SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

INSIDE SOUTHERN AFRICAN TRADE

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In this issue of INSAT we look at two small mountainous Southern African kingdoms – Lesotho and Swaziland – where apparel firms have thrived in recent years; becoming significant employers and foreign exchange earners.

However, recent events have put the industries, and the jobs that have been created, at risk. We look at two initiatives aimed at responding to the current challenges and ensuring the sustainability of the industries in the short and medium term.

On pages 8-11 we provide overviews of Lesotho and Swaziland in the form of a selection of narrative and statistical data.

'We Speak To' Belinda Edmonds, CEO and co-founder of Cool Ideas, an apparel sourcing company that facilitates several million dollars worth of apparel exports from Southern Africa every year.

In the 'Guest Perspective', Leslie Johnston, country director of the Swaziland Enterprise and Entrepreneurship Program (SWEEP), discusses the evolution of small enterprises to viable export-oriented businesses; asking why some go all the way and others remain one-man (or mostly one-woman) operations.

We hope you will enjoy this issue of INSAT and we invite you to share your opinions and suggestions with us by writing to *insat@satradehub.org*.

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GUEST PERSPECTIVE

SMALL BUSINESS, BIG BUSINESS?

Leslie Johnston, TechnoServe's country director of the USAID-funded Swaziland Enterprise and Entrepreneurship Program (SWEEP), shares her thoughts on what it takes for a small business to grow into a bigger, sustainable exporting enterprise.

In most developed economies, small and medium-scale enterprises (SMEs) are the primary engines of economic growth, driving innovation and productivity and generating new jobs. However, in Africa, thousands of micro-enterprises start up but then fail to develop into larger and more impactful businesses able to sell into regional and international markets. Swaziland alone has 70,000 such micro-enterprises. Why is this the case?

Money? That's usually what an SME owner will say. Indeed, SMEs need capital in order to start up and expand. In developed economies, most start-ups are self-financed with help from the four "F's": founders, family, friends and foolhardy strangers. In Africa, that strategy is only possible for a lucky few, and, to unproven entrepreneurs, or those lacking adequate collateral (who are many), capital can be very hard to come by. Here, most banks are lending at prime (currently 14.5 percent), plus 2-4 percent for the riskier SMEs. This is a heavy debt burden for a start-up enterprise.

But capital, although essential, is rarely adequate, particularly for those companies wishing to target external markets. In the northwest corner of Swaziland, a Swazi SME demonstrates this point. Sdemane Farming is currently exporting baby vegetables to Europe through South African distributors. Its quality is excellent and its buyers eager for more and more product.

Its success is due not only to having secured capital at the right time but also to the entrepreneur behind the business. In 1996, Mr. Dlamini joined a foreign-owned company exporting baby vegetables. He steadfastly worked his way up, becoming farm manager in five years. In 2005, he bought the farm and packhouse with the help of a loan from a local financial institution. But it is his vast technical knowledge, selfless commitment, and strong relationships with key international distributors which ensure the success of his business. Is such an entrepreneur born or bred? Given Mr. Dlamini's passion for success, we think it's a bit of both.

So, what will it take for more African SMEs to link into the international markets?

While many factors determine whether an SME can thrive and grow, three, I believe, must absolutely be in place:

Viable business model. Let's be clear. African micro-enterprises are largely poverty-coping strategies rather than employment generators, and produce too little profit to allow their owners to reinvest for growth. A 2006 study by FinScope on small businesses in South Africa confirmed this. A staggering 70 percent of the million or so small businesses in Gauteng Province created no jobs beyond self-employment and most of these would gladly close down if regular employment were available. Thus the challenge is not how to convert these many micro-enterprises into thriving SMEs, but rather how to effectively provide a ladder to scale for those few with the talent and drive to emerge from the crowd.

A viable business model is one which provides a consistent good or service at a competitive price to a reliable market. It differentiates itself from the competition. It also builds in the flexibility (and innovation) to contend with unexpected problems and take advantage of new opportunities.

Viable industry. All industries are not alike. They offer very different promises of true competitiveness and opportunity. Some, such as retail, rarely allow micro-enterprises the opportunity for growth. And that is indeed the challenge in attempting to "graduate" micro-enterprises to larger SMEs. Four out of every five micro-enterprises in Swaziland are involved in trade. Of the million small businesses in Gauteng, most are in retail and only seven percent of these retailers add any value to the goods they sell.

When we assess the potential of a particular industry, we assess various factors, including its size, maturity and competitive nature. We review barriers to entry and growth, as well as track the industry's trends. We assess how any changes in the economy, government regulation and technology might impact the industry's growth. Without favorable trends for market demand and prices, an industry may not offer an African entrepreneur opportunity for growth…or for linking into international markets.

Viable entrepreneur. A recent study found a correlation between the success of African SMEs and the level of education of the entrepreneur. Specifically, a university degree is an effective predictor of whether or not an African entrepreneur will build a growth business which can link into international markets (rather than a micro-enterprise with little potential for impact). But education alone is not sufficient. In Kenya, we found that beyond having some minimum educational/skills background, it is certain key personal qualities of the entrepreneur that were the most important predictors of success – even in cases where both the business model and industry were viable. Without an entrepreneur's passion, confidence, commitment, relationship-building skills – let alone business acumen – the business will not flourish.

Many donor dollars and good intentions

have been invested in trying to build SMEs in which the business, industry and entrepreneur are viable. While we do not proclaim to have the solution, we have tested a few interventions which contributed to building successful African SMEs able to access international markets.

Start with the right idea. Not all business ideas lead to impactful SMEs which can sell beyond their borders. Through our national competition and training program, ***Believe Begin Become***, we scour each country for the best business ideas in promising industries and invest in building the capacity of the entrepreneurs proposing them. In Swaziland this year, we are focusing the competition on a single sector – tourism – in order to strengthen the linkages between Swazi operators and the international tourism market. Those with the best business ideas benefit from at least two months of training on business fundamentals (a mini MBA) as well as one year of hands-on "aftercare" support for the finalists. We also facilitate linking the participants with the regional markets by taking them, with the assistance of the Swazi Tourism Authority, to the Tourism Indaba in May. While it's still early to assess the impact of this competition in developing successful SMEs, the Top 60 who completed the training in Swaziland to date have generated US$500,000 in incremental revenue (e.g., revenue beyond what they were generating prior to the competition) in 2007.

Create a role model. In other words, in an industry with significant growth potential, we focus on developing a role model – a single successful entrepreneur - which can be replicated by other aspiring entrepreneurs. We took this approach in Mozambique when we set up the country's first small scale, rural cashew processing facility. This particular entrepreneur did not know the cashew industry (such knowledge can be taught) but he did have the commitment, skills, and gumption to make his processing plant a success. Such an approach works only if the market, such as that for cashews, is large enough to accommodate many players. As the initial entrepreneur proved that smaller scale processing can be profitable, over time, about 12 others stepped forward to start up their own processing plants. Further, if the market allows, such a model can create a cluster of successful entrepreneurs who can benefit from each other. In the case of cashews in Mozambique, these new processors formed a joint marketing and

Successful entrepreneur Temba Dlamini runs a growing business that exports baby vegetables from Swaziland to Europe.

quality control organization. This enables each to bundle their product with the others in order to access the European market.

Link successful companies to emerging SMEs. Selling into international markets takes a level of sophistication and, in the case of agriculture, certification (EuropGap) not easily achieved by a fledgling SME. One approach we take is to link these SMEs with a larger, centralized buyer or distributor (such as a produce marketing organization or PMO) who provides the market, know-how and hands-on support to emerging SMEs. This approach works best in rural industries where a lead entrepreneur (such as Swazi Trails, an established tourism operator in Swaziland) has a profit incentive to reach out and build the capacity of less established players (such as Shewula Mountain Camp, a community-owned tourism operation). In this case, Swazi Trails includes Shewula in its own product mix, which it markets to international tourists. Swazi Trails also provides advice to Shewula to help build its capacity. Another good example of this approach is Sdemane Farming, the Swazi baby vegetable producer, who has not only its own base of production but also sources from rural farmers, each of which could grow into a larger SME with the right mentorship. Because of the high management requirements for baby vegetables, the company provides the right inputs (seedlings, fertilizer, etc.) to these rural farmers (while we provide hands-on technical assistance to Sdemane Farming itself), thus building their capacity to access international markets.

Each of these interventions takes a different approach to building the capacity of fledgling entrepreneurs to compete locally and internationally. Some approaches rely on "lead" companies (e.g., the PMO in baby vegetables) to provide this support. Others, such as ***Believe Begin Become***, focus on the business idea itself, and slowly build the capacity of the entrepreneur to implement and, ideally, access international markets. But the challenge with each of these interventions is their very sustainability and cost-effectiveness. In the short-term, donor funding (or government support) is required. This funding is essentially a short-term "smart' subsidy to overcome market failures and other constraints to SME development. However, we have to realize that not all SMEs (or aspiring SMEs) will benefit from such market-driven intervention. Only the strongest – most growth-oriented – entrepreneurs will benefit, rising above the rest and successfully linking into international markets.

In the long-term, solutions could be driven by the private sector – which itself is driven by the profit motive.

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