NEEDS ASSESSMENT STUDY ON SMMEs.

In order to continue to deliver on its mandate of promoting the development of the SMME sector in Botswana, the LEA commissioned the Needs Assessment study for SMMEs and the Business Development Service (BDS) providers in Botswana. The intention was to get more emphasis on their needs, determine the extent of the acceptability and relevance of the LEA services and interventions, and further understand the challenges they experience, and with the view to make recommendations that would ensure effective and efficient collaboration for improved service delivery. This was the first needs assessment study to be commissioned by LEA. The research project was carried out by Kaizer Associates consultancy.

Study Objectives

- Determine and identify the needs of SMMEs and business development services providers working within the SMME sector, in relation to LEA interventions and services;
- Assess and analyze critical needs and develop a priority map in line with LEA’s strategic imperatives;
- Assess and analyze the nature and scope of the expectations gap between LEA, SMMEs and Business Development Service providers and the extent to which they can undermine the development of the SMME sector;
- Identify opportunities for bridging the expectations gap and chart strategic directions in ensuring that LEA’s services and interventions respond to the needs of SMME sector and business development providers;
- Indicate the necessary quality standards for the provision of business development services to ensure the provision of effective services and interventions;
- Identify opportunities for the capacity building of the business development services providers;
- Provide a framework for the integration of the findings and recommendations of the Needs Assessment and Analysis into LEA’S planning, implementation, monitoring and evaluation processes;
- Provide a responsive feedback mechanism on the findings and recommendations of the Needs Assessment and Analysis to ensure their acceptability and ownership by SMMEs and business development services providers.
Sample Selection
- LEA clients represented 80% of the total sample, while non-LEA clients represented 20%.
- The survey proportion consisted of: micro enterprises (50%), small (35%) and medium enterprises (15%).
- In terms of the LEA targeted sectors, 40.1% of the interviewed businesses were agriculture based, 23.1% in the manufacturing sector, 21.2% in the tourism sector and 15.7% in the services sector.

Key Findings of the study (SMMEs)
- The LEA national database consists of micros (80%), small SMEs (19%) and medium SMEs (1%).
- Forty-five percent of the interviewed SMEs were fully operational, 34% at start-up stage, 19% at planning stage and 2% were winding off, in the process of closing down.
- Seventy percent of the respondents indicated that they do keep financial records, while 30% do not. Cash flow forecasting is conducted by 56% of the respondents while 44% do not conduct such. As for business plan preparation at the time of establishing the business, 47% stated that they had written business plans while 53% started their businesses without the business plans.
- SMMEs have various sources of market information. These include their competitors (about 55%), input costs (30%), research surveys and advisors (about 10%) and others.

The following concerns/challenges were identified as outstanding amongst the SMMEs:
- Fifty-six percent of the interviewed SMMEs identified lack of finance as the major problem. This is particularly the case amongst SMMEs in the manufacturing sector. On the other hand, lack of finance was not a ‘major’ problem amongst medium sized SMMEs, SMMEs in the Tourism sector and non LEA clients.
- The next major challenge for SMMEs was Limited access to infrastructure, stated by 14% of the respondents. This is a common problem especially in Ramotswa, Gantsi, Kasane, amongst micros and agriculture based SMMEs.
- Lack of business skills and experience was reported by 12% of the respondents as their major challenge. This problem was reported mostly at Tsabong, Ramotswa and Maun, by SMMEs in the manufacturing and
Tourism sectors, non LEA clients and a significant number of medium-sized SMMEs.

Other Challenges

- **Logistics and transport difficulties** were reported by 11% of the respondents, mostly in Kasane and Tsabong areas. Again, it was common amongst enterprises in the manufacturing sector, than other LEA targeted sectors. Manufacturing businesses have a task of transporting their products to the market. Transport problem was less common in the tourism sector.

- **Access to government contracts** (11%) as a challenge was identified mostly in Ramotswa, Selibe Phikwe and Francistown areas. This was also a major challenge amongst manufacturing enterprises, and less of a challenge to enterprises in the tourism sector. The majority (63%) of the companies winding down found access to government contracts a major challenge, while very few non-LEA clients considered this a problem.

- **Lack of technical expertise** was reported by 7% of the respondents, mostly in Masunga and Tsabong. This challenge is also common amongst medium sized enterprises and tourism based enterprises.

- **Access to reliable market information** (6%) was reported mostly by respondents in Ramotswa and Selibe Phikwe, and considered to be a major challenge by enterprises in the winding down stage. Fewer medium sized enterprises and fewer non-LEA enterprises identified access to reliable market information as a major problem.

- **Cash flow problem** was highlighted by 5% of the respondents as a major challenge. This is particularly a major problem in the Selibe Phikwe and Ramotswa areas, amongst medium sized enterprises and manufacturing enterprises. Fewer enterprises in the tourism sector, in the planning stage, winding down stage, and fewer non-LEA clients reported cash flow to be a major challenge.

- **Low/unpredictable price and demand** by 4% of the respondents was reported as a major problem mostly in Maun and Selibe Phikwe. A smaller proportion of enterprises that do not do any marketing and those that serve manufacturers and wholesalers consider this to be a major challenge.

- **Lack of support for product development and quality** was reported by 4% of the respondents, a lot of whom are in Ramotswa and Serowe areas. Only fewer medium sized enterprises and fewer enterprises in the Tourism sector consider this a major problem. However, a greater proportion of enterprises in the winding down stage identified this as a major challenge. No enterprises serving manufacturers or other service providers as their largest customer consider lack of support for product development and quality to be a major problem.
• **Scale issues** were identified by only 3% of the respondents as a challenge. It was cited as a major challenge specifically in Gantsi and Mochudi. Scale is also considered a major challenge by a smaller proportion of enterprises that conduct regular cash flow forecasting and fewer that serve other manufacturer and retailers.

The following were identified by both public and private BDS providers as affecting a significant number of SMMEs in Botswana.

• **Access to markets**
  Low population density and long distances between markets – most SMMEs can only cover small geographic area because they lack the resources for transport costs, and low population density restricts potential growth.

• **‘Unfriendly’ government tender systems**
  The tender process is regarded as being too complicated for SMMEs, requiring excessive and irrelevant detail. SMMEs often lack capacity to fully service tenders on their own as they do not operate on a large enough scale. There are no government measures to break up contracts so that different SMMEs can participate. No points are awarded for quality of goods and services – only price counts in government tender processes. In some instances SMMEs may produce superior products but are disadvantaged by the high price that they charge.

• **SMME representation**
  Micro enterprises are not well represented in industry associations.

• **Skills development and training programmes**
  Baseline studies on SMME skills profiles to inform training programmes and advisory services are necessary. The refunds associated with the government’s training levy are not helpful to SMMEs as they cannot afford to offer training in the first place.

• **Attracting and retaining human resources to administer business**
  Small and micro enterprises in particular struggle to generate enough turnover to recruit and retain skilled, experienced managers to expand the businesses. In addition, business managers tend to regard leading SMMEs as a risky career move.

• **Commercial banks do not provide enough support to SMMEs**
  Respondents suggested that more banks should have SMME support units and other tailored services as is the case in South Africa.

• **Crime** is very common especially amongst micro enterprises that lack resources to hire security personnel to guard their businesses.
• **Inherent biases against SMMEs** This is caused by lack of accurate data on SMMEs.

SMMEs Comments on BDS Providers

SMMEs are mostly familiar with government public support entities e.g. LEA, CEDA, as compared to private BDS providers. 43% of non LEA interviewees stated that they do not have BDS providers at all. Thirty-two percent of the interviewed SMMEs reported satisfaction with BDS delivery. 56% of the SMMEs were not satisfied due to the following reasons:

- BDS providers to not constantly check on clients, as a result SMMEs are not happy with quality of interaction and commitment.
- BDS providers are not doing enough to help SMMEs get financial assistance
- BDS providers do not equip SMMEs with sound business management skills to effectively run their businesses.
- Public BDS providers e.g. LEA, CEDA, BOBS are not responsive enough as they often take long to assist SMMEs
- Service providers sometimes do not seem to have the qualifications and experience on the service they are providing, coverage and length of training courses is not satisfactory.
- BDS providers are expensive, as such most SMMEs do not afford to pay for their services.

Pertaining to their views on LEA services, interviewed LEA clients were generally happy as the majority rated LEA services consumed as very good and good.

Key Findings of the study (BDS Providers)

Eighteen (18) private BDS providers were interviewed, together with 14 public sector BDS providers. These service providers cover LEA service areas such as training and technical assistance, market access, infrastructure, product development, alternative financing mechanisms and policy and advocacy. The guiding principles for the selection of the BDS providers were ensuring good representation across the seven service support areas defined by LEA, as well as geographical spread. The study revealed that there is no strong relationship between the number of employees and the turn over. For instance, one BDS provider employed 4 workers and had an average annual turnover of P250,000.00.

The stage of development of the BDS providers’ clients ranged from planning stage and start-up stage to fully operational. None reported ever having had clients in the winding down stage. There may therefore be a gap in the market in the provision of BDS associated with winding down e.g. assisting retrenched employees with identifying self-employment opportunities (based on assessment of skills and qualifications, barriers to entry in similar or related industries etc) as part of the retrenchment process, and change management within enterprises.
For both public and private BDS providers interviewed, the most prevalent methods of providing support services are face-to-face and telephonically. Interestingly, only in a few instances were internet and e-mail mentioned as potentially useful ways of interacting with customers, broadly similar to the feedback from SMMEs.

BDS providers in the private sector cooperated with other BDS providers in areas where they lack specialist skills in-house, and therefore hire external resources on short-term contracts. This is in line with emerging thinking in the field of BDS which argues that the successful private BDS providers are the ones that focus on core business areas in which they have advantages, instead of being involved in wider activities they are less equipped to deal with.

In the public sector, cooperation took the form of cross-referral systems whereby SMMEs can only access some services if accredited with another public sector institution e.g. BOTA accreditation for trainers to access CEDA funding. In addition, partnerships were also entered into between government departments, and between public entities and government departments (e.g. CEDA and the Department of Agriculture).

In terms of marketing channels, in the private sector word-of-mouth and flyers/posters were the most popular tools. Door-to-door marketing and cold calls were listed as secondary channels. In the public sector, business breakfasts, council and Kgotla meetings, and newspaper advertisements were the most popular tools. Trade shows and exhibitions were listed as secondary channels.

BDS Providers challenges/constraints

Private sector BDS providers are challenged in that they are not able to market and promote themselves to the maximum due to budget constraints, Difficult market conditions, therefore they are often not full-time, inability to access government tenders/contracts, late payments by clients, resulting in cash flow problems, shortage of skilled labour e.g. accountants and competition from other service providers.

Public sector BDS providers reported to be mainly constrained by limited budget and insufficient human resource capacity that often inhibit them from delivering core business development support services. The other challenge was that the needs of microenterprises as a distinct category are not well understood, and that some clients e.g. government departments, are not willing to pay for services as they consider them free by virtue of the BDS provider being a government entity. Public BDS providers are also concerned about slow growth rate/improvement of the SMMEs, and because of their (BDS) developmental mandate, they are unable to enforce strict performance measures that could stimulate SMME growth.

BDS Providers needs

There is a growing awareness of the need to develop the wider skills base and competencies of entrepreneurs instead of focusing purely on the financial aspects of the businesses. There is potential for LEA to coordinate with these enterprises to develop (and potentially deliver) appropriate training and mentorship programmes. There is also a need to do more marketing in order to build brand awareness. In this project’s SMME survey, there was limited
awareness of public BDS providers other than LEA. Information sharing and coordination of SMME support strategies is also essential.

There may also be issues around the spread of BDS providers across different service areas. LEA’s database had a large number of BDS providers in the ‘training and technical assistance’ category, and few in the ‘infrastructure’, ‘product development’, ‘input supply’ and ‘policy & advocacy’ categories. Some of the difficulties that service providers are experiencing in growing their businesses could therefore be related to oversupply in some areas and undersupply in others. LEA could play a role in educating BDS providers about other options, informed by a market demand analysis for the new services recommended by LEA.