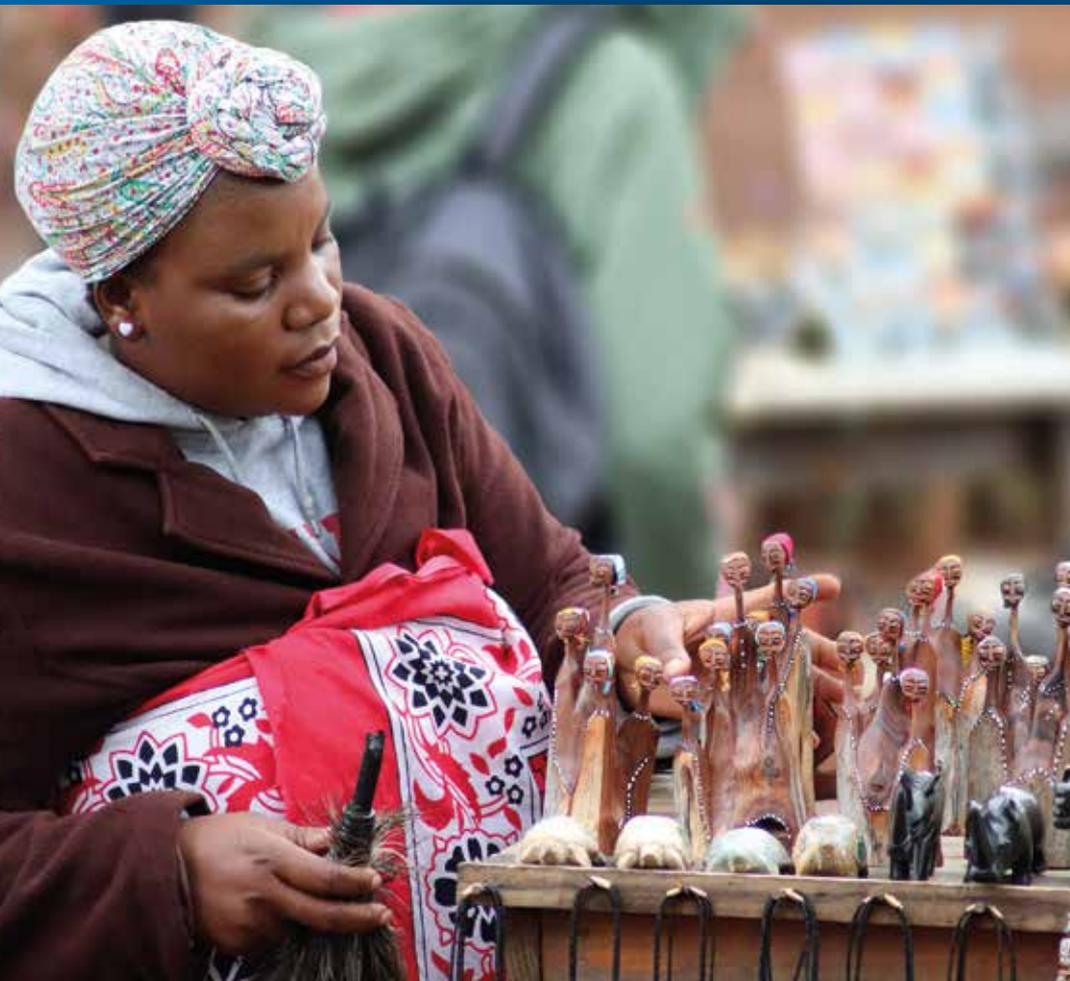


Promoting SME Competitiveness in Eswatini

Stronger business fundamentals
for value-added exports

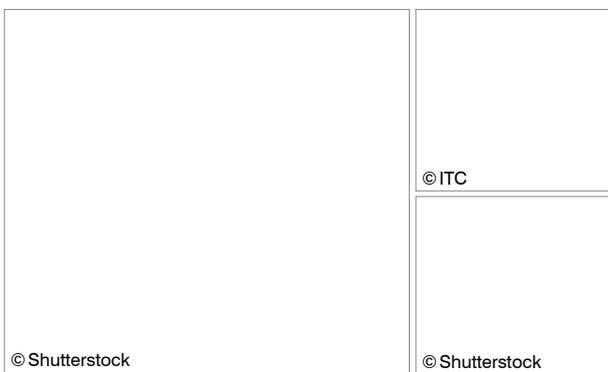


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Promoting SME Competitiveness in Eswatini

Stronger business fundamentals
for value-added exports

About the paper

Small firms are at the heart of Eswatini's participation in international value chains. But they often struggle to trade due to production capacity constraints, including inadequate managerial skills and certification, failure to engage with business support organizations and weak linkages with suppliers and buyers. Furthermore, innovation levels are low and many Swazi businesses cannot access finance. The COVID-19 pandemic, social unrest and climate change have aggravated these challenges.

This report, based on data from the SME Competitiveness Survey, recommends measures to reinforce business support services and improve the business and financial management skills of Swazi companies.

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For more information on the SME Competitiveness Survey, see: <https://intracen.org/resources/data-and-analysis/research-and-data>

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Foreword

Micro, small and medium-sized enterprises (MSMEs) play a vital role in the economy of Eswatini and have great potential for growth. This sector catalyses economic growth by creating employment, developing entrepreneurship, reducing poverty and generally improving the livelihoods of the citizens of the Kingdom of Eswatini. The sector is recognized as “hidden champions” due to the great potential of MSMEs for economic transformation.

Research suggests these firms could provide employment for up to 65% of the workforce and generate up to 50% of national output. As the country seeks to revitalize the economy for growth and job creation in the years to come, MSMEs will be at the centre of the equation.

Unfortunately, the MSME sector has suffered severely in recent years. The COVID-19 pandemic, social unrest and climate change have disrupted normal business operations and forced many firms to shut down temporarily. As the Swazi economy strives to recover from the pandemic, it is important to strengthen these businesses that are so crucial for Eswatini’s economic development efforts.

Against this background, the 2022 National Development Strategy acknowledges that a strong MSME sector enables inclusive growth. The Micro, Small & Medium Enterprise National Policy 2018 aims to increase the competitiveness of MSMEs, among other initiatives.

Evidence on the strengths and weaknesses of MSMEs is needed to achieve what is set out in these plans, to take advantage of opportunities and diagnose problems. Information is key for evidence-based policymaking.

To generate this evidence, the Government of Eswatini and the International Trade Centre (ITC) joined forces under the European Union-funded project Support to Job Creation and the Investment Climate. The competitiveness of value chain actors in Eswatini was systematically assessed under this project.

As part of the project, the ITC SME Competitiveness Survey was administered to 200 businesses across Eswatini in 2021. The survey results show that to be resilient to future crises, Swazi firms should strengthen their business fundamentals, seek to diversify their supplier base and develop an entrepreneurial culture by investing in innovation.

In line with the project goals, ITC and the Ministry of Commerce, Industry and Trade of Eswatini share a common vision to build alliances to improve MSME competitiveness and enable small businesses to access more local, regional and international markets and withstand future crises. Trade can facilitate the structural transformation of the economy and help reduce poverty when well-crafted and targeted policies are in place.

We see this report as an important step to make this vision a reality.

Hon. Manqoba Khumalo

Minister of Commerce, Industry and Trade
Kingdom of Eswatini

Pamela Coke-Hamilton

Executive Director
International Trade Centre

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Business Eswatini conducted the interviews under the supervision of Musa Maseko. ITC would like to extend its thanks to the Ministry of Commerce, Industry and Trade for guiding and supporting the survey process.

ITC would also like to thank Natalie Domeisen and Anne Griffin (both ITC), who managed the editorial and production process; Jennifer Freedman, who edited the report; and Franco Iacovino and Serge Adeagbo (both ITC), who provided graphic and printing support, respectively.

About ITC

The International Trade Centre was established in Geneva, Switzerland, as a joint agency of the United Nations and the World Trade Organization dedicated to strengthening the competitiveness of small and medium-sized enterprises to build vibrant, sustainable export sectors that provide entrepreneurial opportunities, particularly for women, young people and poor communities.

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Acronyms

Unless otherwise specified, all references to dollars (\$) are to United States dollars, and all references to tons are to metric tons. Percentages in some figures may not add up to 100% due to rounding.

| | |
|-------|---------------------------------------|
| BSO | Business support organization |
| ITC | International Trade Centre |
| GDP | Gross domestic product |
| R&D | Research and development |
| SEDCO | Small Enterprises Development Company |
| SMEs | Small and medium-sized enterprises |
| SMECS | SME Competitiveness Survey |

Executive summary

Small and medium-sized enterprises (SMEs) are at the heart of Eswatini's economic potential. About 41% of the country's working age population is employed formally or informally in these small companies. While the SME sector is small, it is of vital importance for creating a more competitive and resilient business environment and driving economic development in Eswatini. Research suggests these firms could provide jobs to 65% of the workforce and generate up to 50% of national output.

This is especially critical in light of COVID-19 recovery efforts. While gross domestic product recovered by an estimated 1.5% in 2021 from a drop of 2.4% in 2020, SMEs still feel the consequences of the economic downturn caused by the pandemic. A period of social unrest in mid-2021 compounded the impact of this downturn.

SMEs need support to start their journey towards greater resiliency. Increasing their competitiveness can jumpstart this process and prepare them for the looming climate crisis. Understanding the strengths and weaknesses of these firms and the business environment in which they operate is important to set this process in motion.

With this goal in mind, the International Trade Centre partnered with Business Eswatini under the European Union-funded Support to Job Creation and the Investment Climate project to assess the competitiveness of SMEs in the country. Under this collaboration, the SME Competitiveness Survey was administered to 200 companies from all regions of Eswatini in April–October 2021.

This report analyses data from the survey. It identifies areas where firms and the business ecosystem perform well and where improvements are needed. Although the focus is on small enterprises, large companies are included in the analysis for the sake of comparison.

Analysing different aspects of competitiveness yields insights into economic realities. A specific focus on how small Swazi companies compete in certain sectors and regions – and when they are led by women or youth

– shows the detailed pattern of competitiveness across enterprises.

Support needed to recover from COVID-19

To adapt to the new business environment created by COVID-19, SMEs had to find solutions to keep themselves running. The most popular coping strategy was teleworking, adopted by 25% of firms, followed by 21% of firms that customized existing products or developed new ones. Some companies were unable to adjust to the 'new normal'. One-third of respondent firms were not operational from mid-2020 to 2021, but had resumed operations at the time of the interview.

In 2021, the survival of many businesses was still uncertain. About 82% were very concerned about their recovery and 40% feared that their business would permanently shut down because of the pandemic. Microenterprises, in particular, were concerned about their recovery.

The analysis reveals that government support programmes did not reach all businesses that needed help. Four out of five firms did not receive any COVID-related assistance. A likely reason for this is that companies which had never submitted a tax return were not eligible for support.

Increase competitiveness by improving management skills

Few SMEs in Eswatini fully exploit their production potential. In the year prior to the survey, operational firms used 54% of their capacity on average. One-third delivered fewer than half of their products or services on time. Micro firms had notably lower average rates of capacity utilization.

Poor management capacity partially drives this weak productivity performance. Forty-four percent of firms have no bank account and 36% keep no economic records. This limits their ability to manage their cash flow and inventory.

Upgrading management practices would also set the stage for certification among Swazi firms, which needs to be encouraged. Certification numbers are low, with only 10% of firms having an international certificate. In the agricultural sector, this quality assurance is often a prerequisite to competitiveness on international markets, and certification processes are becoming prevalent in other sectors as well. This endeavour could be made easier if information on certification and related assistance was more readily available.

Stronger connections foster information and resilience

Swazi firms also lack good information about their buyers. Fewer than one-fourth of firms rated the availability of market information on potential customers as good and 31% said the same about existing customers. This inhibits the ability of SMEs to tailor their goods or service offerings to the expectations of their buyers, decreasing their competitiveness. Business support organizations can



help firms acquire this market intelligence. Engagement with these institutions should be improved, as only 54% of respondents actively interact with at least one of them.

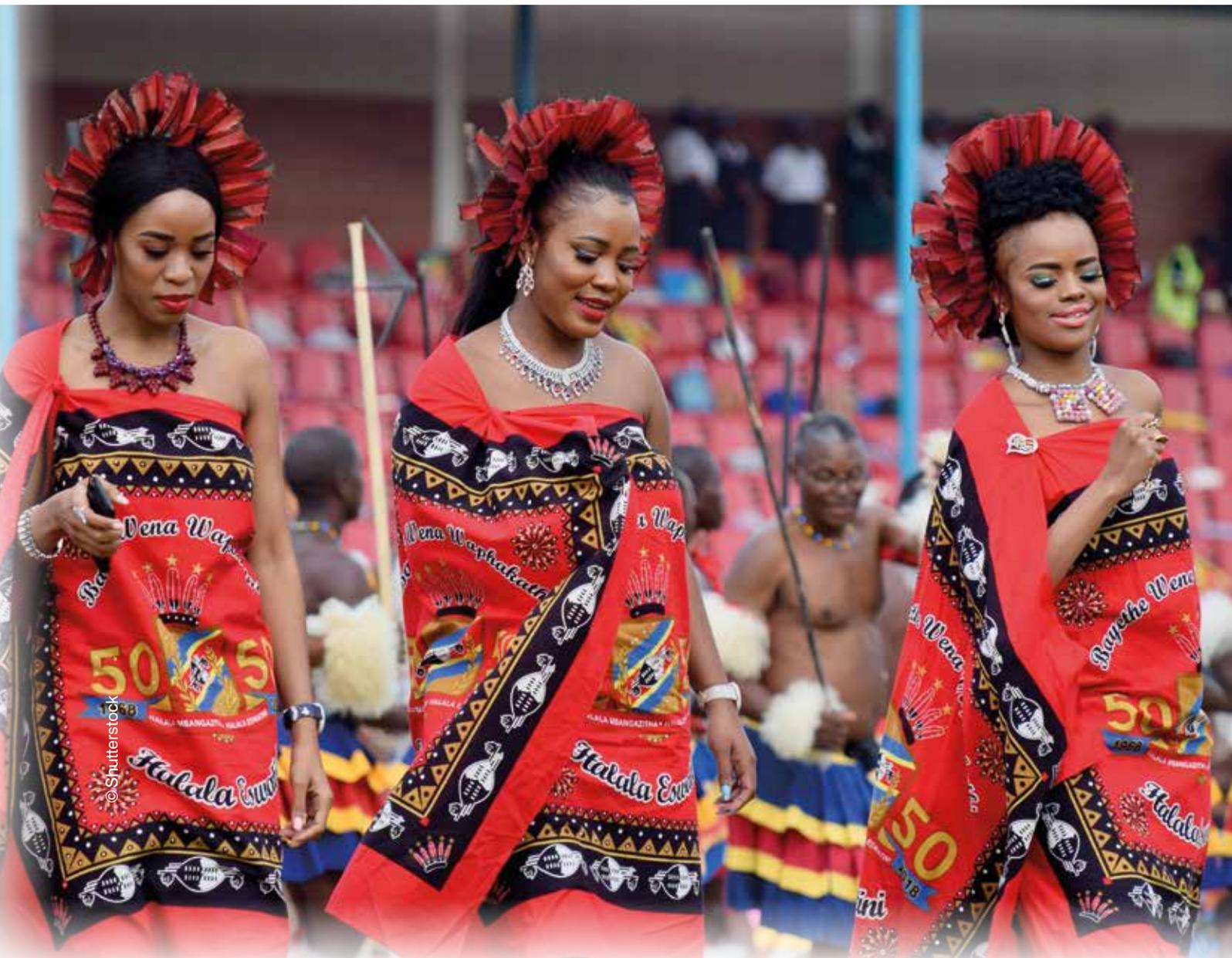
Firms also do not expend much effort to engage with new potential clients. In fact, fewer than half of survey respondents advertise their goods. Micro firms that do advertise prefer online channels, likely because they are more affordable.

Swazi SMEs must diversify their supplier base to better adapt to changing market conditions. This is illustrated by the fact that those with more suppliers were less concerned about their recovery from COVID-19. Due to scarcity of local inputs, Swazi firms rely heavily on foreign suppliers, especially from South Africa. Sixty-one percent of manufacturing and 44% of service firms source inputs from abroad.

Improving the competitiveness of locally produced inputs can encourage medium-sized and large firms to source from micro and small companies in Eswatini. Local suppliers must develop their own competitiveness if they hope to be able to trump imported inputs. Adopting better management practices and innovative means of production are key steps in that direction.

Innovation and access to finance to stimulate entrepreneurial culture

A sluggish entrepreneurial culture in Eswatini is reflected in the fact that few firms innovate or invest in research and development (R&D). About half of firms said they rarely developed new or improved products or systems. This result is not surprising, as 70% have committed only a few resources to R&D, which drives innovation. In part, this can be explained by a lack of skilled labour, with



only one-third of firms reporting an abundance of skilled workers for hire.

To innovate and grow, businesses need access to credit. In Eswatini, the primary source of finance is personal savings. Only 2% of micro and 10% of larger firms had received financing from a bank. There is outstanding demand for formal finance which is not served by commercial banks. Eighty-one percent of surveyed firms indicated that if conditions were good, they would have applied for a loan.

Financial resources are at the base of sustainable investment decisions in the country. Providing resources for innovation in agricultural and environmental domains is promising. The Swazi agrifood sector, for example, has enormous potential for value-added products, import substitution and niche market exports. To exploit these opportunities, farmers should upgrade their equipment, become certified and engage in tasks that add more value to their products.

But the country is also vulnerable to climate change. One in four surveyed firms had invested in measures to reduce its negative impact on the environment. These investments seem to be paying off. Nearly all of these firms (98%) said they reaped opportunities and benefits for their business from these efforts.

Policy recommendations

Several policy recommendations emerge from the survey findings. Chief among them is the need to invest in management capabilities. Weak management skills inhibit the production capacity of Swazi firms and make them uncompetitive. To create an entrepreneurial culture, investments should be made in certification and other value chain governance techniques that encourage better firm practices.

To encourage certification, buyers could require their suppliers to get certified. Other companies are becoming certified on their own, betting that it will attract new buyers. These improvements in the certification rate can foster the development of performance-based linkages among local enterprises.

For businesses to engage in entrepreneurial activities, they need finance. The Government could improve the country's credit infrastructure to facilitate access to finance. Capacity building could also be offered to educate enterprises on how to prepare a business plan and apply for a loan.

To help all firms recover from COVID-19, decoupling tax registration requirements from government support can be useful. Business networks have a role to play in circulating information about the availability of this assistance. Investments in business support organizations can enable them to become more effective at spreading market intelligence for SME strengthening.

Finally, to bolster the country's agricultural sector, government funding may prove helpful for farmers that wish to acquire more sophisticated technologies and engage in higher value-addition activities. This can enable some of the most vulnerable members of society to capture more value and improve their welfare.

This report, along with complementary events and collaborations, aims to trigger a dialogue on SME competitiveness. It suggests policy-based solutions that stakeholders in Eswatini can apply to build the competitiveness of the country's small businesses.



Chapter 1

Understanding the small business context in Eswatini

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Understanding the small business context in Eswatini

Small and medium-sized enterprises (SMEs) play a vital role in the future of the economy of Eswatini, formally or informally employing about 41% of the country's working age population.¹ As this small, open Southern African kingdom seeks to revitalize the economy for growth and job creation in the years to come, SMEs will be at the centre of the equation.

Stimulating the competitiveness of these firms can help them grow and actualize their potential. Research suggests they could provide employment to 65% of the workforce and generate up to 50% of national output.² With a business landscape shaped by a select few large-scale businesses, a concentrated export basket and a multitude of informal and microenterprises, there is a need to stimulate the growth of the smallest firms. This mandate is all the more pressing given that SMEs are integral to reduce high levels of poverty in this primarily agricultural country.³

The Government of Eswatini has created policies, organizations and funds that underscore the importance of SMEs to the local economy (Box 1). Problems remain, however. The SME sector has suffered severely in recent years, with the pandemic, social unrest and climate change disrupting normal business operations and forcing many firms to shut down temporarily. As the Swazi economy strives to recover from the pandemic, it is time to strengthen these businesses that are so crucial for Eswatini's economic development efforts.

To this end, the Government of Eswatini, the European Union and the International Trade Centre (ITC) joined together in a co-creation process focused on SMEs and value chains in the country. As the implementing agency of the European Union-funded project Support to Job Creation and the Investment Climate in Eswatini, ITC is working with local partners to strengthen productive, processing, promotion and marketing capabilities in value chains.

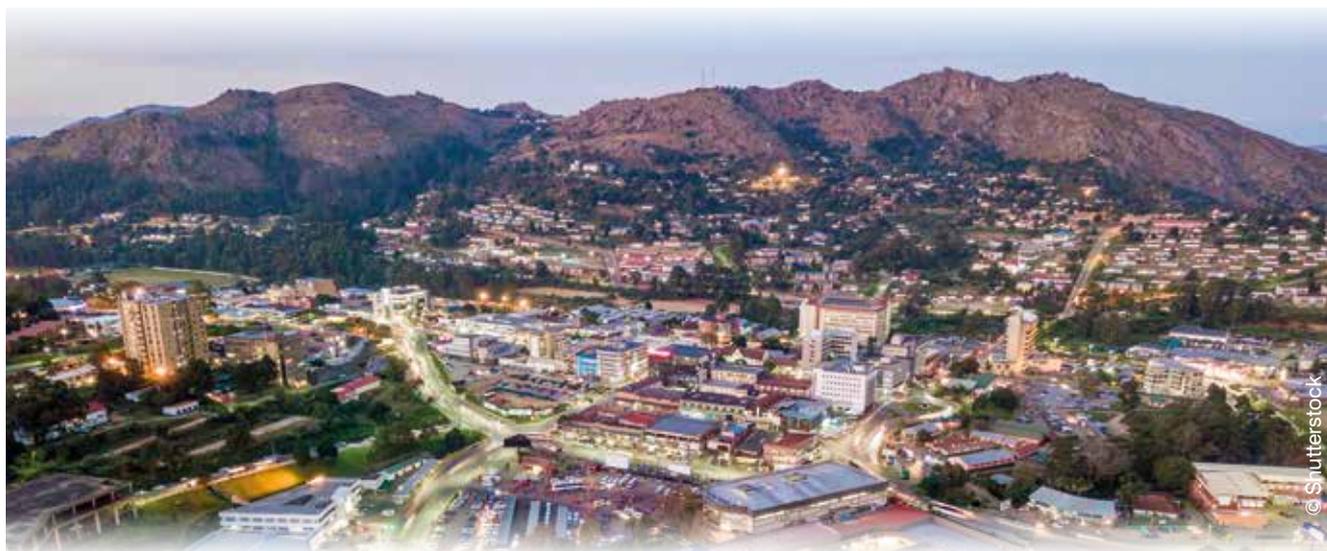
Preliminary research in Eswatini indicated that a lack of market knowledge, entrepreneurial skills and access to finance had inhibited the development of a stronger SME

sector. Development actors have argued there is a need to gain more value out of trade, counter the scarcity and limited competitiveness of local inputs, address missing opportunities for product differentiation and expand the local entrepreneurial culture.⁴ In addition, early indications are that SMEs have been hard hit by the COVID-19 pandemic.⁵

To better understand the full picture of constraints and opportunities facing SMEs in Eswatini, the project decided to conduct a systematic assessment of the competitiveness of value chain actors in the country. Better data on the state of firm-level competitiveness, and constraints in the business ecosystem, will inform project activities and government action to catalyse value-added commodity trade.

This report presents the results of the assessment of the competitiveness of Eswatini's enterprises. The assessment was conducted using ITC's SME Competitiveness Survey (SMECS) tool, customized to the needs of the project and context, and implemented in cooperation with Business Eswatini. The goal was to perform a diagnostic on the state of these firms to better understand their strengths, weaknesses and opportunities to improve their competitiveness for value-added SME exports. The survey was administered to 200 businesses across Eswatini in 2021.





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Box 1 Government policies for small and medium-sized enterprises

The Government of the Kingdom of Eswatini first introduced the Small, Micro & Medium Enterprise National Policy in 2004. This policy underwent its third revision in 2018. It aims to increase access to finance, strengthen business support institutions and the regulatory framework, develop an entrepreneurial culture, boost the competitiveness of SMEs, protect the informal sector, support women- and youth-owned SMEs, and improve the dialogue between key stakeholders.

Several government policies aim to strengthen the Swazi private sector. In 1997, the kingdom issued the Vision 2022 national development strategy. It is implemented through the National Development Plan 2019/20–2021/22, which recognizes that a strong SME sector enables inclusive growth. The strategy also identifies the agribusiness and manufacturing sectors as having the highest potential for driving SME growth in the country.

The Strategic Road Map 2019–2023 was drawn up to facilitate progress towards the goals of Vision 2022. It lists key policy objectives for SMEs in the short term, such as improving access to loans, and in medium-term, including simplifying tax codes and enacting tax reforms.

The Ministry of Commerce, Industry and Trade is the focal point for SME policies and initiatives. It oversees

SEDCO, the Eswatini National Industrial Development Corporation and the Eswatini Investment Promotion Authority, public enterprises that also provide development services. Business support organizations (BSOs) such as Business Eswatini and the Federation of Eswatini Business Community act as bridges between government authorities and firms.

The National Financial Inclusion Strategy, developed by the Ministry of Finance for 2017–22, includes plans to enhance the business and financial management skills of SMEs. It also envisages improved access to business data on entrepreneurs and the establishment of both a business competitive scoring system and a microfinance policy to develop the institutional capacity of the microfinance sector.

Several programmes provide financial support to SMEs. The Centre for Financial Inclusion facilitates access to financial services, SEDCO provides training, cash flow projections and business incubation, and the Eswatini Development Finance Corporation offers credit to SMEs.

The Central Bank of Eswatini runs two credit guarantee schemes aimed at SMEs: the Export Credit Guarantee Scheme and the Small Scale Enterprise Loan Guarantee Scheme, which explicitly targets youth-led firms. At the grassroots, the Inhlanyelo Fund provides loan capital to micro and small businesses.

Source: The Government of the Kingdom of Eswatini (2018). Revised Small, Micro, & Medium Enterprise Policy of Eswatini; The Government of the Kingdom of Eswatini. National Development Plan 2019/20-2021/22. Retrieved from <https://www.gov.sz/images/CabinetMinisters/NDP-2019-20-to-2021-22-final.pdf>; The Government of the Kingdom of Eswatini. The Kingdom of Eswatini Strategic Roadmap: 2019–2022. Retrieved from <https://www.gov.sz/images/CabinetMinisters/STRATEGIC-ROADMAP-2018-2023---MAY-2019.pdf>; Central Bank of Eswatini. Development Finance. Retrieved from <https://www.centralbank.org.sz/development-finance/>; The Government of the Kingdom of Eswatini. National financial inclusion strategy for Swaziland 2017–2022.

Assessing competitiveness

ITC developed the SME Competitiveness Survey to help countries collect the data needed to assess the competitiveness of their enterprises.⁶ As of August 2022, more than 36,000 firms had been surveyed in 57 countries, including Botswana and Zambia.

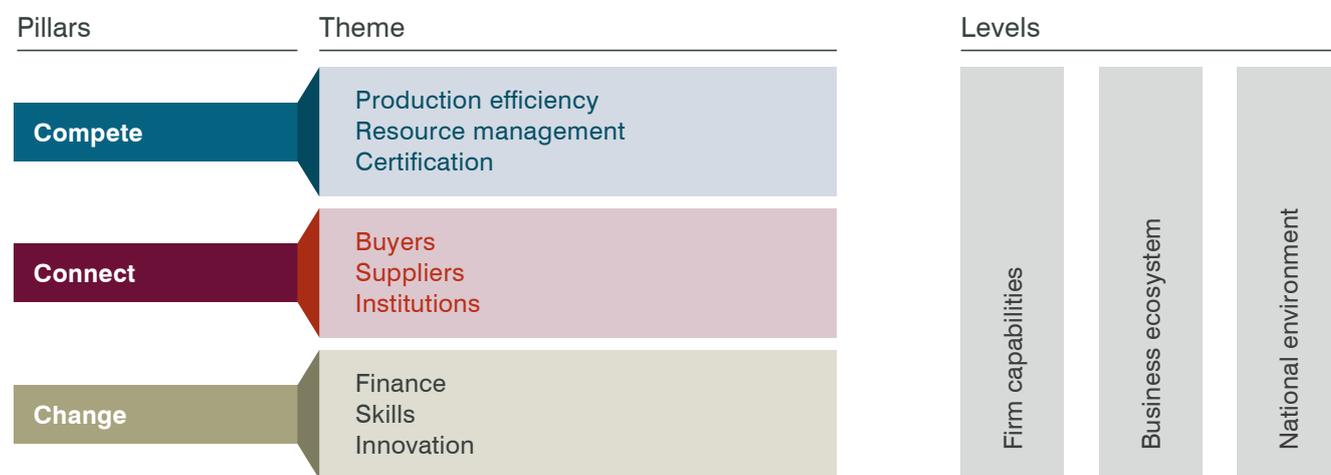
The tool is designed to combine information at the meso-level (local support ecosystem for businesses) and the micro-level (firm capacity) to provide a nuanced picture of the capacity of a country’s private sector to compete in international markets.

Small and medium-sized enterprises are defined as firms with fewer than 100 employees (see Annex). The term SME, therefore, includes microenterprises. Although the focus is on micro, small and medium-sized companies, some large businesses are included in the survey so the competitiveness of SMEs and big firms can be compared.

The importance of competitiveness in driving firm survival, growth and trade makes it a central element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. The framework is built around three pillars that drive the capacity of a company to be competitive across three levels of the economy (see Figure 1).⁷ The rest of this report is structured around key themes featured in this competitiveness grid.



Figure 1 SME Competitiveness Grid



Source: ITC.

The SME Competitiveness Survey in Eswatini

In Eswatini, data were gathered using the SME Competitiveness Survey as part of a project that aimed to improve understanding of opportunities to increase competitiveness and sustainability (Box 2).

ITC partnered with Business Eswatini to interview enterprises across the country. To simplify the collection of data, a sample of firms from across the country was randomly selected from a list of companies compiled by Business Eswatini.

Box 2 Alliances for Action

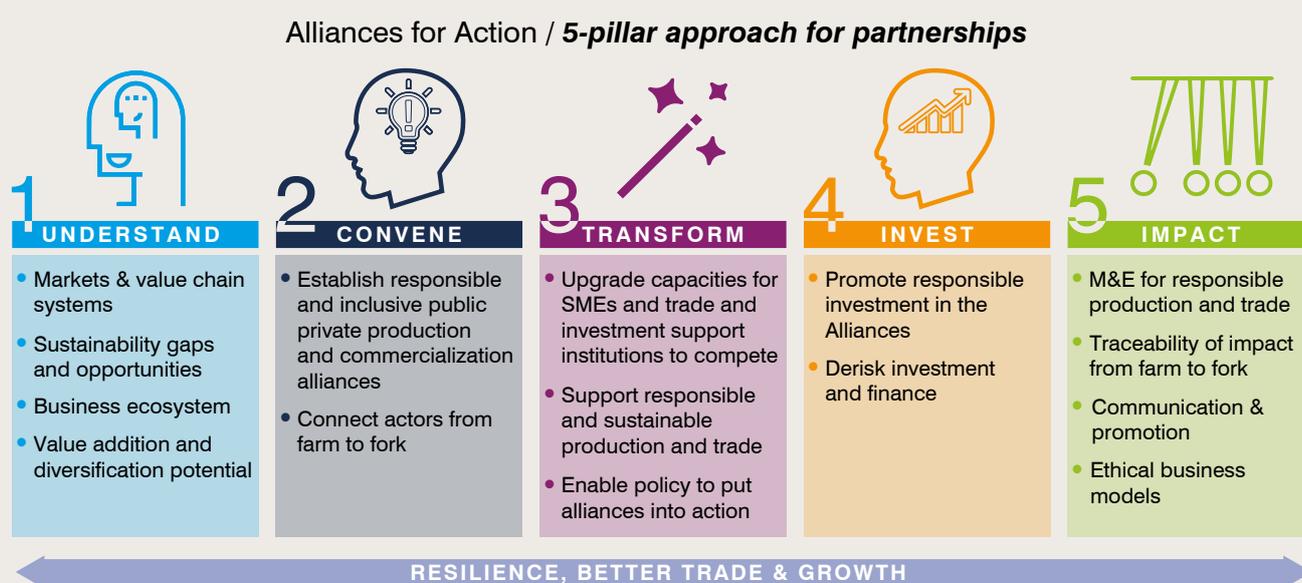
The Support to Job Creation and the Investment Climate project, funded by the European Union, works to increase the competitiveness and sustainability of Swazi SMEs, social enterprises, producer associations and smallholder farmers by reinforcing support institutions, establishing public–private alliances and improving access to finance and investments.

The project uses ITC's Alliances for Action approach to support private sector-led export development in Eswatini. Alliances for Action is an inclusive, participatory

multistakeholder consultative approach that targets sustained competitiveness and value creation aligned to market needs for shared prosperity and job creation. It is built on a public–private partnership of mutual trust.

The Alliances for Action approach has five implementation pillars, namely: Understand, Convene, Transform, Invest and Impact. It starts with an effort to understand the context through an analysis of markets, value chain systems and the business environment through an evidence-based multistakeholder process.

Figure 2 Alliances for Action approach



Source: ITC.

As part of the Alliances for Action Understand phase, the project involved collecting market intelligence about the competitiveness of value chain actors in Eswatini.

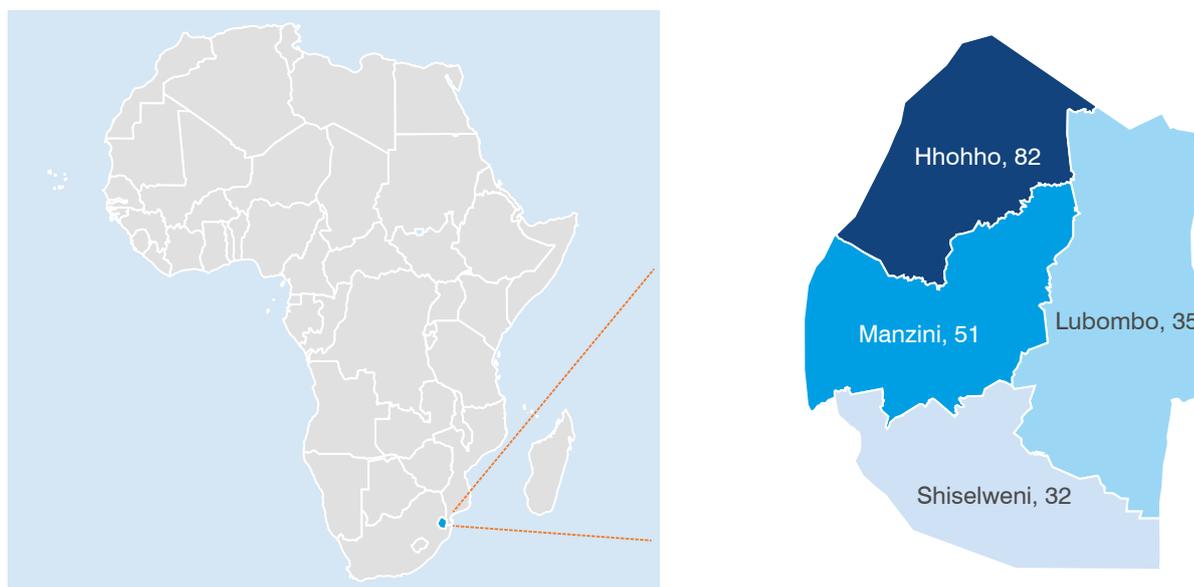
This was achieved through data gathering using ITC's SME Competitiveness Survey.

The sample was spread across regions, sectors (agrifood, manufacturing and services) and sizes (micro, small, medium-sized and large). Data were to be collected on firms operating in the agrifood (i.e. farming and agribusiness), non-food manufacturing and services sectors from the country's four regions. To the extent possible, the sample

in each region was composed of both exporting and non-exporting firms.

Using the SMECS questionnaire, data were gathered from 200 enterprises between April and October 2021. Figure 3 highlights the surveyed regions, with the corresponding number of firms interviewed in each region.

Figure 3 SurveYed regions of Eswatini



Source: ITC based on SME competitiveness data collected in Eswatini. Maps retrieved from Shutterstock and YourFreeTemplates.com

A total of 96% of companies interviewed for the SMECS in Eswatini were micro, small or medium-sized enterprises (Figure 4). Companies with four employees or fewer made up 67% of the sample, consistent with other evidence showing that these microenterprises dominate the business landscape in Eswatini.⁸ Thirty-five percent of interviewed firms were in the agrifood sector, agricultural processors and food manufacturers. In addition, 31% of respondents were in manufacturing and 35% in services.

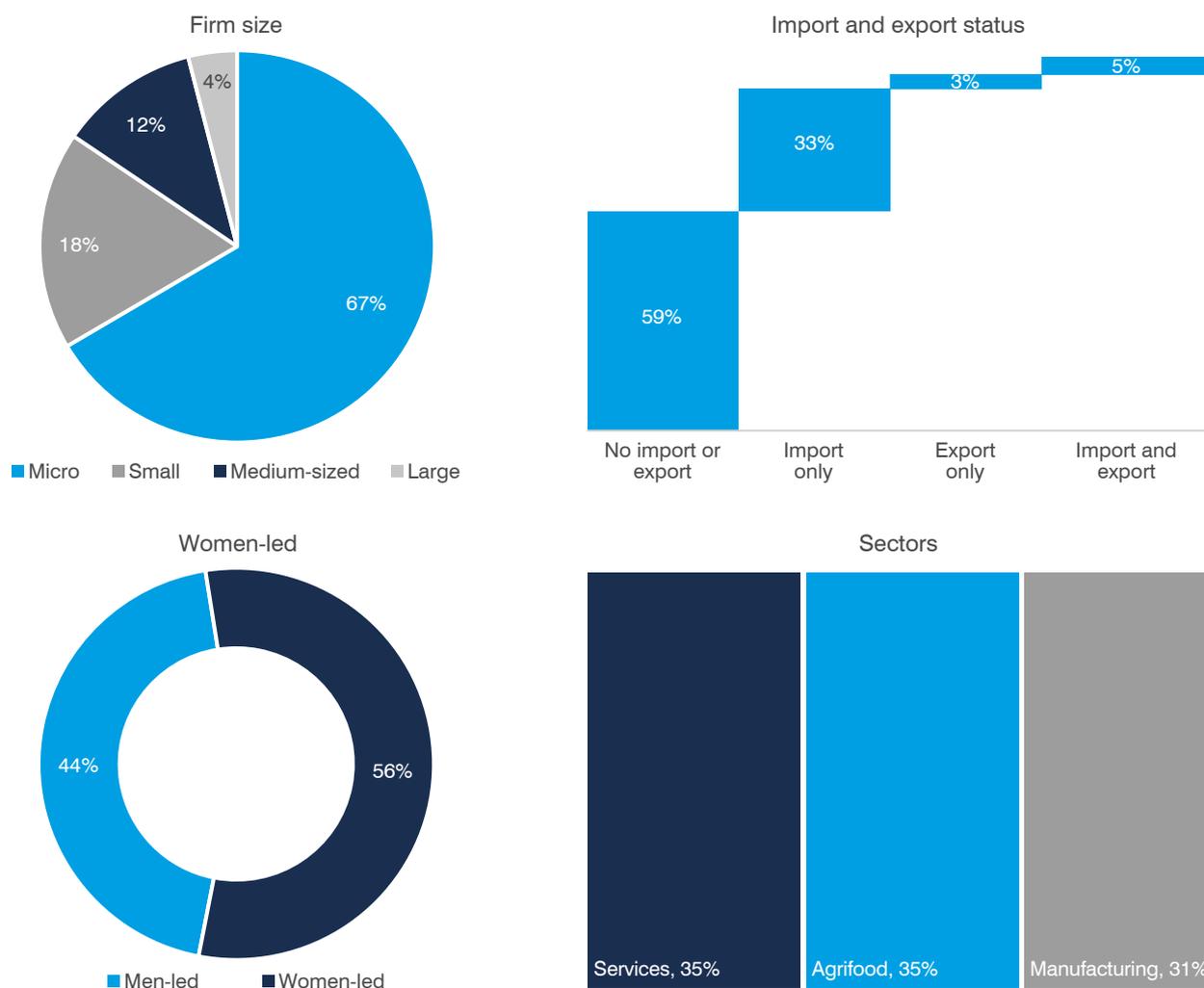
Women led 56% of the companies interviewed for this study. While there are more female business owners than male business owners in the country, women-owned companies are more likely to have no other employees or be micro firms.⁹

The data also show that 41% of the enterprises were engaged in trade, though most of them imported only; just 8% had successfully exported across borders in the past. South Africa dominates Swazi imports, with 90% of

total imports coming from the neighbouring country.¹⁰ The few Swazi companies that export have strong ties to South Africa.¹¹ The Support to Job Creation and the Investment Climate project intends to help companies access new markets at the regional or global level.

Two-thirds of surveyed firms said they were registered with or licensed by a national authority. The sample likely overrepresents the formal sector, as previous estimates in Eswatini suggest that around 25% of SMEs in the country are registered.¹² With a third of survey respondents hailing from the informal sector, the findings in this report reflect the reality in both formal and informal sectors.

Figure 4 Characteristics of firms that took part in the survey



Note: Microenterprises are defined as those with four or fewer employees; small firms have 5–19 employees; medium-sized ones have 20–99 employees, and large companies have 100 or more employees. This definition differs from the legal definition in Eswatini (see Annex subsection on 'What are SMEs?'). Women-led firms are managed by a woman and at least 30% owned by women.

Source: ITC calculation based on SME competitiveness data collected in Eswatini.

Swazi firms struggle to recover from COVID-19

The spread of the COVID-19 virus triggered a state of emergency in Eswatini that lasted from March–October 2020. The partial lockdown permitted only essential businesses in the health, agriculture and telecommunication sectors to continue operating. Domestic travel was restricted, only allowing the movement of essential goods such as food and medicines.¹³ The economic uncertainty generated by the pandemic had a major effect on the country, where gross domestic product (GDP) fell by 2.4% in 2020 and recovered by an estimated 1.5% in 2021.¹⁴

South Africa, Eswatini's main trading partner, imposed strict lockdowns and restricted entry via its land borders, hampering the free flow of goods between the two countries.¹⁵ In 2021, rising and falling case numbers led to restrictions being toughened and relaxed periodically.¹⁶ Two years on, there is hope that the pandemic is in its final stages.

Yet Swazi firms continue to be buffeted by crises. Social unrest in mid-2021 brought many regions and their enterprises to a halt.¹⁷ Climate change is increasing the frequency of drought and other shocks that affect the competitiveness of businesses in the agricultural sector

in particular.¹⁸ In a context of varied and severe market disruptions, firms are exploring how to recover from past shocks and prepare for future crises.

Teleworking and redesigning products are top coping strategies

Since the COVID-19 outbreak in early 2020, Swazi firms have had to adapt to the 'new normal' by adjusting their business processes. Survey evidence indicates that teleworking was the most popular coping strategy to deal with lockdowns. Twenty-five percent of surveyed firms moved their operations from production sites and office spaces to private homes.

One-fifth of companies (21%) also started customizing existing products or developing new products. A textile company from Matsapha, for example, started producing 3,000 masks per day.¹⁹ Women-led firms were more likely to customize goods or develop new ones; 26% percent did so, compared to 15% of men-led enterprises.

However, some firms struggled to adapt to the new environment. Of the companies interviewed for the SMECS, 33% percent were not operational in the year prior to the interview, that is, mid-2020 to 2021. They had no sales, did not use any of their capacity and/or did not deliver any products on time. Most of these companies operated in retail trade, crop and animal production, and the manufacture of textiles. Yet when they were interviewed in mid-2021, these firms said they were restarting operations.

Micro firms were more likely to be closed between mid-2020 and mid-2021; 39% were non-operational, compared to 21% of firms with more than four employees. Women-led firms were also more likely to be closed; 43% were non-operational, compared to 22% of men-led firms. These types of firms may have been less resilient because they had fewer available resources to deal with economic disruptions. Additionally, women-led firms tend to operate in the industries most immediately affected by the crisis, such as accommodation and retail.²⁰



While some companies avoided closures, they had to continue operations with reduced staff numbers to lower costs. In April 2020, Swazi businesses temporarily laid off at least 8,000 employees, including many in the textile industry.²¹ In 2021, 9% of surveyed companies that were operational had laid off employees and 13% had temporarily reduced employment.

Business survival is still uncertain

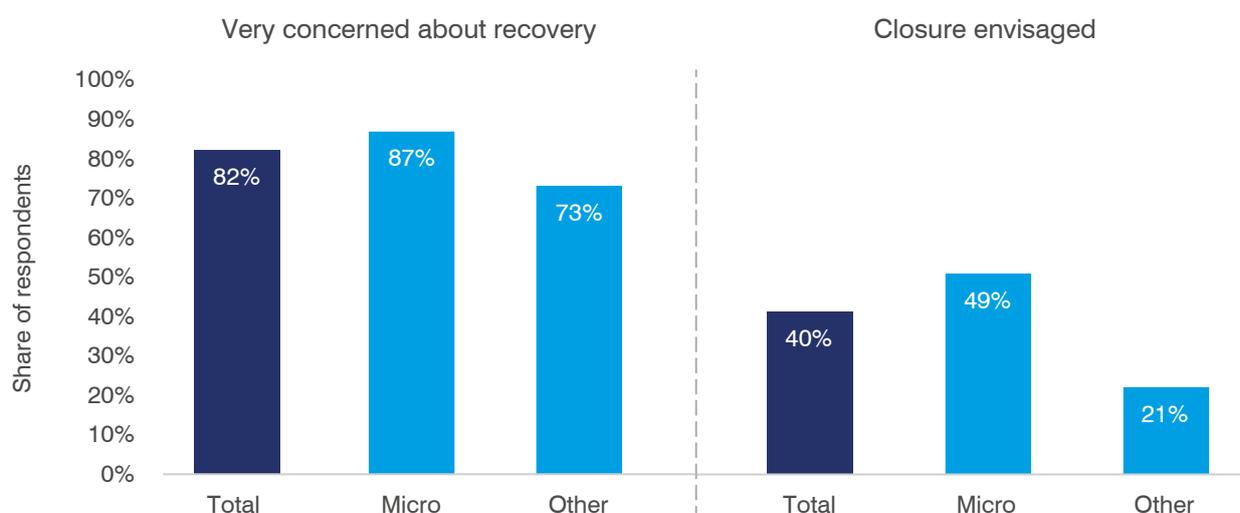
Eswatini experienced its third wave of COVID-19 infections between April and October 2021, the data collection period for the SME Competitiveness Survey.²² The persistence of the pandemic and ongoing social unrest may have been behind the pessimism expressed by survey respondents. Around 82% of respondents were very concerned about their business recovering from the crisis and 40% thought

there was a risk that their business would permanently shut down because of the pandemic.

Micro firms in particular were more worried about their recovery and at a higher risk of closure: 87% reported being very concerned about their recovery and 49% believed a business closure was likely. Firms with more than four employees were slightly more optimistic; 73% of them were very concerned and 21% were at risk of closure (Figure 5).

In addition, firms that were non-operational in 2020 struggled even more in 2021. Nine out of 10 of these firms were very concerned about their recovery and 59% envisioned closure. This indicates that microenterprises and businesses that already had to shut down operations completely are at a higher risk of not surviving the pandemic and would benefit from additional support.

Figure 5 Microenterprises are pessimistic about recovery



Note: In the panel on the left, respondents were asked: 'How concerned are you about the recovery of your business from the COVID-19 crisis?'. Answer options were: 'Not concerned', 'Mildly concerned', 'Moderately concerned', 'Very concerned', 'Don't know'. The panel shows the proportion of firms that selected 'Very concerned'. In the panel on the right, respondents were asked: 'Do you think there is a risk that your business will permanently shut down because of this crisis, and if so, when could this closure occur?'. Answer options were: '1 month or less', '3 months', '6 months or more', 'Business closure not envisaged'. The panel shows the proportion of firms that selected either '1 month or less', '3 months' or '6 months or more'.

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

Businesses need support

The Government of Eswatini employed multiple response strategies to address the economic fallout from the pandemic. At a national level, the Central Bank of Eswatini cut interest rates to 3.8% from 6.5% to encourage borrowing. It also lowered liquidity requirements for commercial and development banks to support private sector-led growth.²³

At the business level, the Government implemented a E90 million (\$4.8 million) COVID-19 Small and Medium Enterprise Relief Fund that aimed to support small businesses with a turnover of E8 million (\$517,000) or less²⁴ through exceptional tax refunds. Looking towards long-term recovery, the Government introduced the Post COVID-19 Economic Recovery Plan in late 2020.²⁵

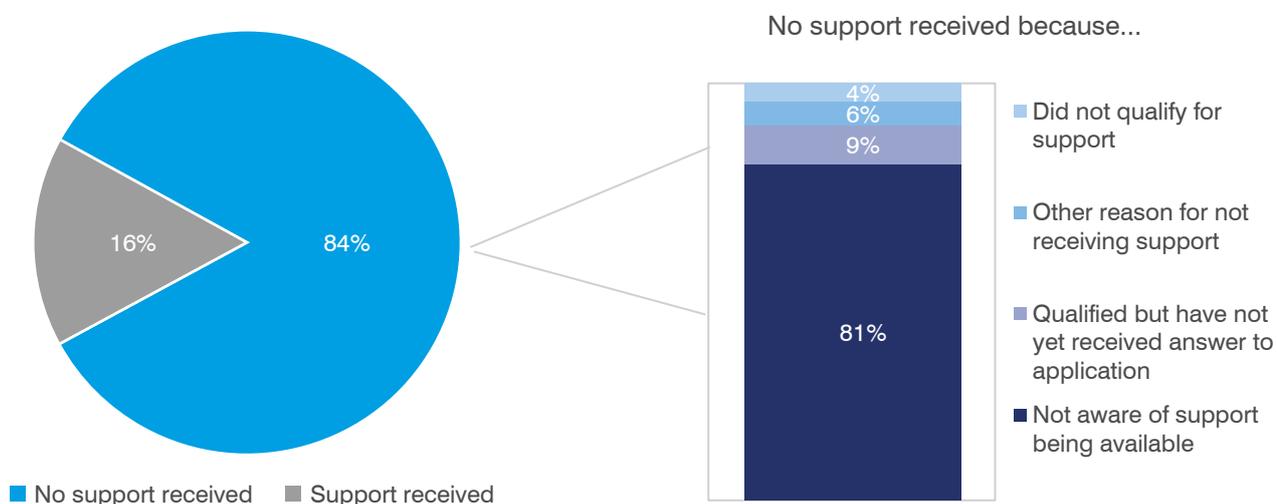
Despite these government programmes, the data show that few Swazi SMEs received help during the pandemic. About 16% of surveyed firms said they had received assistance, which came most often in the form of concessional finance, such as grants. Most of those who received support (97%) said it had met their needs.

Yet 84% of firms surveyed in mid-2021 reported they did not receive any pandemic-related assistance from the Government or BSOs (Figure 6). This can be explained by

the fact that eligibility for the COVID-19 Small and Medium Enterprise Relief Fund was limited to enterprises that submitted an income tax return in 2019.²⁶ Informal firms, for example, or those that started up more recently, were not eligible for this type of financial support.

Of surveyed firms that had existed for at least five years, 18% received assistance. Only 6% of firms that had been operational for less than five years received assistance.

Figure 6 COVID-19 support did not reach most companies



Note: Respondents were asked: 'Has the business received COVID-19-related support from the government or a business support organization?' (left panel). Those who responded 'No' were asked 'Why not?' (right panel).

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

An additional factor that could have limited accessibility of the programme was a lack of information. Many companies had no information about the initiative, so they were unaware they could access it. Indeed, when asked why they did not receive assistance, 8 out of 10 respondents reported that they were unaware of any support being available.

These results show that private-sector support needs to be broadened in terms of type of assistance, awareness and eligibility. Decoupling government support from tax registration, and promoting the availability of assistance, could be one solution to support SMEs in the ongoing fight against COVID-19 as well as in anticipation of future crises.

Lessons can also be learned from other countries that have cast a broad net through inclusive private-sector COVID-19 recovery programmes. In Nigeria, for example, the Government introduced the MSME Survival Fund that offered conditional grants to micro and small enterprises to help them meet their payroll obligations.²⁷

Preparation for future crises is limited

Historically, small businesses tend to invest less in before-the-event preparedness than their larger counterparts.²⁸ Between recent social turmoil, the economic effects of COVID-19 and the approaching climate crisis, uncertainty is high concerning how the Swazi business environment is going to look in the future. This is why even smaller firms are starting to think about how to be more resilient.

Survey data show that 35% of Swazi businesses are working on their risk management strategies to prepare for future crises. The most popular approaches were revising their sourcing strategy (35%), revising their sales strategy (30%) and revising the portfolio of products or services they offer (29%).

BSOs and the Government can help SMEs to crisis-proof their businesses. In this context, it is notable that many SMEs in Eswatini are concerned about risks related to

the environment and climate change (see Chapter 4). ITC has developed a Green Recovery Plan for BSOs, governments, lead firms in value chains and international organizations that provides a roadmap on how best to help small firms address climate change.²⁹ If all parties take these points into account and companies invest in their business fundamentals, SMEs will be better prepared for future crises.





Chapter 2

Improve business fundamentals to compete successfully

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Improve business fundamentals to compete successfully

The capacity to compete assesses the ability of firms to deliver output of suitable quantity, timeliness, quality and cost to meet current market expectations. Firm-level operational characteristics – such as efficient inventory management, professional financial management and compliance with internationally recognized standards – influence this ability to meet short-term market requirements. Factors at the business ecosystem and national level, including electricity and transport infrastructure and services, are also relevant.

Swazi firms are lagging behind in their capacity to compete. They fail to exploit their full production capacity and struggle to deliver their goods on time. Data show that managerial capacities need upgrading, as many firms neither keep records or have a bank account. This limits their ability to manage cash flow and inventory. Signalling quality through international certification is relatively uncommon. These factors hamper the ability of Swazi companies to compete on domestic, regional and international markets.

Certification and supplier monitoring can provide incentives for firms to upgrade their management capacities. To become certified, businesses need strong management practices. Large firms can pressure and provide support to their smaller suppliers to obtain higher quality inputs. To not lose their buyers, suppliers will have to establish stronger management processes.

Productive capacities are underused

Good management practices enable a firm to supply according to the quantity and time requirements of the market.³⁰ This is because a well-managed company can manage its resources effectively and produce efficiently. It can generate a greater output – use more of its production capacity – and deliver products on time. Companies that can produce more from their inputs are able to earn more money on a larger amount of output, making them more competitive and profitable as a result.³¹



Firms in Eswatini struggle to efficiently coordinate and use the resources that are available to them. As a result, they do not fully exploit their production capacity and are unable to deliver their products on time. On average, firms that had been operational in the previous 12 months used 54% of their capacity. A third of firms that were operational delivered less than half of their output on time (Figure 7). These tardy deliveries negatively affect buyer–seller relationships as they erode the buyer’s trust in the seller.³²

Disaggregating the data further shows that microenterprises operated below their maximum production capacity more often than larger firms. Fifty-four percent of micro firms used little of their capacity (i.e. they only employed 1% to 49% of their capacity), compared to 33% of larger firms (Figure 7).

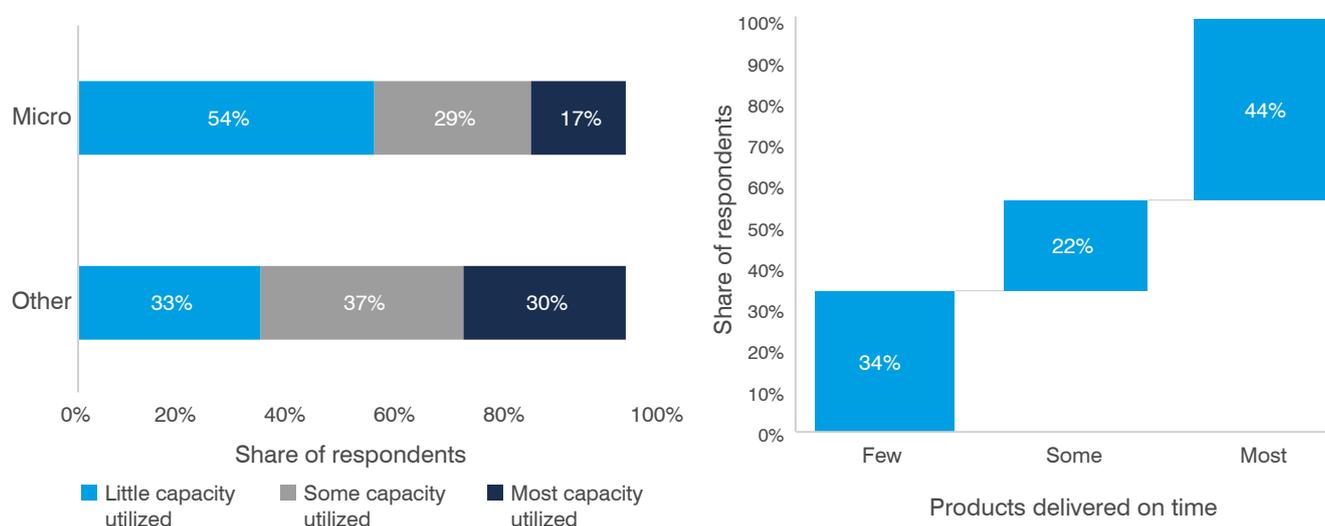
This evidence, along with data on the number of micro-sized firms in Eswatini, indicates that there are many very small-scale Swazi firms and many of these are not running at full capacity. As the next section notes, improvements in their management – along with stronger incentives from

customers to upgrade their offering – could help some of these firms to grow, consolidate markets, use more of their capacity and thereby improve the efficiency of the economy.

The difficult period that occurred in 2021 when firms were surveyed goes some way towards explaining the fact that many were not using their capacity fully. The pandemic and social unrest led to lower demand as consumers stopped purchasing goods and services. The production and delivery of non-essential goods and services were also brought to a complete halt during COVID-19 lockdowns. These issues were probably partially to blame for the low output and delayed delivery observed in the data. The results of the survey should therefore be read and understood in this context.

Yet, data from the SME Competitiveness Survey show that higher production efficiency also made companies more resilient to the COVID-19 crisis. The survey finds that firms that delivered at least half of their products on time were less concerned about their recovery from the pandemic.

Figure 7 Production efficiency needs a boost



Note: In the left panel, respondents were asked: ‘In the last year, what was this company’s output as a percentage of the maximum output possible?’. The category ‘Little capacity used’ comprises 1%–49%, ‘Some capacity utilized’ comprises 50%–89% and ‘Most capacity utilized’ comprises 90%–100%. In the right panel, respondents were asked: ‘In the last year, what percentage of this company’s goods or services were delivered on time?’. The category ‘Few’ comprises 1%–49%, ‘Some’ comprises 50%–89% and ‘Most’ comprises 90%–100%.

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

In the long term, weak demand within the country may drive low rates of capacity utilization. Supply linkages between firms in Eswatini are weak, as many inputs to production are imported from South Africa.³³ This decreases domestic

demand for Swazi products, as they are not purchased further down the supply chain.

Another obstacle to better capacity utilization comes from the business ecosystem. Weak infrastructure hampers



many firms in the country. Eighteen percent of respondents say the quality of their electricity provider is low. Without reliable electricity, it is hard to keep machines running during business hours. While Eswatini produces its own electricity, managed by the state-owned Eswatini Electricity Company, most of the country's electricity needs are met through imported electricity from South Africa's Eskom.³⁴

A further 22% of respondents indicate that access to water for production purposes is limited and 20% say that internet reliability is low. Internet reliability was an issue during social unrest in 2021, as many internet outages occurred.³⁵ Transport infrastructure is also a concern, as almost 40% of respondents say transport infrastructure quality is low. This can make it difficult for SMEs to access the inputs they need and deliver output on time to customers.

Water and transport problems are especially prevalent in the rural regions of Lubombo and Shiselweni, where 37% of respondents reported limited access to water. This compares to 14% in urban regions (Hhohho and Manzini). Also, 49% of respondents in rural regions reported low transport infrastructure, compared to 34% in urban regions. While Eswatini's economic centres are well connected through paved roads, unpaved roads dominate in rural areas. This adversely affects the agricultural sector, largely located in rural areas, as it makes the distribution of agricultural goods more difficult and costly.³⁶

The analysis highlights how several factors – poor infrastructure, pandemic-era restrictions and low demand – may have hampered the production of Swazi SMEs in 2021.

At the root of companies' ability to cope, produce and grow, however, are the fundamentals of business management. Companies need to get the basic techniques in resource management right to maintain efficient, productive enterprises. As the next section shows, those capacities are often lacking in Eswatini.

Firms must get the basics right

The evidence points to major management gaps in the operations of Swazi firms. More than one-third of enterprises (36%) keep no economic records and about half (44%) have no bank account. These poor management practices lower the ability of companies to manage their resources and production. As a result, companies struggle to manage their cash flow and inventory.

Only one in three surveyed firms (32%) report having a high ability to manage cash flow and one in three firms (30%) have a high ability to manage their inventory (Figure 8). Not adopting basic management capacities leads to dysfunctional business processes that prevent companies from functioning in an efficient, competitive and profitable way.

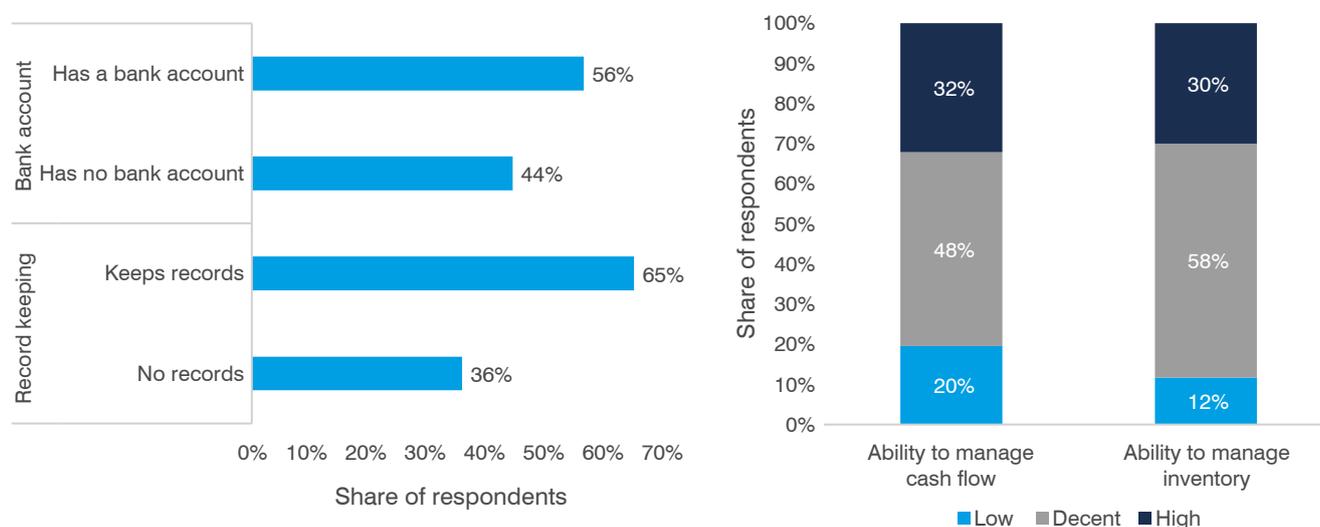
Bank accounts and records help managers make effective decisions about the allocation of resources. They enable them to keep track of liabilities, receivables and needed amounts of funding, thereby improving their ability to manage the firm's cash flow.

In Eswatini, keeping records and having a bank account triple the probability of businesses having strong cash flow management, according to the data. Just 14% of firms that keep no records and 15% of firms that have no bank account have strong cash flow management. Conversely, 42% of businesses that keep records and 46% of those that have a bank account have strong cash flow management.

Strong cash flow management, in turn, ensures that businesses execute payments and collect receivables on time.³⁷ A strong grasp of a company's financial activities is also essential to obtain formal financing.³⁸ Cash flow management in Eswatini is complicated by the fact that cash is the dominant payment form, preventing firms from keeping a digital transaction history. Mobile money could be a solution to replace cash in business transactions.³⁹

Tracking inputs and outputs also improves a company's ability to manage its inventory. Keeping records – in particular, recording a company's assets – helps managers

Figure 8 Business fundamentals are lacking



Note: Respondents were asked: 'At this time, does this company have a bank account for daily operations which is separate from a personal account? – Yes, no' and 'Does your company keep the following types of records? – Revenues, expenses, liabilities, assets.'. Respondents who kept at least one of these records were categorized as 'Keeps records'. Respondents were also asked: 'Please rate this company's ability to manage its cash flow to reliably execute payments.' Answer options ranged from 1 (no ability) to 6 (very good ability). Those who answered 5 or 6 are categorized as 'high ability to manage cash flow', 3 and 4 'average ability', 1 and 2 'low ability'. Respondents were also asked: 'Please rate the efficiency of this company's inventory management system?'. Answer options ranged from 1 (inefficient) to 6 (highly efficient). Those who answered 5 or 6 are categorized as 'high ability to manage inventory', 3 and 4 'average ability', 1 and 2 'low ability'.

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

oversee the value of the company's inventory. A bank account is needed to know how much money is available to replenish inventories once they have been depleted. Analysis of the survey data shows that keeping records and having a bank account increases the probability of businesses having strong inventory management practices by more than 10 percentage points.

Quality signalling to boost managerial capacities

Certification can help push for the upgrading of management practices. The need to demonstrate compliance with a standard provides an imperative for management upgrading in smaller firms.⁴⁰ It signals to buyers – domestically and internationally – that the enterprise's managers have the right practices in place to make high-quality goods and services.⁴¹ This, in turn, reduces transaction costs associated with communicating the quality of the product, which boosts competitiveness and exports.⁴²

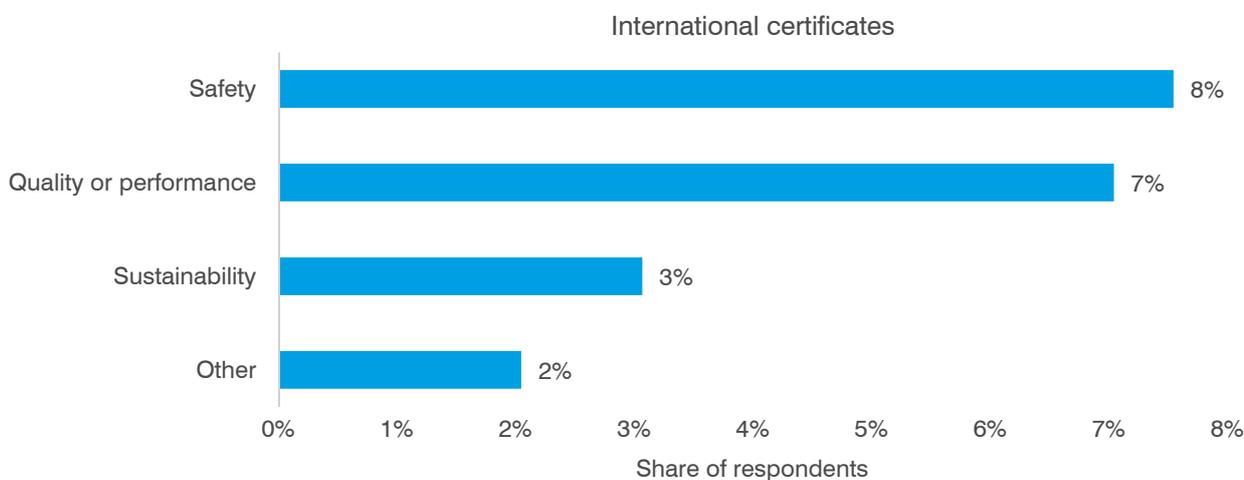
In the agricultural sector, this quality assurance is often a prerequisite to competitiveness on international markets.⁴³

Almost half of the firms interviewed in Eswatini report that they compete by offering high-quality products or services. To make buyers more aware of this quality and to increase their competitiveness, firms could have the quality of their products and processes certified by external auditors and certification bodies. Yet, international certification is rare: only 10% of Swazi firms hold an international certificate.

The most popular international certificates were safety and quality or performance certificates (Figure 9). This follows the common trend that SMEs tend to value safety and quality standards more to enter foreign markets, while sustainability certification is less pervasive among small enterprises.⁴⁴ Micro firms, women-led firms and youth-led firms usually have lower turnover and therefore struggle to afford costly certification.

Certified firms in all countries tend to have good practices and, indeed, the evidence suggests that in Eswatini, these firms have better management capacities. Of the companies that hold an international certificate, 39% use most of their capacity, 95% have a bank account and 100% keep records. For firms that hold no international certificate, 19% use most of their capacity, 52% have a bank account and 61% keep records.

Figure 9 Popularity of international certificates



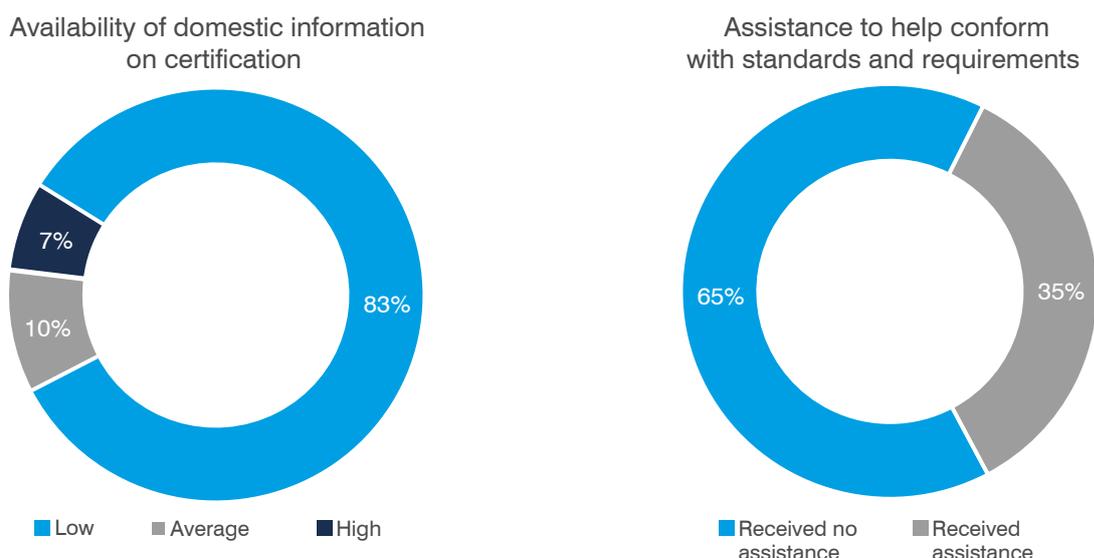
Note: Respondents were asked: 'Does this establishment's main product or service hold any of the following types of internationally recognized certificates? - safety, quality or performance, sustainability, other'.

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

At the same time, information on standards is hard to access. Eighty-three percent of surveyed companies said that there was poor availability of information on certification (Figure 10). The quality of services offered by product testing, certification and inspection authorities was low, according to 26% of respondents, while 19% reported that the cost of these services was high.

Weak quality infrastructure is a common issue in developing countries⁴⁵ because quality infrastructure institutions such as national standards bodies, metrology institutes and accreditation bodies are poorly developed.⁴⁶ In Eswatini, the reach of quality infrastructure appears to be limited: two-thirds of surveyed firms said they received no assistance to conform to standards and requirements (Figure 10).

Figure 10 Companies need more support to get certified



Note: In the left panel, respondents were asked: 'Please rate the availability of domestic information on standards and certificates related to this establishment's main product or service.' Answer options ranged from 1 (very low) to 6 (very high). Those who answered 1 or 2 are categorized as 'low', 3 or 4 'average', 5 or 6 'high'. In the right panel, respondents were asked 'Does this company receive any assistance to help it conform to national, regional or international standards and requirements?'. Answer options were 'Yes', 'No' and 'Don't know'.

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

This problem was recognized in the 2018 Small, Micro & Medium Enterprise National Policy, which says the Eswatini Standards Authority is not operating at its optimum due to missing capacity, making it cumbersome for businesses to get certified.⁴⁷ This gap is reflected in the survey data. The standards authority did not aid most of the firms that did receive assistance. Instead, they received help from the National Agricultural Marketing Board, SEDCO and/or the Ministry of Commerce, Industry and Trade.

General and sector-specific trade and support institutions can boost certification levels among Swazi firms. This could entail addressing information gaps and helping firms access assistance to conform to standards and requirements outside the country. Indeed, the survey finds a positive correlation between engagement with BSOs and international certification: 15% of businesses engaged with BSOs hold international certifications compared to 3% of those not actively engaged.

Policy insight: Certification and supplier development as drivers of competitiveness

Many firms in Eswatini survive without a habit of good management practices, possibly owing to missing competitive pressure. More competitive markets force firms to adopt better management practices to avoid being pushed out of the market.⁴⁸

Such pressure is lower in Eswatini owing to a weak business climate characterized by stringent regulations, lack of entrepreneurial drive, sluggish growth and low levels of investment and innovation.⁴⁹ As a result, even firms with bad fundamentals can persist. This also explains why there are so many micro firms that often have low levels of competitiveness.

Nonetheless, there are ways to drive management and performance improvements. Certification can encourage firms, especially those that are looking to expand into foreign markets, to work on their management practices.

Certification is especially relevant for the agrifood sector, which employs most of the Swazi population. In Kenya and Morocco, where small-scale farmers dominate the economic landscape, certification has been shown to increase exports of smallholder farmers.⁵⁰ Obtaining international certificates is therefore an opportunity for the Swazi agrifood sector to enter international markets.

Supplier development is another path Swazi firms could take to improve management practices. Instead of sourcing from South Africa, large firms should look to local suppliers. Quality concerns associated with those suppliers

can be rectified if these large buyers share some of their expertise with their small suppliers by engaging in supplier development.

Some examples of supplier development activities are: setting targets, incentives such as monetary rewards for better performance, penalties for falling short on commitments, on-site consulting, training or providing physical equipment.⁵¹ These incentives to improve the supplier's management skills can benefit both buyers and suppliers. In Iraq, for instance, agribusinesses were willing to pay a premium to their suppliers for higher-quality produce.⁵²

In Eswatini, however, supplier monitoring and training is not very pervasive. Although 26% of agrifood businesses produce fully or partially to their buyers' specifications, only 9% of them frequently assess the performance of the suppliers who sell them the inputs that determine the quality of their own output.

There is a place for governments to support these activities. Chile, for example, pioneered the Supplier Development Programme, which enables large firms to engage in supplier development with their SME suppliers, for instance in the form of training or technical assistance. The Supplier Development Programme then subsidizes the costs.⁵³ The Government of Eswatini could establish a similar programme to help improve the competitiveness of its SME sector.



Chapter 3

Fostering connections to improve market access

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Fostering connections to improve market access

Establishing strong business connections with value chain actors is a crucial determinant of competitiveness. It helps the firm gather information about customers, suppliers, competitors, products, technologies and government policies, and use it for business operations and growth. Collaborating with other companies and linking with BSOs helps firms understand the market landscape.

But information flow needs to be a two-way street. Forming good business linkages also involves actively reaching out to provide information about the firm and its offering through marketing and outreach efforts.⁵⁴

Most surveyed firms in Eswatini are dissatisfied with the level of market information available to connect with buyers and suppliers. Fewer than a quarter of firms are content with the availability of information about new potential buyers, for example. With low rates of exports, firms appear to cater mainly to their existing buyers rather than trying to find new ones.

Furthermore, firms do not sufficiently seek to build the connections they need to be competitive. Only a few promote their business and engage in marketing and promotional activities. Firms must be flexible to succeed in rapidly changing market conditions, but few have a diversified supplier base that would underpin this resilience.

Business linkages are key to access market information

Information about current and potential buyers and suppliers is valuable to firms that want to grow. Knowing current buyers' behaviour and preferences enables firms to better satisfy their demands and get referrals to new customers. Knowing about potential new buyers allows them to target marketing in a manner that attracts new buyers.

Similarly, knowing suppliers enables companies to identify shortfalls upstream in their supply chain that they can



address by monitoring or switching suppliers. Building the capacity to understand buyers and suppliers can strengthen domestic value chains and enable expansion across borders to new buyers.

Access to market information is a key policy objective to make Swazi SMEs more competitive.⁵⁵ The 2004 national SME policy stressed the need for better access to information on input suppliers for production and on new and existing markets to boost exports.⁵⁶ Years after this policy was formulated, however, the survey finds that less than a quarter of the firms (23%) rated the availability of market information on potential buyers as good. About one-third of firms (32%) reported this of suppliers.

The scarcity of information on potential buyers can be linked to a lack of information on existing buyers. Only 31% of surveyed firms reported having rich information on their existing customers. The paucity of market intelligence hinders efforts companies might take to improve customer satisfaction. This, in turn, prevents the development of a culture of continuous improvement in the product and service offering that could attract new buyers.

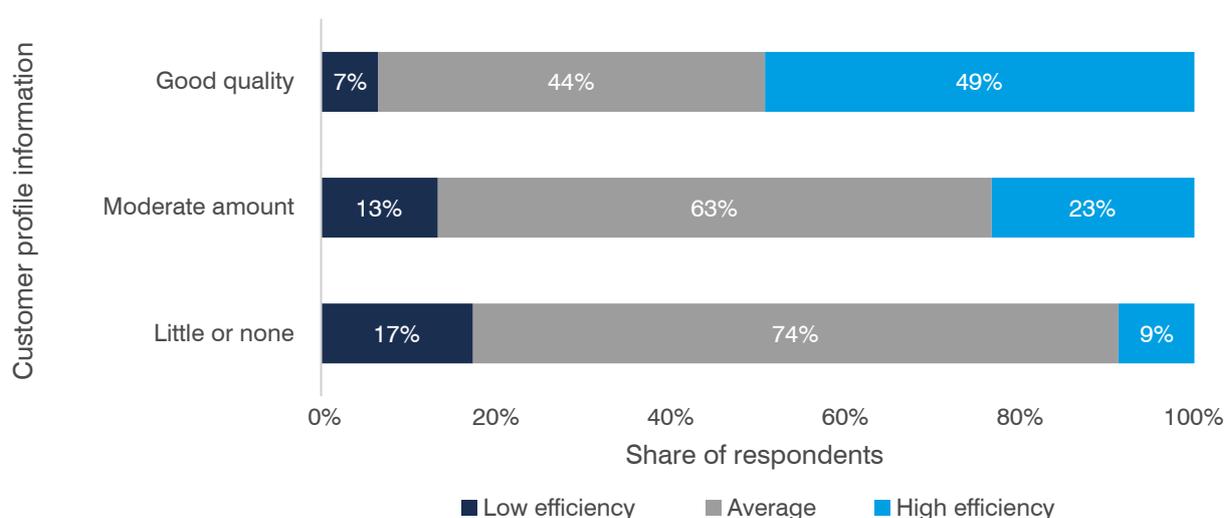
Market intelligence must be accurate and up to date for firms to leverage it effectively for growth in market share. However, only about 30% of survey respondents were happy with the quality of market information available on potential buyers and suppliers. The lack of relevant

information may undermine the ability of Swazi SMEs to align with market demands at home and abroad, thereby acting as an obstacle to enter international markets successfully. In addition, 40% of the respondents thought the cost of information on potential buyers and suppliers was costly.

The survey also reveals that market information accessibility varies depending on the sector and region of operation and the gender of company managers. Of women-led firms, 38% said the quality of information on buyers was low compared to 21% of men-led firms. Furthermore, 73% of services firms described information availability on potential suppliers as average or high, compared to 68% of manufacturing and agrifood firms. Similarly, supplier information was more readily available in the Manzini and Hhohho regions than in Shiselweni and Lubombo.

Buyer and supplier information gives firms insights into the demands and expectations of customers and can help firms manage their inventory. The survey finds that companies that are better informed about customers have more efficient inventory management systems than those with limited customer profile information (Figure 11). This is because having customer information enables managers to efficiently match the production and distribution of goods with market demands.⁵⁷

Figure 11 Good client information favours inventory management



Note: The survey asked, 'Please rate how much information you have about your buyers' and 'Please rate the efficiency of this company's inventory management system'.

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

Business networks can be extremely valuable in garnering information on markets.⁵⁸ For example, collaborating with other firms in the same sector can help companies learn about potential buyers and suppliers. The survey shows a positive link between collaboration (through cooperation to solve problems and exchange of information) and information availability and quality about potential buyers and suppliers. For instance, 51% of firms that collaborate to a great extent said information on potential suppliers was highly available compared to 29% of firms that hardly collaborate.

Business support organizations, such as chambers of commerce, trade and investment promotion agencies, and sector associations, can help firms acquire market intelligence and business networks. The National Agricultural Marketing Board, for example, provides information on local and international markets to fruit and vegetable farmers in Eswatini using a marketing information system.⁵⁹

Yet interaction with BSOs could improve among Swazi SMEs. Just over half of the firms (54%) actively engage with at least one BSO, the survey reveals. Furthermore, most firms reported the quality of these BSOs to be quite

average, with fewer than a third saying they provide high-quality services.

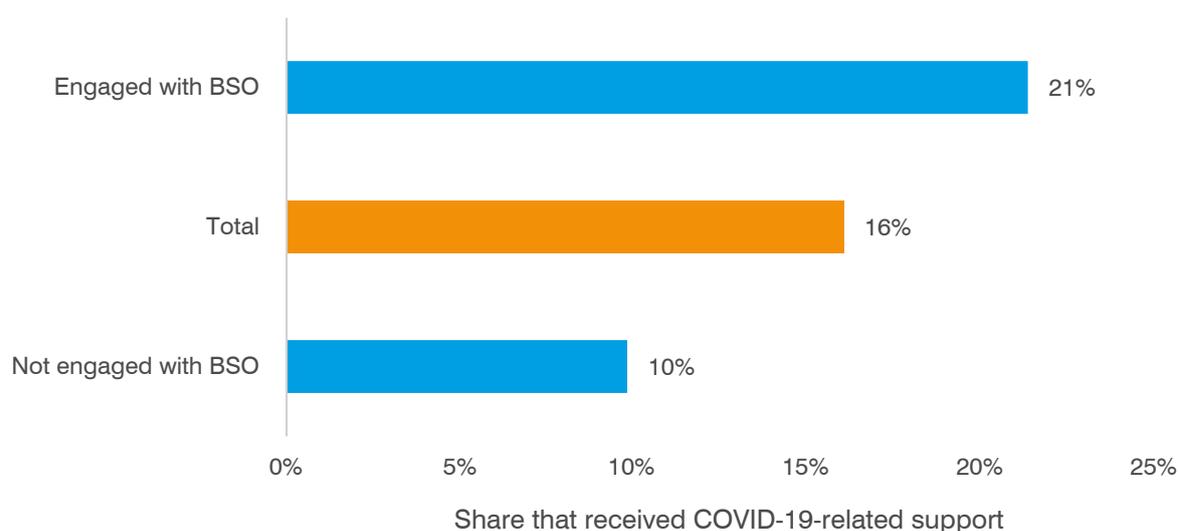
Large, medium-sized and small firms are more likely to engage with BSOs than micro firms. While 76% of larger firms engage with BSO, only 43% of micro firms engage with them. Agrifood businesses are also more likely than manufacturing and services to connect with BSOs. The Shiselweni region has the highest engagement rate (72%) and Lubombo, the lowest (40%).

The importance of these institutions became apparent during the pandemic. As previous research using the SME Competitiveness Survey has found,⁶⁰ companies with connections to BSOs were more likely to receive COVID-19-related support when the pandemic hit.

While 21% of Swazi businesses involved with BSOs received pandemic-related support from the government or BSOs, only 10% of those not involved have received support. This is because BSOs such as Eswatini Investment Promotion Authority, SEDCO and the National Agricultural Marketing Board as well as sector associations play an important role in disseminating information and providing training to access COVID-19 relief assistance.



Figure 12 Engaging with BSOs helped firms access COVID-19 aid



Note: The survey asked, 'Are you actively engaged with any of the following types of institutions: Trade promotion organizations, investment promotion organizations, chambers of commerce, sector associations.' And 'Has the business received COVID-19-related support from the government or a business support organization?'

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

More marketing for new buyers is needed

Inadequate business knowledge and information on markets are accompanied by limited efforts to engage with new potential customers. For example, fewer than half of the surveyed firms (47%) advertise or promote their products or services, and only 9% have a business website.

Much of the Swazi population remains offline despite the fourth generation (4G) network covering 57.6% of the people in 2020.⁶¹ In 2017, only 30.3% of the population used the internet.⁶² Yet online advertising, such as through social media, is the most popular form of advertising, irrespective of firm size, gender and age of leadership. Among surveyed firms, 23% advertise only online, but some online advertisers also use other channels such as newspapers, posters, radio and television (Figure 13).

The most popular advertising channel for micro firms is online advertising, while offline channels are more widespread among small, medium-sized and large firms. Similarly, a higher proportion of women-led and youth-led enterprises use only online channels than men-led and non-youth-led firms. This could be because online channels are more affordable and accessible for advertising businesses.⁶³

However, the relatively small share of internet users in the country might render online advertising less effective for mass marketing compared to newspapers, TV or radio advertisements. Nevertheless, growing internet reach and usage both domestically and globally, offers enormous potential to expand digital marketing among Swazi firms.

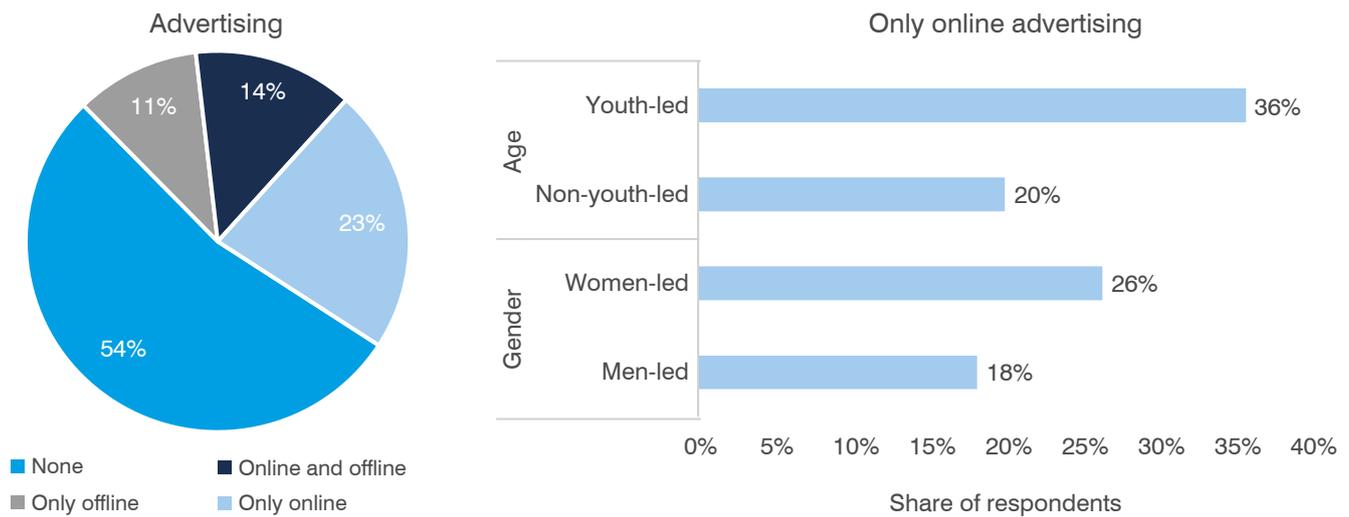
The government has worked to increase e-commerce adoption and boost digital literacy among local businesses, offering them training in digital marketing and hosting the regional headquarters of the African Electronic Trade Group, which seeks to advance e-commerce trade in the African continent.⁶⁴

Much research documents the positive impact of marketing on a firm's performance, showing it to increase profitability, market share, future earnings and marketing efficiency.⁶⁵ Online advertising has strong targeting and tracking abilities. It allows a seller to better attribute the response to a specific type of advertising and assess the individual impact on specific consumers. Digital marketing is especially useful for targeting international buyers. Firms must increase the use of websites and social media platforms as advertising and marketing platforms, and as an entry point to international markets.

On the other hand, offline advertising is effective at brand building. It can better differentiate a brand from

its competitors in the minds of consumers by building brand awareness.⁶⁶ In sum, business marketing and promotional activities, both online and offline, need to intensify among Swazi firms.

Figure 13 Women and youth-led firms more likely to advertise online



Note: The survey asked, 'In the last year, did this company engage in any of the following forms of advertising: 1. Leaflet, poster, or newspaper advertising; 2. Radio or television advertising; 3. Internet or social media advertising?'

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

High dependence on foreign suppliers

Firms are increasingly relying on – and outsourcing non-core activities to – external suppliers. Suppliers contribute to the ability of firms to meet customer requirements and expectations and, in some cases, to comply with legal and regulatory requirements.⁶⁷ Some firms therefore evaluate suppliers by measuring and monitoring supplier performance to ensure compliance with the firm's requirements and to uncover opportunities for cost reduction, risk mitigation and continuous improvement.⁶⁸

Assessing suppliers is one of the most important components of supply chain management and influences the long-term commitments and performance of the firm.⁶⁹ Indeed, supplier assessment has been positively linked with firms' quality performance.⁷⁰ This underscores the importance of effective supplier selection and assessment.

In Eswatini, more than half of the survey respondents have assessed suppliers. However, as noted in the previous section, monitoring is sporadic at best: only 15% of respondents assess their suppliers regularly. Moreover,

women-led firms assess their suppliers less often than men-led firms: 9% of the former evaluate their suppliers often compared to 21% of firms run by men. Exporters and importers assess suppliers more often than non-exporters and non-importers.

Diversification of the supplier base is critical as it allows firms to switch sourcing to adapt to changing market conditions and customer needs. This became apparent during the pandemic, when companies were cut off from their main suppliers and had an urgent imperative to diversify input sources.

Survey evidence from Benin and Cambodia shows that firms with a more diversified base of suppliers had less difficulty accessing inputs during the pandemic than those relying on fewer suppliers.⁷¹ Companies interviewed in Eswatini that had more suppliers also coped better: they tended to be less concerned about their recovery from the pandemic.

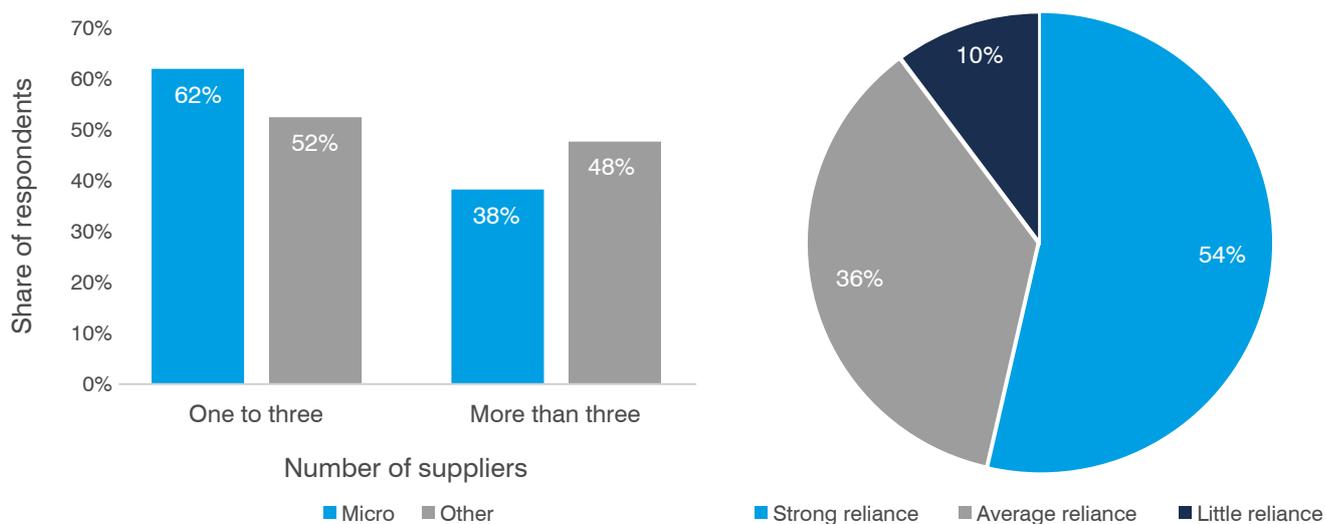
Most Swazi firms have one to three suppliers, and small, medium-sized and large companies tend to have more suppliers than micro firms (Figure 14). There is substantial

reliance on the biggest supplier, with 54% strongly relying on their top supplier.

It is harder for smaller firms to afford – in terms of cash, time and stress – the management of sourcing from

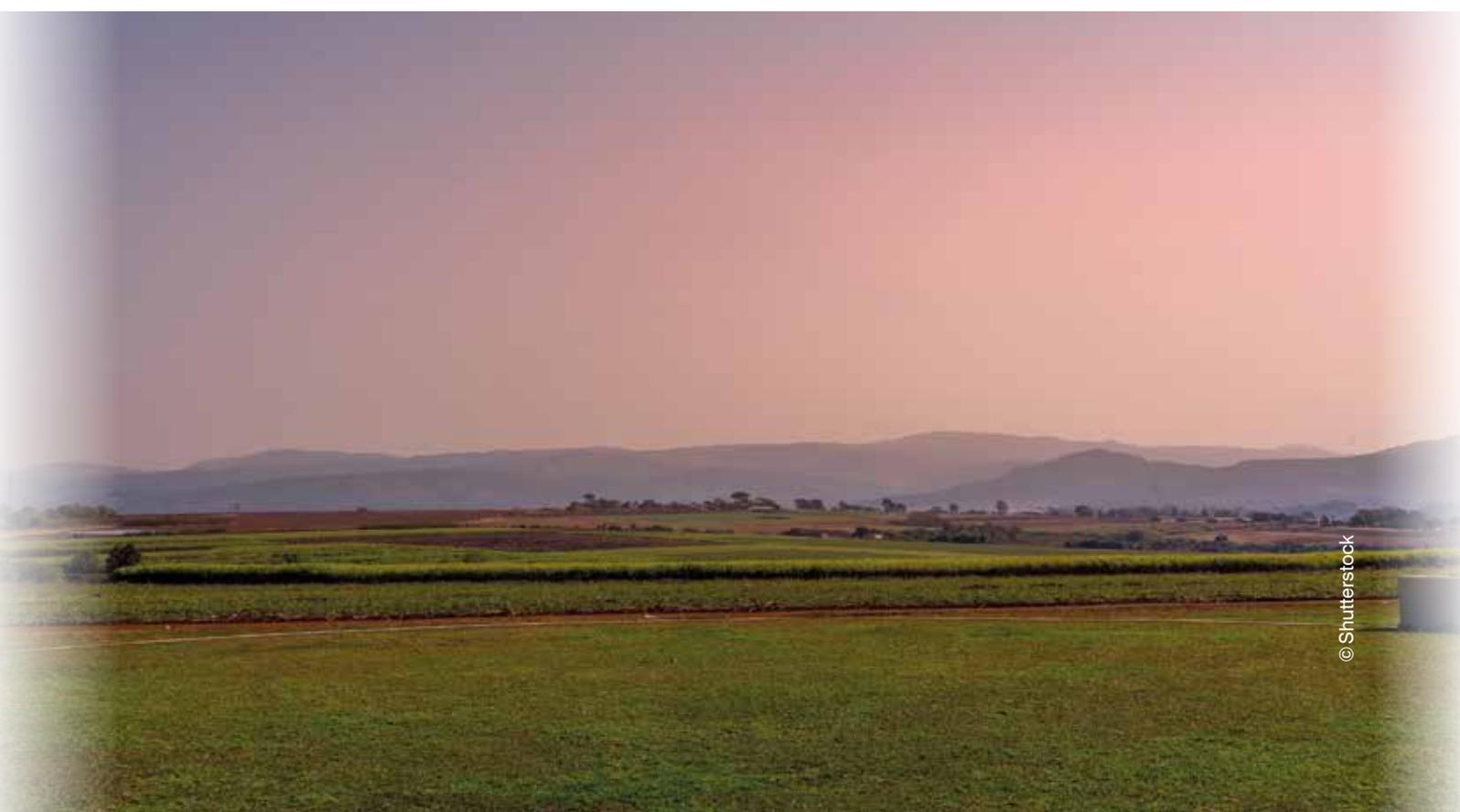
multiple suppliers. Large, sophisticated companies can invest in tools that give accurate and immediate information on production networks. However, there are benefits from diversification of sourcing, even for small firms, in terms of an efficient management of risks.⁷²

Figure 14 Most Swazi companies rely on one main supplier



Note: The survey asked, 'How many suppliers do you have?' and 'Please rate your reliance on your biggest supplier.'

Source: ITC calculations based on SME competitiveness data collected in Eswatini.



Many Swazi companies do not source their inputs locally. This suggests that domestic suppliers are unable to produce in the quantity, quality and timeliness required by local buyers.

Indeed, previous research suggests that scarcity of local inputs is an issue in Eswatini.⁷³ Congruently, the SME Competitiveness Survey finds that 61% of manufacturing firms and 44% of service firms import inputs from foreign countries, notably neighbouring South Africa. Of these, 27% of manufacturing firms source all their inputs from South Africa or Mozambique and almost 40% of services firms

source inputs solely from South Africa, Mozambique, China, Egypt, India or Namibia.

While many companies commonly import production inputs, this is also associated with additional costs. Obtaining all inputs from outside the domestic market is risky, as the supply of these inputs is more susceptible to fluctuations in trade costs. Improving the competitiveness of locally produced inputs will stimulate forward and backward value chain linkages in Eswatini. Local suppliers must develop their own competitiveness to trump imported inputs efficiently, including by adopting better management practices and innovative means of production.



Policy insights: Strengthening market intelligence to boost exports

Improving access to market information is a key policy objective to strengthen the competitiveness of SMEs in Eswatini. Market intelligence can illuminate a pathway to new market niches and expansion of existing enterprises, paving the way for the growth of small businesses. However, the survey evidence in Eswatini indicates that Swazi firms have little understanding of current clients, never mind potential new ones at home and abroad. Improving understanding of market demands, and leveraging them as incentives for improved SME practices and innovation, is an urgent imperative.

In its efforts to improve access to market intelligence for SME growth, the kingdom could draw inspiration from countries that have successfully built models for market intelligence dissemination that foster SME expansion and eventual participation in international trade. One example is the development of small business development centres in Latin American countries, which provide productive linkages, supplier development, business advice, technical assistance and training.⁷⁴

In El Salvador, a network of 14 micro and small enterprise development centres⁷⁵ has provided training to nearly 3,000 small business clients who created 2,343 new jobs and generated \$16 million in sales.⁷⁶

BSOs such as the Eswatini Investment Promotion Authority, SEDCO and the National Agricultural Marketing Board, as well as sector associations, play an important role in disseminating information and providing business support

services. When BSOs are efficient, they provide effective support to SMEs through advocacy, networking, direct services and market development.⁷⁷

At the same time, businesses must learn how to use the information to benefit from it. Support services such as training in digital marketing, branding and promotional activities, as well as participation in international trade and investment fairs, are valuable for SMEs seeking to export or attract investment.

Improving the capacity and service quality of BSOs will promote SME engagement and a tailoring of programmes to meet their requirements. Swazi BSOs must cooperate more to minimize gaps and duplication in the services they offer. They also need to seize opportunities to support their clients/members and be more confident in reaching out to relevant partners.⁷⁸

Business collaboration is another important source of obtaining market information among surveyed firms. The Government and BSOs could facilitate business meetups and sector-level networking events (online or in-person) to promote exchange of information and opportunities to collaborate. Cross-value chain programmes can facilitate learning about clients and leveraging that knowledge for growth. In Costa Rica, for example, the Productive Linkages programme linked domestic firms to multinational corporations, which helped them increase their performance and acquire new and better buyers.⁷⁹



Chapter 4

Responding to changing market demands

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Responding to changing market demands

Today's companies must be flexible to adapt to changes in market conditions. As the business landscape evolves rapidly, firms need to take stock of changes in the business environment and quickly respond by transforming their business model. Companies mobilize financial resources, capital and skills and invest them in innovation to improve their competitiveness. Access to finance and appropriately skilled workers are key ingredients in this process.

Survey evidence suggests that Swazi firms lag behind in innovation, research and development (R&D), and the skills needed to pursue them. Limited access to financial institutions is a major obstacle to the operations of most firms, and particularly microenterprises and women-led companies. In agrifood value chains, modern technologies are rarely used and few firms have upgraded to value-added products and processes. While only a quarter of surveyed firms have invested in sustainability measures such as water-efficient technologies, those that do have reaped substantial benefits.

Lack of innovation impedes competitiveness

When companies conduct research and development activities, they can generate innovative goods and systems needed to stay ahead in an ever-changing competitive landscape.⁸⁰ Among African firms, innovation has been shown to increase the range and quality of goods and services and improve production capacity and flexibility.⁸¹ In Eswatini, innovation benefits firms, especially through increased market share and enhanced business processes.⁸²

The competitiveness survey finds low levels of innovation and R&D investment among respondents. One in five (19%) surveyed Swazi firms frequently develops and implements new or improved products or processes, while about half reported rarely doing so and the rest (33%) innovate occasionally (Figure 15). Survey evidence also shows that manufacturing firms (excluding those in the agrifood sector) innovate more frequently than agrifood and services firms.

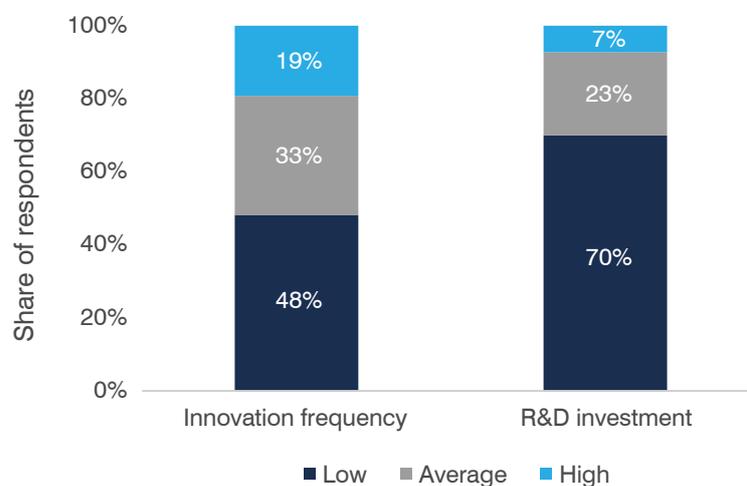




R&D activities foster innovation, but few Swazi firms invest substantial resources in R&D. More than two-thirds (70%) of surveyed firms have committed only limited resources or none at all to R&D projects. This is consistent with other

evidence that private sector expenditure on R&D in Eswatini has been particularly low at 0.003% of GDP in 2015, compared to 0.32% in South Africa.⁸³

Figure 15 Limited innovation and low resource commitment to R&D



Note: The survey asked, 'Please rate the frequency with which your company develops and implements new or improved processes or products' and 'Please estimate the level of resources your company commits to research and development'.

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

The lack of innovation among most surveyed firms may be testament to a poor business ecosystem for such activities in Eswatini. Investment in knowledge creation, through human capital development, research and university-industry linkages, is low in the kingdom. Combined total public and private gross expenditure on R&D was 0.26% of the country's GDP in 2016, lower than the continental target of 1% of GDP.⁸⁴

Lack of resources, access to information and technology, as well as policy limitations and inflexible regulation, have historically inhibited innovation in Eswatini. There have been policy efforts to encourage innovation, such as investment in a science and technology park. Nonetheless previous research suggests that a weak innovation strategy has muted such investments and delayed industrial development in the country.⁸⁵

Box 3 Innovation in Swazi agrifood value chains

Eswatini’s agribusiness sector has considerable potential for value-added products, import substitution and niche market exports.⁸⁶ Innovations in the agrifood sector take place through upgrading the terms of engagement in value chains.⁸⁷

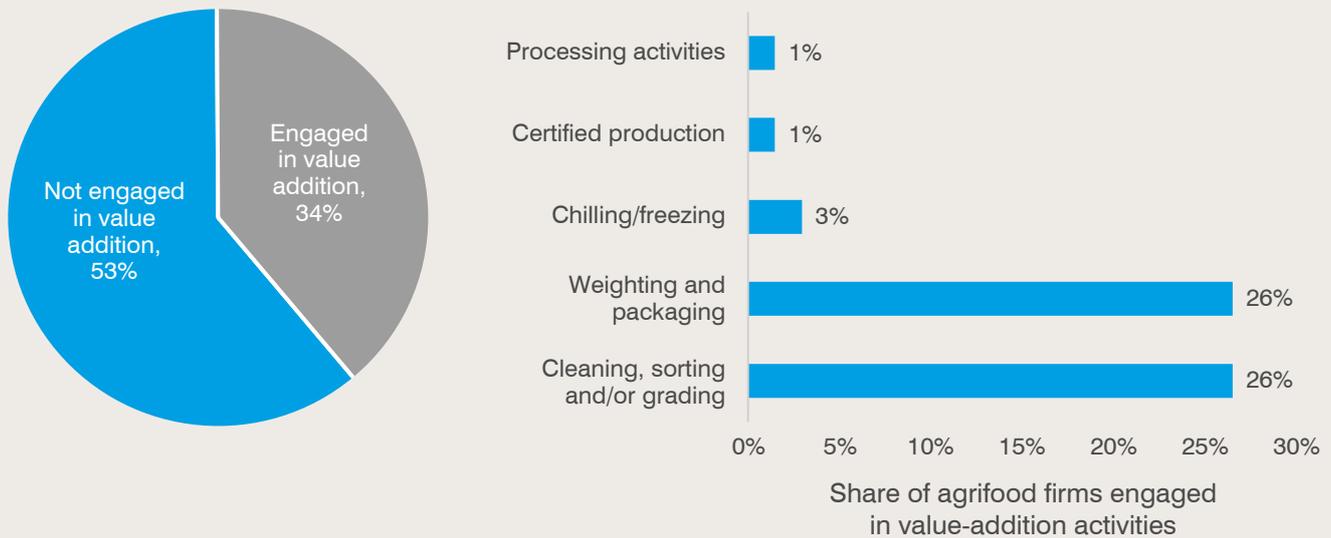
Process upgrading involves adopting better technologies and processes that improve production efficiency. The SME Competitiveness Survey in Eswatini finds that more than 80% of farmers use tractors and hand tools, such as pitchforks, to cultivate or collect harvests. In addition, 9% use animal-drawn equipment.

Only 2% of the responding farmers use more sophisticated technology, such as the mechanical harvester, while none use power tillers or pruning machines. The switch to more efficient technologies would upgrade processes and productivity to the level required for competitive inclusion of smallholders into international agrifood value chains.⁸⁸

Product upgrading in the agrifood value chain includes improving product quality through standards and certification. However, very few agrifood firms were certified to an international standard: just 4.5% of them said they held an international certificate. Given the prevalence of food safety and other standards as requirements for agricultural exports, improving product quality and farming techniques can facilitate certification and other product upgrades that grant suppliers a competitive advantage for participation in high value-added chains.⁸⁹

Functional upgrading occurs through the take-up of new tasks that add value, enabling value chain actors to earn more, but it is rare among value chain participants in Eswatini. Most surveyed agrifood firms sell their products in their raw form without performing value-added activities. Only one-third of them are involved in value addition, such as cleaning, packaging, freezing, processing and certified production (Figure 16). There are opportunities to take up additional distribution and processing functions and develop new market channels.

Figure 16 One-third of agrifood businesses focus on value addition



Note: The survey asked, ‘What value-addition activities, if any, does this establishment undertake for selling its products?’ and ‘What type of machinery or equipment do you use for production activities?’

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

Connecting with other actors in the business ecosystem is one way to facilitate innovative upgrading strategies among agricultural value chain actors.⁹⁰ Most (88%) of the surveyed farmers have already seen the value of networks and received

technical advice, notably from other farmers, government agricultural extension services and farmer associations.⁹¹

Intellectual property laws in Eswatini are outdated and lack enforcement.⁹² Survey results reveal that almost all firms (97%) never sought information or services related to intellectual property rights protection or innovation support. This further confirms the rarity of innovation and intellectual property registration. Challenges regarding the country's intellectual property regulatory framework must be addressed to incentivize R&D investments and innovation.

In this context, it is promising that collaboration among firms in a sector – such as information sharing and cooperating to solve common problems – seems to be correlated with innovation. This is particularly true among services firms.

The survey found that services firms that collaborate often with other services firms tend to innovate more frequently. For instance, 35% of those that extensively collaborate and 42% that share market information said they often innovate, compared to just 6% of those that rarely cooperate or share market information. This implies that there are collaborative networks among innovative firms that are striving to improve their offerings.

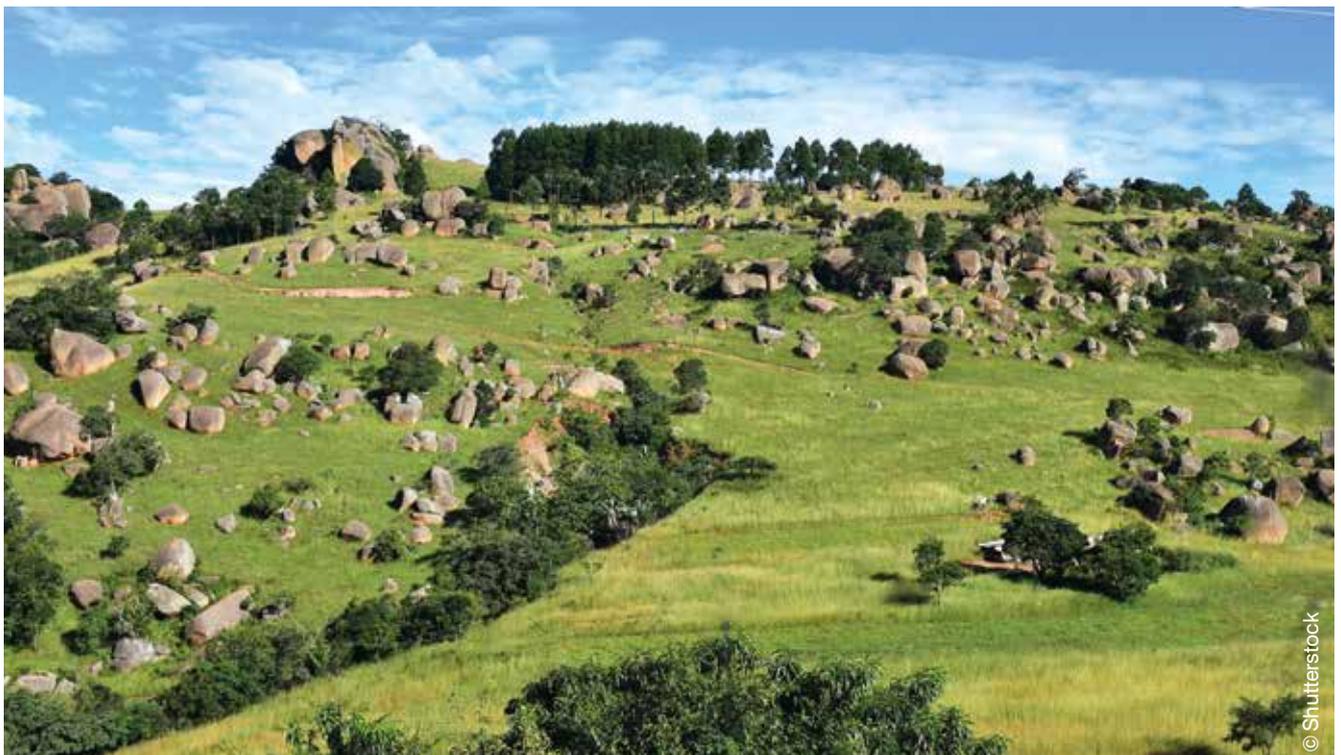
The findings are in line with previous studies where community clusters act as a pathway for SME innovation.⁹³ Combining efforts and expertise benefits SMEs that lack sufficient knowledge about markets and resources to innovate individually. Innovative firms in Africa, including

Eswatini, have been found to rely heavily on information provided by external sources such as input suppliers and customers for innovation.⁹⁴

The frequency of innovation also depends on whether a man or woman leads the company. The survey evidence shows that women-led firms innovate and invest in R&D less than men-led firms. For example, 54% of women-led firms rarely engage in innovation activities compared to 41% of men-led firms. While 79% of women-led firms reported low R&D investment, the share among men-led firms was 59%.

To innovate, firms need skilled labour to identify and exploit new ideas. However, only one-third of surveyed firms in Eswatini reported an abundance of skilled workers for hire. Services firms tend to report a higher availability of skilled workers for hire than agrifood and manufacturing firms. However, these are mainly services firms in the most highly populated regions of Hhohho and Manzini, where firms are more likely to find suitably skilled employees.

Identifying and selecting suitably skilled workers is vital for innovation.⁹⁵ This means an established and structured hiring process is essential. The survey shows that two-thirds of companies have weak hiring processes, which makes it harder for them to find the best candidates. Firms with a strong hiring process were more likely to obtain a good match between workers and company needs.



Credit constraints cripple business operations

Access to finance is crucial for firms' innovation and growth.⁹⁶ It stimulates investments in productive resources and R&D. In many countries, SMEs are less likely to receive bank loans or other lines of credit than large firms, creating a financing gap.⁹⁷ Instead, they rely on internal funds, cash from friends and family, or other informal moneylenders to run their enterprises.⁹⁸ Although informal sources tend to yield limited funds and high interest rates are exploitative in nature, market frictions (e.g. lack of information, discrimination, price barriers), regulatory barriers and/or the absence of financial institutions often limit access to formal credit.⁹⁹

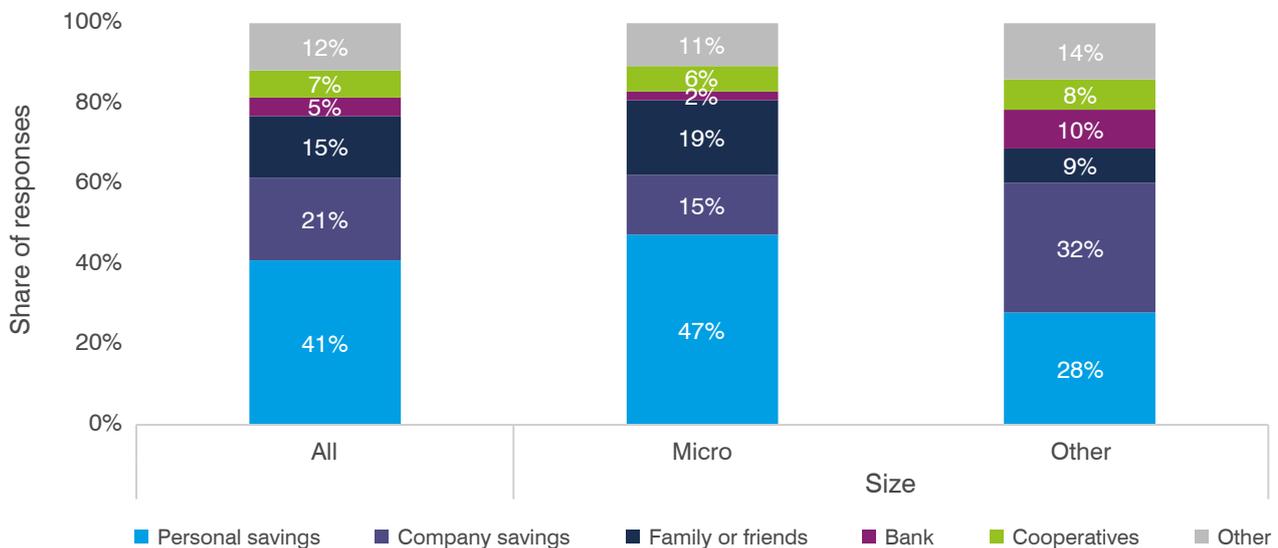
Swazi firms use a mix of financing sources to bankroll company operations. Personal savings are the primary source of financing for surveyed companies, accounting for 41% of the total responses (Figure 17). This is followed

by company savings, family or friends, cooperatives and banks. Previous research confirms the high reliance on informal finance.¹⁰⁰

Companies with four employees or fewer rely mainly on personal savings and financial support from family and friends. Only 2% had received financing from commercial banks. On the other hand, larger firms tend to rely more on company savings than personal savings, and 10% have borrowed from commercial banks.

Banks are the main source of formal borrowing by men-led firms, and cooperatives were relatively more popular among women-led firms. This is consistent with previous evidence that fewer women than men have bank accounts in Eswatini. It also backs up past evidence that non-bank financial institutions, including cooperatives such as the Savings and Credit Cooperatives of Eswatini, are the driving force of women's financial inclusion in the country.¹⁰¹

Figure 17 Micro firms mainly finance using their own funds



Note: The survey asked, 'In the last year, did your establishment access loans, grants or other financial support?'

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

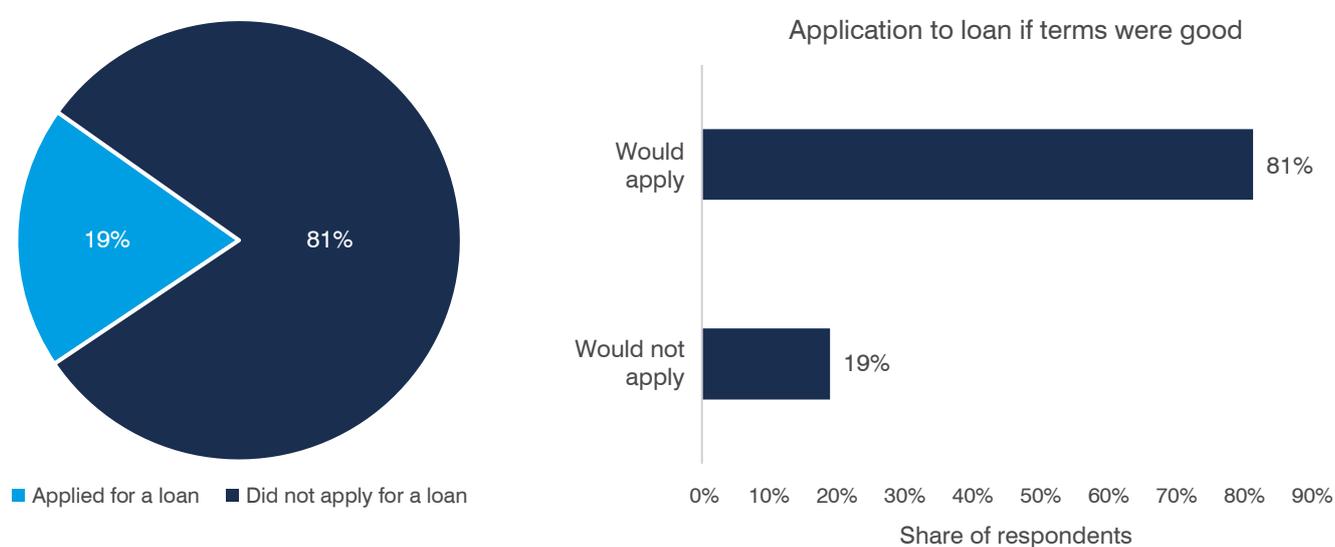
Youth-led firms mainly access funding from internal and informal sources, namely personal and company savings, and family and friends. On the other hand, non-youth-led firms obtain financial support from a wider variety of external sources, including government funds and equity investors. Financial institutions may perceive young

owners or managers as higher risk clients due to their limited collateral or business experience. For this reason, banks may hesitate before unlocking formal financing for young entrepreneurs, which forces them to rely on their own savings and informal lenders.¹⁰²

Only 19% of the surveyed Swazi firms had applied for a loan in the past three years (Figure 18) and micro firms were less likely than larger firms to seek a loan. When small, medium-sized and large firms did not apply for a loan, it was most often because they did not need one. But for micro firms, it was because they did not think it would be approved.

The gender of the business lead also plays a role in the decision to apply for a loan. Men-led firms did not request a loan mainly because they did not need it, while women-led firms did not apply because they did not think it would be approved. Among companies that did not apply for a loan in the past three years, 81% would have applied if they had been more confident of getting it and if the terms were good.

Figure 18 High outstanding demand for good finance



Note: The survey asked, 'Have this establishment in fact applied for a loan in the last three years?'

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

The data reflect the fact that many firms want financing, but do not get it. Fifty-seven percent of the survey respondents said access to financial institutions is a considerable obstacle to current operations. Micro firms tend to cite this problem more than larger firms: 49% of large, medium-sized and small firms are severely burdened by difficulty accessing financial institutions compared to 61% of micro firms.

Like in many countries, banks in Eswatini often consider lending to SMEs as unviable. The lack of competition in the country's banking market further generates a tendency among banks to rely more on established medium-sized and large enterprises.

Moreover, the lack of a credit registry and a regulated private credit bureau poses challenges for potential SME borrowers, leading to heavy reliance on collateral and current salary for loan decisions.¹⁰³ There is an ongoing effort to create an

asset registry, expected to benefit the country's numerous micro-sized and informal firms, including those without acceptable collateral, such as farmers operating on common land that cannot be collateralized.

The Government has tried to ease SME access to finance, for example, by launching the Small Scale Enterprise Loan Guarantee Scheme and by drafting development plans and policies such as the Micro Finance Policy, the National Financial Inclusion Strategy, the Small, Micro & Medium Enterprise policy and Financial Sector Development Strategy. However, Swazi SMEs still consider lack of finance as the most binding constraint at start-up and during operation, and a vast majority remain excluded from accessing formal credit.¹⁰⁴



Investing in environmental measures pays off

Being a largely agricultural-based economy with limited adaptive capacity, Eswatini is highly vulnerable to the impacts of climate change.¹⁰⁵ Recognizing the environmental risks at hand, 29% of the firms surveyed

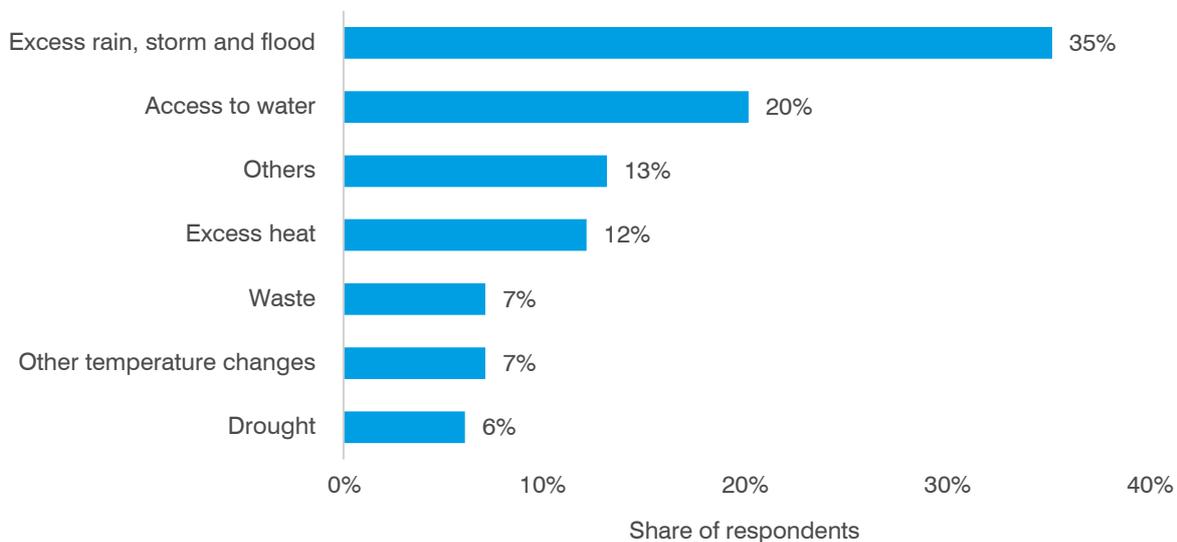
in the manufacturing, agrifood and services sectors have adopted measures to adapt to environmental change. The most popular measures that firms have invested in are improved irrigation systems and soil management practices. Large, medium-sized and small firms and men-led firms more frequently adopted such measures than micro and women-led firms.

The local environmental issues most frequently cited are excess rain, storm and flood, and unreliable access to water (Figure 19). Several respondents described floods caused by heavy rains that damage crops as a severe problem. In Eswatini, floods seep away essential nutrients in the soil, prompting farmers to use fertilizers and decreasing water quality and availability.¹⁰⁶

One manufacturing company in Manzini also pointed to plastic waste and the lack of a waste management system. Inadequate chemical and waste management programmes threaten the country’s biodiversity and natural ecosystem, including essential lifelines such as the Usushwana River.¹⁰⁷ The Government is stepping up efforts to improve waste management, but it remains one of the most pressing issues faced by the country.¹⁰⁸

Investing in climate-smart technologies is vital to strengthen firm resilience and mitigating the effects of climate change. However, not many firms consider it as an immediate concern. A quarter of surveyed firms had

Figure 19 Swazi firms worry about excess rain and water access



Note: The survey asked, ‘What are the local environmental issues that are important for your firm? Please describe in detail.’

Source: ITC calculations based on SME competitiveness data collected in Eswatini.

invested in measures to reduce their negative impact on the environment. Notable among the actions adopted are investments in more water-efficient technologies, waste management systems and sustainable (e.g. recyclable) packaging.

Investing in these environmental measures seems to be paying off for Swazi firms. Nearly all firms (98%) investing in sustainability measures said they saw opportunities

and benefits for their business from these efforts. Among opportunities presented by the sustainability investments, the most common was increased production, followed by lower input costs and improved product quality. Given the apparent impact of climate change on business, firms that invest in green strategies are likely to be in a better position to compete in the future.

Policy insights: Improving adaptability through better financing

Easing access to finance is among the most important measures needed to promote SME development in Eswatini. Limited access to credit prevents SMEs from capitalizing on economic benefits, including higher productivity, investments in R&D and innovation, and the opportunity to upgrade to higher value-added production. Swazi firms mainly use their personal savings for business operations, with almost 60% using them to finance their business. This is followed by company savings or borrowing from friends and family. Access to external and formal credit is a key constraint.

Eswatini has launched initiatives such as the Small Scale Enterprise Loan Guarantee Scheme to improve SME financing by providing collateral. But despite efforts made by the Government to ease financial access, Swazi SMEs still consider lack of finance as the most binding constraint at start-up and during operation, and a vast majority remain excluded from accessing formal credit.

Innovative financial products tailored to the needs of SMEs, particularly micro firms, are required to improve access. Training on formal loan application procedures and alternative credit evaluation methods would help more SMEs apply for formal financing. Most surveyed firms simply did not seek credit because they already expected their applications to be rejected. They would have applied had they had they more confidence in acquiring it and if the terms were good.

Expanding access to banking infrastructure, including digital infrastructure, can help improve credit access. Formal financial institutions must comply with stringent regulations such as high capital adequacy ratios and legal lending limits in Eswatini. The measures the banks take to comply with

these rules de facto restrict the ability of SMEs to acquire formal credit. As such, national financial regulatory reform is an important ingredient in any recipe to improve the inclusion of SMEs in the banking system.

Non-traditional lending alternatives such as leasing, trade credit and other lines of credit could also be explored to bridge the credit gap. Rising mobile-phone penetration and improvements in satellite and other forms of data communication also present solutions. In Kenya, M-Shwari and Tala use mobile-money transactions, voice, SMS and data usage, as well as social connections, to evaluate household creditworthiness and loan size.¹⁰⁹

Training on financial literacy and business management skills must complement improved credit. SME bank default rates in Eswatini are high mainly due to lack of entrepreneurial skills and relevant business and management skills, which leads to business failure.¹¹⁰ Organizations such as the One Acre Fund could inspire Eswatini. It has provided financial products, tailored to local farmer cash flows and behaviours, to about 615,000 farmers across East Africa and India. These are complemented by training and a field force working closely with farmers to ensure a 98% repayment rate.¹¹¹

Improved collaboration among financial-service providers, implementing measures to reduce lender abuses in the informal sector and better financial education among women and youth are needed for credit inclusiveness and growth. Recapitalization and expansion of local development finance institutions that are more likely to serve SMEs than commercial banks could also help address the credit issue.



Chapter 5

Policies for more competitive small firms

Policies for more competitive small firms

Small businesses are at the heart of the Swazi economy and have the potential to provide jobs for a large share of Eswatini's population. By removing constraints to their growth and stimulating their capacity for innovative participation in value chains, SMEs can lead job creation for poverty reduction. Investing in SMEs can increase their competitiveness and give them more opportunities on the domestic and international markets.

This report finds that Swazi SMEs face production capacity constraints, driven by a lack of managerial skills and certification. Strong linkages with suppliers and buyers are rare and small firms engage little with business support organizations. Innovation levels are low, and finance is a serious constraint for SMEs. Addressing these issues, at the firm level and in the business ecosystem, are key policy goals.

Invest in management capabilities for stronger business fundamentals

Basic management techniques are lagging in the SME sector in Eswatini. Small firms suffer from poor management practices, with two-thirds of surveyed firms keeping no records, almost half having no bank account and only one in three having a strong ability to manage cash flow and inventory. These poor firm-level capacities, as well as a tumultuous recent business climate, help explain very low levels of productivity. With an average capacity utilization rate of just 54%, there is an urgent imperative to improve management skills.

BSOs can help strengthen management skills in Swazi enterprises. They can support SMEs by offering tailored training to managers that teach and encourage better





resource management and production efficiency practices.

At the same time, creating an entrepreneurial culture goes beyond a single workshop. It has to be driven by lasting, clear value chain incentives for improved performance. This is why investing in certification and other value chain governance techniques that encourage better firm practices is a must.

Encourage certification for market-driven value chain upgrading

When buyers require their suppliers to get certified to a standard, this can leverage improvements in production processes in the supplier firm. Some SMEs decide to get certified on their own, betting that it will attract new buyers. In Eswatini, international certification is rare, with only 10% of businesses having an international certificate.

Improving certification rates among small Swazi companies can foster the development of performance-based linkages among local enterprises. Better access

to information about, and financing of, certification to international standards can encourage certification. This, in turn, will encourage large companies in Eswatini to source from local companies that have signalled their strong quality. In the long term, higher rates of certification in the agrifood sector will build stronger value chains for export.

Firms stand to benefit from improved access to finance

The evidence suggests that finance is a binding constraint to SME competitiveness in Eswatini. Three out of five surveyed firms said that poor access to financial institutions is a serious obstacle to their business operations. At the business ecosystem level, capacity building could be offered that educates enterprises on how to prepare a business plan and how to correctly fill out loan funding applications.

The Government could help address this issue by revising the country's credit infrastructure in terms of macroprudential regulation. Formal banking institutions



have to comply with stringent regulations such as high capital adequacy ratios and single obligor limits. This affects the risk rating of companies that seek additional capital, which in practice lowers their chances of obtaining loans under conditions that are financially viable for them.

In addition, efforts to boost the visibility of the existing Small Scale Enterprise Loan Guarantee Scheme, and make its loan approval process more time efficient, are worthwhile.¹¹² The Government could also provide seed capital to newly established businesses. This could reduce informality and increase the entrepreneurial drive in the country as it creates growth opportunities for potential entrepreneurs.

Make private-sector support programmes more inclusive

The COVID-19 pandemic has brought serious disruptions to the Swazi economy and its sprawling SME sector. Many businesses were forced to close their doors or ramp down production. Paired with the uncertainty brought about by the social unrest that the country experienced in the second half of 2021, 82% of firms are pessimistic about their long-term recovery, and 40% envisage closure. Yet the data suggest that initial COVID-19 support measures in the country were limited in reach and left out many of the country's smaller enterprises.

There is scope for future private sector support programmes to spread assistance across a greater share of the enterprise population in Eswatini. Viable

solutions to support SMEs in the ongoing fight against COVID-19 could include decoupling government support from tax registration and circulating information about the availability of assistance.

To be effective, high-quality business networks are needed to circulate information about these and other opportunities. These measures would increase the inclusiveness of the Post COVID-19 Economic Recovery Plan and future private sector support programmes.

Encouraging innovation to compete with foreign inputs

Innovation levels are low in Eswatini. Only 20% of interviewed firms frequently develop and implement new or improved products and processes, and two-thirds of companies invest very little or nothing at all in R&D. Yet innovation can help firms improve their management practices, business processes and ultimately lead to improved products. This can enable them to compete with South African imports and make them more attractive to local buyers, ultimately increasing linkages between Swazi firms.

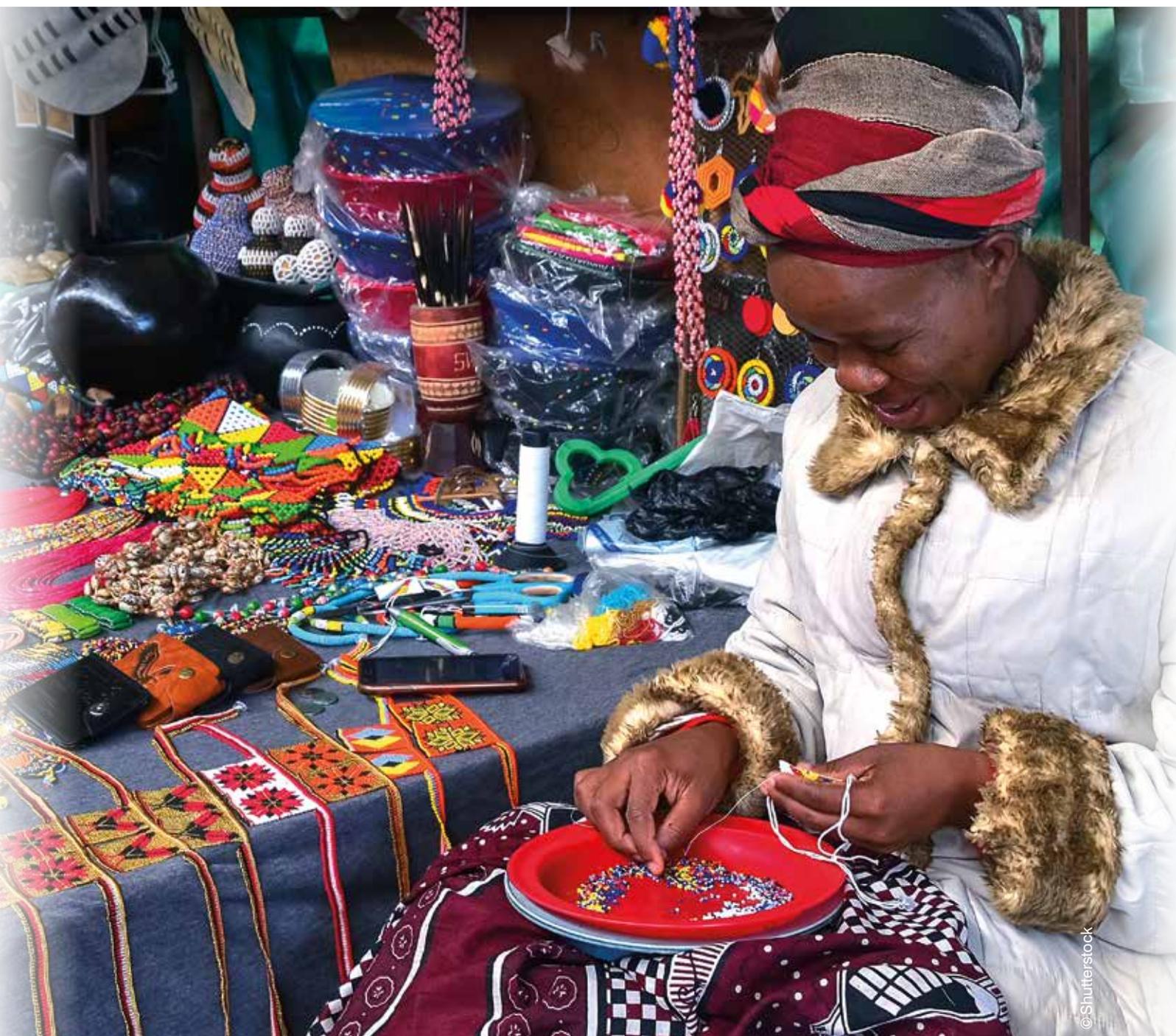
To foster an entrepreneurial spirit in the country, the Government should strengthen the country's intellectual property regulatory framework. While few firms have sought to access information or services related to protection of intellectual property rights or innovation support, missing intellectual property protection could discourage entrepreneurs from introducing innovative solutions on the Swazi market. Fostering business connections can also help SMEs innovate more.

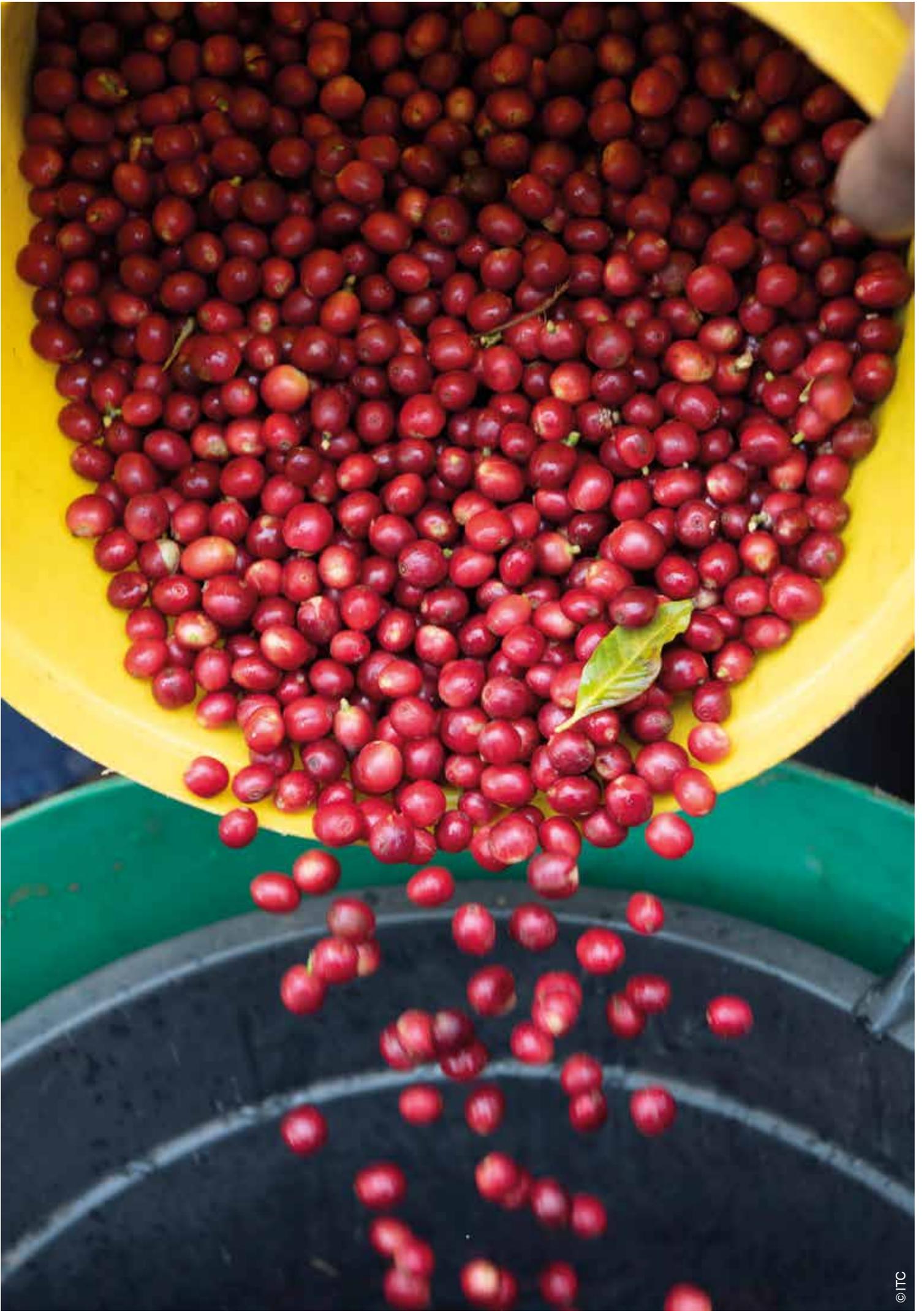
Stronger business networks help strengthen local suppliers

Business networks are critical when it comes to accessing market intelligence. In Eswatini, market information is scarce, with only one in four respondents saying there was good availability of information on new potential buyers. Furthermore, only about 30% said they were happy with the quality of the information available about prospective buyers and suppliers. This deficit of market intelligence about new buyers, combined with the fact that just 31% of firms have rich information on their existing customers, makes it hard for companies to know how to improve their offering to attract new customers.

Stronger business support organizations and networks could help companies acquire the market intelligence they need to know how to improve the quality of domestically produced goods and services. This could help buyers move away from using foreign suppliers and instead encourage them look to the local Swazi market, strengthening linkages between domestic firms.

For this to happen, however, the quality of information-providing services must improve. Most firms reported the quality of BSOs to be quite average, with fewer than a third saying they provide high-quality services. In this context, investments to strengthen the organizations that provide support to businesses in Eswatini are an urgent priority for the ability of the country's firms to acquire the market intelligence they need to be competitive.





Annex

About the SME Competitiveness Survey

About the SME Competitiveness Survey

Many factors influence the competitiveness of an economy in domestic and international markets. ITC provides a holistic view of enterprise competitiveness in the following definition:

Competitiveness is the demonstrated ability to design, produce and commercialize an offer that fully, uniquely and continuously fulfils the needs of targeted market segments, while connecting with and drawing resources from the business environment, and achieving a sustainable return on the resources employed.

The importance of competitiveness in driving firm survival, growth and trade makes it a key element in economic development. For this reason, ITC has developed an analytical framework to understand firm competitiveness and how it can be improved over time. It consists of three pillars that drive competitiveness, each subdivided into three themes (see Figure 1).¹¹³

The three pillars of competitiveness are compete, connect and change.

1. The Capacity to compete assesses the ability of enterprises to deliver output of appropriate quantity, timeliness, quality and cost to meet current market expectations. This ability to meet short-term market requirements is influenced by firm-level operational characteristics, such as efficient inventory management, professional financial management and compliance with internationally recognized standards, as well as factors at the business ecosystem and national level, including electricity and transport infrastructure and services.

2. The Capacity to connect assesses the ability of enterprises to use information, products and services to build strong linkages with actors in its business ecosystem for successful firm operations and growth. At the firm level, this includes efforts to disseminate marketing information to current and potential buyers and build better relationships with suppliers and other value chain actors.

Collaborating with other firms in the sector, and linking with chambers of commerce and other business support organizations, forges connections within the business ecosystem to access market information, products and services. Information and communications technology infrastructure and services support these connections and are influenced by national level factors.

3. The Capacity to change assesses the ability of enterprises to adapt their business model in response to, or in anticipation of, dynamic market forces. When companies are able to build a forward-looking business strategy, and mobilize required funds and skills to implement it through innovation, they draw on their current competitiveness, market connections, and their knowledge to improve their competitiveness today and in the future.

Access to finance, innovation networks, and appropriately skilled workers in the business ecosystem are key ingredients in the implementation of these changes. At the national level, the political environment and governing structures with their approaches to education, innovation and research affect the incentives for firms to invest in change.

These three pillars of competitiveness can be examined at three levels of the economy.

- At the **firm level**, their ability to manage resources adeptly influences their competitiveness.
- At the **business ecosystem level**, factors that support firm competitiveness but are outside the firm – including the availability of skilled workers, infrastructure and business support organizations – are important.
- The **national environment** includes the macroeconomic and governmental factors that establish the fundamentals for the functioning of markets in the economy.

The SME Competitiveness Grid bridges a gap in composite indicators that focus on macroeconomic determinants of competitiveness rather than local or microeconomic

determinants. The importance of macroeconomic determinants is fully recognized, however, and is reflected in the 'national environment' level of the competitiveness grid. ITC's *SME Competitiveness Outlook 2015* provides a more detailed description of the SME Competitiveness Grid and the methodology behind it.

What are SMEs?

This report defines small and medium-sized enterprises as companies with fewer than 100 employees. The term 'SME' thus includes micro-sized firms, understood as those with

fewer than five employees. It also covers small companies with 5–19 employees and medium-sized ones with 20–99 employees.

This definition is different from the legal definition of formal SMEs in Eswatini, which is based on the number of employees, value of assets, and turnover. The table below clarifies and compares these definitions.

| | This report | Legal definition in Eswatini ¹¹⁴ | | |
|---------------------|-------------------------------|---|-------------------------------|------------------|
| | | Employees | Value of assets | Turnover |
| Micro | Four or fewer employees | Zero to 10 | Under E50,000 | Up to E60,000 |
| Small | Between five and 19 employees | 11 to 20 | Over E50,000 to E2 million | Up to E3 million |
| Medium-sized | Between 20 and 99 employees | 21 to 60 | Over E2 million to E5 million | Up to E8 million |
| Large | 100 or more employees | More than 60 | Over E5 million | Over E8 million |

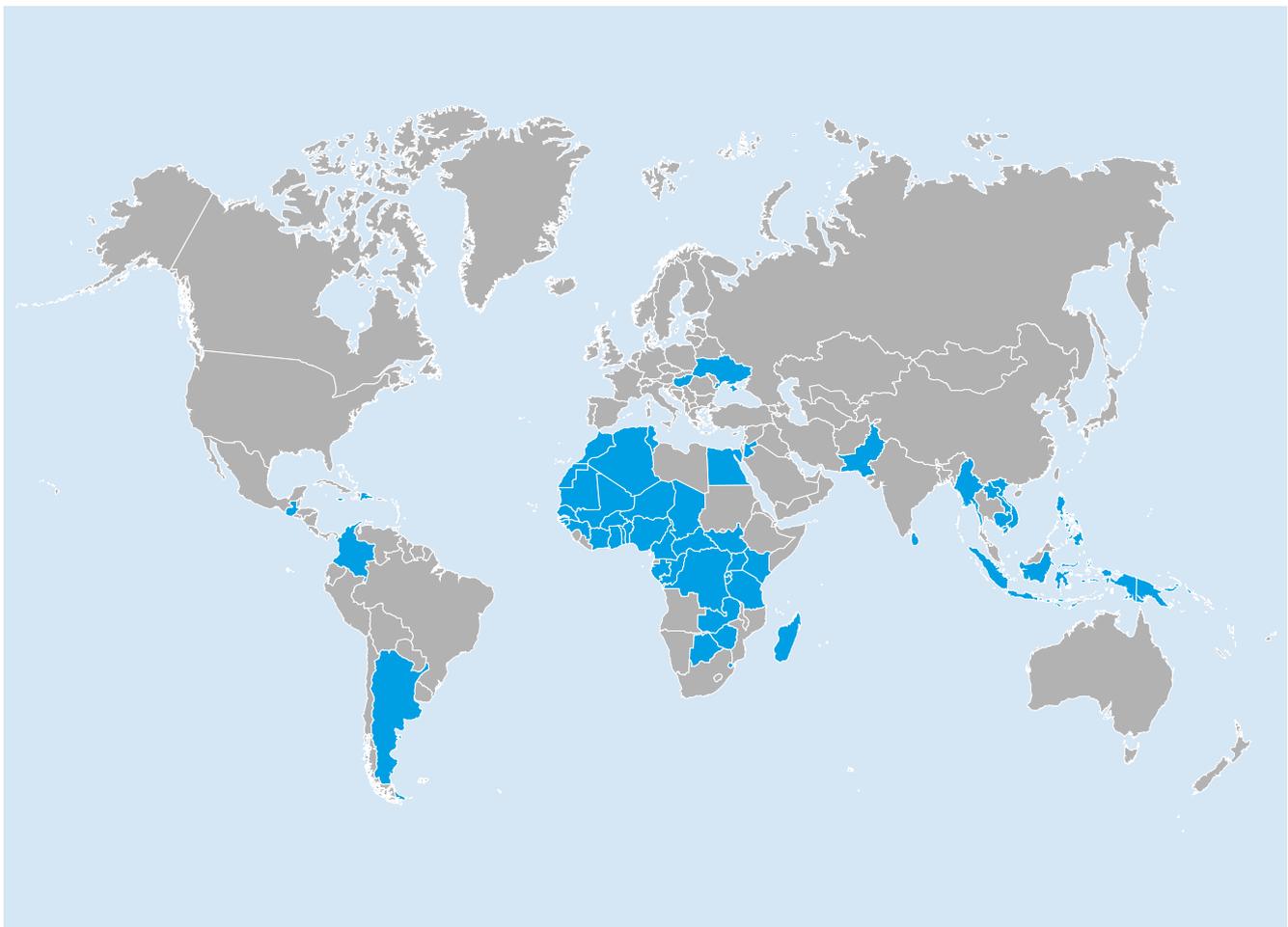


How to measure the competitiveness of small firms?

Measuring all dimensions of competitiveness can be difficult. ITC created the SME Competitiveness Survey

(SMECS) to allow countries to collect the data they need to measure the competitiveness of their enterprises. As of August 2022, more than 36,000 firms had been surveyed in 57 countries, including Botswana and Zambia.

Figure 20 SME Competitiveness Surveys across the world



Source: ITC.

SMECS is typically deployed in partnership with domestic trade and investment support institutions. ITC gives these institutions the software to gather and maintain an active database on micro, small and medium-sized enterprises, and helps their staff select samples and train interviewers.

SMECS helps governments and trade support institutions better understand the needs of their enterprises. The tool is designed to combine information at the macro (national business climate), meso (local support ecosystem for

businesses) and micro (firm capacity) levels to provide a nuanced picture of the capacity of a country's private sector to compete in international markets.

Policymakers and trade support institutions can use the findings to identify and address bottlenecks to competitiveness; compare the competitiveness of enterprises based on size, sectors and location; and better match firms with potential investors and buyers.

How to understand the competitiveness of small firms?

This report uses the conceptual framework described above to evaluate the Eswatini SME Competitiveness Survey data and assess the competitive position of small and medium-sized companies in the country.

The report analyses data from three levels in the SME Competitiveness Grid: national, ecosystem and firm-level. The national environment is examined based on a review of secondary data and related literature. Firm- and ecosystem-level competitiveness are evaluated from firm-level survey data collected through SMECS.

The report is structured according to selected themes in the SME Competitiveness Grid. Themes were included in the report analysis depending on whether the data indicate that Eswatini has a particular strength

or weakness in that domain, or if previous research suggests the topic is important to the country's SMEs.

A disaggregated analysis of the SMECS dataset in Eswatini yields additional insight on each theme. Subsamples from each sector are analysed to assess sector-specific challenges and strengths. Results vary by firm size, defined according to the number of employees, and women-led firms are compared to their men-led counterparts.

Where relevant, and notably in the final chapter, policy recommendations highlight opportunities to address issues that have been identified in the analysis of the data. The report presents highlights of the study of the data, given the limited space available. More analysis was conducted, and additional information can be extracted from the data.



Endnotes

- 1 Government of Eswatini, 2016.
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- 25 The plan details that E30 billion (\$1.7 billion) are to be invested in sectors and projects offering high-impact growth opportunities, namely agriculture, manufacturing and agroprocessing, tourism, mining and energy, information and communication technology, and education. Of the money to be invested, E23 billion (\$1.3 billion) are private sector-led investments and E7 billion (\$403 million) come from the Government. The SME sector is expected to absorb a minimum of E5 billion (\$290 million) (Government of the Kingdom of Eswatini, 2020).
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- 30 Porter, 1990.
- 31 Krugman, 1996; Krugman, 1994; Delgado et al., 2012.
- 32 Ulaga, 2003.
- 33 ITC, 2020a; FinMark Trust and Ipsos SA, 2017.
- 34 Green Climate Fund, 2018.
- 35 Dlamini, 2021.
- 36 Lindsay and Kongolo, 2014; ITC, 2021a.
- 37 Quinn, 2011.
- 38 ITC, 2015b; United Nations Conference on Trade and Development, 2013.
- 39 FinMark Trust and UNCDF, 2018b.
- 40 Gotzamani and Tsiotras, 2001.
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- 81 AUDA-NEPAD, 2019.
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- 83 *Ibid.*
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