13	65	42	35	55	39
Total	20	100	120	100	140	100

size. A similar picture is portrayed when looking at the size of the firm in terms of annual output.

Taking into account the fact that the firms may not have access to finance from commercial financial institutions, it is important to verify whether there is alternative access to credit through informal financial arrangements such as money lenders (or micro financiers), relatives and friends, etc.

Borrowing from institutions other than commercial banks can pose a serious problem in terms of the high costs of borrowing, rendering businesses unprofitable and unable to grow. The burden of high borrowing costs are much greater in Botswana if businesses were to borrow more from micro lenders or "loan sharks", whose lending interest rates are exorbitant. However, because of a lack of access to loans from the commercial banks, some firms may have limited choices and thus be obliged to borrow from such institutions.

Table 7.15. Any loans from other institutions other than the commercial banks?

	Number of firms	Per cent
Yes	11	8
No	131	92
Total	142	100

From Table 7.15, however, it appears that most firms are not accessing loans through means other than the commercial banks. The number of firms that have received loans from sources other than commercial banks is fairly negligible (only 11 firms). However, 8 out of these 11 have never received a loan from any financial institution, a probable indication that their access to loans in such institutions is highly limited or effectively non-existent.

BUSINESS SUPPORT SERVICES

Existing businesses need to be supported and nurtured if they are to grow and develop. This section will assess the issue of business support services with regard to their availability and impact on the operations of small and medium businesses.

Figure 7.1 shows that 36 firms countrywide cite a lack of business support services as one of their main problems. The significance of this number of firms is that they were identifying only three main problems among 22 listed. Table 7.16 reinforces the significance of the lack of business support services for firms. Fifty-eight per cent of all firms countrywide consider the lack of business support services as an obstacle to the expansion of their production.

Table 7.16. Lack of business support services as an obstacle for firms to expand.

	Gaborone			Non-Gaborone		
	Number of firms	Per cent	Cumulative per cent	Number of firms	Per cent	Cumulative per cent
No obstacle	35	47	47	24	36	36
Slight Obstacle	9	12	59	8	12	48
Obstacle	10	14	73	11	16	64
Severe obstacle	10	14	86	13	19	84
Very severe obstacle	10	14	100	11	16	100
Total	74	100		67	100	

Table 7.16 shows that 53% of the Gaborone-based firms view the lack of business support services as an obstacle to their making a decision to expand production. For firms located elsewhere, 64% consider the lack of business support services to be a probable obstacle if they were to make a decision to expand. Even though the lack of business support services as an obstacle to firms' decision to expand production is portrayed countrywide, firms based elsewhere other than Gaborone seem to be more concerned about this factor. It can be concluded that firms based outside the capital city and its environs are more affected by the lack of business support services. This can be explained by the lack of decentralisation of institutions that provide business support-related services. Institutions like EAOB, BEDIA, BECI, Enterprise Botswana, and to a certain extent BOCCIM, are headquartered in Gaborone, with a few of them having branch offices in Francistown only. It follows that since these do not generally have presence in places outside the capital city, firms based elsewhere will have limited access to their services. The firms' access to the services of these institutions could only be improved through their targeted outreach programmes, and the absence of such programmes would continue the status quo.

Looking at the type of assistance that the firms receive from different institutions, it is evident that most of the assistance is financial (see Table 7.17).

Table 7.17. Percentage of firms that received assistance from different institutions.

Type of assistance	CEDA	BOCCIM	EAOB	BEDIA	DIA	EB	NDB
Financial	10	1	-	-	35	1	11
Training	7	1	-	1	6	4	1
Mentoring	2	6	1	3	5	1	-
Other	-	1	-	2	1	1	-
Total	19	10	1	6	46	6	12

The conclusion that can be drawn from Table 7.17 is that there is a serious lack of business support services. Even firms that have been financed through government schemes get very limited support in terms of training, retraining and mentoring.

It should be noted that CEDA, through its mentoring services, provides business support services only to the firms that have received finance from it. Despite the fact that the Department of Industrial Affairs has dispensed a lot of grants to firms, very few firms have received business support services from them. BOCCIM and EAOB are also most likely to provide assistance to their registered members only. Even though they do not provide finance they can help firms obtain finance from other institutions. With the establishment of the Local Enterprise Authority (LEA), it should be expected that the provision of business support services will be improved, as these services are one of the core mandates of the authority.

REGULATORY ISSUES

Regulatory procedures are very significant, particularly when starting a business. This section attempts to capture the experiences of the businesses regarding these procedures and their bearing on business operations. The issues relating to regulation include the licences and permits that businesses need to acquire from government in order for them to operate. While many would agree that it is appropriate and perfectly acceptable for businesses to be regulated in order to ensure compliance with laws and ensure that communities are protected against possible harmful effects of business practices, unnecessary regulation and/or overregulation of firms can have a negative impact on the way they do business and can stifle their growth. For SMEs, the requirements of business regulations can be too complicated, monetarily costly, and time consuming.

The data from the field does not suggest that the regulatory framework constrains doing business in Botswana generally. It should be mentioned, however, that while in general government application fees for manufacturing licences are modest, the actual costs on firms can be much greater than the amount charged by government.

As mentioned elsewhere in this report, an apparent over-reliance on consultants by manufacturing enterprises, especially the relatively small ones, proves to be fairly costly for these firms. The requirement for a periodic renewal of licences may only contribute in exacerbating the financial burden on these firms. Routing applications through consultants may also have a negative impact on the timeliness of the issuance of such licences, which could compromise compliance on the part of firms.

The budget speech for 2004/05 expressed the need to review, modernise and simplify licensing procedures in order to speed up licensing and bring services closer to the public. The same issue was also talked about in the 2006/07 budget speech. While this legislation is said to have been reviewed, no changes have been effected yet. Therefore the benefits that firms could be deriving from the intended revisions are taking very long to be realised. This delay has the potential to further compromise the efficiency of the system to the predicament of businesses, especially for those SMEs that lack the capacity to work with the existing complicated procedures.

CONCLUSIONS

The analysis of the firm-level survey data has been done in this Chapter. The following conclusions are drawn from the issues discussed in the different sections of the Chapter.

- Data collection, processing and maintenance on the SMEs in Botswana seem to be weak. The available information on SMEs is outdated and thus does not give a representative picture of the state of the SMEs, even for their basic characteristics. Some of the firms, even after having undergone changes in terms of size, were included in the sample because the database did not capture such changes. It should be emphasised that, while surveys are essential in order to reveal information about firms, it is important that basic information about the overall population of the SMEs be available in an up-to-date state, so that survey data need only be used to complement rather than provide the basic information database.
- During the field survey, it was evident that it is becoming increasingly difficult to obtain information from firms. One observation is that the firm owners and/or managers are fatigued by enumerators knocking on their premises, looking for information. In a number of cases, potential respondents turned away the enumerators, a sizeable proportion kept empty promises (pledging to respond to the questionnaire yet never doing so), and another group felt the questions were too intrusive and were not willing to respond to them. As a result, it has not been possible to achieve the targeted sample in this study.

This calls for the sensitisation of firms about the importance of information in research and policy formulation and evaluation. This can be achieved through a collaborative undertaking between the relevant stakeholders, including the CSO, CEDA, LEA, research organisations and business organisations.

- It is evident from the CSO data that there is a high concentration of firms in the capital city. To an extent, this is supported by information on the state of infrastructure in the rural areas and the views of firms about the availability, reliability and cost efficiency of certain types of infrastructure (e.g. roads, telephones, electricity and water). Factory shells are generally not available in areas outside cities and towns. Also, serviced land is rarely available for businesses to put up their own structures. It can be concluded therefore that, while the state of infrastructure in the country is generally satisfactory, infrastructure in the rural areas is still unavailable or inadequate. It therefore makes sense that many businesses would choose to settle where infrastructure is readily available, reliable and cost-efficient.
- It is somewhat evident that the termination of the FAP has affected the number of employees that firms currently have, as these have gone down compared to what is reflected in the CSO database. It is also highly probable that firms closed down when their FAP funds were exhausted, unless they could receive other grants. The positive picture portrayed by this state is that the firms that survived the end of FAP support are prepared to take on the challenges in the market, and are more likely to continue operating without grants. Such firms, however, need to be supported institutionally and nurtured in order for them to mature and be able to face the challenges of competition, especially from imports.
- The dominance of garments in the firms' product lines probably also reflects the impact that FAP has had on the manufacturing sector. During the FAP fourth review, sewing and knitting made up 67% of all the industrial small-scale FAP-financed projects. This picture, it would appear, has been transmitted into the current product lines of the manufacturing sector. It can be concluded that, although FAP has come to an end, its effects will still be felt for some time to come.
- A sizeable proportion of the firms are managed by their owners, which can be viewed positively in so far that such firms should most likely benefit from strong management commitment, especially in this era where there are very limited avenues for 'free' money in the form of grants similar to FAP.
- There is an unambiguous imbalance in terms of the participation of women and the youth in firm ownership - and thus management - despite initiatives

that have been put in place to encourage their participation. On the part of women, this scenario is expected to worsen in that, with the termination of FAP, affirmative action initiatives in their favour have been reduced. This calls for devising deliberate strategies aimed at developing, promoting and nurturing entrepreneurship among women and the youth.

- The educational qualifications and experience of the managers of the SME firms are generally satisfactory. However, there is a need to complement managers' knowledge and experience with retraining, mentoring and institutional support, taking into account the dynamics of contemporary business, especially with the advent of globalisation and the competition coupled with it.
- It is evident from the analysis that a sizeable proportion of the firms source their production inputs from outside the country (by and large from South Africa). This calls for improving all issues relating to trade facilitation in order to make the firms' transactions more efficient and avoid disruptions in production.
- Competition from imports is identified as the most important problem that the firms face. There is a need for concerted efforts to ease this competition on the SMEs by developing reservation policies in public procurement, and their more efficient implementation and monitoring. This kind of affirmative action in favour of SMEs, however, should take into account issues of quality, timely delivery and outstanding business-client relations in order to further nurture the firms and prepare them for competition in the domestic market, and subsequently usher them into the international market where even stiffer competition exists.
- Business support services are generally inadequate as shown by a lack of retraining, mentoring and institutional support. It is hoped that the Local Enterprise Authority will take these issues into account as it establishes operations.
- A lack of credit is also identified as one of the problems faced by manufacturing firms. While CEDA funding is often available, it should be noted that SMEs are a peculiar group of businesses. It therefore should be investigated further as to whether SMEs require special dispensation in order to improve their access to finance. Such a dispensation need not lead to the establishment of a financing organisation, but could be encompassed within existing organisations such as CEDA, BDC, etc.

- In addition to a lack of credit for the firms, the fear of taking on debt among firms should be taken seriously. This also raises the issue of a lack of capacity to manage finances (including even borrowed funds) by some firms. This will likely have a negative effect on the growth of firms.
- Issues relating to the availability, reliability and cost of utilities are not raised as a major concern by the firms countrywide. However, the reliability and availability of electricity in the rural areas are important causes for concern. Also, the cost of electricity and telephone services calls for attention. For electricity, this has more to do with the initial capital costs of installation. The seemingly apparent divide between the city and the rural areas in terms of infrastructural development is perhaps responsible for disproportionately more firms establishing themselves in cities. There is a need for the targeted development of industrial areas in rural areas. Such industrial areas should be fully equipped with utilities and other physical infrastructure. The possibilities of subsidising the electricity installation costs for the SMEs in rural areas should be assessed.
- Complaints about theft in firms should be taken seriously, and efforts made to address the issue. If left unattended, theft and robbery can have debilitating effects, even on future potential businesses. The apparently higher rates of crime experienced by firms elsewhere than in the capital city will only encourage the preference to locate in Gaborone.
- The simplification of licensing procedures has long been identified as important, and there is a need to speed up the simplification process for the benefit of businesses. This will not only ease the administrative burden of the relevant government institutions but will also reduce the costs that firms incur by relying on third parties (consultants) to process their licensing which can be quite high sometimes for the SMEs.

8. Institutional Support for SMEs in Botswana

INTRODUCTION

It is now recognised that SMEs are important in all countries, especially developing countries where they are a major source of employment, entrepreneurial development and economic growth. However, in spite of this recognised importance, one of the problems that SMEs often encounter in many countries is a lack of institutional support for their operations. This lack of support may be the result of the lack of a specific policy concerning the growth and development of SMEs, a lack of interest on issues relating to SMEs because of a bias towards large firms, or a lack of coordination of the efforts that exist to assist SMEs. This chapter assesses whether SMEs in Botswana have the institutional support to allow them to be competitive both domestically and internationally. In order to address these issues, the following questions were asked of the various institutions that provide support activities and programmes for SMEs:

- What is your mandate for the support of SME development and competitiveness?
- How successful have you been in carrying out that mandate?
- What challenges have you faced, and how did you overcome them?
- What other opportunities and challenges do you think SMEs face in Botswana?

The respondents to these questions included Heads, Managers and Chief Executive Officers of the institutions interviewed. This chapter summarises their responses, which have been divided into five categories of potential SME support, namely Entrepreneurial Development Support, Enabling Business Environment, Financial Institutional Support, Export Promotion, and Sectoral Development.

ENTREPRENEURIAL DEVELOPMENT

This Section assesses whether SMEs in Botswana have adequate institutional support for entrepreneurship development. The assessment is based on interviews with five institutions - the Department of Industrial Affairs, the Local Enterprise Authority (LEA), Enterprise Botswana (EB), the Department of Vocational Education and Training (DVET), and the Botswana Bureau of Standards (BOBS).

The institutions interviewed in this category have one major common function - the development of viable SMEs businesses through entrepreneurial development. The services provided by the institutions that have been interviewed include:

- Entrepreneurial training of business management and technical skills;
- Monitoring of services to ensure sustainability;
- Marketing support through exhibitions and trade shows;
- The provision of business planning, training and advisory services;
- Identifying business opportunities for existing and future SMMEs;
- The exploitation of government and large firm procurement opportunities;
- The facilitation of regulations, standards, infrastructure and access to finance;
- The facilitation of technology adoption and diffusion;
- The promotion of general SMME awareness; and
- The development and promotion of standards and quality assurance measures to improve the quality of products and services supplied by SMEs.

Department of Industrial Affairs

The Department of Industrial Affairs has supported SMEs over the years through the Integrated Field Services (IFS) Division. Twenty-five IFS stations have been established across the country to promote industrialisation at the grass roots level. The IFS, however, was phased out at the end of March 2006, and has been replaced by the Local Enterprise Authority (LEA). The IFS provided the following services to SMEs:

- Entrepreneurial training at business management and technical level;
- Advisory services;
- Monitoring of services to ensure sustainability; and
- Marketing support through exhibitions and trade shows.

Technical training involved providing support in four main areas: garments and textiles; woodwork, carpentry, and joinery; pottery and ceramics; and leather works. Technical support for construction activities has since been transferred to the Ministry of Works and Transport.

During the monitoring stage, IFS identified the needs of SME's and organised courses, workshops, and seminars to address these issues. A basic course for a new business entrant took six months, whereas a course for an existing entrepreneur took three months. Government paid 60% of the costs of courses while business owners contributed 40%.

Business management courses included bookkeeping, record management, pricing and costing, and other courses related to business management. Training was provided for both business owners and employees. In areas where the IFS lacked internal expertise the particular training component was outsourced.

The Department of Industrial Affairs does not provide financial support. However, when potential entrepreneurs are identified they are provided with the necessary training and then referred to the Department of Culture and Youth (if they are youth), the Department of Women's Affairs (if they are women), and (the rest) to CEDA for financial support. Youth referred to the Department of Culture and Youth constitute a substantial number of referrals. Most of the youth trained and referred to the Department of Culture and Youth are generally successful in getting financial assistance. Those referred to CEDA are not as successful because of the conditions attached to their loans.

Through the IFS, the Department of Industrial Affairs also provided factory shells (for example, in Gaborone, Pilane, Molepolole, Francistown, Maun, Kanye and Palapye). However, the number of factory shells was not sufficient to meet demand. Initially the IFS factory shells were meant for new business owners to use during their initial business setup stage. Relocation loans were then made available to assist businesses to find new premises. Unfortunately the rent on commercial factory shells is too high and businesses ended up using IFS factory shells longer than the intended period. IFS factory shells are not located in all areas where SMEs operate, hence some business owners do not have access to factory shells.

Enterprise Botswana (EB)

Enterprise Botswana, whose main focus was entrepreneurial development, started operating in 1997. It had six professionals working on entrepreneurship issues. With regard to success on SME development, EB had few SME success stories because while a project was often fully funded for equipment, machinery and start-up capital, financing for working capital would be difficult to arrange.

With regard to business management, EB client entrepreneurs that have been trained in financial management seemed to perform better and were able to submit financial statements on a quarterly basis. Access to foreign markets was a constraint to SMEs because, even though BECI, an export insurance agency cover, provides this, it is only extended to "safe" markets, and emerging markets such as Angola are not covered. EB played a role in entrepreneurship training to equip business people with skills to access both local and external markets.

Local Enterprise Authority (LEA)

The Local Enterprise Authority (LEA) is a newly established enterprise whose mandate is to develop entrepreneurship and assist in enterprise development through:

- Provision of business planning, training and advisory services;
- Identifying business opportunities for existing and future SMMEs;
- Exploitation of government and large firm procurement opportunities;
- Facilitation of regulation, standards, infrastructure and access to finance;
- Facilitation of technology adoption and diffusion; and
- Promotion of general SMME awareness.

LEA, as an institution whose mandate is to support the growth and development of SMMEs, will receive a budget from government in order to assist it to achieve its mandate. On the manpower side, LEA will have a SMME Training and Support Executive whose main role is to train, support and monitor SME development. To this end, LEA will take over the functions of the IFS, which was under the Ministry of Trade and Industry. LEA will take over 25 IFS centres established across the country, with which it is expected to be able to reach most businesses. The Business Development Executive and Research Department will also work directly with SMMEs.

As part of its mandate, the LEA will coordinate all institutional activities relating to SMMEs in order to improve their impact and reduce wasteful duplication of efforts currently in place. To achieve this, the LEA hopes to collaborate with all the institutions that are engaged in activities that assist SMEs with entrepreneurial and business development. These include relevant government ministries and departments, the Small Business Council, SEPROT, and other relevant SMME associations. On the implementation front, the LEA is expected to collaborate with parastatals like CEDA, BOTEC, BOBS, BNPC, IDM, UB, BIDPA, NDB, PEEPA, BTC and others. LEA sees the potential for private financiers to play an important role in the development of SMEs in Botswana, and will therefore engage commercial banks to convince them about the importance and benefits of creating SME portfolios within their institutions.

Department of Vocational Education and Training

The Department of Vocational Education and Training (DVET) was not created to assist SMEs but has taken an internal initiative to promote their economic development. DVET runs a special programme called Start Your Own Business, which is mainly targeted at youth and retirees from the public service. The duration

of the course is 12 weeks and is operated from the Auto Trades Training Centre (ATTC) in Gaborone.

The course is geared at developing technical and entrepreneurial skills. One of the requirements for graduation is the successful submission of a project proposal. The Department also provides tailor-made training for other institutions on request, including for government, the private sector and NGOs. Technical training projects include dressmaking, agriculture and cookery. Entrepreneurial skills include business communication, IT and interpersonal skills. Programmes are advertised through the media. The main challenge to the programme is that there is limited manpower while at the same time the programme is over-subscribed.

DVET also plays an advisory role. A Programme Advisory Committee has been set up which is composed of industry representatives. This monitors the needs of industry in terms of skills so that appropriate programmes are designed accordingly. In addition, DVET conducts needs assessment in order to identify the types of training needed in the economy. The DVET programme has an industry attachment component to further enhance trainee skills with practical experience.

Botswana Bureau of Standards (BOBS)

The Botswana Bureau of Standards (BOBS) offers subsidised training and certification and promotional measures. In terms of manpower, two officers have been assigned to SME-specific projects. The project's main focus is training and facilitating linkages with consultants and financiers. It holds workshops, seminars and presentations on specific standards, testing and measures, and training sessions on quality management issues.

BOBS successful SME activity was the introduction of the measurement toolkit. Feedback on the toolkit indicated that some SMEs had improved their operations as a result of the implementation of acceptable measurement practices. With regard to activities that were not a success, BOBS explained that implementation of some testing and certification enquiries was hindered by lack of funds on the part of SMEs.

ENABLING BUSINESS ENVIRONMENTS

This Section reports the results of interviews with institutions that address the creation of enabling legal, regulatory and business environments for the growth and development of SMEs. These include the Small Business Promotion Agency (SBPA), the Small Business Council (SBC), the Registrar of Companies, and the

Botswana Confederation of Commerce, Industry and Manpower (BOCCIM) which represents the private sector.

The Small Business Promotion Agency (SBPA) and the Small Business Council (SBC)

The Small Business Promotion Agency and the Small Business Council provide support for SMEs by creating an enabling business environment through ensuring that policy and legal frameworks are in place to increase the competitiveness and sustenance of SMEs. Specifically, the institutions' mandates include:

- Advice to government on policies related to SMEs,
- Review of policies on SME development through research; and
- Monitoring the impact of policies on SME development.

To accomplish this, these institutions monitor the activities of SMEs, and collaborate and coordinate their own policies applied to them. Further, they disseminate information on SME activities to stakeholders in every district, city councils, and to the business community, in order to identify the peculiar problems experienced by SMEs at grass roots level.

On institutional arrangements for SMEs, respondents highlighted that:

- Collaboration between the Department of Lands and Land Boards should be strengthened. These institutions are weak and generally lack the capacity to respond timeously to land requests;
- The rates charged for legal services are high and unaffordable for most SMEs;
- Issues of governance on institutions mandated with SME activities should be looked into; and
- The issue of privatisation should be looked into closely lest it also becomes a de facto policy of "delocalisation". A citizen empowerment policy should be put in place to ensure that citizens effectively benefit from privatisation.

There is very little coordination of the activities of institutions working on SME issues. There is therefore a need to strengthen the coordination of SME support activities, both between government and the private sector and within and between government ministries and departments.

- Lack of support for local products by chain stores and competition from

Chinese stores are two of the main complaints put forward by SME businesses. To address these challenges, “specialist licenses” have been suspended in order to reduce anti-competitive business activities, especially among Chinese retail companies. Other challenges to the SME policy environment include:

- Coordination of SME policies administered by various stakeholders within government and between government and various stakeholders in the economy;
- Encouraging government to play a leading role in buying locally produced products from SMEs; and
- Encouraging successful businesses to be show-cased as exemplary models.

Registrar of Companies and its Support for SMEs

With regard to the registration of companies and that process’ impact on SME performance, the respondents reported that the Registrar of Companies takes a holistic approach in service delivery and has no special services for SMEs. It takes about 10 days to register a company on a first-come first-served basis. There is no distinction between large companies that have more paper work and small companies with less paper work. The process of registration may be delayed if the registrar or head of sections are not available to sign certificates of incorporation. The process can be further delayed by company secretaries who are not conversant with the registration law and formalities. The constraints are:

- SMEs do not give themselves enough time to register;
- The process is not computerised and takes relatively long to complete;
- The Unit is understaffed and does not have enough administrative law staff to administer the legislation;
- Most businesses need promotion and protection of copyrights, especially in the area of traditional knowledge; and
- There is not enough advertisement of the activities and functions of the Registrar of Companies to make SMEs aware of their services.

Related to the role played by the Registrar of Companies is the role played by the Labour and Social Security Department which is the custodian of labour-employer relations in accordance with the relevant laws. The Department has no specific budget or manpower for support of SME activities, but addresses all employer-employee issues for all enterprises, regardless of type of activity or size. The following are the challenges faced by the Department:

- Enterprises complained of high application fees for permits for imported labour; and as the application fee is non-refundable, regardless of whether

the permit is granted or not, the high application fee is a burden to small enterprises;

- There was a backlog in the mediation of labour disputes at both the Department and the Industrial Court. The Trade and Dispute Act has been amended to enable the Department to employ part-time independent mediators with a view to address the backlog and expedite the resolution of disputes; and
- SMEs spent a considerable amount of time finding employees to fill vacant positions.

Information-dissemination measures and outreach programmes in the Department include quarterly publications on labour issues, pamphlets and brochures that summarise relevant labour laws, and workshops to inform stakeholders on changes in labour laws, regulations and procedures. The Department also has district-based labour inspectors throughout the country. These handle labour issues and public education and awareness programmes in their respective districts.

A representative of the Department advised that the labour laws should not constrain the growth and development of SMEs. Being a member of the International Labour Organisation (ILO), Botswana is obliged to make annual reports to the ILO, and to date no conflicts have been experienced in the implementation of labour laws. However, a few problems existed in the implementation of the Employment of Non-Citizens Act and the Immigration Act. According to the Employment of Non-Citizens Act, when an application for employment by a non-citizen for a specific job is not successful, the applicant can immediately make another application for a different job. The Immigration Act, on the other hand, only allows reapplication for a residence permit that has been turned down after 12 months have passed. Effectively, a non-resident who gets employment on reapplication as per the Employment of Non-Citizen Act may have to wait for 12 months to reapply for a residence permit if their application was not successful the first time.

Botswana Confederation of Commerce, Industry and Manpower (BOCCIM)

BOCCIM's role in the development of SMEs is that of providing advocacy and training. The members include big and small companies, and close to 80% of the firms are SMEs. In terms of financing, BOCCIM has a specific budget for strengthening the business councils in support of SME activities. There is also a training programme specifically tailored for SMEs. In terms of specific areas of success on SME issues, BOCCIM's role in labour disputes involving its members has reduced the number of cases at the industrial court. In order to achieve its

mandate, BOCCIM collaborates with the Ministry of Trade and Industry (MTI), commercial banks, Brigades and parastatal organisations. BOCCIM also has business councils throughout the country, which are represented in the BOCCIM Council. The dissemination of information on SME activities includes meetings with members, and contacting local authorities on issues that concern members.

On measures to support the growth and development of SMEs, BOCCIM pointed out the following:

- There are not enough entrepreneurs in Botswana. Government should incorporate the Junior Achievement Botswana (JAB) idea into the school curriculum as a means of stepping up efforts on entrepreneurship development;
- Vocational training institutions should strengthen technological skills training and retraining;
- Training and mentoring in management should be strengthened;
- Training and mentoring in accessing foreign markets should be strengthened by including SME entrepreneurs on trade missions; and
- Training institutions should adequately address the skills needs of SMEs.

FINANCIAL INSTITUTIONAL SUPPORT

This Section focuses on an assessment of financial institutional support for SME development and competitiveness. Various financial institutions, ranging from government-supported institutions where social and equity consideration play a significant role in lending decisions to purely commercial financial institutions where the profit motive is the main drive for lending, were interviewed. These include CEDA, the National Development Bank (NDB), the Botswana Development Corporation (BDC), the Bank of Baroda, Barclays Bank, First National Bank, Stanbic Bank and Standard Chartered Bank. Generally, all these have open door policies for SME financing, but require adherence to clearly specified and strictly followed rules of financial and project management.

Citizen Entrepreneurial Development Agency (CEDA)

CEDA's mandate is to fund, train and mentor citizen entrepreneurs. A total of P752 million has been set aside by CEDA to support all sectors of the economy since 2001. The Business Development Department and the Entrepreneurial Development Department mainly focus on SME issues. CEDA provides training on finance issues, basic business skills and sector-specific issues.

In order to achieve its mandate, CEDA collaborates with various government ministries and departments, parastatal organisations, the private sector, especially commercial banks and civil society. More specifically, CEDA collaborates with:

- The Centre for Development of Enterprises;
- The Enterprise Botswana;
- The Ministry of Agriculture;
- The Botswana Bureau of Standards;
- The Botswana National Productivity Centre; and
- The Local Enterprise Authority and Small Business Council.

CEDA has 12 branches that provide extension services, most of which are in the rural areas. Information dissemination on CEDA activities includes *kgotla* meetings, the public and private media, and the CEDA branch network.

CEDA highlighted the following constraints experienced by institutions in working with SMEs;

- Inadequate manpower to effectively address SME issues;
- A lack of clear policy guidelines on SME development;
- Private sector support to SMEs was found to be generally lacking because most of the private sector is foreign-owned, and as such apply parent company rules which disadvantage local SMEs;
- Inadequate coordination of SME activities within government, the private sector and the NGO community;
- Regarding the enabling business environment, the following are said to adversely affect SME performance and competitiveness:
 - The Pula exchange rate regime is not favourable for SME development because it makes imported inputs expensive;
 - Inflation is a constraint to SME development because government policy has in the past caused prices to rise in the local market; and
 - Exchange rate and inflation policy do not adequately address issues of SME development.
- The availability, quality and reliability of water, electricity and telecommunications as well as road networks and serviced land are inadequate, especially in the rural areas. The cost of water, electricity and telecommunications is very high by international standards.

- For CEDA, the availability of funds and credit instruments - access to equity and loan capital, and the cost of borrowing - are not major limiting factors for SME development. The main limiting factors for SMEs are prudent management and access to foreign markets; and

National Development Bank

The National Development Bank (NDB) is a development financial institution that provides a wide range of financial services in agriculture, commerce, manufacturing and real estate. It is a self-sustaining profit-making institution that provides loans ranging from P20,000 to P52 million. On average the bank provides loans of P250,000. The highest loan given out was P17 million. For projects costing P20 million and above, the Bank normally shares the loan disbursement with other banking institutions to reduce risk. Clients are expected to contribute 25% of the total project cost. Over P100 million per year has been set aside for new disbursements. By providing finance for employment-generating investments, NDB contributes significantly to employment creation. NDB provides SMEs with the following services:

- Project evaluation (for new project proposals and the restructuring of existing ones);
- Project monitoring;
- Advocacy; and
- Plays a major role in the execution of government empowerment schemes (Agricultural Credit Guarantee Scheme, CEDA Credit Guarantee Scheme, and Citizen Contractors Fund - which was wound up in December, 2006).

Information about services offered by NDB is disseminated through newspapers, and through meetings with district councils and groups of investors.

The level of bank loan arrears is a measure of the failure rate of businesses, which currently stands at 15%. This is explained in part by investments in risky sectors such as agriculture, poor management skills amongst business owners (particularly with managing working capital), corruption, underestimation of loans, and fierce competition that forces businesses to close down.

There are three NDB branches (Gaborone, Francistown, and Maun) that service the country. In theory it takes one week to approve a loan application. However in practice it can take up to six months or more, especially for smaller businesses. The delay is due to the fact that business owners sometimes submit loan applications before undertaking relevant research, resulting in delays when it comes to

processing the application forms. In some cases NDB is often obliged to provide assistance.

Botswana Development Corporation (BDC)

The Botswana Development Corporation began as a development arm of government, whose objective was to promote and undertake investment projects for economic development. BDC therefore initially emphasised social considerations in its project assessment. However, with government policies move towards cost recovery and self-financing, BDC has in recent years moved more towards strict business project evaluation and participation. Thus its SME support is assessed with this in mind.

BDC provides loans of not less than P500,000 for medium- to large-scale businesses. It gives a grace period of 1-2 years based on the implementation plan, which determines the initial lead times, establishment and training. BDC also plays an advisory role to its business clientele. It does not directly provide training or other support to SMEs, but it has representatives on the Boards and Committees of several institutions that support SME development. Thus BDC is able to influence decisions that affect the training of its entrepreneurs.

Challenges faced by SMEs in General

BDC has identified several challenges to the SME sector:

- There is a wide and increasing gap between small-scale and medium-scale businesses, because very few small-scale businesses ever mature to become medium-scale due to inadequate skills (management expertise and technical skills) and high overheads;
- The high cost of utilities remains a constraint for SMEs;
- There is a limited market for local products because of inadequate marketing and consumer preference for imported goods. In spite of this, BDC does not support market protection through tariffs as this may create a dependency syndrome like that prevalent during FAP;
- A lack of commitment to stick to the business plan. This is caused by poor monitoring by loan providers and bad management by owners. Unlike other loan providers, BDC matches a business owner's disbursement schedule to his/her implementation plan, thus giving the business owner funds at different stages of the implementation plan rather than as a lump sum;

- Institutions that provide financial support need adequately trained human capital and transparent policies to effectively support SME development. To protect projects against high failure rates, institutions have to ask questions such as:
 - o How does the institution define an entrepreneur?
 - o What control measures has the institution put in place?
 - o Does the proposed project have a value addition dimension?
 - o Has the entrepreneur considered input costs, such as rental of office space, in the initial budget estimations?
- The promotion of large-scale businesses that promote small-scale downstream production;
- Transportation of exports remains a problem. There is a need to promote linkages with other countries. For example, the same vehicle used to export products can be used to import raw materials so that the vehicle carries goods on the return journey; and
- The protection of intellectual property is an area that still needs to be addressed.

Commercial Banks

Commercial banks provide financial services to individuals and businesses including SMEs. While some commercial banks have special packages for SMEs, others do not. However, commercial banks have a common objective in line with the requirements of their shareholders - to make a profit. To this end all commercial banks would generally emphasise the following for SME projects to be financed:

- A traceable track record of good financial management;
- The availability of a viable business management plan;
- The ability to effectively compete and capture a good fraction of existing markets;
- Availability of collateral or security; and
- Proof that the proposed project will have the requisite manpower and other resources to be profitably run.

Most SMEs fail to meet these requirements and thus fail to access funding from commercial banks. However, in cases where government is willing to guarantee the loan or where a particular SME is able to meet most of these loan requirements, commercial banks are generally important sources of credit.

In response to whether their policies support an enabling business environment, some respondents explained that interest rates are high for both lending and deposits. Regarding the Pula exchange rate, some respondents explained that what people should be concerned about is the instability of the exchange rate and not the devaluations per se. To this end, the government's newly established exchange rate policy, which promises to achieve exchange rate stability and reduce uncertainty in the policy environment, is a welcome development.

EXPORT PROMOTION SUPPORT: EXPORTERS ASSOCIATION OF BOTSWANA (EAOB)

Initially the Exporters Association of Botswana (EAOB) focused on small business managerial and export-orientation issues. During the transition phase between the closing down of the Trade and Investment Promotion Agency and the establishment of the Botswana Export Development and Investment Authority, EAOB played a crucial role in promoting Botswana's exports by undertaking trade exhibitions and missions. This role continued until the creation of Enterprise Botswana and later Botswana Export Development and Investment Authority (BEDIA), both of which took over some of the functions that EAOB initially performed. Since then, the EAOB has shifted its mandate to focus on medium- and large-export "ready" and "aspiring" businesses. Their new functions include the following:

- EAOB is an umbrella body that provides advocacy for export-ready businesses;
- EAOB provides a one-stop service for documentation, such as AGOA certificates of origin, and bilateral and EU trade agreements; and
- EAOB provides training, seminars and workshops on issues relating to exporting.

Challenges

SMEs face the following challenges when considering exporting:

- SMEs find it difficult to pay a consultation fee to access tailor-made information and services provided by EAOB, partly because of limited resources and partly because of the dependency syndrome. Addressing the latter will require more education so that SMEs know that information is a production input and appreciate it as a worthwhile investment;
- SMEs are constrained by a lack of trade finance;

- There needs to be consolidation of the activities of SME service providers;
- A lack of local market access (small market);
- Corruption (especially in relation to the government tender process);
- Interest rates are not conducive to exporters of products with a high import raw material component. Government needs to promote external trade - for example, in other countries 80% of costs associated with market research is reimbursed. When BEDIA promotes products internationally or regionally, the costs associated with exhibitions, pavilion, transport, etc. are the responsibility of the business owner. There is a need to advocate for an independent bank that supports external trade;
- The Exchange rate – some business owners benefited from the recent devaluation while others with high raw material import content and low value local content did not; and
- Success stories need to be reported and shared with the business community.

SECTORAL DEVELOPMENT

The Sectoral Development Section focuses on government departments and units that have been established and tasked with appropriate financial, manpower and technical assistance for SME development. These include the National Food Technology Research Centre (NFTRC), Rural Industries Promotions Company (RIPCO), National Master Plan on Arable Agricultural Development (NAMPAAD), and the Department of Agriculture Research.

National Food Technology Research Centre

The National Food Technology Research Centre (NFTRC) provides technical support to the agricultural sector, in particular the food processing sector, with the aim of creating employment opportunities, import substitution and food security. Technical assistance is in the form of processing technologies, skill and knowledge transfer, product development and mentoring. The Unit provides training and workshops on food processing, food safety and nutrition, and nutrition related to HIV/AIDS.

Visits are made to clients when needed and clients are allowed to use NFTRC laboratories to run sample tests. General and specialised in-house and on-site

workshops and training are provided to community groups on request, in particular women and youth groups. Depending on the audience, fees may be subsidised.

There are several success stories including the processing of cereal snacks, jam, sunflower oil, fruit juice, and the fortification of sorghum. Meat processing and preservation (for example biltong) have not met expectations, however.

Constraints

The NFTRC highlighted the following constraints faced by SMEs:

- There are inadequate skills in the food processing sector, particularly regarding food safety and hygiene. Vocational and diploma level curriculum does not include a food safety and hygiene emphasis;
- A lack of access to raw materials threatens the sustainability of businesses. SMEs need a diversified product mix so that their machinery does not remain idle if their main processed product is seasonal;
- SMEs have to overcome customers' perception that locally produced foods are inferior to South African products. Food imports need to be monitored to ensure neighbouring countries do not use Botswana as a dumping ground. This is currently being addressed at the regional level by SADC; and
- Food processing techniques and indigenous raw material need to be protected through patents. Industrial property legislation is currently being revised to address this.

NFTRC collaborates with, among others, the Rural Industries Innovation Centre (RIIC); University of Botswana (UB) Departments, including Home Economics and Engineering; Ministry of Health Food Unit and Food Safety Unit; and the Botswana Bureau of Standards (BOBS).

Rural Industries Promotions Company (RIPCO)

The role of RIPCO in SME development is to provide entrepreneur training, technology development and technology business incubation. The latter is a pilot project and will be fully rolled out in the next financial year. A total of P4 million was set aside for technology development in 2005/06 under the technology business incubation programme. While RIPCO does not directly finance SMEs, it initiates linkages between entrepreneurs and financiers, such as the Citizen Entrepreneur Development Agency (CEDA) and the National Development Bank (NDB).

RIPCO also has a basic vocational skills training programme on baking, tanning, leatherwork, blacksmithing, business management, carpentry, sewing and fabric printing. RIPCO is working with the Botswana Training Authority on accreditation of the programme.

The Village Skills Training Programme is solely for SME development, and provides skills training. The technology incubation programme is also solely for SME development. Two departments, the Business Marketing and the Extension Departments, are responsible for SME development and mentoring. SMEs are the major beneficiaries of the technology transfer programme.

RIPCO highlighted the following successful SME projects:

- Eight SMEs are currently manufacturing equipment and selling it to RIPCO under the technology transfer programme;
- RIPCO has modernised the sorghum milling industry. Milling used to be done traditionally by hand but now more than 50 milling companies are mechanised countrywide. Semi-automation of the sorghum milling industry was piloted to improve hygiene and health standards;
- The Bakery Technology Project has been a success in some cases, but fierce competition from retail supermarkets has forced some bakery projects to close; and
- An animal feed project, producing about 320 tonnes of animal feed, has been developed under the technology transfer pilot project.

RIPCO collaborates with the Remote Area Development Programme under the Ministry of Local Government, the Department of Culture and Youth, Social and Community Development, BOTA, CEDA, the Department for Vocational Education and Training, the Department of Non-Formal Education, the Department of Industrial Affairs, and is currently working on a proposal to collaborate with Enterprise Botswana. RIPCO felt that collaboration should be improved as there was a lot of duplication of effort on SME issues because of uncoordinated SME programmes.

Regarding measures to reach out to the rural areas, RIPCO has decentralised its services to regions throughout the country, and these work effectively with district extension teams. On information dissemination about RIPCO activities, the following were in place:

- A quarterly newsletter;
- A weekly newsletter;
- Product brochures;

- Regional Offices; and
- A radio programme.

The following institutional arrangements for SME development were highlighted:

- Policies, such as the Industrial Development Policy and the SMME policy, require regular review to align them with new developments. These policies should also be coordinated to focus on SME development;
- The SMME policy in its current form is not adequate for entrepreneur development. It should be able to target potential and existing entrepreneurs;
- Besides the efforts of Junior Achievement Botswana, there is no institution that grooms entrepreneurs at the level of youth;
- Promotion of entrepreneurs should be regionally based. Given the differences in resource base and skills across regions within Botswana, entrepreneurship promotion should be regional;
- The Botswana National Technology Research Plan mainly focuses on research and not entrepreneurship;
- There is no specific manpower set aside for SME development and no role models exist to guide new entrepreneurs;
- Finance for SME development is adequate but there is a need to make finance accessible to entrepreneurs;
- There are not enough managed factory shells. Incubators are important for entrepreneurship development. The infrastructure in factory shells has to go beyond buildings to cover information technology provision (internet, etc.), telephones and security;
- Access to markets is difficult, especially in rural areas where the transport network is poor;
- Advocacy for SME development is not adequate and needs to be strengthened; and
- Policies are in place and adequate with regard to public procurement, however the major problem is the implementation of these policies. The government should adequately monitor local procurement policies and programmes and be assertive about citizen empowerment.

National Master Plan on Arable Agricultural and Dairy Development (NAMPAADD)

The main role of NAMPAADD is the commercialisation of the agriculture sector - that is dairy development, horticulture, and rainfed/dryland farming - by providing an enabling environment for farmers and producers. This is achieved through the following objectives:

- Make agriculture competitive and reduce the economy's reliance on imports of agricultural produce that can be viably produced locally;
- Make arable and dairy farming more attractive and profitable to farmers and thereby create employment opportunities, increase rural incomes and reduce rural-to-urban migration;
- Promote the export of cash crops. There is currently a pilot study on the production of olives and watermelons;
- Promote smart partnerships between investors and land owners, and among farmers themselves;
- Put in place a contributory insurance scheme to insure qualifying investors in farming against production losses due to natural disasters; and
- Enable investors with viable agricultural projects to have access to finance from existing financial institutions (including CEDA). NAMPAADD has representations on the CEDA Board to ensure they receive reasonable attention. Relevant CEDA applications are routed through NAMPAADD for technical advice. This collaboration ensures that NAMPAADD is able to follow up and monitor the utilisation of CEDA funds by farmers.

NAMPAADD assists farmers to operate farms in a commercially viable way in order to shift from traditional farming methods to new technological methods of production with higher yields. This is accomplished by promoting mechanisation, the use of fertilisers and hybrid seeds, and the proper use of technology such as cultivators and planters.

NAMPAADD promotes the formation of farmers' groups to reap the benefits of large scale crop and animal production. They provide training and guidance on group formation, crop husbandry practices, cropping plans and the use and sharing of farm machinery. Agricultural Service Centres are located within production areas to serve several cultivation units by providing farm inputs, mechanised cultivation and harvesting services, machinery advisory services for hire, etc. Further, special model lease agreements have been created that enable individual farmers to lease their land to other farmers.

Pilot Agricultural Service Centres are set up and managed by government, but are subsequently acquired or leased and operated by private entrepreneurs of farmer associations once their viability has been proved. Government establishes pilot farms in production areas to demonstrate new technologies to facilitate quick adoption by farmers.

The Botswana Horticulture Council and BDC are to establish a selling centre for agricultural produce at the old Hyundai plant in Gaborone. This will make the selling of agricultural produce more efficient and easier to coordinate. For example,

it will be easier to know when there has been enough local production to be able to temporarily stop imports of that product.

Skills Training

Agriculture Districts and Regional Offices are contact points that NAMPAAD uses to identify farmers who need training. There is no financial support but pilot farmers are showcased and supported with technology. Government has a special dispensation for pilot farmers in that they can hire NAMPAAD machinery at reduced rates.

Training is also provided to extension workers and other field workers. Training for farmers usually takes a week while training for extension workers and other field workers takes two weeks. The training of farmers is both theoretical and practical.

Training also includes entrepreneurial skills such as basic marketing and business development. To date about 750 officers and 250 farmers have received training.

Challenges

NAMPAAD identified the following SME challenges in Botswana:

- Anchor farms that are supposed to surround pilot farmers have been slow to be established because of the difficulties associated with the allocation of farm plots by Land Boards;
- Mechanisation, hybrid seeds and fertilisers are expensive for farmers, especially for small-scale farmers that are introducing modern agricultural practices in order to be commercially viable;
- The private sector needs to be encouraged to invest in the agriculture sector, for example in the hiring out of machinery. In this way, farmers would not need high capital investments to be commercially viable;
- Standards for horticulture are still to be put in place by BOBS;
- Farmers lack commitment - when they get money from the sale of their produce they do not plough it back into the business. Their skills base is still low, and farming as a commercial venture requires full-time management;
- Local insurance companies need to be encouraged to take up the provision of farming insurance. Currently NAMPAAD is doing a consultancy study on farming insurance which they intend to sell to the private sector; and

- Agricultural infrastructure plays an important role and continues to be an issue that needs to be addressed. Agriculture cannot exist without the provision of adequate roads, electricity and communication. For example, the initial costs of putting up an electricity line are expensive, and government should place transformers at strategic positions with the initial costs included as part of the rates to make connection more affordable.

NAMPAAD has an agriculture information unit that provides information to farmers. It also uses different media to provide information.

Department of Agricultural Research

The mandate of the Department of Agricultural Research is to generate improved crop and livestock production technologies through research to promote a productive and sustainable agricultural sector. In designing programmes to carry out its mandate the Department considers the agricultural policy objectives of food security, diversification, sustainable resource utilisation and economic viability.

The Department is a key player in the development of the agriculture sector. It provides agricultural research and research programme support. Research includes areas of crop and livestock improvement, the sustainable utilisation of range resources, soil and water, optimising the utilisation of locally available animal feed resources, crop pests and diseases management, and pasture and forage crop improvement. It makes recommendations on best crop production and animal rearing practices.

The research agenda is driven by the market that is targetted, both locally and internationally. For example, how does Botswana produce beef competitively, and what types of products should be exported to the EU market? This has led to research on the cross-breeding of Botswana's indigenous cattle with other cattle to produce heavier cuts that are on demand in the EU.

The initial research output is technical and has to be repackaged so that it can be properly understood by farmers. Publications for farmers are in both Setswana and English. An Information Technology Unit has been recently set up to convert research output into user-friendly publications. The Department also has a slot on Botswana Television that advocates agriculture and the farming of indigenous plants and animals that are adaptable to Botswana's harsh environment.

Challenges

The Department of Agricultural Research has identified the following challenges that can affect SMEs:

- Lack of resources (manpower and finance) to take a proactive stance to promote the production of drought-tolerant plants and livestock (such as rabbits and guinea fowls) by mitigating drought strategies;
- The current practice is to mail information to the public. There is a need to consider the protection of information;
- The economics of intervention are an area that is missing in the advisory role of the Department, for example converting technical information into economic information in order to advise farmers on the required head size for them to be profitable;
- More collaborative publication efforts between the College of Agriculture and other institutions are needed;
- There is fragmentation of units and departments within the Ministry of Agriculture; and
- Manpower and resource constraints – experienced researchers are not attracted by government salaries. Government needs to realise the importance of research and put in place incentives to retain researchers.

CONCLUSION

The main objective of this Chapter was to assess the extent of institutional support for SMEs development and competitiveness in Botswana. To achieve this, the chapter focused on five major areas, namely entrepreneurial development support, an enabling business environment, financial institutional support, export promotion and sectoral development.

Generally, it is evident from the study that there is a lot of SME development support in Botswana, especially from the government side. However, this support has not had the desired impact because of the following:

- A lack of coordination and focus, which has resulted in overlaps and the duplication of efforts, and led to a waste of limited financial and manpower resources;

- Limited coordination within government departments and between government and other stakeholders;
- A weak SME sector due to a lack of business culture, and an unfriendly business environment for SME growth and development, and;
- Limited access to productive resources such as serviced land, factory shells and financial resources, as well as modern management and technology for successful business ventures.

On the private sector side, the results are also mixed. While BOCCIM is generally very supportive to its clientele countrywide, support from other sectors - especially the commercial banks - has not been generally adequate, mainly because SMEs fail to meet the required minimum standards for these institutions.

In addition to these general conclusions, there are cross-cutting issues which were highlighted by respondents that affect the performance and competitiveness of SMEs in Botswana. These are summarised in the next Chapter.

9. Conclusions and Recommendations

The main objective of this study was to evaluate the performance and competitiveness of manufacturing SMEs in Botswana. The study was based on both secondary and primary data. In this chapter we present a summary of the findings and conclusions of the study, as well as the recommendations.

GENERAL CONCLUSIONS

1. Botswana has experienced rapid economic growth over the years, which has generally been driven by the primary sector, namely mining and cattle rearing. Because of this, manufacturing in general, - SMEs particularly - contributed very little to the country's economic growth and development.
2. A literature review on the performance and competitiveness of SMEs globally has shown that SMEs can have a significant impact on employment creation, entrepreneurial development and economic growth in general. Further, the literature has revealed that, the countries where these benefits have been greatest are those with special SMEs programmes and well-coordinated and implemented SMEs policies, as SMEs generally face many impediments in their production efforts. This is especially important given the challenges that all economies face under globalisation.
3. An empirical analysis of SME performance and competitiveness in Botswana was conducted using primary data collected from a countrywide sample of 142 manufacturing firms. The results from the survey show that most firms locate their businesses in the major cities - Gaborone and Francistown (63%) - and in other peri-urban areas. The major reason for this urban bias is that most of the essential amenities for successful business are found in the urban and peri-urban areas.
4. Most firms that were interviewed are owner-managed, which is a positive development for Botswana as this implies more commitment on the part of the entrepreneurs. In addition, the educational qualifications of owners/managers are generally good (those with a tertiary education account for 55% of the total. Slightly above 70% of owners/managers have at least a senior secondary education. Regarding gender, there is concern that the participation of women (25%) of the owners/managers polled is not yet significant despite government support for this group. Likewise, the participation rate of the

youth is still inadequate: for those 29 years and younger, only 7% own SME businesses (this figure comes to 19% when a more liberal definition of youth, i.e. those below 34 years, is used).

5. Competition from imports was seen as a major challenge to the sustainability of many SMEs. As a result there is a general call for affirmative action to support SMEs, especially when it comes to government procurement. However, the study emphasises the need for issues of quality, the timely delivery of goods and services, and outstanding business-client relationships to be taken into consideration when considering such actions.
6. The study has indicated that SMEs face several constraints to their effort to produce goods and services. These include the lack of adequate business support services, lack of credit (especially for SMEs that fall outside the CEDA lending criteria), and lack of access to reliable and affordable utilities. In addition, firms are concerned about the level of theft in business as well as indebtedness, especially in times of slow growth or recession.
7. One of the major constraints that often face SMEs is a lack of institutional support from government, the private sector and other non-state actors. The study assessed whether this could also be a major problem for SMEs in Botswana. The results show that institutions exist in Botswana that could provide entrepreneurial development support, an enabling business environment, financial institutional support, export development support and even selected specific sectoral support. A major problem in relation to these institutions is a lack of effective coordination and implementation of SME support both within government units and between government, the private sector and non-governmental organisations. Further, support from the private sector is generally inadequate, except for that coming from BOCCIM, the private sector advocacy body.
8. Finally, the study raises a number of cross-cutting issues put forward by various respondents to the survey. These issues are worth noting for policy debate and possible policy formulation, and should be read along with the recommendations in this Chapter.

MAJOR CONCLUSIONS

As indicated in the title of the study, the major question we had to grapple with was whether SMEs in Botswana can be said to be competitive both regionally and internationally. Even though there are no definitive indicators to answer this

question, there are indications to suggest that SMEs in Botswana are generally competitive. This position is supported by the following factors:

- *Open economic environment* – SME firms in Botswana are open to both domestic and foreign competition, in particular competition from imports from South Africa, China and other countries. This environment of free trade means that only firms that are competitive will be able to survive. Even though Botswana manufacturers gain protection under the SACU common external tariff, they remain exposed to South African imports;
- The managerial capabilities of owner/managers would also suggest that SMEs in Botswana have the potential to be competitive. Owner/managers with a university education account for 24% of those surveyed. When those with senior secondary education certificates and diplomas are taken into account, this figure comes to 72%. This suggests that SMEs are not only owned and run by people with relatively high levels of education, but the entrepreneurs themselves, operating in an economy that is open to external competition, should be embracing competitiveness as a necessary tool for survival. Indeed, this is evident in the sample, insofar as most firms locate in the cities and peri-urban areas where there is adequate infrastructure and other business amenities to allow them to compete effectively. Further, the firms rank competition and a lack of demand high among the problems they encounter in business, suggesting their survival would anchor around overcoming these issues in their business operations.
- SMEs in Botswana can access various forms of institutional support from government and non-state actors, ranging from the provision of entrepreneurial development support, an enabling business environment, financial institutional support and export promotion, to targeted sectoral development. This high level of support, even though not well coordinated as revealed in the study, suggests that firms generally have a business friendly environment within which they compete.
- Most importantly, the survival rate of SME firms in the sample suggests that they are fairly competitive. Out of a total of 142 firms, 93 (or 66%) had been in operation for more than five years. This figure comes to 101 (or 71%) when those which had been in operation for only five years are added. As studies suggest that the survival rate of SMEs is in the range of 50% in most developing countries, the fact that more than 50% of the firms have survived well over 5 years in the market would suggest that the firms are fairly competitive.

CROSS-CUTTING ISSUES

Here we list issues that were named by the institutions interviewed as having a bearing on the performance and competitiveness of SMEs. These include both opportunities and challenges or constraints faced by SMEs.

1. Many institutions reported that information dissemination is done through the media, mainly the television, radio and newspapers, and other forms of official communication. The internet is also used in some cases, albeit rarely. However, even though these are the most effective means of communication and marketing of various programmes, they are generally not adequately used. Other forms of information dissemination, including face-to-face meetings, seminars, workshops and public education campaigns, which are commonly used by most institutions, should also be considered.
2. A lack of effective implementation of policies that are meant to support SMEs is seen by many respondents as a major constraint for SMEs development in Botswana. This may be due to a lack of resources (manpower, infrastructure, and funds) or a general failure to implement development programmes (now a national concern).
3. Interest rates charged on SMEs loans are generally seen as a major constraint to their access to financial resources, as these increase the cost of doing business. Some institutions suggested that these need to be further subsidised to make loans more affordable to SMEs.
4. The respondents also felt that utility costs are a major concern. These are seen as one of the factors that prevent Botswana from attracting foreign investors as they are relatively high compared to those of neighbouring countries. It is suggested that government subsidise SMEs by offering lower utility rates during the initial stages of businesses establishment.
5. Regarding taxation, respondents pointed out that there is not enough knowledge and understanding by some SMEs of the Tax Act's provisions, suggesting the need to increase and improve methods of information dissemination on tax matters. In addition, the tax rate is generally seen as prohibitive to SMEs competitiveness, suggesting the need to have special SMEs rates to minimise the impact of taxation on SMEs, as is done in many developed countries.
6. Most respondents reported that the Botswana Government was doing a lot for the development and support of SMEs, both on the supply side and the demand side. It has programmes to improve product quality and productivity,

and also for buying from SMEs. It was further pointed out that what is required now is improving the quality and delivery of such programmes. On the other hand, some respondents felt that the private sector in Botswana is not giving SMEs adequate support because it is impatient and unwilling to mentor SMEs. It was noted that SMEs generally face:

- High costs for finance, which exacerbates the cost of imported raw material inputs;
 - Longer liability terms and unhealthy financial status;
 - Banks are more risk averse and prefer to lend at favourable rates only to firms that appear to be more financially viable;
 - For most commercial banks, collateral requirements are very high; and
 - SMEs often lack credit history, as owners/managers are generally reluctant to take out loans.
7. Most institutions felt that the education system in Botswana does not adequately train people with relevant skills for the job market. It trains job seekers rather than job creators. In addition, there is still a huge gap between what the industry and the market need and what the institutions of manpower training deliver. As a result, unemployment amongst educated people increases because there are no synergies between training and industry needs. Technical skills should be coupled with entrepreneurial skills, and curricula should produce technicians with relevant industry experience. In this era of competitiveness, Botswana is still ranked low in the number of students pursuing science and technology courses compared to countries it competes against. The establishment of BOTA should narrow this gap, however this is a long-term exercise.
 8. The view of many respondents is that legislative Acts are adequate but more suitable for developed country environments. There is very little education and awareness about the various pieces of legislation (e.g. the Labour Act, Employment Act, etc.), and health and safety issues are not adequately addressed. Some respondents felt that some acts are outdated and thus needed to be reviewed. In general, the Acts are not reader-friendly, and there is a need to produce versions that are accessible to non-specialists and ordinary people.
 9. Further, respondents pointed out that, some legislation do not favour SMEs because administrative procedures and their costs are the same for small and large businesses. The registration of companies is currently only done in Gaborone, thus making it costly for SMEs outside Gaborone to register. This calls for decentralisation of this service.

10. Most respondents felt that the public procurement system is not growth promoting because it is biased towards large firms and thus fails to assist SMEs. Hence, there is need to break down big tenders into components and activities which could be undertaken by SMEs. On a related issue, respondents felt that SMEs face unfair competition from imports: fierce competition is accompanied by inadequate anti-dumping legislation, and the public procurement system seems to favour imported goods rather than the locally manufactured goods.
11. Most respondents pointed out that entrepreneurial development faces a lot of constraints due to uncoordinated SME institutional support. A host of institutions are involved with SME development issues, which results in duplication, and a lack of focus and coherence. Policies are generally fragmented as there is no coherence in labour, immigration, and land policies, etc. These policies also appear to be in conflict instead of supporting and complimenting each other. The same applies to the licensing and registration of companies.
12. Respondents reported that low productivity is generally a problem for the development of SMEs. This is a consequence of poor work ethics, a lack of appropriate technology, a lack of modern management business skills and a mindset for low productivity, as well as SME owners being obliged to care for HIV/AIDS patients. Likewise, when the owners/managers are sick themselves, the business may come to a complete halt or suffer a major skills gap due to the loss of a specialised worker. Respondents felt that there is a need to do more on HIV/AIDS management at the work place, and voluntary testing should be encouraged. Consequently, some respondents suggested that SMEs need to have an HIV/AIDS policy.
13. Respondents also reported that there is a need to have clear policies and procedures to manage and direct the development of SMEs. There is a need to focus on a common purpose and a sense of drive to achieve. There is also a need to develop a corporate culture, and to encourage people to work at attaining that culture.
14. On exporting, it was pointed out that the majority of SMEs sell locally not because their products cannot penetrate international markets but because there is no organisation that is specifically tasked with marketing SME products regionally and internationally. Clustering products for both domestic and export markets is seen by many as a strategy that could help overcome this problem.

15. Some respondents felt that financial resources are generally adequate but that financial support is sometimes not directed towards real entrepreneurs, hence the benefits of financial support are not as forthcoming as expected.
16. Respondents pointed out that infrastructure is poor and inadequate in some cases, (especially road networks). Even when factory shells are available, they are generally not accessible to SMEs because they are expensive and located in areas that are not conducive for doing business.
17. Some respondents pointed out that SMEs in some cases are forced to operate from informal settings like homes because of a lack of serviced land; or where serviced land is available, it is too expensive. This has an impact on the image, growth, accessibility and visibility of businesses. Lack of serviced land also denies SMEs the opportunity to use land as collateral and thus access needed credit;
18. The general view of respondents is that the development of SMEs in Botswana is constrained by the following:
 - Limited market access both domestically and internationally;
 - Lack of capacity to produce at the most efficient plant size and thus achieve economies of scale and competitiveness;
 - High cost of raw material inputs; and
 - High rents for operating space (factory shells).

RECOMMENDATIONS

1. The results of the study indicate that official communication mostly takes the form of face-to-face meetings, seminars, workshops and public education campaigns. While these need to be maintained, there is also a need to strengthen information dissemination by television, radio, the internet and newspapers, because these transfer information more quickly while simultaneously covering a much wider audience at a fairly low cost. Once fully operational, LEA, in collaboration with the Ministry of Trade and Industry, should adopt strategies to develop radio and television programmes that impart knowledge to SMEs so that SMEs can better appreciate issues concerning them, including policies, problems, challenges and opportunities.
2. CEDA has programmes that are targeted at the needs of SMEs. However, the needs of SMEs are becoming increasingly complex and numerous because of the challenges of globalisation. Consequently, there is a need for CEDA to continue to strengthen its programmes to meet emerging challenges of SMEs.

3. The Small Business Council, whose main role is to identify the policy and regulatory environment constraints faced by SMEs, should seek further avenues through the Ministry of Trade and Industry to remove the various bottlenecks that have been identified, both in this study and other reports, that act as impediments to SME operations in Botswana.
4. Support from the private sector (including chain stores) in buying SMEs products is limited. Likewise, even though financial institutions such as commercial banks are generally moving towards designing packages that are exclusively made for SMEs, their support in this area has not been adequate. There is therefore a need for the private sector to play a more pronounced role in the support and promotion of SMEs. It is therefore recommended that government intervene by putting in place policies and legislation that can promote developmental relationships between big businesses (and relevant private sector institutions) and SMEs.
5. The Local Enterprise Authority (LEA) as the umbrella institution under which SMEs are to be developed will need to strengthen the links between all institutions that support SMEs;
6. One major impediment to SME performance and competitiveness is a lack of access to more reliable and bigger markets. This problem generally emanates from the small size of SMEs and their inability to produce enough quantity and good quality in line with the demands of modern sophisticated consumers. This therefore means that both BEDIA and LEA should strengthen the marketing strategies they give to SMEs. Concerted efforts on market information should be developed to address market issues, especially external market information. Further, LEA and BEDIA, in collaboration with the EAOB, should encourage and assist SMEs to form clusters so that they are able to meet the quantity and volume needs of retailers and consumers in both regional and international markets;
7. Infrastructure has been found to be one of the major impediments to SME performance and competitiveness, either due to its inadequacy or to high costs. There is a need for the relevant authorities to put in place affordable infrastructure, such as factory shells, serviced land and transport, along with information, communication and telecommunication (ICT) facilities, in order to support the performance and competitiveness of SMEs in the country. There is also a need for concerted efforts and collaboration between the Ministry of Trade and Industry, LEA, BDC, BEDIA and CEDA to devise and implement strategies that will ensure the development of central business points that facilitate doing business. Such business points should have

reasonable access to markets and inputs; should be fully equipped with water, electricity and telecommunications; and should have reliable road networks.

8. The study has shown that programmes on women and youth participation in business have not yet borne the desired outcomes. This calls for a holistic approach to be taken regarding youth and women entrepreneurship development in order to strengthen their participation in business. This can be done by strengthening training, mentoring and benchmarking of business owners in order to assist them to acquire requisite business skills. Further, it is now widely recognised that the education system should incorporate entrepreneurship as part of the curriculum in order to inculcate entrepreneurship in youth at an early stage of their development. It is also recommended that the work of Junior Achievement Botswana, which focuses on these issues, should be extended to cover the whole country.
9. Strategies to support marketing should be developed and targeted to SMEs. Marketing is an essential non-price competitive business tool and most SMEs may not have the capacity to pursue effective marketing strategies. Given the high number who identified competition from imports (40%) and a lack of demand (58%) as major impediments to the expansion and growth of SMEs, it appears that intensifying the development of marketing strategies for SMEs cannot be overemphasised.
10. Currently, there is an abundance of institutional support for SMEs that is less effective than it could be because it is not well coordinated. As LEA takes up its mandate and coordinates the work and activities of all stakeholders involved in SME support, it is recommended that this exercise be preceded by a needs assessment of the form and type of support SMEs require to ensure that support directly addresses specific SMEs needs.
11. It has been found that the administrative procedures of starting up a business can be long and costly. While the Ministry of Trade and Industry is reported to have undertaken to implement the recommendations of the FIAS report that raised these same issues, the benefits of that implementation are yet to be seen. It is therefore recommended that efforts should be made to ensure the speedy implementation of the new registration procedures so as to further reduce the time and cost burdens SMEs face when starting businesses.
12. Security concerns - especially those relating to theft - were singled out as a major problem for businesses in Botswana. We therefore recommend that measures to curb crime be intensified to ensure that the country is a safe investment destination for both local and foreign investors.

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Annex A: List of Institutions and Persons Interviewed

Institution	Persons Interviewed	Position
Citizen Entrepreneurial Development Agency (CEDA)	Mr. T Kayawe	Research and Product Development Manager
Standard Chartered Bank Botswana	Mr. C. Ramatlhakwane	General Manager, SME Banking
Stanbic Bank	Mr. T. Ferreira	Executive Director
Bank of Baroda	Mr. Seschadri	Chief Manager
Barclays Bank of Botswana	Ms. E Ngwako	Business Development Manager
National Development Bank (NDB)	Mr. P. Mafhoko	Business Development Director
Botswana Bureau of Standards (BOBS)	Ms. Marobela	Deputy Chief Executive Officer
Department of Agricultural Research	Dr. J. Macala	Chief Officer; Animal Production
NAMPAADD	Mr. E. Moabi	NAMPAADD Coordinator
Botswana Confederation of Commerce Industry and Manpower (BOCCIM)	Mr. N. Molelele	Deputy Chief Executive Officer
Exporters Association of Botswana (EAOB)	Mr. L. Raditedu	Executive Director
Department of Industrial Affairs	Mr. D. Okullo	Chief Industrial Officer
Small Business Promotion Agency	Mr. L. Dimbungu	Director
Department of Co-operative Development	Mr. A. Mokowe	Principal Cooperative Auditor

ANNEX 1: LIST OF INSTITUTIONS AND PERSONS INTERVIEWED

Registrar of Companies	Mr. M. Letshwiti	Head of Companies and Business Names
Department of Labour and Social Security	Mr. R. Mukuwa	Deputy Commissioner of Labour
Department of Vocational Education and Training (DVET)	Mr. M. Kewagamang	Director
Local Enterprise Authority (LEA)	Dr. T. Matome Mr. M. Kelosiwang Ms. N. Petlane Ms. Makhura	Chief Executive Officer Executive Coordinator Strategy Coordinator
Small Business Council (SBC)	Mr. Sigwele	Member, SBC
National Food Technology Research Centre (NFTRC)	Dr. D. Kamau Dr. E. Mosha	Principal Food Technologist Acting Managing Director
Rural Industries Promotions Company (RIPCO)	Mr. W.M. Kgabung Ms. G.N. Ganamotse	Business Support Director Extension Services Director
Botswana Training Authority (BOTA)	Mr. A. Modungwa	Chief Executive Officer
Enterprise Botswana	Mr. D. Maswabi	Managing Director

For SMEs to realise their full potential as an engine of growth, it is important to create a favourable environment that allows them to expand and prosper.

Despite the Government of Botswana's past and present notable initiatives to make the environment conducive for SMEs and other businesses through such schemes as the Financial Assistance Policy (FAP) and the Citizen Entrepreneurial Development Agency (CEDA), recent studies seem to bemoan the existence of a business environment that still needs a lot of improvement.

This study is an expedition to find out, using a more inquisitive approach, the state of affairs for doing business vis-à-vis the performance and competitiveness of the SMEs. As a firm-level survey, the study investigates the SME firms in an attempt to answer questions pertaining to their performance and competitiveness.