Role of SMES in Botswana

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Abstract

Purpose – The purpose of this paper is to discuss the role SMEs play in the development of countries such as Botswana, which are still developing. SMEs are playing a major role but their contribution has not be discussed or well researched in Botswana. It focuses on what SMEs contribute and what barriers are there which make them not to contribute at their optimal .A lot of research on SMEs contribution is on developed countries and developing countries are still lagging behind.

Design/methodology/approach – This is essentially a general review paper on the contribution SMEs have made and can make to the development the economy of Botswana.

Findings – SMEs role in the development of Botswana cannot be ignored. The contributions SMEs are making, prove that they are a major area to be researched to help the SMEs themselves and the policy makers to encourage or cultivate the environment to enable SMEs to do more

Originality/value – This is an original piece of work aimed at raising awareness of the value of SMEs to the development of a developing country like Botswana.

Keywords: Botswana, SMEs, Contribution, Challenges

Introduction

Entrepreneurship has always been existent in Botswana. The history of entrepreneurship or SMEs can be tracked as far back as the origin of Botswana. The spirit can be seen in different old industries such as agriculture and others. Entrepreneurship and SMEs have developed over the years but little research has been done on the impact and roles they play in economies especially of developing countries such as Botswana.

SMEs across the world have been identified as vital in achieving industrial and economic development objectives; a lot of researchers such as Ongori (2010), earmark SMEs as the cornerstones of both developed and developing economies. Governments view SMEs as major sources of employment, economic growth and wealth creation (Hanguin and Morrison, 2007; Daun et al, 2002: Mutula and Brakel, 2006). In addition to the previously mentioned, development of this sector contributes to poverty alleviation and generation of potential entrepreneurs (Expert Group Meeting, 2010).

Apart from these contributions, the sector offers linkage development to large industries and essential for a competitive and efficient market. SMEs support the rural economy in providing income generating activities thus increase the rate of growth of real per capita income, balance income distribution and improve economic stability. Countries like Botswana where there are difficulties faced by marginalized groups such as disabled, youth and women, SMEs are seen to be forming a large part of the solution.

SME sector is constantly proving to be engine of growth; they are the major source of technological innovations and new products. Botswana who is faced with economic diversification due to the limited benefits drawn from diamonds and beef and difficulty in achieving economic growth with human face through primary export –lead growth. The government finds itself strongly seeking rescue from the SME sector.
Background on Botswana

Botswana is a small country in the southern part of Africa. Botswana’s population was estimated to be 1.7 million in 2004 and 56.4% of who were the ages of 15 and 64. The International Labor Organization estimates the unemployment rate of Botswana to be at 19.6%.

Economy

Botswana has enjoyed one of the fastest growth rates in per capita income in the world since independence, although it slowed considerably due to the global economic downturn. The economic growth rate averaged 9% per year from 1967-2006, but slowed during 2007 and 2008 to only 3% before dropping to minus 3.7% in 2009 (Botswana Government, 2000). The World Bank estimates that the informal economy was 33.4% of GNI in 2003. The 2004 PPP adjusted GDP per capita in terms of current international dollars was $9267. In 2002, the remittances that Botswana received amounted to US$15,803. The World Bank also reports that 31% of the population lived on under US$1 per day in 1993. In 2010, real GDP grew by approximately 7.5%, and it is expected to post an average growth of 6% in 2011 and 2012. The government has maintained a sound fiscal policy and a negligible level of foreign debt. Foreign exchange reserves were estimated to be $8.4 billion in September 2010, representing approximately 19 months' cover of imports of goods and service (Botswana Government, 2000).

Economic diversification is a major policy objective of the Government of Botswana and has been a key determinant of both macro- and micro-economic policy. It is so important that the Ninth National Development Plan (NDP9) covering the period April 2003 to March 2009, adopted as its theme “international competitive sustainable economic diversification”. The role of SMEs in Botswana’s economic diversification drive is a major one.

Definition of SMEs in Botswana

Definition and characteristics of SMEs and Entrepreneurs change over the years. Changes are made to reflect the impact and benefits SMEs can bring to a country or region. It is difficult to formulate a universal definition of a small business because the economies of countries differ and people adopt particular standards for particular purposes. Secondary research (Bowler, Dawood and Page, 2006; Phakisa, 2009) indicated that there are no universally accepted small business definitions. Different institutions and countries use different criteria to define SMEs. Even though the definition of entrepreneurship change we found one from Expert Group Meeting of 2010 “entrepreneurship is a process that starts with someone—the entrepreneur-recognizing an opportunity to create something new” to be more fitting to the topic under discussion.

Definitions of SMEs and characteristics were based on fixed assets mainly before but this was not giving a clear definition, lately more items are used such as employment levels, annual turnover, annual balance sheet total and some countries still use the total assets in addition.

In Botswana a Task Force was formed in 1998 to come up with government accepted definition, and the Task Force proposed three categories of enterprises, using annual turnover and the number of employees. Botswana’s definition was compared to EU just to have a picture.

Botswana SMEs Thresholds

<table>
<thead>
<tr>
<th>Item</th>
<th>Size category</th>
<th>Employment levels</th>
<th>Annual Turnover in (Botswana Pula)</th>
<th>In US Dollar (Equivalent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Micro Enterprise</td>
<td>Less than 6 workers</td>
<td>Less than P60 000</td>
<td>US$10 000</td>
</tr>
<tr>
<td>2.</td>
<td>Small Enterprise</td>
<td>Less than 25 workers</td>
<td>Between P60 000 and P1 500 000</td>
<td>Between US and US$250 000</td>
</tr>
<tr>
<td>3.</td>
<td>Medium Enterprise</td>
<td>Less than 100 workers</td>
<td>Between P1 500 000 and P5 000 000</td>
<td>Between US and US $833 333.33</td>
</tr>
</tbody>
</table>

Expert Group Meeting, 2010
**EU SMEs Thresholds**

<table>
<thead>
<tr>
<th>Item</th>
<th>Enterprise category</th>
<th>Headcount: Annual Work Unit (AWU)</th>
<th>Annual turnover</th>
<th>Annual balance sheet total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Medium-sized</td>
<td>&lt; 250</td>
<td>≤ €50 million (in 1996 € 40 million)</td>
<td>≤ €43 million (in 1996 € 27 million)</td>
</tr>
<tr>
<td>2</td>
<td>Small</td>
<td>&lt; 50</td>
<td>≤ €10 million (in 1996 € 7 million)</td>
<td>≤ €10 million (in 1996 € 5 million)</td>
</tr>
<tr>
<td>3</td>
<td>Micro</td>
<td>&lt; 10</td>
<td>≤ €2 million (previously not defined)</td>
<td>≤ €2 million (previously not defined)</td>
</tr>
</tbody>
</table>

SME Definition, 2003

**Size of the SME Sector**

The study of BIDPA, 2006 found the following:

The policy document estimated the number of employees in micro enterprises as 50,000, followed by 6,000 small enterprises and lastly 300 medium sized enterprises in the year 1999. The policy further estimated that 70% of micro enterprises are in rural areas and are 75% owned by women, lack formal registration and operate from residential premises. The breakdown in terms of business activity is assumed to be trading (65%), manufacturing (25%) and other sectors (10%). Small enterprises on the other hand are estimated to be 80% urban based, with the services sector (40%), manufacturing (20%), retailing (16%), transport and distribution (10%), construction (6%) and agriculture (8%). No estimated percentages are given for medium enterprises other than the statement that the majority of them are involved in some form of manufacturing.

**Government Support and Policy on SMEs**

The importance of SMEs has always been observed by the government but the policies and documents were a bit implicit on the matter. Early NDPs, NDP 1-5 were not covering a lot of policies and strategies for SMEs in Botswana. Starting from National Development Plan commonly referred to as NDP 6 of 1995-1991, the government started to identify alternative sources of income. Areas such as Manufacturing and services (including tourism) were identified as the promising sectors for future growth. The performance in these sectors was already striking, but from a very small base.

In NDP 7(1991-1997), under the Industrial and Commercial Development section, the government’s intention is highlighted: emphasis on economic diversification, promotion of non-traditional exports (commodities other than diamonds, copper-nickel and beef), and creation of an enabling environment to foster the growth of the private sector. As means of cultivating the entrepreneurship, government formed a new division under the Ministry of Trade and Industry called Integrated Field Services focusing on training of SMEs on technical and management issues. During this era (1991-1997), the Financial Assistance Policy (FAP) of 1982 gained a lot of popularity. Its main function was to provide financial assistance to entrepreneurs in the industrial sector as well as for certain agricultural and small mining activities. Statistics from the Ministry of Commerce and Industry-MCI (1996), show that FAP financed projects to the value of P 158 875 000, across the whole country 1991-1995.

As years passed by, it was getting tougher and tougher for the government of Botswana and only SMEs were better placed to mitigate the country’s pain. NDP 8(1997-2003) dwelt more into SMEs’ issues. The government saw a need for a better office of the Registrar of Companies, and more functions were added to their list. During the first year of NDP 8, the government introduced Local Procurement Programme as a way to channel a proportion of Central Government’s supplies procurement to local manufacturers with a view to encourage the development of locally based SMEs. The Reservation Policy was introduced too, as a way of reserving certain commercial businesses exclusively for Batswana. Strategies were formulated in NDP 8 to encourage SMEs. An objective to increase linkage between export business and small and medium scale businesses in Botswana was set.
The then MCI extended its extension services for small and medium business to urban areas, where the assistance will place special emphasis on export marketing, quality control and meeting delivery schedules. The understanding was that it is from urban based small and medium scale business that most of the Botswana based export firms will emerge. During the same period, the government found it that despite the numerous efforts to help SMEs, they still fail and that was a main concern. A task force was established to provide policy recommendation to government encompassing entrepreneurship development, access to credit, training policies, institutional support, technology acquisition and diffusion as well as the regulatory environment and other issues pertaining to SMME development.

The Policy on Small, Medium and Micro Enterprises in Botswana was adopted in 1999 following the findings of the SMME Task Force (1998) whose job was to comprehensively address SMME issues and guide the development of a national policy for the SMME sector. (Mannathoko, 2011) The government of Botswana found it fit to give the SMEs the credit they deserve. The NDP 9 (2003-2009) put a lot of emphasis on SMEs development and growth. A lot of policies which were aimed at cultivating and encouraging the spirit of entrepreneurship were formulated during this plan.

A big organ, Local Enterprise Agency (LEA) was formed, consolidating small enterprise development and training organizations including the Integrated Field Services (IFS), the Small Business Promotion Agency (SBPA) and Enterprise Botswana (EB). Further, during NDP 9, the office of the Registrant of Companies, the Consumer protection Office and the Competition Authority were established as autonomous policy and programme implementation. The Ministry of Trade and Industry among others were reorganizing thus new responsibilities. The Department of Industrial Affairs came up with a strategic plan (2001-2009) specifically to ensure effective implementation of the Industrial Development Policy. The implementation will contribute hugely to the growth and diversification of the economy.

The policy on Small, Medium and Micro Enterprises (SMME), SBPA and the Small Business Council were highly utilized during this plan. The objectives of SMME Policy were to foster citizen entrepreneurship and empowerments, promote SMME export, achieve economic diversification, just to name a few. From June 1999 to June 2003, the SBPA coordinated the SMMEs Micro Credit and Credit Guarantee Schemes, the agency trained 22,690 loan beneficiaries at a cost of P10.8 million.

Support for SMEs by the government of Botswana in the 20th Century came in different forms but predominantly finance. The Citizen Entrepreneurship Development Agency (CEDA) formed in June 2002 is one of the financial support institutions. CEDA disburses subsidized funding to the SMME sector. It lends from P500 to P1 500 000 at 5% interest per annum, payable over a period of five years, for a small scale category of enterprises. Then figures from P150 000 to P2 million at 7.5% interest per annum, payable over 7 years, for medium scale enterprises (BIDPA 2009). The government has so much hope on this organ. The Out of Youth Fund has been implemented as 50% grant and 50% loan, to a maximum of P100 000. The fund was established to help the youth engaged in business.

In addition, there are more institutions to help finance SMEs such as National Development Bank, Botswana Development Corporation and others. Other institutions are major role players in policy formation and non-financial support such as Botswana Confederation of Commerce Industry and Manpower, Exporters Association of Botswana, Small Business Promotion Agency, Small Business Council, Enterprise Botswana and Local Enterprise Authority.

**Contribution of SME Sector to Botswana’s Development**

One of the significant characteristics of a flourishing and growing economy is a booming and blooming small and medium enterprises (SMEs) sector. (Fida, 2008)

SMEs are vital in achieving industrial and economic development objectives. Development of this sector contributes to poverty alleviation, employment creation and generation of potential entrepreneurs. It offers linkage development to large industries.

Supports the rural economy in providing income generating activities. Enable marginalised groups such as the disabled, youth, and female-headed households to meet basic needs in the informal sector (Ministry of Commerce and Industry, 1998)
According to the United Nations Industrial Development Organization UNIDO, for developing countries, integration into the global economy through economic liberalization, deregulation, and democratization is seen as the paramount way to triumph over poverty and inequality. Important to this process, is the development of an animated private sector, in which small and medium enterprises can play a central role (Fida, 2008).

**Employment**

An important contribution of small businesses to national economy is derived from the US economy. Small businesses are job creators and are what really drive the U.S. economy. Small and medium-sized enterprises are contributing to employment growth at a higher rate than larger firms. In the EU economy about 99.9 per cent of the enterprises are SMEs of which 93 per cent are micro enterprises. In 1992, there were 15.7 million SMEs in the private non-primary (i.e. non-farming) sector of the Community (http://www.unece.org/indust/sme/ece-sme.htm). Politicians, academicians and developmental economists are of the view that enhancing small business development and promoting entrepreneurship would be a good strategy to contribute and promote economic development. From the viewpoint of economic development, small businesses create almost half of new jobs in the economy, and it is assumed that they are good jobs (Edmiston, 2007). Estimates from the Botswana Institute of Development Policy Analysis (BIDPA, 2006) put the SMME contribution to employment at 32%, the majority of which is in the micro sector at 14%. This figure compares with 32% for large firms and 36% for government.

**Economic Contribution**

Internationally, there is a general agreement that small enterprises contribute immensely to economic development (International Labour Organisation, 2001). In Botswana, the government and donor agencies are increasingly emphasizing the key role played by the SME sector in promoting economic and social development. Consequently, they are jointly providing financial assistance in an attempt to encourage and assist SMEs in the country (Machacha, 2002, p. 277). Similarly, the government has realized that it is not sensible to depend largely on the diamond mining industry for the long-term economic development of the country. Consequently, it is encouraging the development of the SME sector as a way to diversify its economy (Amani and Mbaga-Kida, 2001).

The World Business Council for Sustainable Development (WBCSD, 2004:2) reports that in the Organization for Economic Cooperation and Development (OECD) economies, SMMEs account for over 95 percent of firms, 60 to 70 percent of employment, 55 percent of Gross Domestic Product (GDP) and further generate the lion’s share of new jobs. In addition, WBCSD (2004:2) reports that for developing countries, more than 90 percent of all firms outside the agricultural sector are SMMEs, generating a significant portion of GDP. The BIDPA (2007) report indicates that SMMEs contribute up to 75 percent of private sector employment and about 20 percent of national output (GDP). Micro and small enterprises are a major feature of the economic landscape in all developing countries today (Liedholm and Mead, 1999).

**Poverty Alleviation**

The development of SMEs is seen as the way to accelerating the achievement of wider socio-economic goals, including poverty alleviation (Cook and Nixson, 2000). Economics plays an important role in the development process of any country. An increase in the living standards of the people is the main concern of any development process (Kongolo, 2010). If it was not for the SMEs a lot of people in Botswana would be leaving below poverty line.

**Economic Transition**

SMEs play significant contribution in the transition of agriculture-led economies to industrial ones furnishing plain opportunities for processing activities which can generate sustainable source of revenue and enhance the development process (Kongolo, 2010).

**Income Distribution**

SMEs contribute not only to income generation but also income distribution. Large firms normally tend to produce an elite number of high wage income earners whereas SMEs produce a significantly large number of relatively low-income earners. The development of SMEs would therefore help spread income to more people.
Since the majority of Batswana (Over 65%) are living in rural areas, the promotion of the development of SMEs should continue to be a policy priority to narrow the gap between urban and rural development and to monitor social inequities and rural migration (Pansiri & Temtime, 2008)

**Family income stability**

From the socio-economic development viewpoint, SMEs provide a variety of benefits (Advani, 1997). SMEs have advantages over large-scale businesses because they can adapt easily to market conditions and they can withstand adverse economic conditions given their flexible nature. They are more labour intensive than larger firms and they have lower capital costs associated with job creation. They play critical roles to ensure income stability, employment and economic growth (Liedholm and Mead, 1987; Schmitz, 1995. In Southern Africa, the informal economy is a means of survival for many female-headed households, especially those in the urban areas. Activities in this sector include agriculture, small manufacturing, transport services, construction and trade, especially retail (International Labour Organisation 1992) and generate employment for urban people who would otherwise be unemployed (Maldonado, 1995).

**Inter-linkage between Enterprises**

SMEs help to absorb productive resources at all levels of the economy and add to the formation of flexible economic systems in which small and large firms are interlinked. Such linkages are very crucial for the attraction of foreign investment. Investing transnational corporations look for sound domestic suppliers for their supply chains (Fida, 2008).

**Challenges faced by SMEs in Botswana**

**Marketing Skills Problems**

Marketing of an SME determines in the long term whether the business will succeed or go under. The assumption is if the potential customers are not aware of your products or services no one will do business with you (Scheers, 2010). Gem (2002) argues that marketing in SMEs is fundamentally different and more successful. Marketing of an SME determines in the long term whether the business will succeed or go under. Murphy (2006:13-14) states that small business owners exhibit certain personality traits that are responsible for the success or failure of their businesses. Inadequate marketing skills of owners create marketing problems in the small business sector. SMEs in Botswana do not have the necessary marketing skills. They do not utilize the new marketing strategies such as social networks and others.

**Financial Problems**

While the government has made some efforts to increase accessibility to finances, the targeted programmes have had limited success because the awareness and usage of existing promotional programmes is very low (Thwala & Phaladi, 2009). In addition to insufficient access, high interest rates also pose a constraint to micro enterprise growth. Moreover, (Gounden 2000) reports that there are core difficulties seen in terms of discrimination by financial institutions against microenterprises with little collateral, difficulties in accessing information and a lack of market exposure. The inadequacy of external finance at the critical growth and transformation stages of micro-enterprises deters the enterprises with growth potential from expanding (Nissanke, 2001). The criteria and credit rating used by banks disadvantage SMEs a lot in Botswana, in addition the huge collateral requirements add salt to wound.

**Competition**

The sighting of competition as a top challenge is expected as most SMEs, especially small sellers and producers tend to congregate in dense markets and overcrowded cities (National Baseline Survey, 1999). It also suggests a lack of market information and innovation as most new businesses are a duplication of already existing ones. Just to name one, the streets of Gaborone are lined with informal and formal businesses selling the same products and this impact their growth negatively.

**Lack of Training and Management Skills**

Entrepreneurship training and education acts as a facilitator for entrepreneurial activities, with the main focus on stimulating entrepreneurial activity and performance.
The importance of entrepreneurship education and training is well established. From an economic perspective, education is seen as a critical factor in promoting long term employment and economic growth (Sweeney, 1998). One of the most significant reasons for the failure of SMMEs is their inadequate application of essential business and management practices (Alasadi and Abdelrahim, 2007). Therefore training for small business owners/managers as well as their subordinates allows them to acquire the necessary skills to ensure the survival and success of their business. LEA and other institutions are trying to play a role to try and reduce unskilled SMEs but the numbers are still at alarming rates.

The way forward

The business needs to change the way it operates and must become more formal without becoming too bureaucratic (Burns, 2001) and these changes must be properly managed if the SMEs are to grow successfully. LEA in collaboration with the Ministry of Trade and Industry should advocate for a reservations policy for local SMEs to access government procurement contracts, especially for products and services identified as essential by the government departments.

LEA in collaboration with BOCCIM should encourage SMEs to form strategic partnerships with larger enterprises and other SMEs when they have won tenders to learn from the experiences of others in terms of quality, pricing and adherence to delivery times and be able to manage the awarded contract. (LEA, 2000)

Some of the suggestions made by small business operators to government to help to improve and develop their businesses were as follows (Acquah & Mosimanegape, 2007)

- Provide business advice, training and finance to small business enterprises.
- Build stalls and provide financial support to small business enterprises.
- Provide business start-up training, entrepreneurial skills, and mount a proper monitoring system to help in the running of small businesses.
- Eliminate red tape. It takes forever to get a trading license.
- Provide finances for growth and start-ups.
- Allocate land to small business owners.
- Give tenders and reserve some businesses for Batswana.
- The Chinese should only be allowed to be wholesalers, not retailers.
- Provide financial assistance to build big premises, training on book-keeping and management of businesses.
- Provide financial assistance, book-keeping and marketing strategies.
- Provide financial assistance with low interest rates and assign someone to monitor the businesses.
- Government should subcontract their business to small businesses, not to only large businesses.
- Provide premises to business owners and provide them with finance.
- Government tenders should not only be given to foreigners; they should be given equally to Batswana.
- Reduce rentals and utilities for SMEs.

In addition, it is emphasized that marketing skills and business knowledge are an indication of how well an entrepreneur can perform important tasks and activities related to the functions of a business. The marketing challenges of SMEs can be decreased by training marketing skills to SME owners and assist them to use the marketing concept more efficiently. Financial management should be emphasized as well as networking with other people with similar businesses and keeping records of workers to help in evaluation of the performance.

Conclusions

The contribution of SMEs in Botswana is huge. SMEs contribute to economic development in various ways: by creating employment for rural and urban growing labor force, providing desirable sustainability and innovation in the economy as a whole. In addition to that, large number of people relies on the small and medium enterprises directly or indirectly (Fida, 2008). The most important development priority in Botswana is to diversify the economy in general, and to diversify production for export in particular. The diversification of exports should include services as well as manufactured goods. Economic diversification is necessary for future economic growth, and this in turn is necessary for the growth of employment and others. SMEs are the pillars to the government’s diversification drive.
Currently SMEs are experiencing a lot of problems or challenges. These challenges result in them not contributing optimally to the development of Botswana. The government is to play a major role in helping the SMEs to overcome these challenges.

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