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4 May 2016 | Johannesburg, South Africa

SMEs in a Services world: an African LDC perspective

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Introduction

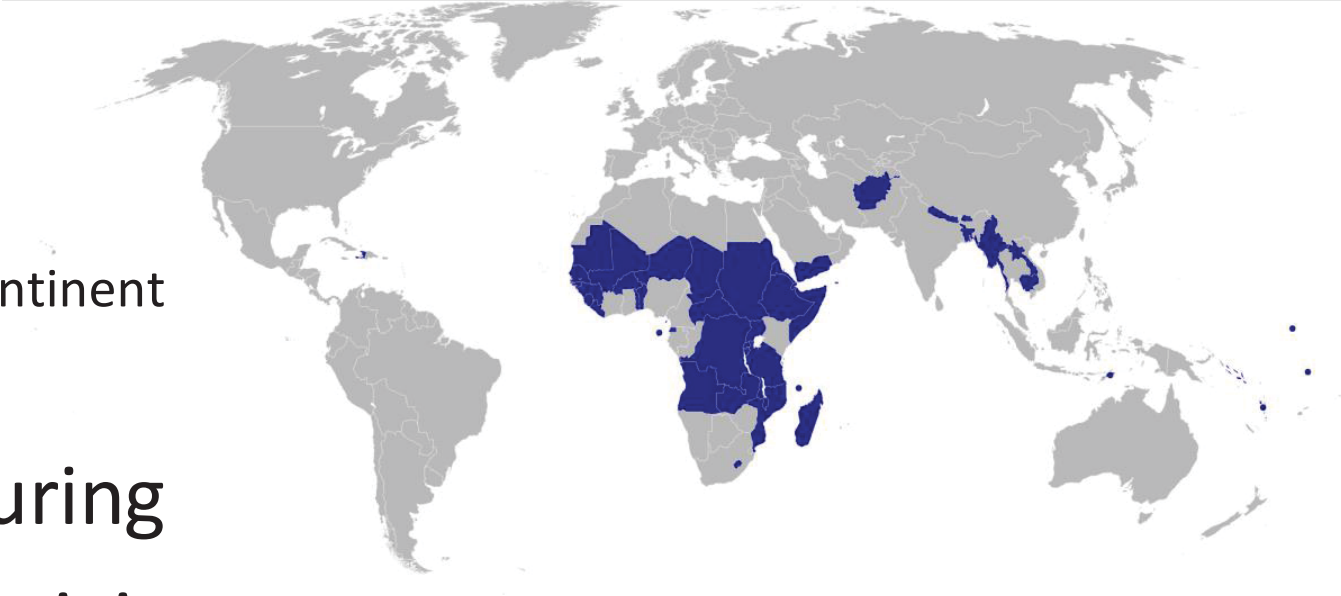
- LDCs are mostly unable to take advantage of shifting trade patterns and technological change
- Prominence of services sector could be "game changer" for LDCs and LICs
- Question: 1. What role service sector SMEs play in these countries?
 2. What is the relationship between services sector SMEs and SDGs?
- Competitive SME services sector can only be achieved if there is cooperation between government, the SME community itself and other economic stakeholders (clusters, networking and partnerships)

Introduction

- The full scoping paper investigates:
 - The role played by SMEs in the services sector in LDCs and LICs
 - Factors influencing performance and competitiveness of service sector SMEs
 - Supply-side constraints to develop competitive service sector SMEs in LDCs and LICs
 - The link between SME development and SDGs
 - Policy options and recommendations
- This presentation will focus on African LDCs

Structure of African LDCs

- GNI per capita of US\$ 750 or less
- 34 LDCs located on the African continent
- These LDCs are characterised by:
 - Limited manufacturing
 - Low labour productivity
 - Dependence on agriculture and primary sector
 - Poor education and health standards
 - Vulnerable to exogenous shocks
 - Many are landlocked



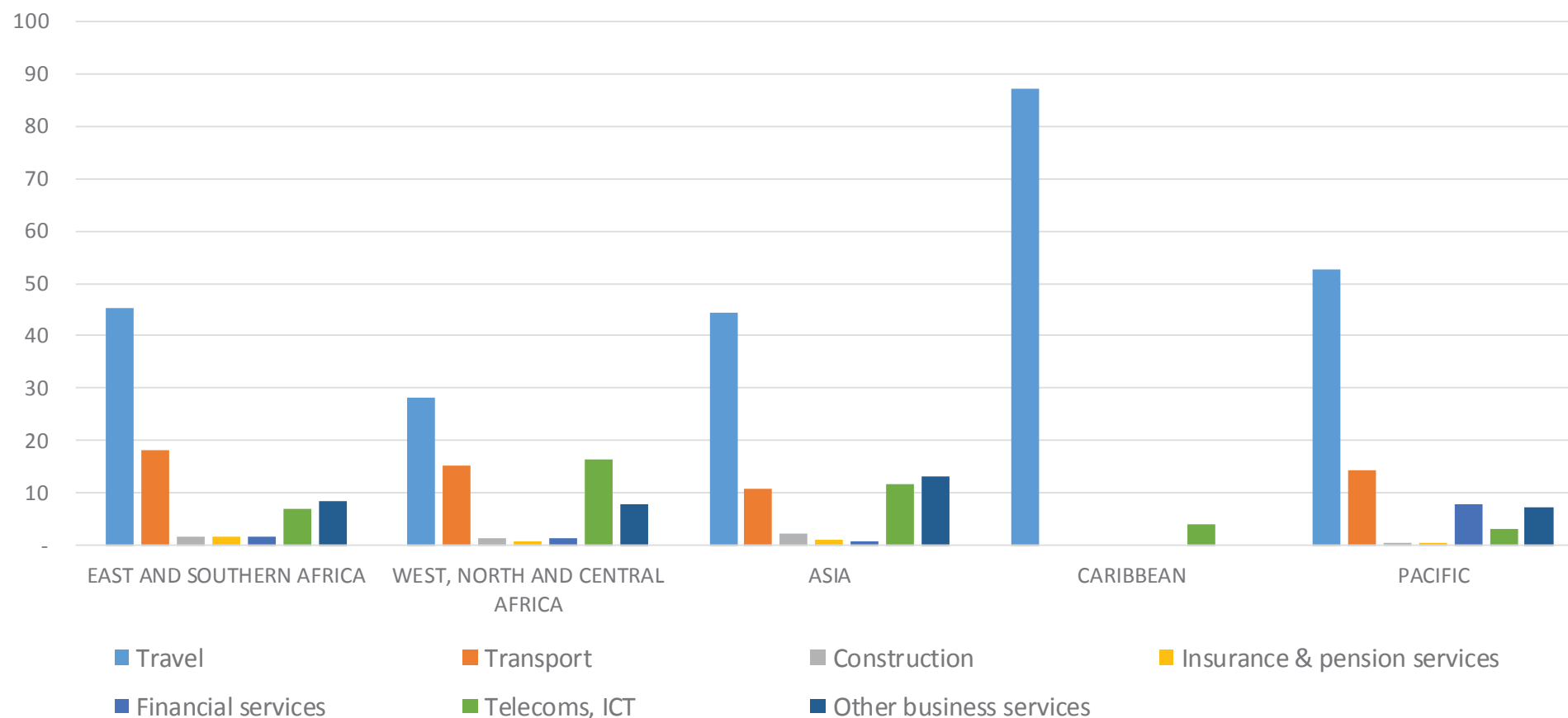
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Role of Services in African LDCs

- Services have shown strong growth, especially tourism and ICT
- Services contribute on average 48% to African LDCs economies (% of GDP)
- Up to 30% of employment are in the services sector
- However services offerings are usually delivered on a limited scale, survivalist-type activities
- Services, especially tourism, can become an increasing growth area, contributing towards more employment and reducing poverty

Role of Services in African LDCs

Sector contribution to total services exports (2013)



(Source: ITC, 2016)

Understanding SMEs

- Most common definition of SMEs:
 - **Medium: 50-100 employees**
 - **Small: 10-49 employees**
 - **Micro: less than 10 employees**
- Overwhelming amount of SMEs in developing countries are informal (not registered for tax purposes)
- "Missing middle" (lack of medium-sized enterprises)
- SMEs in developing countries tend to be less productive than their counterparts in developed countries, they engage in more labour-intensive economic pursuits
- These activities do not produce the same economies of scale and cost efficiencies as more capital-intensive activities, such as manufacturing.

SMEs in African LDCs

- SMEs account for 60% of GDP and 70% of employment in low-income countries (OECD, 2004)
- Small and micro enterprises (5-19 employees) contribute to 60% of jobs

LDC	% of micro enterprises	% of small & medium-sized enterprises	% of SMEs in agriculture	% of SMEs in manufacturing	% of SMEs in retail/wholesale trade	% of SMEs in services
Mozambique	90	10	7	67	*	26
Rwanda	33	67	4	3	58	36
Uganda	95	5	7	13	22	58
Malawi	91	9	73	8	14	5

Source: IFC (2016)

Factors that drive service sector SMEs

- Local markets are small, but potential growth in areas like tourism
- Need knowledge of markets, and ease of access
- Regulatory environment is critical
- Access to training and learning opportunities
- Access to external sources (legal, financial, insurance experts)
- Good management / leadership
- Stronger chance of success if they can partner with larger firms

Supply-side constraints to service sector SMEs

- Regulations and policies have an inadequate SME focus
- Lack of access to finance
- Low education and skills levels
- Infrastructural and institutional weaknesses
- Internal, business-related weaknesses
- Insufficient networking activities
- Corruption

Link between SDGs and service sector SMEs

- SDGs aim to reverse the cycle of poverty, inequality, under-development and environmental degradation
- 17 SDGs, resting on 3 pillars (economic development, social development and environmental protection)
- Service sector SMEs can contribute
- BUT should follow a committed SDG action plan, linked to structured service sector and SME policy

SUSTAINABLE DEVELOPMENT GOALS



Service sector SMEs contribution to SDGs

- SMEs do not have capacity to offer services at the same level of larger firms, especially in LDCs
- Importance of partnerships with larger institutions to overcome supply-side constraints
- Sub-contracting / outsourcing to larger firms
- Forming clusters between SMEs
- This lowers the financial/capital outlays, and is a source of market intelligence

Example: Education services

- Many LDCs and LICs have weak education systems, and are under-resourced
- Importance of partnerships with larger institutions
- SMEs could become agents/franchisees of the larger institutions, and/or acting as tuition centres
- This lowers the financial/capital outlays to develop, and is a source of market intelligence
- Partnerships could deliver results faster, providing more employment opportunities
- 9 SDGs that can be addressed: 1, 2, 4, 5, 8, 10, 11, 16, 17

Example: Health services

- Typically managed by government and large corporate entities
- Shortage of funds and poor management, dire working conditions
- SMEs could form partnerships with larger state or private health organisations
- E.g. computer systems design or support, accounting, training, radiography and audiology
- Again, this lowers the financial/capital outlays to develop, and is a source of market intelligence
- 10 SDGs that can be addressed: 1, 2, 3, 4, 5, 8, 10, 11, 16, 17

Example: Construction services

- Government relies on the construction sector to build much of the national infrastructure, and private sector relies on the construction sector to build offices and factories
- SMEs to provide services such as surveyors, draughtsmen, builders, electricians and plumbing specialists, as well as miscellaneous business support services (e.g. in the accounting or legal fields)
- Importance of partnerships / clusters
- 14 SDGs that can be addressed: 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 16, 17

Example: ICT services

- LDCs are disadvantaged as this sector requires high-level skills, significant investment, reliable power supply and supporting business environment
- SMEs in this sector struggle to develop adequate market reach, however strong growth in mobile phone sector in Africa
- SMEs with various services could consult to larger firms e.g. computer programming and systems design; computer maintenance; consulting to ICT users; and running call centres
- 16 SDGs that can be addressed: 1, 2, 3, 4, 5, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17

Example: Tourism services

- SMEs could offer services as small lodges and guest houses, tour operators and guides, providers of shuttle services to and from airport, and other forms of business support
- SMEs in LDCs and LICs could form alliances / clusters with other complementary service providers and offer a package of services, e.g. airport transfers + guest house accommodation + business support services
- Expanding tourism also creates opportunities for SMEs in other sectors, construction, arts & crafts, transport
- 13 SDGs that can be addressed: 1, 2, 3, 5, 8, 9, 10, 11, 12, 14, 15, 16, 17

Importance of supportive policies

- SMEs need a highly supportive environment and an ongoing strategy of building internal business competencies
- Policies aimed at building strong infrastructure and public institutions
- More private sector involvement can aid policy formulation and implementation
- Driving accountability and reducing corruption
- Focussed service sector SME policies that consider variations between sectors, firm sizes, capacity and life-cycles of SMEs
- Support for capacity building and skills training

Conclusion

- Service sector SMEs can play important role in African LDCs to achieve SDGs
- Competitive SME services sector can only be achieved if there is cooperation between government, the SME community itself and other economic stakeholders in the LDCs and LICs
- Develop SME clusters and networks to overcome capacity problems
- Drive partnerships with larger firms and government (sub-contracting / outsourcing)
- Focussed SME policies and supportive regulatory environment

Thank you

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