



**SADC DEVELOPMENT FINANCE INSTITUTIONS NETWORK
CHIEF EXECUTIVE OFFICERS FORUM**

**Centre De Convencoes De Talatona (CCTA)
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Report

Theme: SMEs Underpinning the SADC Industrialization Strategy

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ABBREVIATIONS

| | |
|-------|--|
| 4IR | 4 th Industrial Revolution |
| CEDA | Citizen Entrepreneurial Development Agency |
| DFI | Development Finance Institution |
| DFRC | Development Finance Resource Centre |
| GDP | Gross Domestic Product |
| ICT | Information and Communications Technology |
| LEA | Local Enterprise Authority |
| MSMEs | Micro, Small & Medium Enterprises |
| SADC | Southern African Development Community |
| SMEs | Small and Medium Enterprises |
| SMMEs | Small, Medium and Micro Enterprises |
| SOEs | State Owned Enterprises |

1.0 INTRODUCTION

The theme of the Forum was “SMEs Underpinning the SADC Industrialization Strategy”. The SADC Industrialisation Strategy is premised on three pillars: the enhancement of competitiveness at company, industry and regional level; industrialisation as a champion of economic and technological transformation; and regional integration as the context for industrial development. Implementation of the strategy involves the identification of sector value chains particularly in the areas of manufacturing, agriculture, infrastructure and ICT. The small and medium enterprises (SMEs) which are vital to the development and growth of our economies have been identified as key drivers of the industrialisation strategy in the SADC region.

The forum presented a platform for DFIs to unpack the role and expected contribution of SMEs as envisaged under the regional strategy. More specifically, the key objective of the Forum was for DFIs to interrogate the role of SMEs under the strategy and discuss how best they may be promoted and financed in order to make a significant contribution to the overarching regional goal of sustainable and inclusive economic growth and integration through industrialisation.

Further, the forum also discussed common issues that affect SMEs and thus impede realisation of their full developmental potential; shared experiences among themselves with a view to proffer best practices and proposed the way forward to enhance their participation within the SADC region.

2.0 THE OFFICIAL OPENING

Dr Mario Eglicenio Baptista do Nascimento, Chief Executive Officer of Banco Sol lead the meeting proceedings.

2.1 Welcome remarks

The welcoming remarks were given by Mr Charles Singili, Chairman of the SADC DFI Network and Managing Director for TIB Development Bank of Tanzania. He welcomed everyone and thanked them for attending the forum which he said was important to map a way forward for SMEs who played a major role in most economies of developing countries. He further indicated that whatever resolutions were taken at this meeting, member states should strive to implement them as they would assist in helping the SMEs and enhance the development of the SADC region.

2.2 Official opening

Dr Aia-Eza Da Silva, Secretary Estate for Budget and Public Investment of the Ministry of Finance of Angola, officially opened the meeting. Dr Silva expressed her appreciation that the CEOs Forum was being held in Angola at a time when the Angolan economy was recovering from an economic downturn. She appreciated and thanked SADC DFIs for their meeting where they converge and discuss important developmental and policy issues to improve the SADC economies. She further highlighted that in most African countries economic development is supported by SMEs and thus the forum recognised the importance these enterprises play and that they should be supported as they are used to drive the SADC industrialisation strategy.

Dr Silva, however, highlighted concerns that SMEs were not given sufficient support in the region. She also noted that SADC was a regional body and should work collectively to develop SMEs. She noted that African countries have six of the fastest growing economies in the world that rely on SMEs for development.

Dr Silva urged the SADC DFI Network and other stakeholders to provide support for SMEs to develop their capacity to enable them to attain international standards in order to compete in global markets. She recognised the crucial role that DFIs in Angola and the rest of the SADC region have played in the development agenda goals of member states. She said the onus is on the SADC region to effectively engage with stakeholders and provide an enabling environment for SMEs.

2.3 JICA presentation

The JICA Advisor to the SADC DFRC gave a presentation on the policies and institutions which promoted the development of SMEs in Malaysia. He stated that Malaysia has one of the best SME programmes in the world supported by state intervention. He noted that SMEs employed more people than government entities and were the greatest contributors to the Malaysian GDP.

Mr Fukunaga pointed out that 98% of the businesses established in Malaysia were SMEs across all sectors of the economy. Of the 98%, more than half of them were reported to be micro businesses. The definition of an SME in Malaysia is said to be determined by the number of employees and the turnover made by the establishment, depending on the sector under which the SME operates. The classification was reported as follows:

| SECTOR | MICRO ENTERPRISE | SMALL ENTERPRISE | MEDIUM ENTERPRISE |
|----------------------------|---|---|--|
| Manufacturing | Turnover of less than RM 300 000 Less than 5 employees | Turnover of RM 300 000 – RM 15million 5 – 75 employees | Turnover of RM 15million – RM 50million 75- 200 employees |
| Services and others | Turnover of less than RM300 000 Less than 5 employees | Turnover of RM300 000 – RM3million 5-30 employees | Turnover of RM3million – RM20million 30 - 75 employees |

Mr Fukunaga said that the Malaysian Government established the national SME Corporation in Malaysia to provide capacity building to SMEs and monitor their development.

3.0 PRESENTATIONS

There were four presentations made under the theme SMEs Underpinning the SADC Industrialization Strategy as follows:

3.1 Norsad Finance Limited

Mr Kenny Nwosu the Chief Executive Officer of Norsad Finance Limited made a presentation introducing Norsad Finance Limited as a regional debt impact investor offering medium to long-term risk capital to mid-market growth companies across the Southern Africa (SADC) region. He said that Norsad Finance Limited provides tailor-made debt solutions to profitable businesses and commercially viable projects that deliver substantial impact and has invested close to USD400 million in 160 companies in the SADC region.

Norsad finances almost all sectors but preferred those which achieve greater impact with regard to the Sustainable Development Goals (SDGs) and priorities in the SADC region. These being:

- Renewable Energy
- Financial Institutions (Banking and Non-Banking)
- Hospitality (Hotels and Leisure, Consumer Discretionary)
- Manufacturing
- Food Products
- Integrated Agriculture
- Retail and Services

- Education and Healthcare

Mr Nwosu highlighted in his presentation that SMEs are important because they are the driving force of economic growth as highlighted by Mr Fukunaga. He further reported that in Africa SMEs and the informal sector, represent 90% of businesses and contribute over 50% to GDP and account for over 60% of new employment creation. The presentation continued to highlight that SMEs faced significant challenges in the contemporary VUCA (Volatility, Uncertainty, Complexity and Ambiguity) environment.

Some of the challenges faced by SMEs were highlighted as follows:

- Lack of confidence on SMEs: Mr Nwosu reported that larger companies are deemed by the market to be better structured and therefore seen as more stable than SMEs.
- SMEs are seen by the market as unstable and unreliable because they supply services or goods for a while and then eventually disappear because of lack of good cash flow. SMEs were reported to often supply their customers late thus unreliable. SMEs often do not plan ahead and enterprises which fail to plan and are not aligned to the constant changes in the business environment.
- Lack of partnership by SMEs with larger companies: The presentation emphasised that partnerships have become an imperative for SMEs to survive as they need to be collaborating with larger entities in order to satisfy the market.
- Risk aversity: SMEs were said to have challenges with diversification as they were risk averse and did not think diversification was part of risk mitigation. Mr Nwosu said if SMEs would be nurtured, they have the ability to inspire talent, agility and adaptability for the betterment of economies in which they exist.

Furthermore, Mr Nwosu added that the VUCA environment is getting intensified by liberalisation, globalisation and digitisation which are the results of the 4th Industrial Revolution (4IR). The 4IR was presented as a good opportunity for SMEs to support regional economic development. He mentioned that, new technologies are taking over and SMEs need to be aligned, these new technologies were mentioned to be Artificial Intelligence (AI), Robotics, Biotech, Medicine, Neuroscience, 3D printing, nanotechnology and aspects of energy. This he said meant that SMEs would not need to confine themselves to local markets, but would rather go international as well.

Mr Nwosu urged the forum to be positioned to take over the opportunities that the 4IR brings and be aligned for mutual growth and benefit rather than being stuck in the past. He stated that as the 4IR takes place, the policy makers and the organisations developing SMEs should

ensure they help SMEs to remove all bottle necks that may exist in the SME environment in their countries and the SADC region as a whole.

Concluding his presentation, Mr Nwosu urged DFIs to ensure that SMEs benefit from the 4IR. He asked that the DFIs work together for the continued sustainability of SMEs. He further urged the participants of the forum to ensure that the SMEs are capacitated to benefit from the opportunities that will arise as a result of the 4IR.

3.2 National Development Bank - Botswana

Ms Lorato Morapedi, Chief Executive Officer of the National Development Bank (NDB) of Botswana, introduced the organisation to the delegates. She highlighted the fact that the bank was formed to promote the economic development of Botswana by providing financial assistance to new or existing businesses through:

- granting of loans;
- selling of goods;
- taking over of sellers' rights and hire purchase; and
- taking up of share and loan capital.

Through the above instruments, the National Development Bank is currently supporting national priorities of food security; employment creation; growth of SMMEs and youth participation. NDB achieves this through four branches, two mobile branches and on-site assessments. As with previous speakers, Ms Morapedi noted that, for most SADC countries, SMEs were identified as central to economic development. She pointed out that, since most SADC countries are supported by commodity-based extraction industries, DFIs should strive to support the development of SMEs which are based in the high tech 4IR markets, to transform and enhance economic development.

The also presentation highlighted that in Botswana SME contributed 95% of the firms, employing 75% of formal employment and contributing 35% to the GDP. Botswana's strategic intention is to strengthen SMEs, towards the attainment of the SADC Industrialisation Strategy 2015 – 2063 and this involves working towards:

- Capacity building of SMEs through private public partnerships which is done through State - owned enterprises or parastatals like National Development Bank (NDB), Local Enterprise Authority (LEA) and Citizen Entrepreneurial Development Agency (CEDA);

- Regulatory issues dealing with providing incentives for the SMEs giving them an advantage over the large entities. These issues are often dealt with through different regulatory bodies like the Competition Authority and Botswana Bureau of Standards;
- Policy framework: dealing with graduating SMEs and integrating them into the main economic stream by developing policies that allow them to survive through frameworks like Economic Diversification Drive and the National Development Plan 11; and
- Structures that support SMEs through the development of SME databases to know what is available locally and create linkages of SMEs to large entities for purposes of learning and development and chances of success and mobility of SME products across the SADC region through organisations like Business Botswana, Special Economic Zones Authority and Botswana Bureau of Standards.

With the above structures, NDB reported that SMEs have been strengthened and some are succeeding in the horticulture, paper manufacturing, food processing and engineering sectors.

Ms Morapedi urged the forum to think of the following issues as it continues to discuss SMEs as instrumental to the SADC Industrialisation strategy:

- How ready are DFIs to fund assetless entities case being SMEs for the Industrial agenda?
- Is it more important to have regional trade blocks or participate in the global economy in terms of outsourcing labour and access to market?
- The DFIs in the SADC region should consciously link small and big firms to ensure that they are led to success.
- DFIs should not think of SMEs as local entities but rather global entrepreneurs and encourage them to access the global market as they would enable the SMEs to grow.

3.3 Small and Medium Enterprises Development Corporation of Zimbabwe

Ms Gladys Kanyongo, introduced Zimbabwe as a country with a population of 14, 030, 368 (July, 2018 est.), with a GDP growth rate of 3.7% (July 2018 est.) and annual inflation rate of 230% (July 2019 est.). It is estimated that the agricultural sector contributes in excess of 12% to GDP, while the Industries and service sectors contribute 22.2% and 65.8%, respectively. The main industries in Zimbabwe were reported to be mining, steel, wood, cement, chemicals fertilizer, clothing and footwear, food stuffs and beverages. Ms Kanyongo said the SMEs in Zimbabwe are defined by the SME Act which categorises enterprises according to sector, operating profit, number of employees, and total assets of the enterprise as follows:

| SECTOR | CLASS | MAXIMUM NUMBER OF FULL TIME PAID EMPLOYEES | MAXIMUM TOTAL ANNUAL REVENUE (US\$) | MAXIMUM GROSS VALUE OF ASSETS EXCLUDING MOVABLES |
|---------------|--------|--|-------------------------------------|--|
| Manufacturing | Medium | 75 | 1, 000, 000 | 1, 000, 000 |
| | Small | 40 | 500, 000 | 500, 000 |
| | Micro | 5 | 30, 000 | 30, 000 |
| Agriculture | Medium | 75 | 1, 000, 000 | 500, 000 |
| | Small | 30 | 500, 000 | 250, 000 |
| | Micro | 5 | 30, 000 | 10, 000 |
| Tourism | Medium | 75 | 1, 000, 000 | 1, 000, 000 |
| | Small | 30 | 500, 000 | 500, 000 |
| | Micro | 5 | 30, 000 | 30, 000 |
| Mining | Medium | 75 | 1, 000, 000 | 500, 000 |
| | Small | 30 | 500, 000 | 250, 000 |
| | Micro | 5 | 30, 000 | 10, 000 |

Small, Medium Enterprise Development Corporation (SMEDCO) was set up to develop Zimbabwe's, Micro, Small and Medium Enterprises by providing them with access to finance. She noted that many SMEs are women-owned making them a powerful tool for empowerment. She further emphasized that by strengthening industrial value chains SMEs could be a vital element in revitalizing Zimbabwe's economy. Ms Kanyongo reported that Zimbabwe's Industrialisation strategy is focusing on manufacturing, mining, services and agriculture and is anchored on the following pillars:

- Industrialisation
- Competitiveness
- Regional integration moving towards industrial agenda 2063
- Local value edition and linkages
- Preferential local procurement and capacitation of local suppliers
- Establishment of plants for the transfer of technological know-how.

SMEs in Zimbabwe were reported to make up 70% of all businesses in Zimbabwe, employ 60% of the country's workforce while contributing 50% to the GDP. SMEs make up 70% of the Zimbabwe Revenue Authority's (ZIMRA) database of tax payers and contribute on 20% of taxes. Ms Kanyongo reported that most firms in Zimbabwe are shrinking, corporates downsizing or leaving the country as they become less competitive with rising imports. This was reported to be affecting the SMEs who are also becoming smaller. SMEs remain starved

of bank credit and as a consequence informal enterprises have come to increasingly dominate the economic landscape.

SMEDCOs role in helping SMEs achieve the SADC industrialisation strategy is to facilitate financial access to SMEs within the value chains of the priority sectors and contributing to the following objectives:

- To restore the manufacturing sector's contribution to the GDP of Zimbabwe to about 30 percent and its contribution to exports to as much as 50 percent.
- To create additional high-income employment in the manufacturing sector on an incremental basis and reduce unemployment levels.
- To increase capacity utilisation in all sectors of industry.
- To re-equip and replace obsolete machinery and new technologies for import substitution and enhanced value addition.
- To increase manufactured exports to the SADC and COMESA regions and the rest of the world.
- To promote utilisation of available local raw materials in the production of goods.
- to increase investment inflows into our industrial sector and to support and encourage free enterprise.

Common issues that affect SMEs in Zimbabwe are access to finance and skills development. SMEDCO therefore aims to focus on providing:

- Financial services for the SMEs in order to ensure development;
- Business development services in terms of capacity building and provision of working spaces for SMEs; and
- Collaboration and partnerships in terms of SME development.

Ms Kanyongo urged the forum to consider:

- Addressing bureaucratic procedures in setting up and formalising;
- Assist SMEs to acquire capital and equipment so as to be able to participate in the Industrialisation strategy; and
- To ensure that women and youth are included when dealing with issues of SME development.

3.4 Development Bank of Namibia

Ms Heike Scholtz, Head of Business Strategy at the Development Bank of Namibia (DBN), presented strategies that have been employed by the bank to assist with SME development in Namibia. She noted that a study conducted by DBN and GIZ showed that the main challenge for SMEs is access to finance. The study recommended that a three-tiered strategy should be used to support SMEs. These tiers are based on a mentoring & coaching programme, venture capital fund and possible credit guarantee scheme.

In the presentation the Mentoring and Coaching Programme (MCP) aimed to address business operations & management challenges faced by SMEs; the Venture Capital Fund (VCF) to provide equity capital rather than debt capital to growth-oriented SMEs and the Credit Guarantee Scheme (CGS) aims to improve access to finance by guaranteeing loans to stable SMEs that lack collateral. The CGS will provide a 60% guarantee to qualifying loans as a shared risk between Government and lending institutions in Namibia. Ms Scholtz reported that the CGS will be managed by the Development Bank of Namibia. The seed capital for this program will be provided as a grant from the Namibian Government.

The presentation further reported that the objectives of the Credit Guarantee Scheme are:

- Enhance access to finance by guaranteeing loans of bankable SMEs who lack collateral in terms of the Namibia Financial Sector Strategy: 2011-2021
- The DBN Board resolved and approved for DBN to host and manage the SME Financing Strategy on behalf of the government on the following basis:
 - “That these funds/schemes will be managed off-balance sheet by the Bank, as separate legal entities and will not be consolidated in the balance sheet of the DBN, through a management agreement to be concluded between DBN and the shareholder;
 - That these funds/programs will be capitalised by the government, to ensure their financial sustainability, and will have minimal impact on the ongoing expenditure of DBN; and
 - The DBN will investigate and propose an appropriate legal and operational structure on how it will host and manage these funds/schemes.”

Development Bank of Namibia was reported to play the role of fund manager which will involve, to:

- identify & appraise Financial Institutions’ eligibility for participating in CGS;
- monitor, review & report the performance of participating Financial Institutions’;
- check & recommend the settling of the guarantee claims

- advise insurer on actions to be taken to secure sustainability of the fund;
- undertake best efforts at recovery of paid out CGS funds in the event of default; and
- enable the CGS to achieve its annual performance targets as agreed with the Insurer.

Ms Scholtz reported that though the project is still being finalised and the underlying agreements being drawn up, research is underway to scale up DBNs existing mentoring and coaching facilities which will assist SMEs in Namibia.

4.0 PLENARY DISCUSSIONS

Though different SADC countries have different issues concerning SME development, the main issue concerning SMEs was reported to be lack of funding. This lack of funding is primarily because the financial institutions do not trust SMEs and see them as entities which are small and without assets or collateral to qualify for funding. However, this means that DFIs in SADC countries should aim to seek or provide funding SMEs as a way of ensuring that they are developed and assisted to be key players in the Industrialisation strategy.

The second issue discussed was the lack of access to markets or the lack of trust from markets, locally, regionally and internationally. The SMEs were reported to not be trusted as suppliers because of their lack of stability and reliability. The reason for this was mainly lack of funding and lack of planning. Therefore, DFIs have been urged to look at issues of assisting the SME with planning and funding to ensure the market trust them better.

The SMEs also lack collaboration with each other and with large corporations which can help them gain access to markets that they have not been able to enter. The speakers urged the DFIs to ensure that SMEs are given platforms and opportunities to market themselves better and develop into enterprises that are using technology to improve and develop themselves.

5.0 CLOSING REMARKS

Dr. Abrahão Pio dos Santos Gourgel, the Managing Director of BDA, closed the meeting by thanking all for attending the forum, stating that it was an informative session and that there was significant work to be done for the development of SMEs in SADC. He stated that as DFIs it was vital for DFI's to work in concert to achieve development goals driven by SMEs. Dr Gourgel thanked the DFIs for attending the forum and for visiting Angola. He expressed great appreciation to SADC DFRC for a well organised forum.

6.0 LESSONS AND CONCLUSIONS

Based on the lessons learned, the Forum agreed on the way forward as follows:

- i) Though different SME development efforts in different countries, it is important for Governments, within the SADC region to take a deliberate step towards assisting SMEs and protecting them in order to build them up to the standards as achieved in Malaysia;
- ii) Most large companies should be incentivised for doing business with SMEs;
- iii) Access to affordable finance for SMEs is still the most pressing issue in the region and new, innovative solutions with private banks and DFI's must be developed;
- iv) DFIs in the Network should learnt from each other's success stories through forums, benchmarking visits and seminars; and
- v) It is important to focus on the development of SMEs to realise their full potential if the goals of the SADC Regional Industrialisation Strategy are to be realised.