

Ministry of Enterprise and Employment

National Policy of the
Government of Swaziland on
the Development of Small and
Medium Enterprises

FOREWORD

If Swaziland is to meet the challenges it faces in increasing the prosperity of the Swazi Nation then there needs to be increased entrepreneurial activity in the country. To achieve this, the environment in which businesses are set up and established and in which they endeavour to grow needs to be conducive to enterprise. Increased effort also needs to be made to channel funds to businesses from micro-finance institutions, private sources and from the commercial banking sector. In addition, access to small business and entrepreneurship training should be available to any Swazi who is considering setting up a business and to all those currently trading. Creating an environment conducive to enterprise, increasing the flow of funds to SMEs, and making small business support more widely available forms the basis of Government's policy for the small business sector.

The opportunity for enterprise in the country needs to be greatly expanded to encourage a more entrepreneurial society and economy. All Swazis who request it should have access to support in setting up a business. Many will use this experience to establish "survivalist" businesses and will improve incomes and prospects for themselves and their immediate families. Others will go on to develop formal registered businesses that offer employment to a small number of people, while a few who are exposed to enterprise will in time establish substantial businesses with the potential to employ many. Not all Swazi citizens given the opportunities under this policy will be successful in business. Some who are exposed to new opportunities will never establish a business and some who attempt to do so will fail. Such is the nature and risk of encouraging economic and social development through the market. **The objective of this policy is to expose as many Swazis as possible to real opportunities in small business.** The anticipated outcome is the creation of a substantial number of new enterprises and the increased growth of existing businesses. This will produce new employment opportunities.

Inherent in this policy document is the need to revisit Government's procurement procedures to the extent that Government avails herself as a ready (and stable) market for indigenous business people. There is potential for SME growth through the supply of goods and services to Government who is currently the most stable market. This will increase the meaningful participation of indigenous business people in Government or Donor funded capital projects.

There is a need, in Government and in wider society, for the business community in general and entrepreneurs in particular, to be afforded greater recognition and respect. Government, through its support of the Entrepreneur of the Year Award and other initiatives is committed to creating an enterprise culture under which Swazi entrepreneurs are afforded the same respect in society as leaders in professions and in corporate business.

Government recognises that the private sector is the engine of growth in Swaziland. It also recognises that most new jobs in a growing economy are created by the small and medium enterprise sector. Attempts by it to support the sector by direct means have not always been successful. This policy suggests a new direction and change of emphasis where Government will facilitate and encourage the growth of the sector rather than to drive it through direct intervention from central Government. This document has been produced to provide a basis for achieving the above impact. We look forward to your support.

Lutfo E. Dlamini (MP)
Minister for Enterprise and Employment

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Glossary

<u>Term</u>	<u>What it Means</u>
AGOA	African Growth and Opportunity Act
Business Advice	Support for a business owner from an informal source such as a friend, a family member or another owner manager
Business Angels	People who take an equity stake in a small business and become part-owners
Business Counselling	A process of providing one-to one support for an owner manager through which the owner is assisted to identify business problems and to identify solutions
Business Development Service (BDS)	The formalised provision of management help and advice for small business owners through a private firm, NGO or Government Body
Business Growth Training	A training programme (often combined with an outreach programme) to assist existing business owners to increase the size and profitability of their businesses
Business Skills Training	Training to assist the owner manager to improve the management of the business in areas such as bookkeeping, sales and business planning
Business Start –up training	A training programme to assist potential business owners to set up an enterprise. Often, owner managers who attend these programmes will be experienced informal traders
Consultancy	A process where a professional from outside the business is contracted to identify a problem and provide a solution
Delinquency	The rate of failure of the repayment of loans in a micro-finance institution, usually expressed as a %.
EDF	European Development Fund
Enabling Environment	A trading environment in which licensing and regulation is minimised to promote business and job expansion
Enterprise Education	A programme to introduce school children to the idea of setting up a small business
Entrepreneurial Behaviour	The character required to develop a successful business. This includes determination, self-belief, creativity and an ability for hard work
Entrepreneurship Training	The development of entrepreneurial attitudes such as determination, independence, creativity and self-belief
Equity investment	Where an individual or organisation such as a venture capital company buys part of the ownership of a company
ESRA	Economic and Social Reform Agenda
ETF	Enterprise Trust Fund
Evaluation	An assessment of performance based upon agreed, pre-determined objectives.
Extension Service	Providing business support through outreach, where business advisors visit business owners
Firm	A small business, strictly a partnership but the term is often used to describe any small business
Graduate Enterprise	A programme to introduce Graduates to Small Business, either by arranging for them to work for a short time in an SME, or by assisting them to set up SMEs
MAP	Millennium Action Plan
Microfinance	Provision of funds to smaller SMEs through specialist organisations often using group lending techniques
Monitoring	The recording and interpretation of criteria, indicators and information based on objectives and for the purpose of evaluation
NDS	National Development Strategy

Policy	Statement of Intent
Policy Analysis	A systematic analysis of policy options
Policy management	Management of facilitation of policy initiatives, mainly in the area of policy analysis, policy process and institutional arrangements at the various levels
Public Policy	Statement of Intent in the public sector (such as SME policy)
Retained profits	Profits made by a company but not taken out by the owner. They are usually used to expand the capital base of the business
Right size	Making sure the assets and the numbers of people employed in a business are at the best level to make the business profitable. Rightsizing usually means firing workers
SIDC	Small Industries Development Company
Small Business	An enterprise employing under 20 people where the manager of the business is also the owner
Small Ticket Leasing	The purchase of small items of capital equipment for a business by the payment of regular instalments over a period of time.
SME	Small and Medium Enterprise
Strategy	A plan drawn up showing how a policy will be implemented over a period of time
TPU	Trade Promotion Unit
Trading Vehicle	The legal form in which a business is created and operated
Unique Selling Point	The way in which a successful business is different and better than its competitors
Venture Capital	Long term equity investment in a business with high potential for growth
Venture capital Company	A company set up to buy part ownership of many businesses. Investments in these companies will be long term and hopefully sold for much more than they cost to buy.
Zoning	A process of restricting the geographical areas in which business may operate.

Enterprise

NATIONAL POLICY ON SMALL AND MEDIUM ENTERPRISES

1. INTRODUCTION AND BACKGROUND

1.1 Background.

The National Policy on Small and Medium Enterprises (SME) sets out the vision, intention and strategy of the Kingdom of Swaziland on SME development. This policy supports meaningful Swazi ownership of small and medium enterprises and increased foreign investment as well as encouraging the employment of indigenous Swazis. It is a policy that is aimed at increased economic empowerment and ownership. It is also aimed at addressing deprivation, poverty, economic empowerment and adjusting economic disparities through increased wealth creation. This policy statement, which was drawn up by a process of consultation, policy analysis and development during late 2001 and throughout 2002, addresses these two objectives. While the Minister for Enterprise and Employment will be responsible (either in person or through an appointed body) for monitoring and ensuring sustained compliance to the provisions of the policy, the SME Unit, established in April 2001 also located at the Ministry of Enterprise and Employment will continue to steer and will maintain responsibility for the refinement of the policy, its implementation, management and monitoring.

The overall sustainability of the policy however will depend on a high level commitment and buy-in from Government through Cabinet.

1.2 What is a policy?

A policy is a statement of intent. It sets out what Government intends to do. Preparing a comprehensive SME policy is crucial in that it will provide direction and clarity for Government's future interaction with the SME sector. At present there is considerable ambiguity over the role of Government in encouraging the growth of the small businesses sector. Once the SME policy has been approved by Cabinet it will be used as the basis for preparing an SME strategic action plan which will set time bound targets to implement changes that will ensure the realization of the vision of the policy. Although the action plan will require other Ministries, the private sector and civil society to implement changes to facilitate SME development, **it will remain the responsibility of the SME Unit to monitor progress on all targets.** The strategic action plan should be reviewed and updated on a regular basis in future. Policies should also be regarded as the authority to draft relevant acts and legislation, although it is likely that Government would wish to develop a specific SME Act in the near future.

1.3 Why a policy?

The history of the Swazi people is one of missed opportunities in economic empowerment. Her independence in 1968 brought Swaziland political autonomy, but not economic independence. There is a need to provide greater opportunity for the economic advancement of the Swazi nation through promotion of the SME sector. This policy statement is aimed at assisting Government to create the conditions and environment necessary for economic advancement of SMEs in Swaziland. In so doing, it will play a major part in creating greater prosperity and economic independence for the Swazi Nation.

1.4 The need to encourage enterprise.

There is a need to encourage entrepreneurship to promote sustainable Swazi business ownership and to support the economic needs of the country's growing population. Participation and decision making by local stakeholders on how government interacts with the sector will be increased, enabling more effective and demand-lead support from Government. This has been a missing link in SME development to date. Central to future policy is the clarification of Government's role in support of indigenous entrepreneurs. Until recently Government has had no overall perspective of entrepreneurship initiatives in the country and has provided only a limited vision for the creation of an entrepreneurial society. This has resulted in interventions that were inappropriately or haphazardly made. Through this policy, better co-ordination and a framework will be provided for the private sector, parastatals and NGO organisations to assist the development of the sector and to provide a better focus for its efforts.

Government realises that it cannot effectively drive the growth of small businesses. Rather, it will encourage and facilitate growth by creating an environment in which small business ownership can flourish. This will help demonstrate that small private sector development and business ownership is supported and approved of at the highest levels in the Kingdom.

Box 1: Benefits of a Government Policy for SMEs

- Better focus and more clarity for Government support
- More consistency in support from Government
- Clearer understanding in Government as to what each ministry does for SMEs
- Increased co-operation between ministries
- Statement of support for the sector from Government
- Improved capacity to assign budgets to objectives
- Increased effectiveness and impact in working with the sector

1.5 Encouraging “Joined-up” Government.

This Small and Medium Enterprises policy statement has many linkages both within and outside of Government. Historically, almost all Ministries and many private sector organisations and NGOs had some role to play in fostering enterprise. Increased cooperation, coordination and clarity of role and responsibilities among Government agencies and others is of essence. While the Ministry of Enterprise and Employment will provide a lead, the implementation of a more co-ordinated and rational policy is the shared responsibility of the various Ministries, civil society and of the private sector. Representatives from each of these sectors have been involved in the development of this policy statement.

1.6 The need for rationalisation.

A study of Ministry and Government Agency Support¹ for SMEs in Swaziland showed that **16 of the 17 Ministries were found to play some role in SME development.** Government is of the view that involvement by all of these Ministries is both confusing and wasteful. Policy is to substantially reduce the number of Ministries involved in small business support. **Those that retain an involvement will do so with the Ministry of Enterprise and Employment as the line Ministry.** Rationalisation and better value for money is essential if the SME sector is to contribute effectively to other key elements of Government policy such as poverty reduction.

¹ *Study of Ministry and Government Agency Support for SMEs: SME Unit, (2002)*

Box 2: International comparison of job creation in the private and public sectors

Mexico	87:1
Costa Rica	20:1
Turkey	16:1
Kenya	13:1
Guatemala	12:1
Bolivia	10:1
Uruguay	5:1
Gabon	4:1

Source: Bannock, G and Partners, London (August 2002)

Policy on SME development is inspired and driven by the National Development Strategy (NDS), ESRA and the Millennium Action Plan (MAP) all of which have expectations that the SME sector will play a major part in creating employment and growth. In particular, the NDS identifies economic empowerment as a significant macro-policy objective and recognises that this involves raising the capability of various national groupings to improve opportunity for economic advancement. The NDS also identifies various strategic considerations such as the active encouragement of potential entrepreneurs to start their own businesses and for existing owner managers to grow their current businesses

1.7 Scope of the policy.

The SME sector in Swaziland ranges from rural women working on their own in a limited part time capacity through to successful Swazi entrepreneurs with influence throughout the region and beyond. Policy recognises that at this top end, some Swazis have the economic muscle and capacity to expand their business operations through share purchases and should be encouraged to do so.

This will develop a market for the transfer of ownership of mature businesses and further foster economic growth. At the other end of the economic spectrum, the promotion of SMEs has the potential to contribute to rural development by assisting disadvantaged individuals or groups to generate sustainable livelihoods. Individuals involved at this level are numbered in their tens of thousands, and Government support in terms of Research and Development as well as funding in this specific area can have considerable impact on the growth and development of the sector.

While this policy is specifically designed for Swaziland, it will be continuously receptive towards pertinent developments at the SADC level.

1.8 Government's role in the SME sector.

Government recognises that it has neither the capacity nor a mandate to direct individual businesses or the business associations to which they belong. SME development is an area in which creating the right environment and encouraging start up and growth will have greater impact than direct intervention. Policy is to facilitate and influence the development of the sector, rather than to guide or direct it. The lessons learned in Swaziland and elsewhere are that direct intervention in the sector has often been ineffective and a lighter approach is needed.

1.9 About this document.

This policy statement sets out Government's approach to stimulating the growth of the SME sector.

Part 1 has provided an introduction and definition and has stated why a policy is required.

Part 2 describes how, through a process of consultation, the approach described here was arrived at.

Part 3 states the problems and challenges SMEs in Swaziland face,

Part 4 summarises overall policy objectives.

Part 5 gives an overview of how Government feels these challenges can be addressed,

Part 6 describes what needs to be done in detail.

Parts 7 / 8 describe how the policy will be implemented.

Box 3: Why are SMEs important to Swaziland?

- In most countries, most new jobs are created by SMEs, not by Government or big business
- SMEs offer people with no income source, the potential to develop one
- SMEs provide a route where the Swazi nation can own a larger percentage of the economy
- SMEs offer a way in which a larger manufacturing base can be established in Swaziland
- More SMEs mean that more of the wealth generated in Swaziland will stay in the country

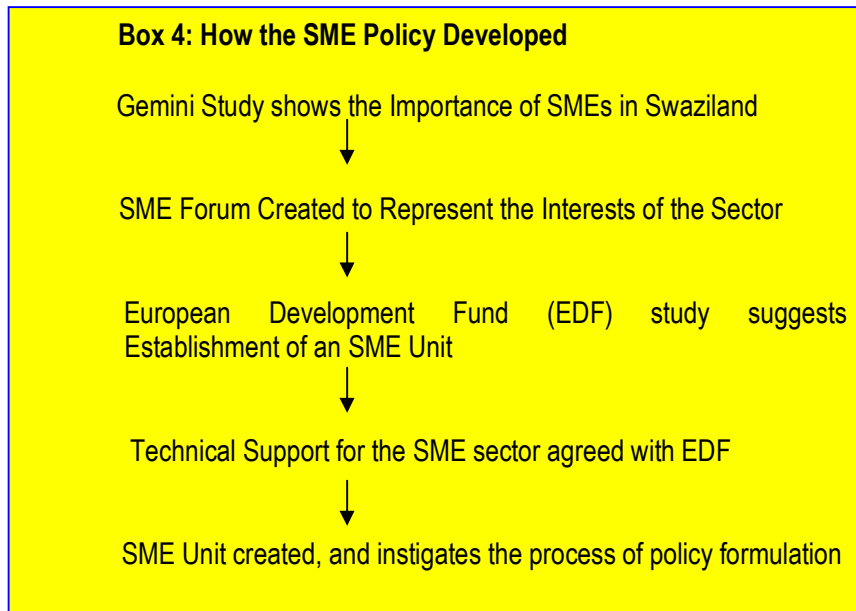
2. CONSULTATION PROCESS ON THE SME POLICY

2.1 Introduction.

This section of the policy statement describes how stakeholders have developed Government's policy for SMEs.

2.2 Background to policy development

Awareness of the importance of the SME sector in Swaziland was heightened by the publication of the GEMINI report in 1991². This illustrated to both the Swazi Government and to the Ministry of Enterprise and Employment the importance of SMEs in the development of the national economy and in providing income for Swazis.



Stimulated by the GEMINI findings and by the encouragement of Swazi citizens, the Ministry of Enterprise and Employment has sought to encourage a series of steps to advance the process of empowerment through enterprise development. The first of these was in 1997 when comprehensive needs assessment was undertaken of the SME sector by UNIDO sponsored research³. This work was followed by a European Development Fund Study (EDF)⁴, which led to a series of recommendations, including that of setting up a Small and Medium Enterprise Unit within the Ministry of Enterprise and Employment. A National Business Forum was established to drive forward the recommendations of the report. This forum was led by a steering committee, which

² *A Country Wide Study of Small Scale Enterprises in Swaziland (GEMINI) DIA Inc. Bethesda, Maryland, USA (1991)*

³ *National Small and Medium Enterprise Strategy (UNIDO) 1997*

⁴ *Identification Study for a Programme to Support Small-Scale Enterprise Development in Swaziland (TDI, Ireland) 1999*

lobbied for the formation of a fully-fledged SME Unit within the Ministry of Enterprise and Employment.

The SME Unit has since become the national focal point for all SME related issues in the country. The creation of the Forum resulted in the identification of a programme of activities, which sought to span activities in the following areas:

- a) The development of a trading environment for SMEs that would emphasise job creation and growth rather than regulation and control.
- b) More equitable access to financial services for new and existing business.
- c) More equitable access to business development services such as counselling and training.

The Committee's response to this report was to seek support from the donor community to implement its main proposals. The European Development Fund was approached and a Technical Cooperation Agreement was signed that would provide budgets and technical assistance for implementation of report's main activities. A pre-condition of the agreement was the establishment of an SME Unit, a commitment met by the Ministry on the 15th April 2001. The EU programme of support for policy development was initiated in November 2001.

2.3 The policy consultation process

2.3.1 Introduction.

To be successful, an SME policy needs support from a range of stakeholders. To encourage this, an extensive process of consultation has taken place with Government agencies, the private sector and with NGOs. This commenced with a three-day workshop in December 2002. This workshop was held at the Protea Pigg's Peak Hotel, and took place within the framework of an introduction to the EU's Private Sector Support Programme. Individual sessions were held to discuss the SME policy framework with representatives from Government, the Private Sector and Civil Society. In January 2002, a role clarity workshop was held specifically for members of the Committee of the National Forum for Small Enterprises. This gave committee members the opportunity to discuss the main elements of the SME policy and the contribution that the EU's private sector programme would make to this process.

2.3.2 **Nhlangano Workshop.**

By May 2002, there was sufficient intent in the policy formulation process to engage with a wider audience. A seminar was held at Nhlangano, and 52 delegates discussed the need for an SME policy. The opportunity was also taken to identify specific issues that the policy should cover. The workshop increased awareness and sensitised delegates to the need for a policy and to increase and improve co-ordination of SME support under such a policy.

Two issues of long-standing difficulty and complexity were discussed. The first was the process used by Commercial Amadoda to grant licenses for the **use of Swazi National land for business in rural areas.**

A license from Commercial Amadoda implies the King's consent to use Swazi National Land for commercial purposes. The representative from Commercial Amadoda made delegates aware that it was willing to work with others to speed up the process of handling applications. The second issue was **contractual rights of women married under community of property.** The workshop was made aware of the way in which the limited contractual capacity of women impacted on general job creation and economic development.

The workshop also addressed the issue of access to finance for SMEs. It was generally considered that there was a need to engage with the commercial banks in Swaziland to increase the flow of loan finance from the sector into the banks.

2.3.3 **Follow up to Policy Workshop.**

Individual discussions were entered into with a range of stakeholders after the Nhlangano workshop. These included debate over the following concerns:

- a) The establishment of a small claims court.
- b) Linkages between large and small businesses.
- c) Enterprise Education and its limits with Pre-vocational training.
- d) Trading License arrangements.
- e) Professionalising and modernising Commercial Amadoda
- f) The need for management training at SEDCO.
- g) Role of women in business and their contractual capacity.
- h) Institutional strengthening of the Association of the Swazi Business Community.

2.3.4 Government's internal review of SME Support. By June 2002, much discussion had taken place and there was a consensus that there was a further need to identify the relationship **between government and the SME sector.** A study was commissioned to identify the role of Ministries and parastatals with small businesses. A series of 47 meetings was

held with government and parastatal representatives. The meetings not only gave an opportunity to discuss the need for an SME policy, but also to identify what each Ministry was responsible for. The main recommendations of this study of Ministry and Government Agency Support for SMEs in are found in annexe I. A listing of current activities undertaken by various ministries with SMEs is found in annexe II.

Box 5: Government Ministries and other Agencies Working with SMEs

- Ministry of Agriculture
- Cabinet Office
- Deputy Prime Ministers Office
- Ministry of Economic Planning and Development
- Ministry of Education
- Ministry of Enterprise and Employment
- Ministry of Finance Ministry of Foreign Affairs
- Ministry of Defence
- Ministry of Finance
- Ministry of Health and Social Welfare
- Ministry of Home Affairs
- Ministry of Housing and Urban Development

(Commercial Amododa, set up to encourage Swazis to enter business is also a powerful influence on business formation from the traditional/customary sector of society.)

2.3.5 Drafting this Statement

This review of Government activity with SMEs complemented work undertaken by workshops and discussion with stakeholders outside of Government. By August 2002 it was felt that enough consultation had taken place and that sufficient information had been collected to produce a first draft of a policy statement. A workshop was held to facilitate this. This workshop was accompanied by training for the professional staff at the SME Unit to assist them in clarifying the policy development process. Again and at the policy drafting stage comments were invited from stakeholders. The draft policy statement developed at the August workshop was further refined by the SME Unit, and then circulated for comment to various institutions and individuals.

2.3.6 Future consultation and discussion.

The process outlined above has resulted in this policy statement. The purpose of the statement at this stage is to stimulate a final round of discussion and debate as to what Government proposes to do concerning the facilitation of the development in the SME sector. The document is circulated in its current form to invite verbal and written submissions on its content.

All inputs received during the national consultative process during 2003/04 were incorporated into this policy document during a final workshop held at Esibayeni Lodge on the 4th to 7th February 2004. Further written submissions should be addressed to ***The Director, SME Unit, PO Box 451 Ministry of Enterprise and Employment, Mbabane.***

3. PROBLEM STATEMENT

3.1 Introduction.

This section of the policy statement outlines the challenges related to developing the SME sector in Swaziland. Sections five and six of the statement suggest how these can be addressed.

3.2 Problems related to policy and information.

3.3

The absence of a coherent national policy on SMEs has contributed to a lack of co-ordination between Ministries and in some instances a lack of clarity on the role and responsibility of various government agents. The lack of a policy has also frustrated Government attempts to monitor and review the progress and performance of the sector. Problems have also been experienced with a lack of information on small business including the number of businesses and new start-ups each year, the nature of economic activity in the sector and financial information. Challenges have also been experienced with information management, including information collection, storage, interpretation and dissemination. Closely associated with this has been the lack of monitoring and evaluation mechanisms regarding Government involvement with entrepreneurial activity. In addition an effective regulatory mechanism for the micro-finance sector has still to be put in place by the Central Bank. Swaziland has also experienced a limited research capacity in the sector and needs to support research on entrepreneurial issues.

3.3 Problems of definition.

Some problems have also been experienced with the difficulty of defining SMEs in terms of size. In drafting this policy statement a consensus has been reached where Government now defines small business as shown in *table 1*.

Table 1: Defining Small Business

	MICRO	SMALL	MEDIUM
Value of Assets	Under E50, 000	E50 001 to E2 million	E2 million to E5 Million
Staff employed	1 to 3 people	4 to 10 people	11 to 50 people
Turnover	Up to E60, 000	Up to E3 Million	Up to E8 Million

Where the definition is in conflict, the number of employees should be used as the governing criteria. For example a business with a turnover of E3 million but employing 7 people will be defined as a small rather than medium business. Government is committed to acquiring better data and a using this refined definition of micro, small, and medium enterprise.

Improved planning of all government services and support to business is dependent on improved information.

Box 6: Why bother to define SMEs?

A policy for SME needs to identify what an SME is. Without defining what we mean by a small business it would not be possible to implement the policy. The European Union defines a small business as having up to 250 employees and the USA and UK up to 50. In Swaziland a small business is defined as having up to 10 employees, and a medium size business up to 50. This definition will help Government make decisions to improve the trading environment for small businesses and in deciding what enterprises qualify for support.

3.4 Problems Related To Creating An Enabling Environment For SMEs In Swaziland.

3.4.1 Direct and indirect Assistance to Business

The idea of an “enabling environment for business” is not always well understood by those public servants charged with creating one. Government planners in many countries find it difficult to think beyond direct assistance to firms and how to examine indirect means of fostering growth. Linkages between business policy and business regulation and the growth of indigenous investment are not well developed. Attempts by Government to deliver substitute support services for those that might be provided to businesses through the market have often failed. Often, Government services to help small businesses have been provided without charge, creating a belief among owner-managers that business support should always be provided without charge.

These attempts at support have harmed private sector businesses such as local consultancies set up to provide help to small business. It has distorted the development of private sector firms and NGOs with the potential to foster the sustainable development of indigenous firms.

Box 7: What is an enabling environment?

An enabling environment is a trading environment in which a business can go about its daily activities confident that Government has done what it can to keep licensing and other regulations (such as where a business can be set up or the time it is allowed to trade) to a minimum. Creating such an environment encourages business start up and helps existing businesses to grow.

In Swaziland there is a particular need to examine the impact of the regulatory environment on business start-up and growth. This is because indigenous business in the country must cope with twin regulatory systems (the traditional and the civil). Traditional regulation is *especially strong in rural areas where poverty is greatest and the need for business activity most acute*). There are terms and conditions for start-up and existing business operations as set out by the civil code. On top of these are terms and conditions laid down by a complex and influential system of customary law. The policy will work to mitigate the extent to which the twin regulatory systems disadvantage Swaziland in generating jobs and creating wealth.

3.4.2. The Direct Approach in Swaziland

Swaziland, through the creation of SEDCO, the Small Business Growth Trust and SIDC has for many years attempted to stimulate indigenous enterprise through the direct route. Despite a committed management and professional team at SEDCO, economic growth statistics suggest that this direct approach has largely failed to create significant impact in Swaziland as it has elsewhere⁵. The creation of the SME Unit with a brief to advise government on policy issues suggests a desire to use less direct and interventionist approach and to stimulate indigenous enterprise through improving the environment for business. There is a need to express this desire through appropriate policy interventions.

3.5 Problems related to Market Access

3.5.1 Market access is one of the major constraints faced by Swazi small businesses.

This problem has developed itself into a vicious cycle continuously perpetuating itself out of control. In the rare instances that markets are secured the problem of timely supply of quality goods and services begins to show and this results in lack of confidence from the intended market.

3.5.2 Government as a ready market for SMEs

The Government procurement system has traditionally been in the favour of large companies or foreign companies much to the disadvantage of SMEs. There is a challenge therefore to ensure and accelerate wide access to Government tenders by the SME sector. A conscious deliberate effort has to be made to put in place a paper detailing the level of participation by SMEs in Government tenders that would be perceived as transparent

⁵ *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention. Committee of Donor Agencies for Small Enterprise Development, World Bank, Washington.*

and equitable. This of course needs to be closely monitored and constantly re-evaluated.

3.5.3 The Private Sector as a ready market for SMEs.

In order to encourage larger companies to design their procurement policies and systems in way that encourages meaningful participation of SMEs certain negotiated incentives have to be designed by Government and these should apply according to the ratio and level of private sector exposure as markets to the local SME sector.

3.5.4 Government funded projects as a ready market for SMEs.

Opportunities for the further growth of SME markets also exist where there are infrastructural construction contracts funded either solely by Government or through donor agencies. When scoring a prospective contractor more weight should be given to contractors with the potential to engage more local contractors and sub-contractors. The rates to be paid to such contractors should also be readily available for independent scrutiny and adjudication in order to ensure equity.

3.6 Problems related to Accessing to Financial Services

3.6.1 Finance Exclusion for SMEs?

3.6.2

In terms of availability of financial products and services the Swazi economy as a whole is well placed with relatively well-developed financial markets. Small business however, experience frustrations in accessing those financial products and services. Within the Swazi SME sector, the lack of or need for collateral and security consistently disqualifies the SMEs from the criteria set by financial institutions. These criteria are, as elsewhere, largely collateral based irrespective of the track record of the entrepreneur and the viability of the proposition. This situation is even more pronounced in the rural areas where there is lack of skills and capacity to develop and diversify the predominantly agro-based business activity.

A policy that did not recognise that commercial banks in Swaziland perceive small business lending to be high cost and low return would be unrealistic. In Europe and America however, commercial banks have worked to decrease transaction costs and increase profitability in lending to SMEs. For example, in the UK it is estimated that the profits of the clearing banks on business transacted with small business was,

in the year 2000, in excess of £2 billion⁶. Government policy in Swaziland is to work with the clearing banks in Swaziland to help develop their capacity to lend more effectively and profitably to Swazi SMEs.

Outside of Southern Africa, banks have invested in developing their understanding of the sector and consequently have reduced their risk and exposure in lending to it. This policy encourages banks in Swaziland to do the same. This work will be accompanied by a study to identify attitudes to borrowing and repaying loans by owner managers in the country.

3.6.2 **Government's Track Record in Providing Finance.**

There are also conflicting and competing Government interventions with regard to SME finance. A criterion for providing financial assistance has not been consistent enough to realize the objective of access to finance for SME development (*mostly due to the mechanisms employed such as excessive and slow procedures in the dispersal process*). This is further compounded by the failure of financing bodies to interpret the needs of the sector. The available products and services are neither innovative nor customized to suit the needs of the SME market sector.

Box 8: Why Governments find it hard to provide direct finance to small businesses

- Government has priorities such as health, education and infrastructure development. Providing funds to business on a scale to make a significant difference to economic development is not possible given other claims on the national budget
- Some stakeholders feel it is wrong to give taxpayers' money to private businesses.
- Poor decisions on who should receive help have been made and investment in businesses made by taxpayers have been squandered
- Government departments work at a different pace to the private sector. Disbursement of funds from Government is often too slow to help business
- Funds are sometimes not repaid. Borrowers feel that disbursements are just their share of the "national cake"
- Accusations of corruption and nepotism are often made of such schemes, discrediting them.

⁶ *The Supply of Banking Services by Clearing Banks to Small and Medium Enterprises. Competition Commission, UK Government (2000)*

There is also a need to house the implementing bodies of these funds to one line Ministry or parastatal. This will allow for a comprehensive monitoring and evaluation system to track access for finance for SMEs, and assess the impact of using funds in this way. An assessment will be undertaken of the desirability of Government continuing to provide direct financial assistance to businesses.

As in the case of business development services, international experience suggests Swaziland is not alone in finding it difficult to provide funds to small business through direct intervention.

This policy will work to identify and correct market distortion in terms of the supply of financial services to small and medium enterprises. It will do this by encouraging the proper co-ordination of all funds availed to business by Government such as the Regional Development Fund, the Small Scale Loan Guarantee Scheme, Export Credit Guarantee Scheme as well as the Swaziland Development Finance Corporation.

3.7. Problems related to accessing business development services (BDS)

3.7.1 SME Failure.

Small businesses usually fail because of poor management. It is the role of business development support institutions to improve the quality of SME management through the provision of training and advice. These institutions should be capable of delivering the required quality of support services to business in a practical and timely manner. Provision of business development services should mainly be left to market forces but some co-ordination is required to ensure quality and evenness of distribution. There is a need to improve the credibility of **all** business development support organisations in Swaziland.

Box 9: Can small business failures be avoided?

No. Business failure is part of a modern economy. If Government does not intervene, then strong, well-managed businesses will survive, and weak poorly managed ones will fail. The result is "survival of the fittest" and cheaper and better goods and services for the people. A failure rate of between 40 percent and 60 percent in business start-up is considered quite normal in market economies. Access to good Business Development Services providing business advice can reduce these failure rates.

3.7.2 **Government's approach to BDS.**

Evidence from small business owners and from financial institutions that scrutinise business plans suggests that there is a need to improve the quality of business training and business planning in Swaziland. Government will support the introduction a process of training and accreditation for business trainers and advisors to achieve this improved quality. **To encourage advisors to become accredited and to encourage businesses to use the services of newly accredited advisors and trainers, short-term subsidies will be provided for users of business advice and training through accredited advisors.**

This initiative will be delivered through the Private Sector Support Programme.

Generally Government believes that business owners should pay for the support services they receive, and these subsidies are viewed as a temporary incentive to encourage greater uptake of "paid for" business advice. An exception to this "user pays" policy are poor people in rural areas. Here Government will provide a programme of continued support through the Association of Swazi Business Communities.

3.7.3 **Existing Business Development Support Structures.**

a) **Government's historical Contribution**

The major historic initiative made by Government to support SMEs has been the establishment of **SEDCO** in 1970. This parastatal, under the then Ministry of Commerce and Industry was mandated with the specific intention of contributing to the creation of wealth and jobs. It would do this throughout Swaziland by stimulating growth in new, existing and emerging SMEs by enterprise promotion and the provision of an affordable package of business support services⁷

b) **BDS in Swaziland.** Expenditure on business development services by Swazi firms is estimated at E320 million per year⁸. There is considerable awareness of the need for support and advice among owner-managers, but only limited use of paid for services. For example, 86 per cent of businesses surveyed by enterplan in 2001 were aware of the need for assistance in business planning, and yet only 33 per cent used advisors to produce business plans. In the case of management training, 76 per cent of firms were aware of the desirability of using external help, and yet only 19 per cent did so.

⁷ SEDCO Annual Report (2000 – 2001)

⁸ A Management Team for SEDCO/BDS Survey of Swaziland. enterplan, 2001 (study supported by DFID)

Reasons for not “buying in” this external support are that advice is available “in house” or that it is available from friends or business contacts. Price, or the lack of availability of a commercial provider was seldom cited as a reason for not using external advice. It is estimated that there are 200 providers of business services in Swaziland. Many are “briefcase consultants”. Others are Government Agencies, NGOs and established small firms. The skills and capacity of individuals in these advisory services needs to be developed.

c) The role of SEDCO.

Discussion will take place with the board and management of SEDCO to assist it to develop a more facilitative and less interventionist role with small businesses. This is in line with recommendations made for SEDCO by in a report commissioned by its management and supported by the UK’s Department for International Development.⁹ This report recognised the professionalism and hard work of SEDCO’s staff while at the same time identifying the intensive difficulties of delivering SEDCO's original mandate of providing support and workspace to small businesses. The DFID report (see above) estimated SEDCO’s share of the BDS market at less than 1 per cent.

Discussions will take place with the SEDCO Board and management in revising this mandate. **There is scope for SEDCO to manage and deliver the training and accreditation process for business advisors and counsellors as described in this report.** In terms of commercial property management, there is also scope for SEDCO to consider the long term leasing of its business premises to the commercial sector or to transfer ownership to its tenants. Support has been given to SEDCO to assist it to identify the future direction that it might take in managing its estates. The resulting DFID project evaluation study in 2001 identified a number of options that SEDCO might take in re-engineering the management of the SEDCO property portfolio. These options will be considered in the policy implementation phase. There is also the need for SEDCO to embrace the role of providing subsidised Research and Development services that would spearhead diversification from existing “traditional” business sectors in services, manufacturing and agro –business.

⁹ *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention. Committee of Donor Agencies for Small Enterprise Development, World Bank, Washington, 2001.*

Institutionally, there is a challenge. While SEDCO's role was clearly defined as a parastatal of the Ministry of Enterprise and Employment to support SMEs, there is no direct or formalized means of communicating between the SME Unit and SEDCO, making the coordinating function between policy and implementation very difficult. The task force to set up to examine inter ministerial support for SMEs (section 6.3.4) will examine the way in SEDCO reports to its line Ministry.

d) Private Sector Support.

Some private sector providers have also been challenged to deliver appropriate support services demanded by their clients or by financial institutions who receive business plans from these clients. The proposed training certification and quality assessment process for professional staff in business support institutions will address this issue. The training, accreditation and the gradual professionalism of business trainers and counsellors will resolve these challenges of providing appropriate provision in business development services.

While it is Government's desire that business development services are NGO, membership association or private sector driven there is a need to put in place a mechanism to monitor quality and ensure the adequate geographical distribution of services delivered for the SME sector. Policy is to move SEDCO from a role of the direct provision of Business to Development Services to one where it has responsibility for the quality of provision and of ensuring that access to business development services is available to all who seek it.

This policy will work to strengthen the capacity of business development service providers resulting in an improvement of the quality of management in small and medium enterprises.

3.8 Problems related to globalisation of trade

3.8.1 Globalisation and SMEs in Swaziland.

- a) Introduction.** SMEs in Swaziland have to date been somewhat cushioned against the impact of world trade liberation and least as far as home and regional markets are concerned. The country's position with the Southern African Customs Union affords temporary protection against the competition felt by economies elsewhere in Africa. This policy recognizes that SMEs in Swaziland will in future need to come to terms with more intense competition, especially in manufacturing from the Far East. This can only be achieved through improved management and improved productivity.

- b) Export Promotion.** There is a need to increase Swaziland's export trade in terms of both volumes and values. To achieve this, the Swazi small business community needs better access to information both to source inputs for production and to market new and existing exports. Government policy is to provide such information through creating greater access to information technology for the small business community, and to encourage greater participation by the small business community in the regional economy. A small business Website will be created to facilitate this process and the Trade Promotion Unit will be encouraged to take a more positive role in working with the business community. Government will also encourage small business owners to attend regional and international trade fairs through the facility of the private sector support programme.
- c) Science Based Businesses.** In terms of regional and global competition, there is a need to stimulate the creation of businesses based on new technology. To encourage this process Government will undertake two (2) activities. It will, in conjunction with UNISWA and other potential providers, investigate the setting up of incubator units for businesses using new technologies. These incubator units will be located on the UNISWA campus. It will also launch a **Graduate Enterprise Programme** to assist new graduates in the area of science and technology to assist new businesses.
- d) Manufacturing Businesses.** A small country such as Swaziland faces specific challenges in developing a manufacturing base. Limited access to capital, a small domestic market and increasingly open borders make it difficult for Swazi entrepreneurs to establish businesses in manufacturing. The lesson from other countries is that providing subsidies and grants to manufacturers has not worked in terms of stimulating the long-term sustainability of the sector. The provision of these has resulted in entrepreneurs shaping their businesses to maximise opportunities for grants rather than shaping them to meet the challenges of the market. The eventual removal of grants has often resulted in the collapse of manufacturing enterprises and the loss of jobs.

To encourage manufacturing, Government is committed to undertaking a survey to identify the extent of the manufacturing base in the country and to assess the challenges it faces. SIDC will be encouraged to make preferential arrangements to make finance available on commercial terms for manufacturing. Finally, Government will assess the potential for improving the tax environment for manufacturing businesses, which retain profits to invest in new plant and machinery.

3.8.2 Invisible earnings-tourism.

Government recognizes that **Tourism** represents a particular opportunity for Swaziland to create incomes in the SME sector. Policy is for the Swazi Tourism Authority to continue to ensure that small as well as large businesses benefit from tourism. Doing so will help to ensure a better return to indigenous Swazis from the country's investment in tourism. There is a need to provide new and young businesses in tourism with business advice and support. Initially this will be provided through the Tourism Authority, but in the longer term provision will come from those trainers and business counsellors accredited through the processes described above.

3.8.3 Protection of the SME Sector

Many of our small business owners and their representative organisations ask for increased protection against foreign competition. Through the Ministry of Enterprise and Employment more needs to be done to educate Swazi entrepreneurs to know that such protection is not possible under multilateral and bilateral trade agreements that Swaziland has signed up to. Government will do more to seek help for Swazi entrepreneurs and to find information on external markets through the establishment of a trading house and by making the Trade Promotion Unit (TPU) more aware of the need to support the small business sector. There is also scope for Swaziland to gain greater benefit and support from the International Trade Centre in Geneva to support the export potential of its SME sector.

3.8.4 Problems related to exploiting AGOA.

The Africa Growth and Opportunity Act (AGOA) offers the Swaziland SME sector a chance to benefit from tariff and quota free exports to the USA. Many overseas companies have come to Swaziland to benefit from AGOA and in so doing provide employment for Swazi workers. There is a need, however, to assist Swazi SMEs to benefit directly from opportunities offered by AGOA, and Government policy is to support entrepreneurs to do so. Government is committed to identifying sectors in which Swazi SMEs can exploit opportunities under this initiative, and will launch studies into the handicraft and horticultural sectors to identify potential for increased exports from this sector under AGOA provision.

Government recognises the contribution to both the economy and to employment made by Swazi exporters in the area of handicraft production. It will work with the private sector to exploit further opportunities under AGOA. Doing so has considerable potential to stimulate income in rural areas. Closer links will be developed between the Small Business Unit in the Ministry of Enterprise and Employment and the Handicraft Unit

in the Ministry. A promotional officer within the Ministry of Enterprise and Employment will be assigned specific responsibility for AGOA.

3.8.5 Problems of integrating Swazi SMEs into the regional economy.

Outside of AGOA, this policy will work to assist Swazi small and Medium Enterprises to become better integrated into the regional and international economies. The number of existing multilateral international trade agreements to which Swaziland is committed to are complex and confusing. There is a need for both Government and private sector to work to understand these agreements better, assess the implications. There is also a need to study and eventually eliminate cross border import and export procedures with South Africa that impact particularly severely on smaller business. The continued existence of these procedures increases cost, discourages trade and is totally incompatible with the way in which Customs Unions operate and are understood outside of the region.

3.9 Problems of integrating large and small business in Swaziland.

Corporate business in sugar, timber and wood products has done much to help entrepreneurs to establish small businesses in Swaziland through stimulating processes of outsourcing and subcontracting. This gives indigenous Swazis a larger stake in owning more of the economy and will be encouraged. In collaboration with the Chamber of Commerce and Federation of Swazi Employers, a business linkage centre (BLC) will be set up. This will seek to improve existing linkages through training (especially in financial management) for sub-contractors. It will also work to facilitate additional subcontracting arrangements. More will also be done to identify what services can be permanently outsourced from Government. Doing so is compatible not only with assisting the creation and growth of Swazi enterprises, but will also assist Government in improving services to the public and reducing cost.

Box 10: EXPORT BENEFITS

- ❖ Government will provide training to producers in Handicraft sector to assist them to meet the demand for Swazi Crafts
- ❖ A programme will be developed to encourage Swazi Business to exploit AGOA opportunities
- ❖ An assessment will be made of Export Credit Guarantees to assess their impact in stimulating exports.
- ❖ The Introduction of VAT in Swaziland will help harmonise taxation with SADC countries
- ❖ Simplification of cross border import / export procedures is imperative to encourage trade.
- ❖ Support will be provided to the Trade Promotion Unit to improve level of support to exporters

3.10

Problems of effective taxation and the SME sector.

Government supports the introduction of VAT to Swaziland. Doing so will harmonise the taxation regime in the country with that of South Africa and in so doing will simplify cross border trade. Turnover thresholds for the proposed introduction of VAT will bring more small businesses in Swaziland into the tax net. If well designed and implemented, VAT is a particularly efficient form of taxation and should not burden the owner-manager with excessive administrative demands.

Elsewhere, the introduction of VAT has played a major role in encouraging small business owners to improve and formalise their management information systems resulting in better management of small businesses. Through improved business development services, Government will provide help and assistance for the small business community to become integrated effectively into the VAT collection system

4. OVERALL POLICY OBJECTIVE

The overall objective of the Swaziland Government through its national policy on SMEs is to facilitate and support the creation of an enabling environment for SMEs in order to:

- 4.1 Foster economic growth and development.**
- 4.2 Increase employment opportunities.**
- 4.3 To alleviate poverty by creating access to sustainable livelihoods.**
- 4.4 Increase levels of ownership in the economy for indigenous Swazis.**

To achieve these objectives and to resolve the challenges the SME sector faces, as described above, Government will undertake the activities described in *section 5* of this policy statement.

5. SET OF POLICY OBJECTIVES

In order to meet the above overall objective, the following set of individual policy objectives is supported:

5.1 Make it easier for potential entrepreneurs to enter into business.

This will be achieved by:

- a) Improved access to new business and start up finance.
- b) The establishment of a one-stop-shop for all business related services.
- c) Increased security of land tenure.
- d) Revocation of the minority status of women.
- e) Timely, streamlined licensing process.
- f) Opportunity for entrepreneurial development and business skills training.
- g) Encouraging the growth of business membership organizations (entrepreneurial associations).
- h) Encourage and improve the participation of the youth in entrepreneurship activity.

5.2 Ensure the existence of specific support measures for established entrepreneurs. This will be achieved by:

- a) Improving the quality of management, development and business advice.
- b) Simplifying debt recovery through a small claims court.
- c) Encourage business linkages.
- d) A programme of development for the commercial craft sector.
- e) Accelerating infrastructure development.
- f) Reviewing enabling legislation and regulation.
- g) Consistent policy as outlined in this statement.

5.3 Monitor the implementation of SME policy, to ensure good governance and to improve inter-governmental coordination between Ministries and parastatals. This will be achieved by

- a) Alignment of all Government SME activities with this policy statement
- b) Developing the capacity of the SME Unit to manage policy.
- c) Establishing a task force to examine government relations with the SME sector.
- d) Streamlining the number of ministries working with the sector.
- e) The development of a 3-year action plan based on this policy statement.
- f) Vesting monitoring authority of the Policy in the office of the Minister responsible for Enterprise and Employment.

5.4 Facilitate increased coordination and cooperation of service providers and relevant SME agencies

This will be achieved by;

- a) SEDCO adopting a facilitating and co-ordinating role for business development services.
- b) A process of accreditation and training to help support agencies identify clear market niches.
- c) The establishment of a web site to provide better information to SMEs on Government and private sector services available.
- d) The publication of a SME directory listing service providers for small business owners.
- e) Establishing linkages to SADC.

5.5 Increase the flow of capital into the SME sector (review of interest rate policies / incentives). This will be achieved through:

- a) Encouragement of commercial banks to improve and develop their understanding of the SME sector to reduce the risk and transaction costs of working with it.
- b) Prudent Government borrowing so that the SME sector is not "crowded out" of financial markets
- c) Assistance to Micro-finance institutions to professionalise management and develop skills in safe and cost effective individual lending.
- d) Improved regulation of the MFI sector by the Central Bank.
- e) Encouraging innovative approaches to SME finance through invoice discounting, establishment of business angels network, small ticket leasing and venture capital.

5.6 Facilitate a national management information system and database for SMEs for Government purposes as well as to serve entrepreneurs. This will be achieved through:

- a) A national survey of SMEs.
- b) Eventual registration of SMEs under VAT.
- c) The establishment of a SME database.
- d) Development of a SME research capability at UNISWA.
- e) Publication and dissemination of SME information.

5.7 Maintain consistent dialogue and discussions with finance and other service providers in the private sector, public sector and civil society. This will be achieved through:

- a) A series of workshops and seminars on how to make financial markets work for indigenous Swazis.
- b) A strategy to improve the flow of funds to the sector.
- c) Strengthening of the national forum for small business to include providers of SME finance and other services.

6. ISSUES TO BE ADRESSED IN ACHIEVING POLICY OBJECTIVES

6.1 Make it easier for potential entrepreneurs to enter into business.

6.1.1 The trading environment.

It is the intention of Government to facilitate and support the creation of an enabling environment for potential SMEs and emerging entrepreneurs. Government is in a strong position to enable a legal and regulatory environment in which potential entrepreneurs will find it easier to establish businesses and under which existing entities will find it easier to grow. Barriers to creating a better enabling environment have been identified in discussion with stakeholders. These include:

- a) Barriers to access land for business in rural areas.
- b) The incapacity of women married under community of property to contract.
- c) Poor access to infrastructure and services.
- d) Complexity of the licensing process.

6.1.2 Licensing.

Licensing is of particular concern. The current situation will be reviewed. Licensing discourages business start-up, frustrates employment creation and contributes to poverty. Quicker and easier access to licenses will be provided. There are notable disparities between the rural and urban settings. For a business to be able to apply for a licence, in the **urban setting**, the requirements are:

- a) Certificate of incorporation and (for registered companies).
- b) Lease agreement or proof of ownership.
- c) Health inspection report (done through municipality).
- d) Bank statement.
- e) Twenty-one day waiting period (advertising of application in press).

In the **rural setting** the following additional requirements currently need to be met:

- a) Chief's consent.
- b) Swaziland Commercial Amadoda recommendation for existing structures.
- c) Kings consent via Swaziland Commercial Amadoda for new structures.
- d) Proof of ownership / lease agreement.
- e) Bank statement.
- f) Health report (Ministry of Health).

- g) Twenty-one day waiting period (advertising through press).

The policy approach is of the understanding that licensing procedures and requirements should enable business practises rather than hinder them.

These additional requirements in rural areas make the creation of new businesses more difficult in areas of the country where there is greatest poverty and the greatest need for new enterprises and jobs. ***Government will work with traditional leaders and others to speed and simplify the process for the establishment of rural enterprises.***

6.1.3 One Stop Shop.

This policy recognizes the concern among much of the business community over the issue and renewal of business licenses. To examine these concerns and respond to them, Government will undertake a review of the current business licensing mechanism, and assess the cost and benefit of current arrangements to government and the private sector. A study will be made of arrangements in neighbouring countries and Swazi licensing officers will be encouraged to discuss licensing reform with colleagues in these countries. This review will assess the demand and desirability of setting up a one stop-shop for the issue and renewal of licenses. A one-stop shop is a single point for the issue of all business services and its activities potentially include:

- a) Registering of companies
- b) Issue of Trade Licenses
- c) Health inspectorate services

This single point at which all business services will be issued should be staffed with representatives from:

- a) Ministry of Enterprise and Employment (licensing Unit)
- b) Ministry of Agriculture and Co-operatives (co-operative department)
- c) Ministry of Finance (tax department)
- d) Swazi commercial Amadoda.
- e) A business advisor/ counsellor supplied by SME Unit
- f) Trade Promotion Unit.

Licenses should be issued on any day and not only on designated days, as is currently the case. Procedures under a one-stop shop should be swift and less cumbersome. Government's intention should not be to restrain or control entry to business, but should focus more on encouraging the ease of entry and exit in businesses.

In future, as resources allow this policy advocates the further development of one-stop shops around the country in order to allow increased access to business services.

Box 11: What is a one-stop shop?

A one-stop shop is a centrally located office, where an owner-manager can find advice and support on what national and local Governments demand of businesses. This would include trading licences, commercial vehicle license, health and safety and food handling certification as well as tax registration advice. Officials at the one stop shop should be able to issue all the licenses a business requires from this single point.

6.1.4 Access to land for business in Swazi Nation Land.

In the context of the existing land policy in Swaziland security of tenure in rural areas is of special interest to potential SMEs and emerging entrepreneurs. Without land, businesses cannot be established, and without businesses jobs and income cannot be created. Security of tenure also provides essential collateral for borrowing. Government will continue to engage the various relevant authorities to address this issue in line with a review of land policy and constitutional developments.

The objective of the policy in this area is to provide new entrepreneurs with secure access to rural land for a specified period. This period should be consistent with the time it will take owner-managers to recover the investment that they have made in their enterprises. The drafting of the National Land Policy has an outcome that is very difficult to guess. The SME Unit will constantly engage in negotiations and lobbying with stakeholders in this area to ensure that the policy objectives for security of tenure are met. From the perspective of those involved in developing the policy in this area, the medium term objective will be to provide 99-year leases on Swazi Nation Land. Failure to make progress in this area will lead to an increasing incidence of poverty among the Swazi nation resident in rural areas.

6.1.5 Capacity of Women to Contract.

This policy recognizes the role of women entrepreneurs in creating both wealth and employment¹⁰. The minority status of women married within community of property is a barrier to the entry of new female entrepreneurs to the market, and to the growth of existing businesses owned by women. With regard to the minority status of women, various impediments exist to women who are emerging entrepreneurs or potential SMEs. This especially concerns access to finance and the capacity to enter into contracts.

¹⁰ In 1991 it was estimated that 71 per cent of those in small business and self-employment were female. (GEMINI).

The Ministry of Home Affairs has been entrusted in developing a strategic policy that will address the issue of equal access to business opportunities for women. It is recognised that women married in the Civil Code under community of property are disadvantaged, as they are minors in law and have very limited contractual capacity. In a country such as Swaziland where 71 per cent¹¹ of businesses are managed by women, the incapacity of married women to contract has severe implications for the growth of business and employment creation.

Box 12: CAPACITY OF WOMEN ENTREPRENEURS TO CONTRACT

- ❖ Most married women in Swaziland are minors in law. This status is extraordinary in sub-Saharan Africa. Elsewhere, (with the exception of Lesotho) married women have the same legal status as men.
- ❖ An outcome of civil marriage is that it limits the rights of women and their ability to enter into contracts...
- ❖ The majority businesses in the country are female owned
- ❖ The most prominent constraint is that of borrowing money from commercial Banks
- ❖ There is a need, in the short term, for a publicity campaign to make women more aware of the differences between marriage within the community of property and outside of it

The SME Unit of the Ministry of Enterprise and Employment will continue to launch a promotional programme to make all Swazi women aware of the options available to them at marriage. This will stress the differences between marriages made in community of property and those outside of it. The benefits to businesswomen of the latter option will be promoted. The SME unit will also support the work of the Ministry of Home Affairs in changing the current legislation. It will also assist the efforts made by women's groups in civil society to create greater awareness of the implications of marriage within community of property, so that women are able to make an informed choice concerning the implications of a marriage under the civil code. Government policy is that there shall be no prejudice and/or discrimination to aspiring entrepreneurs on the basis of gender marital status. Government recognises the fact that the National Constitution (in preparation) may have a bearing on the capacity of married women to contract.

¹¹ *Development Alternative Incorporated, Gemini Report (1991)*

6.1.6 Access to new business and start-up finance

Access to finance is rated by experienced owner-managers as the most significant barrier to entry to business. Some challenges and possible solutions are introduced here. Others are found in section 6.5 of this policy statement that deals with access to finance in a more general fashion. The definition of Start-up business covers a range of activities in terms of scale, ranging from a person setting up a "survivalist" business to provide minimal cash income, through to a capital-intensive operation. This Policy is to offer support to the entire range.

a) Commercial Banks.

Individuals attempting to start-up new businesses report access to finance as being the single most significant constraint to new ventures. Foreign owned banks, which see little commercial appeal in lending to new indigenous businesses, largely dominate access to commercial finance in Swaziland.

This policy recognizes the need to engage with the banks to facilitate easier access to funds for Swazi businesses. Discussions will take place with the Banker's Association on how the commercial banking sector can develop the capacity to lend to small business cost effectively and profitably, as is the case in many other countries. Concurrently, the launch of a comprehensive business development service will provide Swazi entrepreneurs with the capacity to manage borrowed funds more efficiently and responsibly.

b) Micro-finance.

Outside of commercial banks, the role of the Micro Finance institutions in making funds accessible to small business is recognized. There is a need to strengthen the management and information systems of those institutions, so that they are in a position to raise equity and debt capital from commercial sources and to increase the depth and penetration of their lending. There is also a need to support MFI's in diversifying away from group lending to the development of large and secure portfolios of individual lending. The Enterprise Trust Fund wishes to operate outside of Government. This will be supported and encouraged.

c) Encouraging Savings for Investment.

There is a belief among Swazis that businesses start with borrowed funds. This is a marked contrast with countries such as Ghana, where there are established and secure informal savings mechanisms available to people with low incomes. Savings from these "Susu" schemes provide working capital for new and informal entrepreneurs. They also demonstrate that poor people can save. Government will work with Co-operatives

& Savings, and Loan Societies to promote and encourage small savers to build funds that can enhance income-generating activities. An entity that starts with a substantial contribution of funds from its owner, services less debt than one that is heavily borrowed. It also has greater commitment from its owner than that which starts with borrowed funds.

d) Loan Guarantee Scheme.

Government recognises that Small Business Loan Guarantee schemes in Swaziland and around the world have not often met with success. Capable intermediaries will be used to facilitate access to small business finance, with special emphasis on the utilization of the existing Small Scale Loan Guarantee Scheme at the Central Bank of Swaziland. Appointing new intermediaries and ensuring that they are in possession of the skills to disperse and monitor loans, will ensure that loans are available to small businesses and that repayment is timely and complete.

6.1.7 Business Development Services (BDS) for Start-up. Good and pragmatic management training and business advice prior to start-up improves the skills of the entrepreneur, reduces the exposure of lenders and encourages increased to small businesses. Government policy is to make available business training and advice to all new entrepreneurs on a cost-share basis, to enhance the potential of their acquiring funds and to reduce the risk to lenders.

The provision of a service of this nature will be achieved in partnership with the donor community and with the Association of Swazi Business Communities.

6.1.8 The Importance of Business Development Services (BDS). Better services are required to improve the quality of small business management in Swaziland. Poor management is the leading contribution to business failure in the first two years of trading. Currently, the Ministry's relevant service provider is SEDCO, but this parastatal is expected to shift emphasis from delivering services directly to individual entrepreneurs, to facilitating the provision of business development services. SEDCO will be supported and strengthened in order to encourage it to **design and facilitate** support services to the entrepreneurs. Eligible private sector intermediaries will also be strengthened to a level where they can deliver the anticipated quality service. The gap created will be filled by business membership associations, the private sector and NGOs.

6.1.9 Business Training and Counselling The provision of Business Development Services comprises two elements. The first is business training, and the second is business counselling. There is a need to improve both the quality and quantity of business development services provision in Swaziland. This policy will achieve improvement in the provision of business counselling and training through identifying a technical capacity builder. This apex organization (possibly SEDCO) will have their responsibility of training and eventually certifying small business trainers and small counsellors. Once the skills of trainers and counsellors have been upgraded, government will pro-actively encourage the use of business development services by the small business community through the private sector and NGOs.

This will be achieved through the provision of short-term subsidies for businesses to use, training and counselling services provided by certified trainers and counsellors. The objective of this policy in the area of business development is to improve the quality of small business management. An accreditation process will be put in place to ensure that only certified business counsellors deliver services to entrepreneurs. Entrepreneurs should attend training sessions to ensure that quality business plans are developed in order to enhance their ability.

6.1.10 Government policy with regard to BDS is to:

- a) Improve the quality of support (both training and counselling) being delivered by providers through a process of accreditation (there is a particular need to improve the quality of business plans submitted to banks and MFI's).
- b) Encourage more private sector provision of affordable and sustainable private sector driven training (especially from indigenous Swazis).
- c) Ensure better co-ordination in the training activities of all providers including Government, private sector and NGOs.
- d) Assess and monitor the quality of the services being provided by these agencies.
- e) Build the capacity of SEDCO in order to facilitate the training and accreditation of individuals and organisations providing business development services.
- f) Encourage the Association of Swazi Business Communities to deliver start-up support in rural areas.

6.1.11 Business membership associations.

These representative organisations in Swaziland can assist Government in communicating with the private sector and in establishing a two-way dialogue over critical issues. Corporate and larger business in Swaziland is well served by the Chamber of Commerce and Federation of Swazi Employers. There is a need to widen and deepen representation for small business in Swaziland

Government will encourage new Swazi businessmen and women to join business associations so that they are in a position to articulate their needs and views to Government through these forums. To achieve widespread indigenous membership of business associations, Government will support the further development of business associations. It will achieve this through a series of pump priming initiatives that while supporting the Associations' growth and development, will also avoid creating dependence on Government. In the longer term Government policy sees a full role for the business associations in working with the Chamber of Commerce/Federation of Swaziland Employers or/and other similar bodies participating in international trade and labour discussions.

While Government will support and encourage business associations, it is recognised that the long-term success of the associations is dependent upon the quality of those services it provides to its members and the subscriptions it attracts. In the longer term, Government recognises the benefits in having a single representative body for business that has enough credibility and confidence among the business community to speak for all.

6.1.12 Developing a business culture for young entrepreneurs.

A concerted programme involving all relevant stakeholders is necessary to encourage Enterprise Education. This will in turn stimulate interest among young people who are willing to develop sustainable livelihoods through the creation of small businesses.

Activities in this area will include the Ministry of Education's pilot pre-vocational training programme on entrepreneurship development. In partnership with the European Union or other donor agencies, Government will provide funds for young people from this programme to enter into business. The results of this pilot program will be monitored, and if successful, Government will, with its stakeholders, expand the programme. Developing skills training, business awareness and entrepreneurship development, offers the young entrepreneurs the opportunity to

mitigate the impact of poverty resulting from the HIV/AIDS pandemic.

6.1.13 Government support to the informal sector

This policy is in support of all forms of small businesses, including the informal sector. Government departments and entities including municipalities need to play a facilitative role towards the establishment and growth of the informal sector. This may involve a review of existing regulations and by-laws, which impede the development and participation of this sector in business.

6.2 Ensure the existence of specific support measures for established entrepreneurs

6.2.1 Challenges to Business Growth

Those Swazis in business and already trading often find business growth to be a challenge. Poor access to markets, inadequate finance and a lack of exposure to formal small business management techniques all provide challenges. Existing business owners have already demonstrated their business skills through their capacity to survive. **There is as a result less risk involved in encouraging their further growth and development than there is investing in the future of a new and inexperienced business person at start-up.**

Business needs to know that the private sector has Government support. To demonstrate this support, policy is to continue to encourage the Entrepreneur of the Year Award. The established business community also needs consistency and predictability from Government if entrepreneurs are to be encouraged to plough back profits into their businesses and domestic investment encouraged. This policy statement sets out the long-term relationship that Government seeks to establish with the small business community and will help the private sector to predict Government intentions.

The policy will be supported by an action plan for implementation over this period. It will endeavour to meet the needs of existing businesses as follows:

a) Government Procurement Process and Strategy

Government continue to be a large and growing market for most growing small businesses' goods and services.

In keeping with Government's desire to promote the growth of the SME sector current Government procurement policies should be reviewed to the extent that small business suppliers are able to be given priority as suppliers for appropriate goods and services. An appropriate audit mechanism for such should be made available for purposes of transporting and monitoring.

- b) Current provision of business advice and support.** It is recognised that government agencies have limited capability and capacity to provide existing businesses with all the support that is needed. The role of SEDCO, SIPA, Tourism Authority, Trade Promotion Unit and the Small Business Unit in providing business advice, will be re-examined. Government will initiate and provide support for membership associations, NGOs and private sector to provide greater assistance to these existing businesses. The quality of these services will be developed through Government assistance with the training and development of small business advisors and counsellors in all sectors.
- c) Membership Associations as Providers of Advice.** Government encourages the provision of management training through membership organisations, the private sector and NGOs. Institutions such as the Swaziland Tourism Association, Swazi Commercial Amadoda and the Chamber of Commerce are strongly placed to provide support to members who are established in business. Government will work to provide these organizations with the capacity to provide business support and counselling.
- d) Government's role in providing business advice.** International experience is that Government and its agencies experience considerable challenges in providing direct support to small businesses. Government officials lack training in business, they often have no business experience themselves, and they also lack credibility when it comes to advising experienced owner-managers. There is however a role for Government to play in ensuring that SMEs receive the quality of support that they need and deserve. Government, will establish a programme for training small business trainers and counsellors and accreditation to recognise membership associations, private companies, NGOs and individuals who meet the required standards. Government will undertake, through the media, a comprehensive promotional programme to promote the improved services that it intends to make available to support small businesses. A short-term subsidy will be made available to encourage the take-up of these services from accredited trainers and counsellors.

- e) **Information dissemination services and Business Development.** Information is critical if existing small businesses are to grow and offer additional employment. The timeliness of data and ease of access to it is essential if business is to make use of information. A review will be undertaken of the impact of the Trade Promotion Unit and its success in assisting small businesses to develop overseas markets through the provision of information and other services.

Government will develop a small business website designed not only to allow small businesses to promote their goods and services, but also to allow entrepreneurs to proactively search for opportunities in the region and beyond. In making access to the website available to existing businesses, Government will seek to develop partnerships with membership organisations. The website will be supported by a small business directory. The directory will provide a basis for small businesses to promote themselves and to acquire details pertaining to help and support. The private sector will be encouraged to develop its own information gathering channels through membership organizations. Government has a role, to support existing businesses through ensuring that marketing opportunities through **AGOA, SADC, COMESA, EU** and all multilateral and bilateral arrangements are consistent with each other and well understood by the private sector. Government recognizes the importance of strengthening the capacity of the Ministry of Foreign Affairs in Economic Diplomacy to achieve this.

- f) **A Small Claims Court.** The reluctance of existing businesses of all types to extend credit is recognised by Government. Plans to introduce a small claims court will continue to be developed. In addition Government recognizes that the judicial system does not always provide for the enforcement of commercial judgments it makes. Through the Private Sector Support Programme, a study will be conducted to identify the effectiveness and impact of judgments made in the commercial courts, and if necessary, action will be taken to increase their effectiveness.

- g) **Access to Infrastructure.** Existing businesses report delays and frustrations in accessing basic services. Telephone, electrical power and water supply are basic requirements in running an established business. Despite slow and steady progress in this area, Government recognises the constraints confronted by utilities in meeting the demands of the private sector. In the longer-term, privatisation of these utilities will increase the flow of capital into Swaziland's essential infrastructure, thus enabling the provision of additional capacity for commerce and industry. In the short and medium term, the SME Unit will work with the public utilities to try to reduce levels

of red tape associated with the provision of essential services to existing businesses

h) Business Angels and Equity Investment

Finance for existing businesses is dealt with more comprehensively elsewhere in this policy statement. Here it is recognized that there is scope to encourage greater levels of domestic investment in small businesses in Swaziland. While this is primarily a business-to-business issue, Government will provide a mechanism to facilitate equity investment by successful Swazi business people into smaller businesses with growth potential. Through a business membership organization and the Private Sector Support Programme, a "Business Angels" initiative will be instigated to encourage successful Swazi entrepreneurs to invest in younger businesses with growth potential.

i) Demarcated Commercial Areas.

Physical space for business is limited in both urban and rural areas. In addition to working with the customary authorities and Commercial Amododa to provide leasehold land for business in rural areas, Government will work to identify and earmark additional land to set aside as demarcated commercial zones in the countries urban areas

In urban areas access to land for business use is also limited. Government will encourage and empower SEDCO to identify and establish new demarcated commercial areas for small businesses in urban areas. Expanding the area of workspace available for small business will become a leading role for SEDCO, rather than the management of existing workspace. To allow the professional staff of SEDCO to do this, day-to-day management of existing SEDCO workshops will be gradually transferred to the private sector that will manage it on behalf of SEDCO on long-term leases.

j) Foreign Business Ownership.

Government should encourage preferential access to business for Swazis. There is a need to ensure that the presence of non-Swazis operating in the SME field does not unfairly block or stop indigenous Swazis from setting up businesses. The recent considerable influx of non-Swazis owning and operating existing businesses, especially in highly visible areas such as retail and service encourages the perception (particularly amongst the young) that small business ownership is not a Swazi activity. This has the potential to damage attempts by this policy to create a more entrepreneurial society. Government will, through the Ministry of Foreign Affairs and immigration departments, ensure that those non-Swazi nationals operating small businesses in the country are doing so within the

framework of the country's immigration and employment laws. There is a need to examine the extent to which Swazis have reciprocal rights to set up and establish businesses in those countries from which these new entrepreneurs come. There is also a need to examine the levels of inward investment that confer rights of residence on foreign business owners.

k) Encourage business linkages.

It is also recognised that many Swazi-owned businesses receive support and advice from large companies as part of sub-contracting and franchise agreements. Sugar, timber and poultry rearing are obvious examples, as are instances where Swazis operate businesses as franchisees under arrangements with South African companies. Government will encourage "embedded" support for small business such as these, through the establishment of a business linkage centre, which will encourage stronger integration between large and small sectors of the economy.

For purposes of increasing the market base and **building local capacity and skills transfer for indigenous businesses**, Government and big business should show **strong commitment** in establishing transparent procurement mechanisms that will support SMEs. Preference for the supply of goods and services should not be given to suppliers from outside the country when available locally.

6.3 Monitor the implementation of SME policy to ensure good governance.

6.3.1 Introduction There is a need to provide an effective mechanism for SME policy implementation and management. This requires institutional and capacity building as well as planning. The following steps will be taken

6.3.2 The Role of the SME Unit.

The SME Unit within the Ministry of Enterprise and Employment has responsibility for policy implementation, management and review. A programme to improve the infrastructure of the Unit has taken place over the last year. This has resulted in investment in computers, office and communications equipment. A comprehensive programme of professional development will be put in place, which will give the staff of the Unit the skills to manage SME policy.

6.3.3 Co-ordination within the Ministry of Enterprise and Employment.

Implementation of this policy requires closer co-ordination between the SME Unit and other Units within the Ministry of Enterprise and Employment. There is a particular need for closer collaboration with licensing, planning and legal officer. **Under the guidance of the Principal Secretary, a temporary committee will be formed to facilitate this.** The committee will commence its responsibilities by way of regular workshops to discuss the main objectives of the policy, and to assess how these can be attained.

To implement the policy, there is a need to allow the SME Unit to focus entirely upon its policy implementation and policy management roles. The business advisory service currently operated from the Unit will be phased out in 2003 and other arrangements will be made for this service. Ministerial activities that the Unit is currently involved in and that are not specifically policy related will also be phased out in the first half of 2003. There is a need to strengthen the capacity of the advisory board of the Unit to allow it to advise on policy issues. Membership of the existing small business forum steering committee will be revised and new members appointed with the capacity to support the SME unit to develop policy. The Ministry delegates the task of policy implementation and management to the SME unit.

6.3.4 Capacity Building for the SME Unit.

In anticipation of a policy management role, a programme of institutional development for the SME Unit commenced in 2002, and focused upon the provision of computers and IT equipment for the Unit. This process of institutional development will continue in 2004, and will focus in providing the professional staff of the Unit with new skills in policy implementation and management. In the first half of 2004 the Director of the SME unit (with the support of the SME advisor) will produce a strategic plan that will guide the process of implementation and management for this policy.

6.3.5 Inter-ministerial Activities.

There is a need for Government to examine the way it works with small businesses and to simplify this. Recent research conducted by the SME Unit during 2002 suggests that sixteen Government Ministries are currently directly or indirectly involved in the provision of services related to the small business community. A list of these ministries is found in annexe 1. Current arrangements have grown in an ad-hoc manner and rationalisation is required. There is a need to resolve the complex and confusing way in which Government currently relates to the sector that is suggested by this research.

This rationalisation will be achieved through sound inter-ministerial communication during which each Ministry will confirm the frequency and depth of its current activities with the sector. This communication will allow the SME Unit and the ministries concerned to assess how each activity fits within the policy framework. These actions will also seek to agree on a future mechanism for the activities of each ministry in working with the sector. Many ministries may be required to phase out their work with small businesses, and for this to be included under a single line Ministry. It is recommended that a committee be appointed to continue the rationalisation of the work of the various ministries. This committee will report before the end of the third quarter of 2004. The SME Unit will drive this process and will continue to act as a custodian for the SME policy.

6.3.6 Future Government Interaction with the Sector

There is a particular need under this area of activity to identify what role (if any) organisations such as SIPA and the Swaziland Tourism Authority should have in providing advice and support to small businesses.

An inter-ministerial committee should examine existing legislation and current practices related to licensing, tendering, and business registration, as these relate to small businesses. In line with the need to make business licensing easier, existing practices and procedures of each Ministry will have to be reviewed. The objective will be to produce a simpler, more cost effective interface between small business owners and Government Ministries and parastatals. To support this work Government will commission research in neighbouring countries to identify good practice in licensing processes and procedures for small businesses.

6.4 Facilitate increased coordination and cooperation of service providers and relevant SME agencies

6.4.1 Introduction.

There is a need to develop an effective mechanism to ensure that the combined efforts of Government, membership organisations, the private sector and NGOs are successful in reaching and supporting entrepreneurs through the provision of business development services. The following guidelines will influence the development of this mechanism.

6.4.2 International Good Practice.

A considerable amount of work has been undertaken by international agencies to identify how the provision of business development services (BDS), for small businesses can be improved. There is now a consensus among Governments and donors that older models, where SME support has been delivered through parastatals has generally failed and a new approach needs to be tried. Governments have failed to provide adequate services for those that might otherwise have been provided by market forces. The Committee of Donor Agencies for Small Enterprise Development, which represents most major international donors, has developed guidelines¹² for the provision of business development services. Box 12 outlines these.

The views of the World Bank in this area follow a comprehensive assessment of international practice in supporting SMEs. The guidelines are likely to be used by any donor considering future support for the sector in Swaziland. This policy statement is influenced by the approach outlined in Box 13 because:

- a) The work reflects international best practice in the provision of BDS
- b) Use of the guidelines offers the best potential in engaging further donor support for BDS in Swaziland.

Government is prepared and has the capacity to implement this policy through its own resources and through existing technical co-operation agreements. This does not rule out the desirability of further seeking international partners to implement this SME policy through appropriate technical co-operation agreements

6.4.3 Summary.

In summary, policy related to the provision of business development services will be implemented and managed through the SME Unit in the Ministry of Enterprise and Employment. SEDCO will have responsibility for ensuring that services have an appropriate geographical spread and that the quality of the service matches expectations of stakeholders. The service will be delivered through membership organisations, the private sector and NGOs.

6.5 Increase the flow of capital into the SME sector

¹² *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention (World Bank SME Department) 2001*

6.5.1 Introduction.

The perception of small business owners in Swaziland is that access to capital is the largest single constraint in business growth and start up. Improving the flow of funds to small businesses is to be given the specific attention described below.

Box 13: Business Development Services for SMEs: Guiding Principles for Intervention

- BDS must be based on a market assessment. The services provided must follow the identified needs of the sector
- A distinction should be drawn between supply side and demand side interventions (Assisting the providers of services or subsidising the users of services)
- Delivery and payment mechanisms should be considered together and should take into consideration the characteristics of SME clients. In principle services should be paid for.
- Any subsidies to support training or counselling for small business should be specific, for a fixed duration
- All SME interventions should have a clear exit route
- Policy should encourage competition in the provision of Business Development Services
- Business Development Service providers should be encouraged to each provide a narrow range of core services rather than to spread their efforts over a broad range of products
- Performance measurement and assessment should be included routinely with all Government supported interventions. It should include an assessment of:
 - Changes in performance of those Small Businesses assisted
 - Changes in performance of providers of business development services
 - Market development in the range of services provided to small businesses

6.5.2 Funds from Government for Small Business.

Internationally, attempts by Governments to provide “soft money” to small businesses have generally been a failure. Schemes have resulted in business owners chasing public servants for finance rather than developing their enterprises. Disbursement of funds under such arrangements has distorted markets for financial services and allocation of funds has often been influenced by **nepotism** and **corruption**. Schemes have also been associated with considerable bureaucracy and slow disbursement that has been incompatible with commercial time frames. **Often, the total value of funds made available through such schemes has been far too small to make any impact on the national SME sector.** These factors, and a likely downturn in the revenue available to run Government over the life of this policy, strongly suggest that the private sector micro-finance movement and co-operatives will play the leading role in the provision of SME finance rather than Government.

In Swaziland, the small business loan guarantee scheme has been set up through the commercial banks to make funds available to small businesses. Disbursement through this scheme is very slow, and new agents will be appointed to promote the programme and to assist businesses in accessing the funds available.

Box 14: FUNDING FOR SMES: KEY ISSUES

- ❖ The Small Scale Loan Guarantee Scheme governed by the Central Bank is to be reviewed to make it more accessible by SMEs
- ❖ This policy is to create a situation where commercial Banks find it more profitable to lend to SMEs. Government will engage in dialogue with the Banks' Chief Executive Officers to address the challenges faced at lending to SMEs.
- ❖ Entrepreneurs in Swaziland have a poor track record in the repayment of loans. This limits the flow of funds to the sector and damages development and job creation
- ❖ Government is committed to assist the Micro Finance Industry in making the transition to developing programmes of sustainable lending to individuals.
- ❖ SIDC needs more investment capital. The key to raising this is through more independence from Government and stronger management and systems.

6.5.3 The Swaziland Industrial Development Company (SIDC) has been active and successful in making larger sums of money available to businesses. The preferred policy approach is to make SIDC more focused and supportive of SMEs. Doing so will encourage private investors from outside the country to support its work.

6.5.4 Commercial Banks. Commercial banks find lending to small businesses both high risk, high cost and unprofitable. Attempts to compel banks to lend to small businesses have been made in other countries. These have generally failed while at the same time incurring negative comment from the international community. Policy on SME lending is to work with commercial banks to make greater volumes of small business lending attractive to them. Progress towards a greater flow of funds to the SME sector will be achieved by:

- a) Assessing current annual flows of funds to SMEs by the banking sector and using this information as a baseline, then working with the banks to increase levels of lending over time.
- b) Holding a high-level policy workshop with MDs of Swaziland's Commercial Banks. The purpose of the workshop will be to ask commercial banks to present the current challenges they face in working with the sector and then to discuss techniques used successfully to overcome these challenges
- c) Through its Private Sector Support Programme, Government will encourage Commercial banks to develop and run training programmes to assist lending officers in developing greater skills in assessing propositions from small business owners and in managing and monitoring loans through relationship banking. Government recognises that bank lending to small businesses needs to be profitable for the banks, and understands that in many other countries this is indeed the case.
- d) Government also recognises that the small business community in Swaziland **does not have a good enough track record in managing and repaying debt**. Banks will be encouraged to lend to small businesses if they are confident that funds will be repaid in full and on time. Government will commission a study to identify attitudes of entrepreneurs to using funds borrowed from commercial sources. This will also assess the technical capacity and attitudes of entrepreneurs in using and repaying funds. Training programmes will be established that will stress the technical and operational steps required to manage borrowed funds in a small business. This programme will also emphasise the moral responsibility that goes accompanies the use of borrowed funds.
- e) Government recognises that excessive Government borrowing will tend to drive up interest rates and crowd the private sector out of the money market. The negative impact that this will have on growth in the private sector is recognised. Government is committed to prudence in borrowing and is aware of the impact of interest rates on growth and investment within the private sector.

By entering into the work above Government hopes that the issue of increased finance for SMEs can be resolved without recourse to new legislation.

6.5.5 Micro finance Institutions (MFIs)

MFIs include organisations such as the Enterprise Trust Fund, Inhlanyelo Fund and Imbita Women's Finance Trust, as well as Co-operatives and Savings and Loan schemes that make funds available for income-generating activities. The positive contribution of these institutions in assisting the SME sector is

recognised, but more needs to be done. The following will be supported.

- a) **Individual lending.**

There is demand from the business community for Micro-finance institutions, to lend to individuals as well as to groups. Government is committed to assisting the micro-finance industry in making the transition to developing programmes of sustainable lending to individuals. This will be achieved through provision of funds for fund managers and lending officers to adopt these new roles.
- b) **Access to Capital.**

More capital in terms of both equity and debt capital for borrowing is required for the micro-finance sector. Such funds are potentially available from the private sector and from abroad. What is required to access these funds is strong management systems within the micro-finance sector. The increased credibility that MFI's will derive from this process will increase the confidence of both foreign and domestic investors in the sector.
- c) **Distance from Government.**

Internationally, considerable progress has been made by removing micro-finance institutions from under the wing of Government and NGOs. This has led to strong and independent management of MFI's and their acceptance as private commercial financial institutions in their own right. Kenya, for example has a micro-finance bank (K-REP) as does Bangladesh (Grameen Bank). Long-term policy for the sector in Swaziland is to encourage the development of a micro-finance bank within the private sector.
- d) **Better regulation.**

Responsibility for the regulation of the micro-finance sector rests with the Central Bank. Government recognises the importance of an appropriate regulatory mechanism to facilitate effective lending and to give external investors confidence in the sector. The Central Bank will be assisted to review the existing regulatory arrangements for the sector and to recommend new arrangements consistent with longer-term goals and objectives for the sector in Swaziland.

6.5.6 Grants and Loans.

There is confusion amongst small and micro entrepreneurs as to the distinction between grants and loans. This confusion frustrates loan recovery and discourages lending. Government policy is to discourage the award of grants for business purposes and to provide these only for community development programmes.

6.5.7 Support and Advice to new businesses seeking finance.

Advice on start-up finance will be consolidated and co-ordinated at a single point in the proposed one stop-shop. There is also a need to assess the skills of lending officers in all the financial institutions, including commercial banks. Bankers and MFI lending officers have limited exposure to business, and do not always have a clear understanding of propositions made to them by SMEs. This Policy is to improve the awareness of small business management issues among lenders and to enhance their capacity to evaluate propositions.

To provide increased information to new businesses, the SME Unit of the Ministry of Enterprise and Employment agrees to:

- a) Develop a comprehensive data bank of available sources of finance for SMEs in Swaziland and make this available to all regions by way of a website.
- b) Produce brochures, workshops and other advocacy campaigns to encourage better use of support and advice.
- c) Invite and persuade all financiers, especially the commercial banks to play a more effective role in SME development, providing more effective training avenues for developing the skills of loan officers in appraising propositions from owner-managers.
- d) Relaxing some of the more stringent conditions attached to lending, and placing greater emphasis upon the quality of the proposition and the character of the potential borrower.

In implementing policy with regard to access to finance, Government Unit will constantly engage commercial banks representatives (bankers association) in consultation with the Ministry of Finance and Central Bank in order to explore means of accelerating access to business start up finance.

6.5.8 Innovative Products in Finance.

There is scope to be more innovative in the types of finance available to new entrepreneurs.

The following activities are supported by this policy:

- a) For larger start-ups, Government will continue to support the **Swaziland Industrial Development Company** to identify sources of external and commercial funds that can be dispersed as venture capital. The creation of a business linkage centre with the collaboration of the Chamber of Commerce will facilitate the creation of

larger start-up businesses and will advise on potential sources of finance. Additional working capital can be made more available for small businesses through encouraging invoice discounting and merchandising (lending against confirmed order). An extended programme of small ticket leasing will be encouraged, as will the development of a business angel's network. These and the development of other innovative financial products will be explored and encouraged by Government.

b) Invoice discounting.

Government will continue to work with the private sector to establish a discounting house in Swaziland. The capacity to "sell" invoices offers smaller businesses the opportunity to improve their liquidity and to increase the rate at which they grow. It is recognised that invoice discounting is frustrated by the fact that Government regulations do not currently permit assignment of invoices issued on behalf of Government. This restraint will be removed.

c) Small ticket leasing.

Leasing offers small business an opportunity to acquire fixed assets without many of the formalities, delays and collateral constraints associated with other approaches to funding expansion. In discussion with private sector providers elsewhere in the region, Government will encourage and facilitate the establishment of a small ticket leasing company in Swaziland to provide access to assets of E500 000.00 and under.

d) Venture capital.

The contribution of the Small Industries Development Company (SIDC) in providing long-term funds for the SME sector is recognised. There is a need for SIDC to find sources of finance from the commercial sector, to fund its continued operation. To achieve this, Government will support SIDC in developing a role and status that is independent of Government. It will also assist SIDC to strengthen both its management and its technical capacity to give it more appeal to external investors.

e) Business Angels.

Within the context of venture capital finance, the Government through the SME Unit will facilitate the creation of a Business Angels network. Business angels are typically wealthy individuals who invest in new and growing businesses in return for a share of the equity.

The network will encourage wealthy Swazis to make direct investments in Swazi owned young businesses with growth potential.

6.6 Facilitate a national management information system and database for SMEs for Government purposes as well as to serve entrepreneurs.

6.6.1 Introduction.

Developing a policy for small businesses has been constrained by a lack of recent data on the sector. No comprehensive study has taken place since 1991. There is need to undertake such a study, and from this to develop a management information system (MIS) so that future decision-making is enhanced. According to the Central Office of Statistics, 10,331 companies are recorded in Swaziland (2001). The real number of companies is considered to be much higher. Of these companies, only 200 made returns to the Central Statistical Office in 2001. There a considerable need for improved data.

6.6.2 A National Study of SMEs.

To begin this process, a survey by sampling of SMEs will be commissioned by Government in early 2003. Given the statistical techniques available, it is unnecessary to interview all small businesses in the country in order to develop a comprehensive picture of the sector. The survey proposed will provide data on a typical cross sample of Swazi businesses, both across the various commercial sectors and in terms of size. A report on this work will be made available to Government departments, to the private sector and to NGOs. The results of the study will be available in the first half of 2003.

6.6.3 A National database of SMEs. One of the targets under Government's millennium project is to establish a National Database of SMEs. This database will assist Government decision-making and will in particular facilitate the introduction of value added tax. The SME Unlit has commenced compilation of this database and will add to it under the activities described in this policy statement. The SME Unit will make arrangements for continuous updating of the database

6.6.4 A Longitudinal Study of SMEs

From the survey sample, a cohort of businesses will be selected which will form the basis of a time sampled longitudinal study of small businesses. Information will be drawn from these businesses to provide Government with accurate and timely data on the fortunes of the sector.

Assurances will be given to businesses included in the cohort that such information is for research purposes only. This data will be used to fine-tune this policy. There will be a need to improve the Government's research capability to analyse and use this data. Discussions have commenced with the University of Swaziland to do so.

6.6.5 Comprehensive Data on the Sector.

It is recognised that some within Government Ministries require more comprehensive information on the sector than is required to guide and support policy information. The setting up of a system to collect information on small businesses in Swaziland is a formidable task, and can only be undertaken within the context of a revised process for issuing business licences or through the introduction of a computerised VAT system. The SME unit will liaise with the Ministry of Finance as plans to introduce VAT are advanced.

7 GUIDELINES FOR IMPLEMENTATION

7.1 Introduction.

Action to implement this policy is needed. As far as possible, responsibility for its success should be assigned to individuals rather than to committees with the key responsibility being held by the Director of the SME Unit. Implementation, through the development of three-year strategic plan, will be guided by SMART principles. These are:

- a) Outputs should be **specific**. For example, *"action relating to the improving the quality of business counsellors should identify and state, through the use of objective and verifiable indicators, the minimum performance that is required of a small business counsellor."*
- b) Outputs should be **measurable**. Targets should be quantifiable. For example: *"Commercial bank lending to the SME sector as defined by Government Policy will be targeted to increase as follows. Government will work with commercial banks to increase the value of loans or overdraft facilities offered to SMEs by 10 per cent per year with 2003 as a base year."*
- c) Policy outputs should be **achievable or workable**. To have credibility, what the policy promises must take account of the resources available for its implementation. For example, claims that the number of Ministries engaged in SME support will fall from 17 to 5 over a period of 12 months are not workable in terms of the resources with the SME unit to achieve this objective
- d) Outputs must be **realistic or practical**. For example, promises to make large quantities of commercial land quickly available for small businesses in rural areas or to change the legal status of married women within the framework of this first policy statement are not considered realistic or practical, although steps may be taken towards facilitating both objectives.
- e) Finally, outputs should be **time bound**. If this policy is to establish a one-stop shop for licensing and business support, or to introduce a small claims court, dates should be given for doing so.

7.2 Development of a work programme.

A strategic plan is needed to guide the implementation of this policy. The date for completing the drawing up of this plan is the end of June 2003. Once agreed and after implementation commences, monitoring meetings will take place each quarter to assess progress on implementing the work of the policy. The SME unit will draw up the strategic plan that will guide

implementation. The strategic plan will be developed by the SME Unit with the support of the EU's SME advisor. Delivery of the work programme outputs will be the responsibility of the Director of the SME Unit.

The work programme will also be drawn up in consultation with stakeholders within Government, the private sector, civil society and the donor community.

7.3 Shared Responsibilities, further actions

Early internal debate and discussion on this policy statement is required within the Ministry of Enterprise and Employment. It is the responsibility of the Director of the SME Unit to make arrangements for this, and to prepare the policy statement for formal acceptance by Government. This process of internal discussion should include the Minister, the Principal Secretary, legal, commercial and planning officers. The Ministry needs to accept shared responsibility for the statement and its implementation. Once this process is complete and the policy document has final agreement within the Ministry, then the SME Unit will make arrangements for a final round of stakeholder discussion. The statement will be made available to a wide range of stakeholders who will be invited to make written and oral submissions.

8. INSTITUTIONAL ARRANGEMENTS

8.1 Introduction.

This part of the policy statement identifies key players in the implementation of the policy. It outlines their responsibilities in implementation and management and, where these exist, summarises the institutional development and training needs required before this policy can be effectively implemented

Based on research already conducted, the SME Unit will encourage and assist the various Ministries to streamline and simplify their activities with the SME Sector. An inter-ministerial workshop will lead this process. In some cases Ministries may be required to transfer activities to the line Ministry of Enterprise and Employment. In other cases where provision is already made elsewhere by Government, NGOs or the private sector, activities may be dropped. Policy for the Business Development Services Sector is for external agencies to provide more support and Government to do less. Responsibility for ensuring the quality of BDS and national access to it through membership organisations, private providers and NGOs will fall to SEDCO

8.2 Ministry of Enterprise and Employment

a) Minister for Enterprise and Employment.

- i) Comment on the political acceptability of the policy statement to Government
- ii) Introduce and present policy to cabinet for approval
- iii) Publicly launch and promote the policy

b) Principal Secretary

- i) Identify budgets and resources for policy implementation
- ii) Provide guidance and support for implementation and management of the policy
- iii) Encourage collaboration between the Director of the SME Unit, and other key managers within the Ministry of Enterprise and Employment.
- iv) Monitor progress of implementation and management
- v) To inform, at PS level, other Ministries of the existence and broad structure of the policy

c) Director of the SME Unit.

- i) To assume managerial responsibility for implementation and management of the policy.
- ii) To communicate the intent and content of the policy to stakeholders inside and outside of Government.
- vi) To identify the financial and human resources required implement the plan.

- vii) To ensure that the final public consultation phase of the policy development process takes place in the first quarter of 2003
- viii) To liaise with the EU's small business advisor and others and to ensure that a strategic plan to implement the policy is put in place.
- ix) To co-ordinate the activities of colleagues within the Ministry of Enterprise and Employment and in other Ministries in relation to the policy.

d) Planning Officer.

To provide technical help and assistance to the Director of the SME Unit in drawing up a strategic plan for policy implementation. To identify linkages with other key aspects of Ministry Policy. To attend final policy development workshops and quarterly monitoring meetings.

e) Legal Officer.

To become aware of the content of the policy and advise where new legislation might be required or current legislation amended. To support the amendment and drafting of new legislation where this is required. To attend final policy development workshops and quarterly monitoring meetings

f) Commercial Officer.

To become familiar with changes in business licensing regimes elsewhere in the region and to work closely with the Director of the SME unit in working to establish a one-stop shop. To contribute to the process of easing access to licences. To attend final policy development workshops and quarterly monitoring meetings

8.3 Ministry of Finance.

- i) To take the lead on freeing up financial markets for small businesses.
- ii) Open up an effective channel of communication with the commercial banking sector to provide a platform to discuss the banks' attitude to the sector and its future plans.
- iii) Assist in the process of making ETF and SIDC more independent of Government.
- iv) To insure that the implications of the SME policy are considered in the budget statements for 2003-2008.

8.4 Ministry of Planning and Economic Development

- i) To integrate the SME policy with other key aspects of Government planning such as the National Development Strategy.
- ii) To identify possible donor partners to support implementation of the policy.

8.5 Central Bank

- i) Implementation of a revised regulatory code for the Micro finance sector.
- ii) Support in discussing increased access to full banking services, from commercial banks to the small business sector.

ANNEXES

Annexe 1: Findings of a Study identify the role of Government Ministries and Parastatals in working with the SME Sector

Annexe 1: Findings of a Study identify the role of Government Ministries and Parastatals in working with the SME Sector.¹³

- a) A cost benefit analysis should be undertaken to identify the need for existing business and trade licenses.
- b) A review the Regional Development Fund (RDF) and Tinkhundla Empowerment Fund should be undertaken with a view to stopping grants for groups and associations seeking personal gain.
- c) Consideration should be given to transferring the responsibilities for vocational training to the Ministry of Enterprise and Employment as well as transferring field/extension officers
- d) The Management of factory shells should be allocated to a single Ministry.
- e) The SME roles of the Swaziland Investment Promotion Agency (SIPA), the Small Enterprises Development Company (SEDCO) and the SME Unit should be assessed concerning the provision of business advice.
- f) Pre-vocational and vocational educational schemes together with their enterprise development components should be expanded.
- g) Government tender procedures and regulations should be simplified and made more transparent.
- h) A review of the role of Commercial Amadoda as the appropriate body to serve his Majesty's consent should take place.
- i) A survey of SMEs in Swaziland should be undertaken and a database set up.

¹³ SME Unit, July 2002.

Annex II: SME Role and Responsibilities of Government Ministries and Agencies and other Institutions

Annex II: SME Role and Responsibilities of Government Ministries and Agencies and other Institutions

1 Ministry of Agriculture

- a) Agriculture and Extension Service Department
- b) Home Economics section
- c) Land Development section
- d) Marketing
- e) NAMBOARD
- f) Co-operatives

2 Cabinet Office

- a) Millennium Action Programme (MAP) Correctional Services has as one of its targets the training of inmates for self-employment

3 Ministry of Defence

- a) Trains civilians in mechanics, carpentry and building, but is not sure of where it gets this mandate

4 Deputy Prime Ministers Office

- a) Community Development Officers
- b) PU-five staff train in income generation
- c) Women in Development-80 women a year trained in sustainable livelihood skills
- d) E80 million to RDF
- e) Tinkhundla Empowerment Fund
- f) Workshop/factory shells
- g) Regional Development Policy

5 Ministry of Economic Planning and Development

- a) Millennium Project Factory Shells for SMEs.
- b) Setting National Strategy for Development, including "design policies and measures to enhance the promotion of SMEs.
- c) External liaison with donors. Donors with an SME focus include EU, Republic of China, Germany, and UNDP.

6 Ministry of Education

- a) Prevocational Education with entrepreneurship
- b) Vocational Education at VOCTIM and SCOT
- c) University of Swaziland is setting up a Business Development Centre
- d) Vocational Skills to SEBENTA

7 Ministry of Enterprise and Employment

- a) Policy Direction through the SME unit
- b) Trade Licensing
- c) Trade Testing
- d) Handicrafts Promotion
- e) Small Scale Enterprise Loan Guarantee
- f) Product Standards
- g) Weights and measures
- h) Trade policy (with MFA)
- i) SIPA
- j) SEDCO

8 Ministry of Finance

- a) ETF
- b) Corporation Tax
- c) Customs and Excise
- d) Government tendering regulations

9 Ministry of Foreign Affairs

- a) TPU
- b) Trade Policy

10 Ministry of Health and Social Welfare

- a) Health Regulation Checks on new business

11 Ministry of Home Affairs

- a) Gender issues
- b) NGO Issues
- c) Rehabilitation for the disabled
- d) Refugees

12 Ministry of Housing and Urban Development

- a) Building Regulations
- b) Land Development
- c) Regulating the functions of Local Authorities
- d) Promoting the growth of urban areas

13 Ministry of Justice and Constitutional Affairs

- a) Companies Act
- b) Small Claims Court

14 Ministry of Natural Resources and Energy

- a) SKPE
- b) Energy Policy
- c) Water Policy
- d) Land Policy

15 Ministry of Public Service and Information

- a) Review of Ministerial functions for continued relevance

16 Ministry of Public works and Transport

- a) Regulation of Transport Operators
- b) Roads Policy
- c) Promoting Indigenous Construction Companies

17 Ministry of Tourism and Communication

- a) Licensing
- b) Licenses for gambling and lotteries
- c) STA and community grants scheme

18 Central Bank

- a) Small Scale Enterprise Loan Guarantee Scheme
- b) Export Credit Guarantee Scheme

19 Commercial Amadoda

- a) Issues licenses to build premises on SNL land

20 Swaziland Industrial Development Corporation

- a) Loans, equity and leasing to larger companies
- b) Is to form an SME division

21 Tibiyo Taka Ngwane

- a) E8 million to ETF

9. RESOURCE MANAGEMENT

Financial implications

10. COMMUNICATION

11. POLICY REVIEW

Annex III: SME POLICY MANAGEMENT STRUCTURE

SME POLICY MANAGEMENT STRUCTURE

