

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

**The Promotion and Development of Small and Medium Enterprises:
An Investigation of the Effectiveness of Assistance Programmes and
the Participation of SMEs in the Export Sector in Swaziland**

**A thesis submitted in fulfilment of the requirements
for the degree of Doctor of Philosophy in Development Studies
at Massey University, Palmerston North, New Zealand**

Phumzile Lomagugu Magagula

2002

TABLE OF CONTENTS

	Page
<i>Abstract</i>	<i>ii</i>
<i>Acknowledgements</i>	<i>iii</i>
<i>Table of Contents</i>	<i>iv</i>
<i>List of Tables</i>	<i>ix</i>
<i>List of Figures</i>	<i>xi</i>
<i>List of Boxes</i>	<i>xii</i>
<i>List of Acronyms</i>	<i>xiii</i>
CHAPTER ONE: INTRODUCTION	1
1.1 Background Information.....	1
1.2 Statement of the Problem.....	4
1.3 Objectives of the Study.....	6
1.4 Outline of the Study.....	8
CHAPTER TWO: THE SWAZILAND ECONOMY	9
2.1 Introduction.....	9
2.1.1 Physical and Political Features.....	10
2.1.2 Demographic Features.....	13
2.2 The Economy	15
2.3 Growth Patterns in the Period 1968-1998.....	20
2.4 The External Trade Sector in Swaziland.....	24
2.4.1 Composition of Exports.....	28
2.4.1.1 Major Export Commodities.....	30
2.4.1.2 Regional and International Groupings	36
2.4.1.3 A Measure of Concentration in Swaziland's Exports Using the Herfindahl Index.....	41
2.4.2 Composition of Imports.....	47
2.4.2.1 Sources of Imports.....	48
2.5 Summary.....	49
CHAPTER THREE: SMEs IN THE ECONOMY: A REVIEW OF THE LITERATURE	55
3.1 Introduction	55
3.2 Definition of SMEs	56
3.3 Evolution on the Role of SMEs in the Economy	61
3.4 Potential Contributions of SMEs in the Economy	65
3.4.1 Job Creation	65
3.4.2 Balanced Growth and Improved Income Distribution	68

3.4.3	Backward and Forward Linkages	71
3.4.4	Better use of Scarce Resources	72
3.4.5	Production of Goods and Services	73
3.4.6	Training Ground for Upgrading and Developing Skills	73
3.4.7	Broader Participation	74
3.4.8	Low Wage Inflation	75
3.4.9	Productivity and Innovation	75
3.4.10	Seedbed, Private Sector- led growth /Competitive Environment	77
3.4.11	Summary	79
3.5	The Nature, Characteristics, and Causes of the ‘Missing Middle’	81
3.5.1	The Nature and Characteristics of the ‘Missing Middle’	81
3.5.2	Evidence on the ‘Missing Middle’	81
3.5.3	Causes of the ‘Missing Middle’	83
3.6	Constraints Faced by SMEs	84
3.6.1	Access to Credit	85
3.6.1.1	High Interest Rates and Collateral Requirements	87
3.6.1.2	Prejudice by Financial Institutions	88
3.6.2	Raw Materials	92
3.6.3	Inadequate Infrastructure	93
3.6.4	Marketing	94
3.6.5	Technology	95
3.6.6	Information	97
3.6.7	Lack of Skilled Labour and Management Skills	99
3.6.8	Limited Market Share/Lack of Demand	101
3.6.9	Policy biases and Business Environment	102
3.6.10	Summary on Constraints	104
3.7	Best Practise Policies for the Promotion and Development of SMEs	106
3.8	Conclusion	112

CHAPTER FOUR: CONCEPTUAL FRAMEWORK AND RESEARCH METHODS115

4.1	Introduction	115
4.2	Factors Determining SMEs’ Export Propensity and Performance	119
4.2.1	Firm-Specific Characteristics	122
4.2.1.1	Firm-Size	122
4.2.1.2	Firm Age	124
4.2.1.3	Firm Ownership	124
4.2.2	Managerial Characteristics	125
4.2.2.1	Education	126
4.2.2.2	Decision Maker’s Age	126
4.2.2.3	International Exposure and Experience	126
4.2.2.4	Perceptions and Attitudes	127
4.2.3	External Stimuli Factors	128
4.2.4	Summary	135
4.3	Methodology	137

4.3.1	Investigating the Export Involvement of SMEs	137
4.3.2	Investigating the Effectiveness of Government Assistance Programmes	138
4.3.3	Investigating the Differences Between Exporting and Non-exporting SMEs	139
4.3.4	Investigating the Factors Determining the Export Propensity of SMEs.....	140
4.3.5	Computer Packages used in the Analysis	144
4.4	Data Collection	144
4.4.1	Sources of Data	144
4.4.2	Questionnaire Design	146
4.4.3	Pilot Survey	147
4.4.4	Sampling Process	148
4.4.4.1	Sample Process for SMEs	148
4.4.4.2	Sample Process for Service Providers	150
4.4.5	The Data Collection Process and Problems	151
4.4.6	Assurance of Confidentiality	152
4.5	Limitations of the Study	153
4.6	Summary and Conclusion	153

CHAPTER FIVE: PUBLIC ASSISTANCE PROGRAMMES FOR THE DEVELOPMENT OF SMEs IN SWAZILAND

5.1	Introduction	155
5.2	The Nature of Public Assistance Programmes in Swaziland	156
5.3	Financial Assistance Programmes	157
5.3.1	The Export Credit Guarantee Scheme	157
5.3.2	The Small Scale Enterprise Loan Guarantee Scheme	164
5.3.3	The Enterprise Trust Fund	171
5.3.4	Other Financial Support Services	176
5.3.4.1	Swaziland Development and Savings Bank	176
5.3.4.2	Tibiyo TakaNgwane	177
5.3.4.3	Swaziland Business Growth Trust	178
5.3.4.4	The Regional Empowerment Fund	179
5.4	Non-Financial Assistance Programmes	179
5.4.1	The Trade Promotion Unit	179
5.4.2	The Small Enterprise Development Company	184
5.4.3	Lulote	189
5.4.4	Ministry of Enterprise and Employment's Services	190
5.4.5	Other Non-Financial Services	192
5.4.5.1	The Swaziland College of Technology	192
5.4.5.2	The Vocational and Commercial Training Institute at Matsapha	193
5.4.5.3	MITC/NASTC/SITC	194
5.4.5.4	The National Handicraft Training Centre	194
5.5	Conclusion	195

**CHAPTER SIX: THE EXPORT INVOLVEMENT OF SMEs AND THE
EFFECTIVENESS OF SME ASSISTANCE PROGRAMMES
IN SWAZILAND197**

6.1	Introduction	197
6.2	The Nature and Size of Enterprises in Swaziland	199
6.3	Exporting Companies in Swaziland	202
6.4	SMEs in the Export Sector in Swaziland	206
6.5	Awareness, Use, and Effectiveness of Assistance Programmes	209
6.5.1	SMEs' Awareness of Assistance Programmes	210
6.5.2	SMEs' Usage of Assistance Programmes	213
6.5.3	Effectiveness of Assistance Programmes	216
6.5.4	Summary on Awareness, Use and Effectiveness of Assistance Programmes	218
6.6	What are the Factors that Distinguish Exporting from Non-Exporting SMEs in Swaziland?	220
6.6.1	Firm-Specific Characteristics	220
6.6.2	Managerial Characteristics	225
6.6.2.1	Education of the Manager	226
6.6.2.2	Age of the Manager/Owner	227
6.6.2.3	Foreign Language Skills	230
6.6.2.4	Business Related Foreign Travel	233
6.6.3	Determinants of Export Propensity	235
6.6.4	Summary of the Logit Results	244
6.7	Summary and Conclusion	245

CHAPTER SEVEN: AN ASSESSMENT OF THE BUSINESS ENVIRONMENT...249

7.1	Introduction	249
7.2	Business Environment: Helpful and Factors and/or Problematic Factors	249
7.2.1	Infrastructure	250
7.2.2	Finance and Credit	253
7.2.3	Inputs	256
7.2.3.1	Labour	256
7.2.3.2	Capital and Access to Technology	257
7.2.4	Markets, Marketing and Information Sources	258
7.2.5	Government Rules and Regulations and Policies	259
7.2.6	Other Factors	261
7.3	SMEs Extent of Difficulty with Export Activities.....	262
7.4	Summary and Conclusion	265

CHAPTER EIGHT: CONCLUSION AND POLICY RECOMMENDATIONS	268
8.1 Introduction	268
8.2 Summary of Findings and Conclusions of the Study	269
8.3 Implications for Public Policy	278
8.3.1 Creating an Enabling Business Environment	279
8.3.2 Education and Training	281
8.3.3 Marketing and Information Services	281
8.3.4 Support Services and Policies	282
8.3.4.1 Definition of SMEs	282
8.3.4.2 Development of a Database on SMEs	282
8.3.4.3 Other Support Services and Policies	283
8.4 Contributions to Research	284
8.5 Suggestions for Future Research	286
8.6 Final Comment	287
REFERENCES	288
APPENDICES	326

LIST OF TABLES

		Page
Table 2.1	Physiographic Zones of Swaziland	12
Table 2.2	Area (in '000 hectares) and Population by Administrative Region . of Swaziland	13
Table 2.3	Populations at Census Period and Inter-census Growth Rates	14
Table 2.4	Basic Demographic and Economic Statistics Swaziland compared with SADC Countries(1998)	15
Table 2.5	Composition of Gross Domestic Product 1968 – 1998	19
Table 2.6	Paid Employment by Sector and Industry 1989 – 1999	20
Table 2.7	Gross Domestic Products and Per Capita GDP, 1968-1998	21
Table 2.8	Expenditure on GDP (1968 –1998)	26
Table 2.9	Lilangeni Exchange Rates against Major Currencies	27
Table 2.10	Exports - Classified by SITC Commodity Section (Percentage share in Total Exports)	29
Table 2.11	Composition of Exports, 1968 – 1998 (% share of major Commodities in Total Export Earnings)	32
Table 2.12	Market shares for Export Destinations in 1996-97	35
Table 2.13	Major Sources of Government Revenue	38
Table 2.14	Product Concentration: Herfindahl Indices for Swaziland Exports, (1977-1996)	44
Table 2.15	Comparisons of the Herfindahl index and Percentage share of 'Major' and 'Minor' Commodities	45
Table 2.16	Market Concentration (1992 –1995)	46
Table 2.17	Imports - Classified by SITC Commodity Section (Percentage Share in Total Imports)	51
Table 2.18	Major Sources of Imports (Percentage Share and Ranking)	52
Table 4.1	Sampling Procedures	149
Table 5.1	Export Credit Guarantee Scheme Lending Activities Distribution by Participating Institution	160
Table 5.2	SSE-Scheme: Distribution of Loans According to Participating Institutions (1990-2000)	166
Table 5.3	SSE-Scheme Participation of Financial Institutions	169
Table 5.4	SEDCO Assisted Entrepreneurs 1998/99	186
Table 5.5	Characteristics of Entrepreneurs Based at SEDCO Premises (1993-1999)	188
Table 6.1	Distribution of Enterprises and Average Employment by Industry.....	200
Table 6.2	Employment by Industry (1995-99)	201
Table 6.3	Distribution of Exporting Companies by Industry	204
Table 6.4	Share of Exporting Companies by Industry	205
Table 6.5	Exporting Companies: Average Employment and Export Share	205
Table 6.6	SMEs' Awareness of Assistance Programmes	211
Table 6.7	SMEs' Use of Assistance Programmes	214
Table 6.8	Effectiveness of Assistance Programmes	217
Table 6.9	Firm Characteristics of SMEs	221
Table 6.10	Average Size of Employment for Non-Exporting	222

Table 6.11	ANOVA – Employment for Non-Exporting and Exporting SMEs	...222
Table 6.12	Mean Sales of Non-Exporting and Exporting SMEs223
Table 6.13	ANOVA - Sales of Non-Exporting and Exporting SMEs223
Table 6.14	Average Firm-Age for Non-Exporting and Exporting Firms	...225
Table 6.15	ANOVA: Firm-Age for Non-Exporting and Exporting Firms	...225
Table 6.16	Age and Education Levels of Executives in Non-Exporting and Exporting SMEs226
Table 6.17	Average Education Levels of Non-Exporting and Exporting SMEs	...228
Table 6.18	ANOVA: Education Levels of Non-Exporting and Exporting SMEs	...228
Table 6.19	Mean Age of Executives in Non-Exporting and Exporting SMEs	...229
Table 6.20	ANOVA: Age of Executives in Non-Exporting and Exporting SMEs	..229
Table 6.21	Language Skills of Managers of Small and Medium Enterprises	...231
Table 6.22	Business Related International Travel by SMEs233
Table 6.23	Logistic Regression Results on Export Propensity243
Table 7.1	Helpful and Problematic Business Environment Factors to SMEs	...251
Table 7.2	Major Information Sources Used by SMEs259
Table 7.3	Extent of Difficulty of Export Activities263

LIST OF FIGURES

		Page
Figure 2.1	Map of Swaziland	11
Figure 2.2	GDP and Per Capita Growth Trends (1970-1999)	22
Figure 2.3	Major Export Destinations	34
Figure 2.4	Trade Balance (1968-1998)	53
Figure 3.1	Relationship Between Firm Size and Constraints	105
Figure 3.2	Factors Affecting Small Enterprise Development	111
Figure 4.1	Factors Influencing the Export Behaviour and Performance of SMEs..	117
Figure 4.2	Shifts and Movements in the Export Supply Curve	129
Figure 5.1	Export Credit Guarantee Scheme: Lending by Sector (1991-2000)	162
Figure 5.2	Export Credit Guarantee Scheme: Value of Disbursements (1991-2000)	162
Figure 5.3	SSE-Scheme: Distribution of Loans by Ownership	168
Figure 5.4	SSE-Scheme: Distribution of Loans by Industry	168
Figure 5.5	SSE-Scheme Cumulative Number of Loans Approved (1991-2000)	170
Figure 5.6	Enterprise Trust Fund: Distribution of Loans by Activity	174
Figure 5.7	Number of Enterprises based at SEDCO Premises (1994 -1999)	187
Figure 6.1	The Distribution of Enterprises by Industry (1995-1999)	201
Figure 6.2	Number of Exporting Companies in Swaziland 1995-1999	204
Figure 6.3	Size Distribution of Exporting Companies in Swaziland (1999)	206

LIST OF BOXES

	Page
Box 3.1	Various Definitions of SMEs58
Box 3.2	Challenges Faced by Small Economies.....106
Box 4.1	Potential Benefits from Exporting116
Box 4.2	Internal and External Determinants of Export Behaviour and Performance118
Box 4.3	Motives for Exporting121
Box 4.4	Reasons for not Exporting121
Box 4.5	Stages in the Export Development Process132
Box 6.1	Explanatory Variables and their Abbreviations237
Box 6.2	Correlations Matrix for the Various Firm and Managerial Characteristics238

LIST OF ACRONYMS

AfDB	African Development Bank
ANOVA	Analysis of Variance
APEC	Asia - Pacific Economic Cooperation
ASBC	Association of the Swazi Business Community
AsDB	Asian Development Bank
BMEP	Business Management Extension Programme
BWAS	Business Women Association of Swaziland
CBS	Central Bank of Swaziland
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
CSO	Central Statistics Office
DCs	Developed Countries
E	Emalangeni (plural for Lilangeni)
ECGS	Export Credit Guarantee Scheme
ECI	Ebony Consulting International Pty Ltd
ESRA	Economic and Social Rehabilitation Agenda.
ETF	Enterprise Trust Fund
EU	European Union
FDI	Foreign Direct Investment
FSE	Federation of Swaziland Employers
GDP	Gross Domestic Product
GNP	Gross National Product
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IDS	Institute of Development Studies
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
IMF	International Monetary Fund
ISO	International Organisation for Standardisation
ITC	International Trade Centre
LDCs	Less Developed Countries
LPM	Linear Probability Model
MEE	Ministry of Enterprise and Employment
MITC	Manzini Industrial Training Centre
MSEs	Micro and Small Enterprises
NDS	National Development Strategy
NICs	Newly Industrialised Economies
NZODA	New Zealand Overseas Official Assistance
OECD	Organisation for Economic Cooperation and Development
PPCU	Public Policy Coordination Unit
RMA	Rand Monetary Area
RSA	Republic of South Africa
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SASCCO	Swazi Association of Savings and Credit Cooperatives

SBGT	Swazi Business Growth Trust
SCC	Swaziland Chamber of Commerce
SCOT	Swaziland College of Technology
SDSB	Swazi Development and Savings Bank
SEB	Swaziland Electricity Board
SEDCO	Small Enterprise Development Company
SEN	Swazi Enterprise Network
SIMPA	Swaziland Institute of Management and Public Administration
SIPA	Swaziland Investment Promotion Agency
SMEs	Small and Medium Enterprises
SMMEs	Small, Micro and Medium Enterprises
SPTC	Swaziland Posts and Telecommunications
SSELG	Small Scale Enterprise Loan Guarantee Scheme
TNCs	Transnational Corporations
TPU	Trade Promotion Unit
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
UNISWA	University of Swaziland
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
VOCTIM	Vocational and Commercial Training Institution
WTO	World Trade Organisation

ABSTRACT

Small and Medium Enterprises (SMEs) are increasingly occupying a prominent position in the policy agendas of both developed and developing countries, owing to the recognition of the significant potential contribution that these enterprises can make to national economic and social development. In addition, the exporting successes of SMEs in industrialised countries, in the last decade, have highlighted the critical role of SMEs in export- and private-sector-led economic growth, consequently many developing countries are refocusing their attention on the search for strategies and the design of policies and assistance programmes aimed at the promotion and development of their SME sectors. Sound policies to assist more SMEs to export, however, must be informed by a clear understanding of any systematic differences between current exporters and non-exporters.

This study employed a multi-method approach, making use of both qualitative and quantitative methods, to investigate the nature and extent of SMEs' export involvement and the effectiveness of SME promotion and development programmes in Swaziland. In particular various firm-specific and managerial characteristics believed to shape the export behaviour of SMEs were utilised to investigate why some SMEs are exporters and some are not. The results of this study revealed that for many SMEs in Swaziland the export orientation is zero. The few that are exporting are mostly found in the manufacturing, agriculture and forestry industries. Foreign language proficiency and the frequency of business-related foreign trips are amongst the significant variables in explaining export propensity amongst SMEs in Swaziland.

On the effectiveness of assistance programmes, this investigation showed that awareness levels and usage rates differ among assistance programmes and by the firms' market orientation. Generally, managers of SMEs are more aware of (and have accessed more) domestically oriented programmes than export oriented ones, which to some extent explains SMEs' poor export involvement. A policy recommendation that arises instinctively from this study is that official support, financial or otherwise, is likely to bear more fruit in exporting if targeted towards currently non-exporting SMEs and aimed at upgrading the language skills of managers, and assisting with *bona fide* business-related functions outside the country.

ACKNOWLEDGEMENTS

I acknowledge the support, encouragement and professional advice from many people – professionals and colleagues, family, friends and relatives. I would like to extend my gratitude to my chief supervisor, Prof. John Overton, of the Institute of Development Studies, for his valuable guidance, advice, patience and encouragement in undertaking this research. My appreciation also goes to the other two members of my supervision team from the Department of Applied and International Economics. Prof. Srikanta Chatterjee, for particularly working with me patiently during the early stages of this research, and Dr. James Obben, for his guidance especially on methodology issues.

I wish to thank the New Zealand Government for awarding me a scholarship (under the NZODA) that enabled me to undertake my studies at Massey University. I also wish to thank the various businessmen and businesswomen that participated in this study and kindly shared information that has enabled me to compile this thesis. Thank you, too, to the several organizations in Swaziland that were supportive to me during the data collection process by providing me with working space and research facilities.

At a personal level, I must acknowledge members of my immediate and extended family whose love, cooperation, support and encouragement carried me through my studies. I thank all of you for the various sacrifices you have made to make it happen for me. I am extremely grateful to my mother, who has been a great source of support throughout my life. Thank you for everything you have done for me, you are special to me and I love you. Special thanks to Gaolatlhe, my husband, – we have come a long way, thank you for being there for me. Fisiwe, my daughter, inspired me in various ways and made the greatest sacrifices during the period of my studies - I am deeply indebted to you. My grandmother (LaMavuso) and my brother (Boy Vusi Quinton) both passed away during the course of my study in New Zealand – I love you. I also wish thank all my friends in New Zealand and overseas who extended a helping hand in various ways and made it possible for me to continue with my studies.

Lastly, the successful completion of this thesis marks the fulfilment of a dream that has come true because God provides and He never fails. To God be the Glory.

CHAPTER ONE

INTRODUCTION

1.1 Background Information

Small and Medium Enterprises (SMEs) are increasingly attracting the attention of both developed and developing countries' governments, policy-makers and researchers in recognition of their economic role, contribution to growth, poverty alleviation, and development potentials. Consequently, the promotion and development of SMEs is progressively occupying centre stage in the policy agenda of many governments. In many countries SMEs¹ are increasingly being regarded as one of the engines of growth and a critical aspect in achieving a broad-based and sustainable development (UNCTAD, 1998a; Lin, 1998; Smith, 1997; Dana, 1996a; Miller and Levin, 1993; Flannery and Shapiro, 1992; Litvak, 1988). It has been argued that SMEs exert a stronger influence (compared to large firms) on the economies of many countries, particularly in the fast changing and increasingly competitive global market (Powers, 1999; Aharoni, 1994; Nadvi, 1997; Pyke, 1992).

Since SMEs tend to be concentrated in relatively labour-intensive activities they contribute significantly to the achievement of social and economic objectives, such as labour absorption, income distribution, rural development, poverty eradication and regional balance (AsDB, 1990). SMEs have played an important role in the classic development success stories of Taiwan, Hong Kong, Singapore, Korea and Japan (UNCTAD, 1998a; Chou, 1992; Choy and Goh, 1994; Chen, 1986, Nugent and Yhee, 2002) and they continue to be important in many developed economies (OECD, 2000; Robbins *et al.*, 2000; Bednarzik, 2000; Guisnier, 1994; Acs, 1999; Johns, Dunlop and Sheehan, 1989). In developing countries, where the labour force growth rates have been

¹ There is no universal standard definition for SMEs. However, for statistical and policy purposes previous studies have used the following variables: number of employees (ranging between 1 and 500 depending on country size); invested capital; total value of assets; sales turnover; production capability and average income. In Swaziland SMEs are classified as follows: Micro Enterprises are those that employ up to 2 people; Small enterprises employ between 3 and 5 persons; and Medium Enterprises

far more than the job creation rates, SMEs have been instrumental in increasing the effective labour force, by for example, making more effective use of women in employment and giving opportunities to rural people (UNCTAD, 1998a). Many developing countries, however, have not been able to take advantage of the full developmental potential that SMEs have to offer. As such, the contribution of SMEs in developing countries is still very limited (UNCTAD, 1998a; Mead, 1994b).

Traditionally SMEs played an important role only in their local economies and conventional views on growth tended to overlook the acute importance of a dynamic SME sector. For a long time many governments equated development and industrialisation with the growth of large-scale industries (Little, Mazumdar and Page, 1987; Little, 1987). However, in recent years, SMEs have had significant success in international markets as more and more small firms gain a competitive edge and contribute significantly to total exports. Their changing role in international trade has made them significant contributors to economic growth and development of many countries (Nugent and Yhee, 2002; Berry, Rodriguez and Sandee, 2001; Kim and Nugent, 1994). Evidence from some of the fast growing developing Asian economies, (e.g. Taiwan, Singapore, South Korea), suggests that many of the opportunities for economic growth have come from, among other things, encouraging the export capabilities of SMEs (UNCTAD, 1998a). In these economies SMEs contribute about 35 percent to exports thus making a major contribution to the export growth engine; they create between 40 and 80 percent of total employment; contribute between 30 and 60 percent of GDP; and make up to 95 percent of enterprises (UNCTAD, 1998a, 1994a; Nugent and Yhee, 2002; Aw, Bee-Yan, 2002). Such significant contributions explain why SMEs have been regarded as king(s) in some of these economies (Flannery and Shapiro, 1992).

An encompassing statement on the changing role of SMEs is provided by Rasmussen, Schmitz, and van Dijk (1992:2), who argue

“...for more than a century, small-scale industry has been the weak and ugly duckling in the mainstream of the industrialisation debate. This has changed over recent years, small has not become beautiful wherever it

appears, but it commands more respect and attention than it ever has...small scale industry has demonstrated its economic and political strength, not in peripheral activities but in the engine room of capitalism; not in times of easy growth but in crisis..."

Despite the widespread acknowledgement of SMEs' changing role and their significant contribution to economic growth and technological advancement, it has been noted that the growth potential of these enterprises is often curtailed by the biases in economic policy, especially in the areas of trade, agriculture, and finance (Rondinelli and Karsada, 1992). Government policies are often skewed in favour of large enterprises to the extent that there may be a premature shift of resources into large-scale capital-intensive enterprises. These policies tend to shortcut the gradual evolution of firms from small to medium and eventually to large-scale. On the other hand, different biases create disincentives to the growth of micro-enterprises and small businesses into more modern, complex and efficient mid-scale enterprises. The overall impact of these policy biases has, in many developing countries, created a 'growth trap', whose net effect has yielded a 'Missing Middle' in the distribution of firms by size (Young, 1993).

Literature also suggests that foreign trade policies constitute one of the significant policy biases that have contributed to the 'Missing Middle' in developing countries (UNCTAD, 1998a). In particular, export expansion programs in many developing countries have tended to be biased towards large firms and large projects, thus failing to integrate Small and Medium-sized Enterprises in the growth and development process.

The shortage of small and middle-sized, 'growth-oriented' firms (the 'Missing Middle'), has created a structural imbalance in the economies of many developing countries, which, among other things, has stifled the SMEs' potential contribution to economic growth, and also deprived these countries one of the important entrepreneurial engines, resulting in forgone growth opportunities (UNCTAD, 1998a). The shortage of SMEs "was probably less important to the leading countries as they developed, but for countries developing now in a more internationally competitive world, SMEs provide an important renewing source of competitive advantage" (UNCTAD, 1998a:19). In this regard, it has been recommended, that for countries striving to achieve long-term sustainable economic growth, they need to ensure that their SME sectors develop and

do not get left behind, hence alleviating or avoiding the 'Missing Middle' (Theocharides and Tolentino, 1998; UNCTAD, 1998a, 1994a, 1994b). Often, in recent years, the advice given to governments of developing countries is that they should learn from the experience of the successful Asian economies and realise that a strong base of locally owned SMEs is extremely important, and consequently design policies that will aid SMEs and create an environment for releasing their potential (McCormick, 1998; UNCTAD, 1996a, 1998a).

Given the increasing evidence on the strategic and critical role of SMEs in achieving a sustainable economy, and following the advice from major financial and economic institutions, several developing countries are now focusing on the development of their SME sector. In an attempt to address some of the policy biases that have constrained the development of their SME sector, many developing countries have established special programs aimed at releasing the potential of SMEs. However, in times of tight budget constraints and competing public priorities it is more necessary than ever to systematically examine the need for, and appropriateness of, government export promotion programs especially as they relate to SMEs. The question is: "Is the use of public funds, by the government, to entice small firms into exporting justified?" Once the funds have been earmarked, a secondary concern involves the issue of how the allocated budget can be used most effectively.

1.2 Statement of the Problem

The recent and ongoing economic and political changes in southern Africa² are posing major challenges to policy makers in Swaziland. The pre-conditions for high economic growth, which were present in the 1980s, have largely disappeared. In the last decade economic growth has been sluggish, Foreign Direct Investment (FDI) has stagnated, owing to the increased regional and international competition for FDI. The private sector has been shedding jobs in response to negative economic circumstances in the global, regional and domestic markets (CBS, 2000, 2001). In addition, concerns about improving efficiency and exercising fiscal discipline have led to the downsizing of the

² Changes impacting on economic developments in Swaziland include, among other things, the end of the apartheid regime reign in South Africa, the re-negotiation of SACU, and the SADC Trade Protocol.

public sector (Swaziland Government, 2001). Consequently, unemployment and poverty levels have increased to alarming rates. Unemployment has been reported to be around 40 percent (Swaziland Government, 1999b), whilst it is estimated that about 66 percent of the population lives below the poverty line (Mkhonta and Barwa, 1999) and the country has an estimated Gini coefficient of 0.56 (UNDP, 2000), denoting a high inequality in income distribution. Given such startling statistics and the continuing deteriorating economic situation in the country there is, therefore, a pressing need for the country to come up with ideas, policies, and institutions that can enhance growth, reduce the unemployment levels, improve income distribution and alleviate poverty.

SMEs have a significant role to play in solving the above problems. In recognition of the significant potential contribution of SMEs, the government has introduced various promotion schemes in an attempt to promote the creation and development of SMEs in the country. In addition, there is general recognition of the constraints of the limited domestic market to the growth of SMEs and the fact that in order to attain an export recovery of the Swaziland economy it is important to encourage all businesses to export. As a result, some of the promotion schemes were designed to encourage businesses to export, e.g., the Export Credit Guarantee Scheme and the Trade Promotion Unit. However, little is known about the effectiveness of these programmes as very little research has been carried out on the subject. Research in other countries has shown that the lack of proper targeting of export promotion programs has tended to reduce the programmes' effectiveness and the overall benefits to the economy (Moini, 1998; Rondinelli and Karsada, 1992). Without appropriate research and feasibility studies the tendency has been to adopt a supply-oriented approach to assistance programmes (i.e., programmes formulated on the basis of SMEs' needs, constraints, and problems as perceived by programme designers with little attention paid to the users (SMEs)). With such an approach most programmes are not likely to address the real obstacles to SME growth and development. To facilitate a proper design and enhanced effectiveness of assistance programmes leading to better targeting and better use of public funds, it is important to learn first hand from SMEs what are their needs and obstacles to growth, hence, the justification and rationale behind carrying out this study.

1.3 Objectives of the Study

The objective of this study is to investigate the participation of SMEs in the export sector in Swaziland and to evaluate the effectiveness of the export assistance programs as they relate to SMEs. More specifically this study aims at the following:

- To identify the SMEs that are participating in producing for the export market and measure the extent of their export involvement;
- To evaluate the effectiveness or otherwise of government policies and export assistance programs as they relate to SMEs;
- To identify the characteristics associated with export behaviour of SMEs in Swaziland;
- To identify the impediments and challenges faced by SMEs, particularly in the export sector; and
- To suggest ways to further improve the effectiveness of SME promotion and development programmes.

A multi-method approach, making use of both qualitative and quantitative methods, is adopted. In particular, various statistical techniques were used to explore the relationships among various variables. These included descriptive statistics, chi-square tests, ANOVA, and logistic regression analysis. Due to the limited availability of SME-specific assistance programmes and the lack of diversity in the country's export promotion activities this study incorporated various assistance programmes in the areas of finance, information, business development, and international trade. The effectiveness of these programmes is measured by making use of a methodology suggested by Naidu and Rao (1993), which takes into account both the awareness and use of assistance programmes.

There is generally a lack of research on SMEs in Swaziland. Previous studies on small enterprises in the country have tended to lump together microenterprises and SMEs, concentrate mainly on the informal sector, and have investigated issues like registration (McPherson and Liedholm, 1996), location (Liedholm and Mead, 1999; Liedholm, 2002), regulatory framework (Mead, 1994a), and birth, survival, nature of activities and

finance (Mead and Liedholm, 1998; Mead, 1994b; McPherson, 1995, 1996).³ Likewise, related research from other developing countries, especially in Africa, has investigated various issues pertaining to smaller/micro enterprises and the informal sector, but very few studies have considered in detail the export behaviour of SMEs (Daniels, 1999; Frese, Krauss and Friedrich, 2000; Gray, Cooley and Lutabingwa, 1997; Kariuki, 1995; Hart, 1972, ILO, 1972; van Dierman, 1997; Mwarania, 1993; van Steekelenburg, Lauw, Frese, and Visser, 2000; Friedrich, 2000; Mumbengegwi, 1993; Dana, 1996a; Fisseha, 1991; Daniels and Fisseha, 1992; Liedholm, 2002). Whilst these studies provided useful information, the lumping together of microenterprises and SMEs limits their usefulness to policy makers because the needs, opportunities and obstacles to growth and expansion differ with the enterprise level, and so should the policies and assistance programmes designed to address these issues. In addition, given that exports are the backbone of the Swaziland economy, and the fact that evidence from elsewhere suggests that exporting enhances the survival chances of SMEs and presents increased opportunities for growth and expansion of SMEs (Bernard and Jensen, 1997), it is important to understand the issues relating to SMEs and exporting, and export assistance programmes in Swaziland. Moreover it is the belief of this author that increased export activity by SMEs is strategically important for the reduction of the balance of payments deficit; economic recovery and sustained growth; the success of the export-led growth strategy; the diversification of the industrial and export base; unemployment reduction; and the attainment of social objectives such as poverty alleviation and a more equal distribution of income.

This study recognises that not all SMEs are strategic to economic growth and development. This, coupled with the fact that the public budget in Swaziland is highly limited, strengthens the case for selective assistance, and thus the need to identify the growth-oriented SMEs that need to be promoted. Given the constraints imposed by the limited domestic market, exports are a key to the growth and success of SMEs. Moreover there is compelling evidence from other countries on the superiority of exporting SMEs compared to non-exporting SMEs. Research shows that exporting SMEs have better employment growth rates, have higher sales, and efficiency levels.

³ Most of these studies have been based on survey data collected in 1990 under the Growth and Equity through Microenterprise Investment (GEMINI) project.

Export orientation, therefore seems to be one of the plausible options in the promotion of SMEs.

This study also recognises the strategic role of export orientation in promoting SME growth and development in an export-led development strategy. It is therefore unique in the sense that it links SMEs to exports, a feature that was omitted in previous studies on Swaziland. It is hoped that its findings will assist policy makers, in Swaziland (and other small developing countries with similar circumstances) to conceptualise, implement, monitor, and evaluate policies impacting on SMEs. In addition, factors that inhibit the success of export-oriented SMEs will be identified. These factors can then be addressed, hence aiding in the achievement of the national objectives of promoting exports, poverty alleviation and sustainable development.

1.4 Outline of the Study

The report of this study is organised into eight chapters. Following this introductory chapter will be an overview of the Swaziland economy, which highlights the major macroeconomic developments and the role of the external trade sector in the economy. Chapter 3 presents a review of the literature on SMEs by discussing the potential contributions that SMEs can make in an economy; the causes, problems and evidence on the missing middle; and the factors hindering SMEs from reaching their full development potential. This chapter also considers some of the suggested policy solutions. The conceptual framework for the study and the methodology used in the investigation is presented in Chapter 4. Here, the data and procedures used to investigate export involvement, to explore relationships among various export related variables, and to evaluate the effectiveness of assistance programs are presented. Chapter 5 presents an analysis of the various assistance programmes relevant to SME development in Swaziland. The data analysis chapter (Chapter 6) covers the presentation and interpretation of the research results. A discussion of the business environment and how it impacts on SMEs is presented in Chapter 7. The final chapter, Chapter 8, presents the conclusions and recommendations for policy and ends with some suggestions on the directions for future research.

CHAPTER TWO

THE SWAZILAND ECONOMY

2.1 Introduction

With a population of less than one million people,⁴ a land area of 17,364 square kilometres, and relatively high ratios (more than 80 percent) of exports and imports to Gross Domestic Product (GDP), Swaziland can safely be classified as a small open economy. As a small, open, developing country, policy makers in the country are confronted with major development challenges and often a policy dilemma in their search for appropriate policy choices that will help propel the country to a higher development stage and offer opportunities for a better standard of living for the Swazis. This is because small countries often face more hurdles in their economic planning, which tend to make the realisation of their development and industrialisation objectives very difficult (Briguglio, 1995, 1998; Chatterjee, 1995; Streeten, 1993; Srinivisan, 1986; deVries, 1984; Robinson, 1960). These hurdles emanate from the small size of the domestic market, limited natural resources, indivisibilities in public administration, and limited possibilities for economies of scale.

In this chapter we discuss the major socio-economic features of Swaziland. First, we present a brief discussion of the physical, political and demographic features of the country. The next section presents some highlights of the structure of the economy and the major development challenges that make the search for alternative policies and development strategies more critical and therefore provide a justification for this study. The last section of this chapter is dedicated to the role of the external trade sector in Swaziland, given its importance in the socio-economic development of the country.

2.1.1 Physical and Political Features

The Kingdom of Eswatini, now commonly referred to as Swaziland, is a small landlocked country and has a homogeneous society.⁵ Located on the south-eastern part of the African continent, it is bordered by Mozambique to the east and the Republic of South Africa to the west, south, and north. The capital city, Mbabane, is 225 kilometres from the nearest port, Maputo in Mozambique (see Figure 2.1 for the map of Swaziland). Swaziland (like Botswana and Lesotho) is a former British protectorate. The country and people derive their name from King Mswati I, an earlier king who reigned during the mid 19th century (Matsebula, 1976). The country gained independence in 1968 and it remains one of the few monarchies in Africa.⁶ The head of state is the king (currently King Mswati III who ascended to the throne in 1986) who has “executive powers and rules in consultation with a cabinet (headed by the prime minister), a bicameral parliament, and the Swazi National Council (SNC)”⁷ (Swaziland Government, 2000c:7). Swaziland also operates a dual legal system comprising of the modern constitutional courts and the traditional Swazi national courts. The former system is based on the Roman-Dutch law and comprise of a High Court, Magistrates’ and Industrial Courts. This system’s judiciary is headed by the Chief Justice and it takes precedence over the traditional system.⁸

Swaziland has a subtropical climate with minimum and maximum average temperature ranges of 15° – 32°C. The country can be divided into four topographical regions with distinct climatic conditions - the Highveld, Lowveld, Middleveld and the Lubombo plateau (refer to Table 2.1). The Highveld is generally rolling, hilly and gouged by deep river gorges. All the major rivers of Swaziland have their sources in the Highveld and flow eastwards towards the Indian Ocean. This region has an average temperature of 17°C and receives the highest rainfall, averaging between 1000 and 2250mm per year, falling mainly between October and March. Because of its rugged nature, very little crop farming is practised in this region and instead, it is intensively used for cultivating timber plantations.

⁴ The country’s total population was recorded at 980,722 in 1997 (CSO, 1997b).

⁵ Swaziland’s native language is Siswati. For business transactions Siswati and English are the official languages.

⁶ Swaziland became a British protectorate in 1903. The monarchy has endured throughout Swaziland’s history.

⁷ The SNC is the traditional side of government and is referred to as the ‘Libandla’ in Siswati.

⁸ The traditional courts are responsible for settling disputes related to culture and traditions.

The Middleveld has a sub-tropical climate and the air tends to be humid. This region is characterised by good soils and average annual rainfall levels between 760 – 1195mm. The average temperature ranges between 14°C – 26°C. Originally this region was populated with game, hence livestock farming thrives here. However, because of its good soils it is now generally used for growing agricultural crops. This region also houses the biggest industrial and commercial centres, located in Matsapha and Manzini, and is also home to the Inland Clearance Depot.⁹

The Lowveld is hot, dry and flat. Temperatures here can be as high as 32°C in summer and as low as 22°C in winter. Because of the flatlands, this region is used for intensive irrigated farming, especially sugar. Most of the sugar plantations and sugar mills (Mhlume, Bigbend and Simunye) are found in this region. The Lubombo plateau has arid temperatures and has limited good cropping land. The main activity in this region is livestock rearing.

Table 2.1 Physiographic Zones of Swaziland

Zones	Area		Altitude Range (m)	Annual Rainfall (Longterm Averages, Min-Max) (mm)	Temperature Range (Average)
	(Square km)	%			
Highveld	5029.5	29%	910 – 1830m	1016 – 2285mm	12° - 23°C
Middleveld	4597.5	26%	330 – 1070m	762 – 1193mm	14° - 26°C
Lowveld	6416.2	37%	60 – 730m	508 – 890mm	16° - 32°C
Lubombo	1321.2	8%	270 – 820m	635 – 1016mm	

Source: CSO (1997a).

For administrative purposes the country is divided into four districts, namely, the Hhohho, Manzini, Shiselweni, and Lubombo. The capital city is located in the Hhohho district, whilst the Manzini district is the most populated and houses the ‘hub city’ – Manzini (see Table 2.2 for some basic statistics of the various districts).

⁹ The Inland Clearance Depot operates as an inland port. It offers most of the services available at a busy seaport and is able to accommodate three, six and twelve metre containers (SIPA, 2000). It was established in 1993 to facilitate the rapid movement of goods and to serve the needs of exporting firms.

Swaziland has a dual land tenure system, namely Swazi Nation Land (SNL) and Title Deed Land (TDL). Swazi Nation Land is communal land owned by the King on behalf of the people and covers 56 percent of the total land area. The SNL is mainly used for residential and subsistence farming. Title Deed land is privately owned land and is mainly used for commercial agricultural activities.

Table 2.2 Area (in '000 hectares) and Population by Administrative Region of Swaziland

Tenure/Region	Hhohho	Manzini	Shiselweni	Lubombo	Swaziland	
Swazi Nation Land * (Area in '000 hectares)	227	232	217	295	970 (56%)	
Farm (Title Deed Land)** (Area in '000 hectares)	126	180	150	299	755 (43%)	
Urban*** (Area in '000 hectares)	4	4	2	1	11 (1%)	
Total	357 (21%)	415 (24%)	369 (21%)	595 (34%)	1736	
Population					Rural	Urban
Total Regional Population	269 826	292 100	217 100	201 696	759 318	221 404
% of country Population	(28%)	(30%)	(22%)	(21%)	(77%)	(23%)

Source: CSO (1997a).

Notes on Table 2.2:

* Swazi Nation Land is land held in trust by the King for the Nation

** Individual Farmland held in freehold or concession lease, includes about 180 hectares held by Tibiyo TaKaNgwane, Tisuka TaKaNgwane, Swazi National Trust, and SNL Purchase-area and other Government controlled land.

*** Urban or Village areas under the control of City and Town Councils or Central Government.

2.1.2 Demographic features

According to the 1997 Population Census Report the annual population growth rate was estimated at 2.9 percent. Although the 2.9 population growth rate represented a slight decline from the 3.2 percent reported by the 1986 Census it is relatively high for a country with such a small land area and population. The country has a unique demographic profile in that a large proportion (about 43 percent) of the country's population is under the age of 15, whilst 54 percent are in the 15-64 years bracket and

only three percent are above the age of 65. In 1997 the female population was estimated to be 51.7 percent. In the last three decades the population has almost doubled, thus it is projected that by the year 2010, the country's total population would have reached 1.6 million and 2.5 million by the year 2025 (CSO, 1997b). The high population growth rate, coupled with the overly 'youthful' population are a cause for concern mainly because of the large and growing school-age group, the growing demand for access to schools, and the increasing demand for employment opportunities.

The national population density is estimated at 39.2/sq.km. However, due to the topography of the country, a sizeable portion of the total area is not habitable, consequently, the rural/urban densities vary greatly around the country. In 1997 the population densities were 46/sq.km in rural areas, 82/sq.km in urban areas, and 10.2/sq.km in Free hold Farmland (CSO, 1997a). The majority of the population (about 77 percent) still resides in rural areas. However, the urban population has been increasing - whilst it was estimated at 10 percent in the 1960s it was averaging more than 20 percent in the 1990s.

Table 2.3 Populations at Census Period and Inter-census Growth Rates*

Year	Population	Annual Population Growth Rate**
1898	43, 512	-
1904	85, 491	-
1911	108, 459	2.2
1921	112, 951	0.7
1936	156, 715	2.1
1946	187, 997	2.0
1956	240, 511	2.4
1966	395, 138	4.8
1976	518, 217	2.8
1986	708, 455	3.2
1997	980, 722	2.9

Source: CSO (1997b).

Notes for Table 2.3:

* Swaziland has undertaken national census since 1936. The Population figures prior to 1936 are estimates from an administrative tax census.

** These are annual growth rates in between the Census periods.

2.2 The Economy

Swaziland is classified as a middle-income country with a per capita income of US\$ 1,440 and a Human Development Index of 0.655 (see Table 2.4). At a glance, and by developing country standards, these statistics seem to paint a rosy picture. However, a closer look at the structure of the economy will reveal that all is not well for the country because in emerging serious challenges of sluggish economic growth, stagnant FDI, high population growth and unemployment, and increasing poverty levels.

**Table 2.4 Basic Demographic and Economic Statistics
Swaziland compared with SADC Countries (1998)**

Member Country	Country Size (Area - sq.km)	Population (Millions)	HDI value	HDI Rank	GNP (US\$ billions)	GNP per Capita (US\$)	Life expectancy at birth (yrs)	Adult Literacy rate (%)
Angola	1,251,513	12.1	0.405	160	4.6	380	47.0	42.0
Botswana	577,200	1.6	0.593	122	4.8	3,070	46.2	75.6
Congo(DRC)	343,320	2.8	0.430	152	5.4	110	51.2	58.9
Lesotho	30,462	2.1	0.569	127	1.2	570	55.2	82.4
Malawi	97,172	10.3	0.385	163	2.2	210	39.5	58.2
Mauritius	1,872	1.1	0.761	71	4.3	3,730	71.6	83.8
Mozambique	773,900	18.9	0.341	168	3.5	210	43.8	42.3
Namibia	827,057	1.7	0.632	115	3.2	1,940	50.1	80.8
Seychelles	462	0.1	0.786	53	0.5	6,420	71.0	84.0
South Africa	1,228,133	39.4	0.697	103	136.9	3,310	53.2	84.6
Swaziland	17,433	1.0	0.655	112	1.4	1,400	60.7	78.3
Tanzania	943,394	32.1	0.415	156	7.2	220	47.9	73.6
Zambia	755,066	8.8	0.420	153	3.2	330	40.5	76.3
Zimbabwe	390,866	11.4	0.555	130	7.2	620	43.5	87.2
SADC	7,237,850	143.4	0.546		185.6	1,609	51.5	72%
Swaziland (compared with SADC)	0.24%	0.7%	4*		0.75%	6*	3*	7*

Source: UNDP (2000).

Notes to Table 2.4:

*This is a ranking of Swaziland's position in the SADC region.

Swaziland has a dual economy with two major sectors, the agriculture and manufacturing sectors. Like many developing countries, the agricultural sector has traditionally been the most important sector of the economy, contributing more than 40% of Gross Domestic Product (GDP) in the early 1970s. However, in recent years the importance of this sector has steadily declined, with the resurgence of the manufacturing sector, which now contributes the highest share to GDP (see Table 2.5). Between 1968 and 1995 the share from agriculture in GDP fell from around one-third to one-eighth, while that of industry grew from one-quarter to two-fifths. The services sector, on the other hand, grew strongly in the 1970s and 1980s, mainly as a result of continued growth in government activities, trade, finance, and transport sectors. It is worth noting that there are linkages in the sectoral growth performance – agriculture and manufacturing tend to act as leading sectors which create the investment activity and National Income that generates activity in the other sectors like construction and services industries.

Despite the observed change in the composition of GDP, the agricultural sector continues to play a pivotal role in the economy given the fact that most of the manufacturing activity is based on the processing of agricultural output (i.e., agro-based manufacturing). The agricultural sector also provides more than 22 percent of the total paid employment (see Table 2.6) and continues to be the major livelihood source for a large proportion of the population. In general, the value added from the agricultural sector is dominated by output from the Individual Tenure Farms which emanates from the production of export oriented cash crops on irrigated estates, commercial forestry and, to a lesser extent, by livestock rearing.

The manufacturing activity comprises processing of agricultural output (mainly woodpulp, sugar cane, and fruit canning), refrigerator assembling, sweets, soft drinks, textiles, plastics, processing of drink concentrates, etc. Most of large firms in the manufacturing industry are foreign-owned (SIPA, 2000) and due to the limited size of the domestic market, most of these firms are export-oriented. As such, a large proportion of the manufacturing value added emanates from the export-oriented industries, namely sugar cane processing, fruit canning, and wood-pulp production. As noted above, this sector has over the last two decades grown tremendously, hence

increasing its overall importance in the economy. In 1986, it became the largest sector of the economy (overtaking both agriculture and government services) and now contributes about 35 percent to GDP (Swaziland Government, 1998). However, because most of the firms are comparatively capital intensive, the manufacturing sector is not the leading employer, contributing only about sixteen percent to total paid employment.

Whilst some of the growth in the manufacturing sector represents a genuine diversification of the economy, away from the traditional sectors, it is worth noting that this sector is still largely dependent on the processing of agricultural products. Much of the growth that occurred in the 1980s to early 1990s was due to an influx of FDI, motivated by the easy access to the European Union and the South African market, the relatively liberal economic policies (like tax incentives and liberal regulations on profit remittances), and the stable political environment within Swaziland. In addition, the unstable political conditions in the neighbouring countries, particularly the existence of sanctions in the Republic of South Africa, coupled with the war in Mozambique, contributed to the upsurge of FDI into Swaziland as many companies relocated into the country. It is estimated that between 1985 and 1989, net FDI averaged six percent of GDP (World Bank, 2000; CBS, 2002).

To a great extent, the rapid growth of the manufacturing sector reflected the small size of the economy because an entry of one or two 'large' firms can have a major impact on the economy. In the 1990s however, there was a slow-down in the growth of the manufacturing sector, partly due to the world recession and the decline in FDI following the decline in Swaziland's attractiveness as an investment haven. Of major significance were the peaceful political transitions in Mozambique and the Republic of South Africa, and the uplifting of sanctions against the latter, which increased the competition for FDI in Sub-Saharan Africa, resulting in profound effects on the small economies of southern Africa, particularly Swaziland. Future growth in the manufacturing sector hinges on the country's improved competitiveness. Consequently, the government has embarked on a number of initiatives targeting both domestic and foreign investors. These initiatives include amongst other things, the establishment of facilitative institutions (such as the Swaziland Investment Promotion Authority, established in 1998, and the SME Unit, established in 2001, and the

Enterprise Trust Fund, established in 1995); reviews of business regulations and legislature to ensure minimum bureaucracy; and the upgrading of the physical infrastructure to ensure that it is reliable, efficient and competitive.

Government services are the main reason behind the increasing share of the services sector in GDP. In the last decade the growth in government's services has been largely attributable to the burgeoning of the education and health budget. However, most of the growth in the 1990s has been due to infrastructure development, especially road construction. The government services sector is also a major source of employment, contributing more than 30 percent to total paid employment (see Table 2.6).

Other sectors with significant contributions to GDP include the transport and communications sector, commerce and financial services. The transport and communications sector has generally grown in step with the economy, whilst the performance of the commerce and financial services has been poor. The tourism sector, whilst acknowledged as a strategic sector with a huge growth potential, has made insignificant contributions to GDP. In an attempt to boost the growth of this sector, the government and private companies are carrying out tourism promotion campaigns both internationally and locally. It is worth mentioning that this is one sector that has a potential for involving Swazi SMEs in the mainstream economy and, therefore, fulfil the Government's objective of achieving more balanced development.

An important deduction from the preceding discussion on the sectoral distribution of GDP is that three sectors, manufacturing, agriculture and government services determine the trend in total output. Also, despite the fact that the manufacturing sector has, in the last decade, secured its position as the dominant sector in terms of contributions to total output, it still depends, to a large extent, on the performance of the agricultural sector. Lastly, government services contribute significantly to GDP, a feature that is typical of most developing countries.

Table 2.5 Composition of Gross Domestic Product 1968 – 1998

Year	<u>Agriculture^a</u>		<u>Industry^c</u>		<u>Services^d</u>	
	E'million ^b	%	E'million ^b	%	E'million ^b	%
1968	13.2	24.0	18.6	33.8	23.2	42.2
1970	24.1	32.3	20.8	27.9	29.6	39.7
1972	39.6	42.6	32.9	35.4	20.4	22.0
1974	47.4	34.6	52.4	38.3	37.1	27.1
1976	56.4	20.7	94.3	34.6	122.1	44.8
1978	86.9	23.9	116.4	32.0	160.8	44.2
1980	84.6	23.0	114.3	31.1	169.1	46.0
1983	86.2	16.4	140	26.6	300.5	57.1
1984	129.7	20.8	164.2	26.3	329.9	52.9
1986	197.7	21.7	258.7	28.5	452.6	49.8
1988	217.3	15.6	554.9	39.7	624.1	44.7
1990	277.9	14.2	824.0	42.2	852.8	43.6
1991	307.9	14.7	871.5	41.6	914.4	43.7
1992	230.7	9.8	1011.7	43.2	1100	47.0
1993	383.1	13.9	1084.1	39.3	1289.2	46.8
1994	412.8	13.1	1273.8	40.5	1460.4	46.4
1995	568.8	15.2	1553.4	41.6	1609.2	43.1
1996	766.8	18.2	1658.3	39.3	1795.8	42.5
1997	858.8	18.1	1906.7	40.3	1968.9	41.6
1998	938.4	17.9	2154.7	41.1	2154.7	41.1

Source: CSO, *Annual Statistical Bulletin* (Various issues).

Notes on Table 2.5:

^aAgriculture is defined as Agriculture plus Forestry

^bThe local currency unit is Emalangeni (E). Exchange rate in 1998: US\$1 = E5.53. Exchange rates in various years are presented in a subsequent section (see Table 2.9).

^cIndustry is defined as mining, manufacturing, construction, electricity & water.

^dServices is defined as trade, transport & communications, finance, dwellings, government and other sectors.

Table 2.6 Paid Employment by Sector and Industry 1989 – 1999

Year	Agriculture & Forestry	Mining and Quarrying	Manufacturing	Electricity & Water	Construction	Distribution	Transport etc	Finance	Services	Total	(% Public)	Growth in Paid Employment (%)
1989	23 729 (26%)	2 769	16 263 (18%)	892	5 945	12 099	4 983	4 270	20 383	91 333	29%	6.4%
1990	22 083 (24%)	2 202	14 484 (16%)	1 690	5 187	12 942	6 211	6 325	20 876	92 000	30%	0.7%
1991	23 210 (25%)	991	16 842 (18%)	1 791	5 108	12 444	6 497	6 048	19 007	91 938	30%	-0.1%
1992	23 506 (26%)	599	16 787 (18%)	1 188	5 985	11 937	4 891	5 094	21 148	91 135	29%	-0.9%
1993	23 196 (26%)	1 062	16 575 (18%)	1 633	4 614	12 268	4 534	5 486	20 958	90 326	30%	-0.9%
1994	20 940 (24%)	1 246	16 237 (19%)	1 128	4 238	10 942	4 268	5 920	22 371	87 290	30%	-3.5%
1995	21 887 (25%)	1 126	16 558 (19%)	1 180	5 537	9 823	4 155	4 813	21 956	87 035	30%	-0.3%
1996	22 437 (25%)	1 138	16 170 (18%)	1 189	5 001	11 889	2 703	6 168	23 169	89 864	29%	3.1%
1997	19 330 (22%)	1 113	16 841 (19%)	900	5 674	11 374	3 180	5 714	24 056	88 182	31%	-1.9%
1998	19 781 (23%)	929	17 974 (21%)	726	5 821	8 969	3 258	5 516	23 917	86 891	31%	-1.5%
1999	19 028 (21%)	922	17 905 (20%)	1 411	5 422	9 368	2 589	7 382	24 988	89 015	32%	2.4%

Source: Employment Statistics Unit, *Employment Statistics* (Various years).

2.3 Growth Patterns in the Period 1968-1998

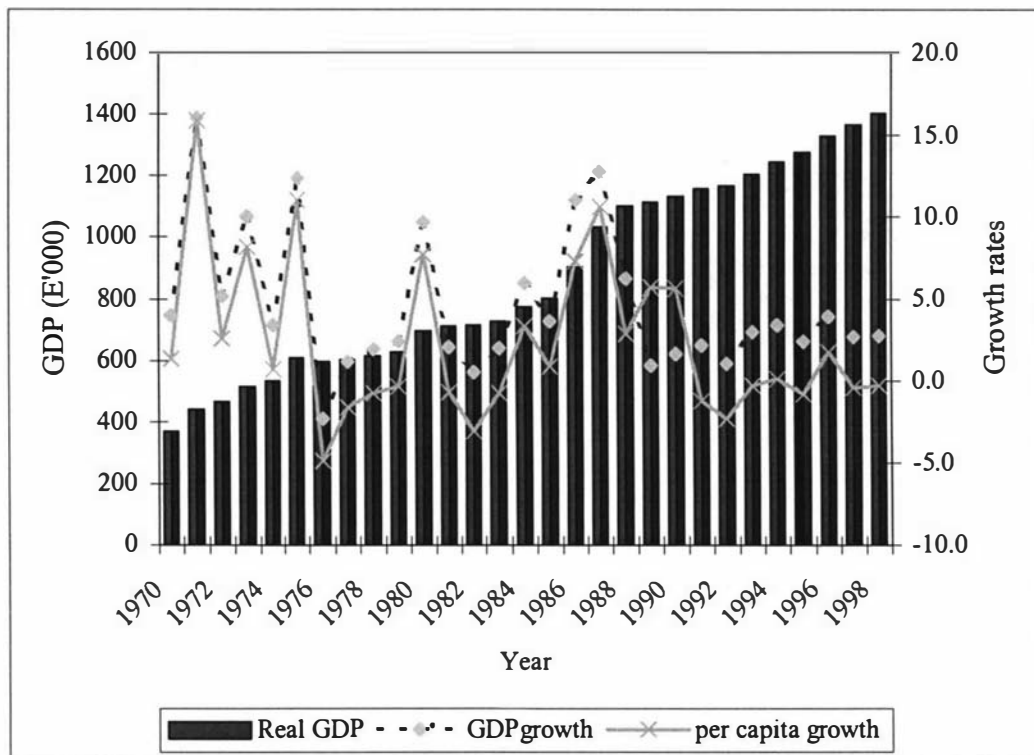
Overall, since the country's independence in 1968, its economic growth has been marked by huge fluctuations. These fluctuations are to be expected in an open economy like Swaziland and where agriculture plays a predominant role. About five distinct growth patterns can be observed in the economy over the period 1968-1998, and these are: 1968-1975; 1976-1980; 1981-1984; 1985-1990 and the 1990s. For the period immediately after independence, the country enjoyed considerably high average economic growth rates due, in part, to the high international prices for Swaziland's major export commodities, and also due to the high levels of investment in the commercial sector. As reflected in Table 2.7 and Figure 2.2 throughout this period, the overall performance of the economy was marked by positive rates of per capita growth.

The late 1970s period saw the economy taking a down turn, mainly due to an increase in oil prices and poor world commodity prices, in particular for sugar and woodpulp, Swaziland's major export earning commodities at that time. Other factors with a dampening effect on the economy included the exhaustion of the iron ore and the recession in South Africa, a major trading partner for Swaziland. On the other hand, the expansion of government services sector, financed mainly from foreign aid, helped to sustain the economy and also neutralise the negative effects arising from poor export earnings.

Table 2.7 Gross Domestic Product and Per Capita GDP, 1968-1998

Year	Real GDP E'000	GDP Growth	Population	Per Capita GDP	Per capita Growth
1968	274.7		395 487	694.7	
1978	558.2	10.85	520 590	1072.2	-0.78
1988	939.1	6.23	717 346	1309.1	18.1
1989	1031.2	8.93	742 818	1388.2	5.7
1990	1131.2	8.84	768 880	1471.2	5.6
1991	1156.0	2.15	795 534	1453.1	-1.2
1992	1168.0	1.03	822 784	1419.6	-2.4
1993	1203.9	2.98	850 628	1415.3	-0.3
1994	1245.8	3.36	879 081	1417.2	0.1
1995	1276.3	2.39	908 119	1405.4	-0.8
1996	1328.0	3.89	928 550	1430.2	1.7
1997	1364.9	2.70	958 460	1424.1	-0.4
1998	1403.3	2.74	988 580	1419.5	-0.3

Sources: CSO, *Annual Statistical Bulletin*, Various years;
CBS, *Annual Reports*, Various years;
World Bank (2002b).

Figure 2.2 GDP and Per Capita Growth Trends (1970-1999)

The performance of the economy in the period 1980-1984 was influenced largely by external factors. In particular, climatic shocks were experienced (e.g. drought and the 1984 Cyclone “Domonia”) which destroyed infrastructure and disrupted agricultural production. Also, a recession in South Africa and the introduction of competitive incentives to attract investment into South African homelands, led to a slow-down in private investment in the country. The mid- to late 1980s period saw the country experience unprecedented growth due to an influx in Foreign Direct Investment. Over this period GDP grew by an annual average of over eight percent, with particularly spectacular growth in 1986 when the economy grew at 11 percent and 12.8 percent, respectively. The high levels of FDI were largely an indirect benefit to Swaziland arising from the worldwide imposition of sanctions against South Africa’s apartheid regime. It is this FDI that caused an upturn in the manufacturing sector, which in-turn, became the major engine of growth for the economy and this encouraged rapid growth in supporting services (such as construction) as well as generating additional revenue which permitted the expansion of government services (CBS, 1998). Other factors contributing to the increase in manufacturing investments included the improved incentive regime for direct private investment, particularly the five-year tax holiday

incentive. Apart from the inflows in the manufacturing sector, growth in the economy was reinforced by improved export prices for sugar and a depreciation of the Lilangeni.

In the 1990s the economy stagnated due to a decline in FDI, coupled with long spells (1989-1994) of drought. In particular, the situation took a down turn in 1992 with the recession in South Africa and the drought that ravaged the Southern Africa region including Swaziland. The main reason behind the slow-down in FDI flows into Swaziland was the peaceful political transition in South Africa and the removal of sanctions against that country causing many businesses to redirect their savings and investment to the more lucrative South African market. Also, following the take over by the Government of National Unity in South Africa, many investors adopted the “wait and see” attitude, fearing that the changes in South Africa would create a state of anarchy in the whole southern Africa region.

There is no doubt that since independence the country experienced tremendous growth and a rapid industrialisation in the 1980s which led to a restructuring of the economy, moving it away from an agricultural based one to a more industry based economy. However, to the extent that a large proportion of the manufacturing sector is still agro-based, the backbone of the Swazi economy is still agriculture, consequently making the economy ‘vulnerable’ to natural disasters and the usual fluctuations in international primary commodities’ markets. Moreover, there are concerns that the gains of the high economic growth, recorded in the past, have not benefited everyone equally as evidenced by the increasing levels of poverty and the widening disparities between rural and urban communities. Recent reports on poverty in Swaziland have revealed that the richest 10% of the population control almost 40% of the total incomes in the country, whereas the poorest 40% of the population control only 14% of total incomes (World Bank, 2000). In addition, there are growing concerns on the increasing rate of HIV/AIDS infections and its implications on the labour force and the economy in general. Statistics on the prevalence of HIV/AIDS in the country have revealed that the HIV prevalence is above 20 percent and is higher among middle-age groups (20-49 years) (SNAP, 2000).¹⁰ The HIV/AIDS pandemic is having a negative

¹⁰ The first case of HIV/AIDS in the country was reported in 1987.

impact on the economy, as potential incomes are lost due to illness and death of workers, and the diversion of labour to caring for the sick. Furthermore the need for increased public expenditure on health, due to the increased demand for drugs, medical treatment and hospital beds is causing further strain on the public budget and contributing to the worsening government budgetary position (Swaziland Government, 2001).

The above facts, coupled with the continuously increasing rates of unemployment (estimated to be around 40 percent) have been a disturbing development in Swaziland's economic history. It is these factors and the developments in the international arena (like globalisation and the move towards free trade) that call for a scrutiny of past development strategies and therefore justify the search for alternative forms of development. In the sections that follow a diagnosis of the exports sector, the engine of growth in the last three decades, is carried out in an attempt to understand some of the dynamics of this sector and hopefully unveil the reasons behind the observed structural imbalance in the economy. Furthermore, a brief review of the sources of the government revenue is presented so as to have a fuller picture of the Swazi economy.

2.4 The External Trade Sector in Swaziland

Swaziland has an open economy as portrayed by the continuing high ratio of exports and imports to Gross Domestic Product (see Table 2.8). At independence in 1968, the percentage share of exports in GDP was 76; it reached the 80 percent mark, for the first time, in 1973 and averaged 85 percent in the 1990s. Throughout the period 1968-1998, the ratio of exports to GDP hovered between 60 and 90 percent, confirming the high degree of openness of the economy. In addition the country has heavily depended on imports for food and industrial materials. The proportion of imports in GDP has been gradually increasing and it averaged more than 85 percent in the 1990s, once again confirming the country's increasing dependency on external markets. The high dependency on international trade is typical of a small developing economy because, owing to the small size of the domestic market, many firms produce for the export market. Moreover, due to the limited domestic resource base, imports are a major source of industrial inputs and other essential items. International trade is,

therefore, central to the growth and development of the country. Through export-oriented industries and export earnings the country has been able to generate incomes and the crucial foreign exchange needed for financing a variety of essential imports.

Over the years the total value of exports has grown tremendously (see Table 2.8). Whilst in 1968 the total value of exports was a mere E43.1million, by 1980 exports had increased seven-fold to E315million. During the period 1968-1975 the nominal value of exports grew at an average growth rate of 26 percent, whereas during the period 1976-1980, it grew at an average growth rate of 16 percent. Over the last two decades exports increased at average growth rate of 26 and 13 percent, respectively and they were recorded at E5303.0 million in 1998.

The increase in the nominal value of exports, especially in the 1980s, was a result of several factors, amongst which is the increase in export volumes of traditional export items and most importantly, the introduction of new export commodities (such as textiles, wood products, drink concentrates, paper products and refrigerators). In the 1990s, however, a principal explanatory factor in the increase of export earnings has been the depreciation of the Lilangeni against major currencies (see Table 2.9 for exchange), which has led to windfall gains to export producers. The new export products were mainly a result of Foreign Direct Investment, which was escaping the sanctions in South Africa and producing for the Customs Union market behind the common external tariff (Swaziland Government, 1998). As such, it is not clear if there has been a major structural improvement in the ability of domestic producers to enter new manufacturing export markets, and several of these industries may prove to be vulnerable as tariff barriers are reduced due to increased trade liberalisation

Two points are worthy of mention in the discussion on the total value of exports. First, the decline in mining activities led to the slackening of the growth of export earnings in the 1980s, but this impact was ameliorated by the growth of non-traditional exports. Second, even though the discussion above has alluded to the tremendous increase in the total nominal value of exports, at a glance it is not clear if there has been a discernable diversification in the overall structure of exports. This is signified by the fact that, still, a very restrictive range of agricultural commodities have retained their relative importance in the overall structure of exports. Therefore,

the next section sheds some light on this issue by looking at the composition of Swaziland's total exports.

Table 2.8 Expenditure on GDP (1968–1998)

Year	Final Consumption		Capital Formation		Exports		Imports		GDP at market prices E' million
	Value E' million	% Govt.	Value E' mil.	% public	Value E' million	X % of GDP	Value E' million	M% of GDP	
1968	43.8	19.6	10.7		43.1	75.6	41.1	72.1	57.0
1969	55.7	18.7	9.5		48.9	64.3	40.8	53.6	76.1
1970	54.9	19.9	16.1		56.0	69.1	48.4	59.8	81.0
1971	66.3	19.6	16.7		66.2	67.3	53.6	54.5	98.3
1972	74.9	23.6	19.4		75.6	69.7	66.1	60.9	108.5
1973	80.9	25.0	24.9		108.4	81.0	86.5	64.6	133.8
1974	77.0	34.3	35.7		146.4	91.6	106.4	66.6	159.8
1975	139.6	26.4	41.6	18.3	155.4	72.3	121.3	56.9	213.3
1976	163.5	26.5	50.6	24.5	179.4	76.2	160.2	68.0	235.5
1977	201.0	27.0	68.2	31.7	172.8	65.6	181.5	68.9	263.4
1978	223.5	31.4	144.9	48.2	186.5	63.2	256.7	87.0	295.2
1979	324.1	23.1	142.1	27.4	218.2	63.0	344.2	99.4	346.2
1980	424.1	20.4	113.6	47.0	315.0	69.5	423.0	93.3	453.5
1981	465.8	22.7	140.0	63.6	375.2	75.4	498.8	100.2	497.8
1982	516.4	23.6	168.8	56.9	385.5	79.6	506.7	104.7	484.0
1983	583.8	22.7	198.6	45.7	382.9	61.9	533.4	86.2	618.7
1984	651.0	23.9	231.8	56.5	403.4	55.3	568.9	78.0	729.5
1985	764.9	23.9	197.6	66.2	452.8	56.4	625.6	78.0	802.5
1986	852.9	23.3	163.6	55.0	705.3	68.7	736.7	71.8	1026.3
1987	880.1	23.7	196.2	38.3	959.4	80.1	826.9	69.5	1189.3
1988	1116.7	23.5	350.7	25.9	1182.4	75.2	1096.5	69.7	1573.3
1989	1670.7	17.7	419.6	30.3	1863.6	98.2	2078.2	109.5	1897.1
1990	1940.7	21.2	467.8	34.1	2146.7	93.5	2274.6	99.0	2296.9
1991	2084.5	22.8	494.5	33.5	2423.3	98.5	2565.0	104.3	2459.8
1992	2442.4	27.0	598.4	38.4	2584.0	93.8	2894.6	105.1	2755.4
1993	2787.1	29.0	691.6	40.8	2855.4	93.3	3300.9	107.8	3061.2
1994	3078.0	28.4	1210.5	28.8	2970.6	78.8	3291.9	87.3	3770.5
1995	3455.4	27.5	1568.2	18.5	3814.6	83.0	4005.9	87.2	4596.2
1996	4434.0	26.7	1577.3	18.6	4265.2	81.4	4894.7	93.4	5242.5
1997	4711.5	34.8	2051.4	14.4	4947.3	81.8	5270.6	87.2	6045.4
1998	5377.9	35.0	2274.6	15.7	5337.0	75.9	6404.9	91.0	7035.0

Source: CSO, *Annual Statistical Bulletin*, Various years; CBS, *Annual Report*, Various years.

Notes on Table 2.8:

- Final Consumption, column 2, is the sum of Private and Government Consumption in Emalangeni.
- Column 3, '% Govt.,' represents the percentage share of Government Consumption in Final Consumption.
- Column 4, Capital Formation, is the sum of Private and Public Investment, and it excludes 'increases in stocks'.
- Column 5, '% public', represents the percentage share of Public Investment in Gross Fixed Capital Formation.
- Column 7, 'X % of GDP' represents the ratio of exports to GDP and is used as an indicator of the openness of the economy.
- Column 9, 'M % of GDP' represents the ratio of Imports to GDP.

Table 2.9 Lilangeni/Rand Exchange Rates against Major Currencies*

Year	E/US\$	E/British Pound Sterling	E/German Mark	E/Swiss Franc	E/Special Drawing Rights	Japanese Yen/E
1972	0.78	1.92	0.24	0.20		392.16
1973	0.69	1.69	0.26	0.22		390.63
1974	0.68	1.59	0.26	0.23		429.18
1975	0.74	1.64	0.30	0.29		401.61
1976	0.87	1.56	0.35	0.35		341.3
1977	0.87	1.52	0.37	0.36		307.69
1978	0.87	1.67	0.43	0.49		239.81
1979	0.84	1.79	0.46	0.51		259.07
1980	0.78	1.82	0.43	0.46		290.7
1981	0.88	1.75	0.39	0.45	1.03	251.89
1982	1.09	1.89	0.45	0.53	1.19	229.36
1983	1.11	1.69	0.44	0.53	1.19	213.22
1984	1.47	1.96	0.52	0.63	1.52	161.55
1985	2.22	2.94	0.77	0.93	2.27	105.15
1986	2.27	3.33	1.05	1.28	2.70	73.15
1987	2.04	3.33	1.14	1.37	2.63	70.87
1988	2.27	4.00	1.30	1.56	3.03	56.37
1989	2.63	4.35	1.39	1.61	3.33	52.58
1990	2.59	4.61	1.61	1.85	3.51	55.90
1991	2.76	4.87	1.67	1.82	3.78	48.77
1992	2.85	5.02	1.82	2.04	4.01	44.45
1993	3.27	4.91	1.96	2.22	4.53	34.13
1994	3.55	5.44	2.17	2.56	5.06	28.80
1995	3.63	5.73	2.50	3.03	5.52	25.95
1996	4.30	6.72	2.86	3.45	6.23	25.45
1997	4.60	7.55	2.63	3.13	6.34	26.26
1998	5.53	9.15	3.13	3.85	7.47	23.83
1999	6.11	9.88	3.34	4.07	8.39	18.61

Source: CBS, *Quarterly Review*, Various issues; CBS, *Annual Report*, Various years.

Notes to Table 2.9:

* The Swazi currency unit is called Lilangeni (Emalangeni for plural) and is denoted by 'E'. Because of the Rand Monetary Agreement (RMA), Swaziland still uses the South African currency, the rand, for its international exchange rate (see section 2.4.1.2 for a further explanation of the monetary arrangements in the country).

2.4.1 Composition of Exports

A cardinal feature in the composition of Swaziland's exports is the dominant position of agricultural produce and forestry products. A classification of Swaziland's 'Exports by Commodity section'¹¹ shows that 'food and live animals' continue to be the leading category of exports and they constitute, on average, more than 30 percent of total exports (see Table 2.10). In the 1970s 'food and live animals' took over as the leading export category from 'crude inedible materials', and has remained in that dominant position, constituting more than 32 percent of total exports in the 1990s. Even though agricultural products and raw materials continue to dominate in total exports, over the years there have been some slight changes in the percent shares of each SITC commodity section.

A major change in the composition of exports involves the rank position and hence, the relative importance of crude inedible materials in the overall structure of exports. Whilst these were once the leading export category, constituting more than 30 percent of total exports (as indicated in column 4 of Table 2.10), they have, over the years, dropped in significance to second position. Overall, the percent share of 'crude inedible materials' has fluctuated greatly over the period 1968–1997, going below the 20 percent mark in the early 1980s, rising above 25 percent in the early 1990s, but only to start falling again in 1996. In 1997 'crude inedible materials' constituted only 11.5 percent of total exports. A major influencing factor in the fluctuations of the 'crude inedible materials' exports has been the changes in the production and exports of woodpulp coupled by the poor international market prices of that commodity.

Exports of 'miscellaneous manufactured articles' (SITC 8) have maintained a steady increase since the early 1980s. Whilst they constituted less than one percent in the 1970s they constituted an average of nine percent in the 1990s. The increase is largely attributed to the establishment of a few manufacturing companies involved in the production of footwear and textiles.

¹¹ For statistical purposes, Swaziland uses the Standard International Trade Classification (SITC Rev 3) and the harmonised system for classifying external trade (CSO, 1997a); hence the analysis of the composition of exports is based on this classification.

Table 2.10 Exports - Classified by SITC Commodity Section (Percentage share in Total Exports)

Year	SITC Commodity Section's Percentage share in Total Exports*									
	0	1	2	3	4	5	6	7	8	9
	Food & Live Animals	Beverages and Tobacco	Crude inedible materials	Minerals, Fuels & Lubricants	Animal's and Vegetable's oils and fats	Chemicals and Chemical Products	Manufactured items classified by material	Machinery and Transport Equipment	Miscellaneous manufactured items	Commodities not classified by kind
1968	39.40	0.09	60.18	0.34	-	-	-	-	-	-
1972	50.02	1.60	39.69	0.33	-	0.52	7.68	0.10	0.05	-
1975	64.48	1.63	25.45	0.30	-	0.12	7.56	0.03	0.43	-
1983	53.21	0.03	20.00	0.62	-	13.20	9.01	2.40	1.53	-
1986	48.94	0.71	26.11	1.88	0.02	0.17	4.45	0.56	7.14	10.01
1987	44.63	14.31	25.35	1.19	0.01	1.47	4.92	0.53	4.52	3.07
1992	25.21	17.78	21.63	1.90	0.08	0.30	14.06	12.30	7.71	0.67
1993	32.08	24.14	16.28	0.23	0.03	0.55	9.33	8.23	8.96	0.16
1994	30.12	16.04	25.66	0.81	0.16	1.65	10.27	6.22	8.97	0.10
1995	33.59	1.62	20.97	0.17	0.19	19.60	7.10	8.17	8.51	0.09
1996	40.06	2.67	12.30	0.09	0.52	11.97	8.98	13.12	10.15	0.14
1997	38.16	1.69	11.50	0.37	0.68	12.57	9.84	15.05	9.79	0.35

Source: Compiled from exports data published in the CSO *Annual Statistical Bulletins*.

Other noteworthy features in the composition of Swaziland's exports are the shares of 'chemical and chemical products' and 'machinery and transport equipment'. Both categories have recorded similar patterns of change over the study period, i.e., whilst they constituted, individually, less than five percent of total exports in the 1970s, they averaged more than ten percent in the 1990s. Exports of 'manufactured items classified by material' (SITC 6), have made very little impact, failing to make significant growth, but only recording minimal changes in the early 1990s which did not last long enough to make any major influence on the composition of exports. The

worse performing categories were 'animal and vegetable oils and fats' and 'minerals, fuels and lubricants', which throughout the study period, have not moved beyond two percent either individually or combined. The failure to take off, by the 'animal and vegetable oils' category is surprising given that Swaziland is an agriculturally-based economy, endowed with a climate favourable for livestock farming and therefore would be expected to have, over the years, improved its production and exports of this category.

2.4.1.1 Major Export Commodities

Another aspect of the metamorphosing composition of Swaziland's exports has been the changes in the relative importance of the 'traditional' export commodities. For a long time sugar was Swaziland's single most important crop and foreign exchange earner, with a contribution to total export revenue averaging, 35 percent in the 1970s and 38 percent in the 1980s. Sugar production was for a long time regarded as the 'real life blood' of the economy contributing substantially not only to the desperately needed foreign exchange earnings but also to government revenue and total employment.¹²

The dominant position of sugar exports in total export earnings was mainly due to the increase in the volume of production¹³ and the good international prices of sugar.¹⁴ Sugar production has climbed sharply over the years, increasing from 150,000 metric tons (Mt) in 1968 to an all time high of 506,349Mt in 1986, and was estimated at 475,785Mt in 1998. The increase in sugar production volumes has been attributed to the rise in the number of small-scale sugar cane growers entering the industry and also the upgrading of the sugar mills which has boosted processing capacity and hence

¹² The contribution of sugar earnings to government revenue was through the sugar levy. The levy was introduced in 1973 to capture some benefits accruing to sugar producers due to the windfall profits made as a result of preferential access to the European market, which had been negotiated by Government. The contribution of this levy to total government revenue quickly became significant, providing more than one-third of total government receipts within the first three years of its introduction, but declined in importance in the 1980s when international sugar prices fell significantly.

¹³ Swaziland has a comparative advantage in the production of sugar arising from the good soils, favourable climatic conditions and the relatively lower costs of production.

¹⁴ The bulk of Swaziland's sugar was traded through special agreements with the USA and the European Union, under the Lomé Convention. These two markets absorbed about 50 percent of the country's sugar exports in the 1990s (and more than 70 percent in the 1970s).

indirectly encouraged increased production.¹⁵ With the increase in production volume, and because domestic consumption has been fairly insignificant, export volume and sales have been the main reason behind the dominant position of sugar in the economy.¹⁶

It is worth noting, however, that the growth of sugar exports has not been a steady one. It has fluctuated greatly in response to changes in domestic production factors and the changing international market opportunities. In the 1970s more than 75 percent of Swaziland's sugar sales volume was traded under special agreements, therefore less affected by the fluctuations of the free-market price of sugar. In recent years, however, increasing proportions of export volumes, (averaging about 50 percent), have been sold through the free-market, partly due to increased production and because of the decrease in Swaziland's sugar quota in the USA. The changes in market conditions have made sugar's average export price to be dominated by the free-market price and it is the changes in this price that have caused significant fluctuations in sugar export earnings. Notwithstanding the dominant position of sugar-export earnings in the total value of exports, the country's dependence on this commodity as a foreign exchange earner has decreased over the last decade. While in 1980 sugar contributed about 46 percent to total export earnings, its share had dropped to an average of less than 20 percent in the 1990s (see Table 2.11).

The increase in the exports of non-traditional exports has relegated sugar from its dominant position. In particular, since 1993 'soft drink concentrates' has been the leading export commodity contributing more than 30 percent to the total value of Swaziland's exports (see Table 2.11). Other non-traditional export commodities that have contributed to the reduced relative importance of sugar are textiles, wood-products, paper products and refrigerators. Together, these non-traditional export commodities accounted for 56 percent of total export earnings in 1993 (Swaziland Government, 1998).

¹⁵ It is expected that the Komati River Basin Project will further boost sugar production through the increased involvement of small-scale farmers.

¹⁶ Domestic consumption was, for a long time, a minor component of total production. In recent years, however, the increased demand for sugar, mainly for industrial use, has improved the relative importance of domestic demand. For example whilst in the 1980s the domestic consumption – export ratio was 20:80 in the mid-1990s it leaped to 40:60.

Table 2.11 Composition of Exports, 1968 – 1998 (% Share of Major Commodities in Total Export Earnings)

Year	Sugar	Woodpulp & Wood products	Asbestos Coal & Diamonds	Citrus Fruits	Canned Fruits	Consumable Finished goods	Cotton Seed and Linters	Meat & Meat Products	Miscellaneous Edibles	Other
1968	23.1	13.9	15.5	4.5	1.7					50.8
1970	23.7	19.1	10.9	7.1	1.9					42.6
1974	38.7	26.2	4.9	3.8	2.2					24.3
1975	54.2	14.3	7.3	3.4	2.7					18.1
1976	34.7	18.4	15.9	3.1	3.2					25.7
1977	36.2	21.0	11.4	7.2	4.0	0.0	0.0	3.0	0.0	17.2
1978	34.9	15.9	11.9	4.4	4.8	0.0	0.0	3.8	0.0	24.4
1979	35.5	14.5	10.5	4.8	4.7	0.0	0.0	3.7	0.0	26.3
1980	46.0	13.0	6.6	2.7	3.4	0.0	0.0	3.1	0.0	25.2
1981	38.7	16.0	6.7	2.3	4.0	0.0	3.2	1.3	0.0	28.2
1982	32.9	14.0	5.2	4.7	5.4	0.0	2.5	1.6	0.0	33.6
1983	37.1	16.6	6.2	4.4	6.6	0.0	2.6	1.9	0.0	24.7
1984	42.4	25.8	6.9	6.3	8.5	0.0	3.3	1.0	0.0	5.9
1985	37.4	26.4	8.8	6.2	7.1	0.0	3.0	2.0	0.0	9.2
1986	40.2	25.8	6.3	4.7	5.0	0.0	2.1	2.2	0.0	13.7
1987	33.7	17.6	5.1	4.0	4.7	2.4	2.0	1.6	11.2	17.9
1988	28.8	18.8	4.5	3.9	4.3	5.9	3.4	0.0	18.2	12.3
1990	32.6	13.9	4.2	2.8	3.7	4.7	4.0	0.9	23.7	9.6
1991	28.9	16.3	2.6	2.4	3.3	7.2	3.0	0.9	23.9	11.6
1992	24.3	13.5	4.3	2.3	2.6	8.9	1.2	0.2	28.4	14.4
1993	18.6	12.0	3.7	1.6	1.6	15.3	1.1	0.6	29.8	15.7
1994	14.2	12.2	3.4	2.1	1.8	15.3	0.6	0.5	29.8	20.2
1995	16.5	18.0	2.7	2.5	1.9	14.3	0.6	0.5	31.3	11.6
1996	16.6	9.8	2.4	2.1	1.7	10.8	0.8	0.4	30.8	24.8
1997	14.7	9.9	2.4	2.2	1.6	10.3	0.7	0.3	41.8	19.3
1998	12.8	9.1	2.4	1.5	2.1	8.2	0.8	0.3	46.1	16.7

Sources: CSO (1997); CBS (1999b).

Woodpulp, which was traditionally the second most important export commodity, has also declined in relative importance. On average woodpulp accounted for more than 24 percent of total export earnings in the 1970s, but its average contribution has been steadily decreasing, averaging 18 percent in the 1980s and 11 percent in the 1990s. Production problems and declining world market prices for 'unbleached kraft pulp' are responsible for the poor growth in woodpulp earnings.

An export commodity category that has been increasing in relative importance in the last decade has been 'consumable finished goods', incorporating items such as plastic house-ware, footwear, zippers and refrigerators. Jointly these commodities have been recording strong growth and are now more valuable than woodpulp.¹⁷ Whilst these commodities contributed, on average, less than five percent in the 1980s, they improved to around 10 percent in the 1990s.

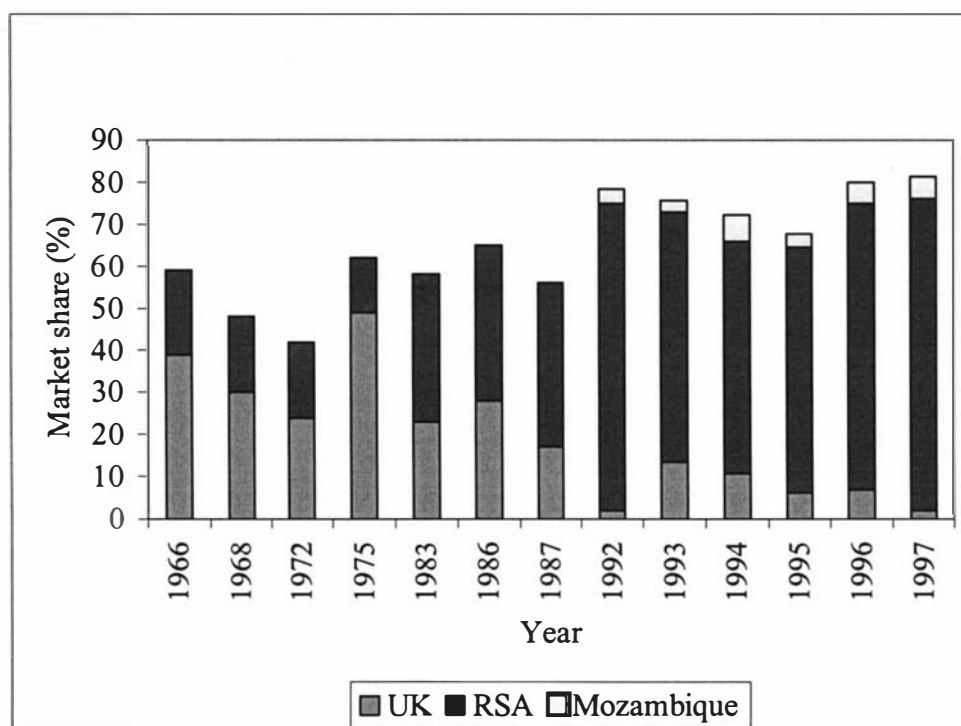
'Fresh and canned fruits' demonstrated an upward trend in the 1970s, contributing on average eight percent of total export earnings. However, in recent years, the growth in earnings from these commodities has been slowed-down by poor output resulting from poor weather conditions. In 1984 Cyclone Domonia devastated citrus plantations and the long drought spell of the early 1990s has reduced output even further. The future contribution of these commodities depends primarily on climatic conditions and the general conditions in world markets.

In sum, the analysis on major export commodities shows that, there have been some changes in the relative importance of several commodities in the export basket, with 'soft drink concentrates' becoming the major contributor to foreign exchange income, whilst sugar and woodpulp have been relegated from their dominant position. However, the fact that sugar and processed food products, for which sugar is an input, contribute more than 40 percent to the country's total exports, exposes the limited nature of the export base and hence the extent of the vulnerability of foreign exchange income for the country.

¹⁷ This statement holds only if woodpulp products are excluded from Woodpulp data.

Vulnerability is also intensified by the limited nature of markets for Swaziland's exports. Despite the increase in the volume and value of domestic exports, the bulk of these exports have gone to a small number of countries, notably South Africa, the United Kingdom, and, in recent years, Mozambique (see Figure 2.3). Together these three countries absorbed about 81 percent of Swaziland's total exports in 1997.

Figure 2.3 Major Export Destinations



Over the years there has been an increase in the number of trading partners, however very little diversification has occurred in the sense that the trading partners that dominated in the pre-independence period still have significant market shares. A notable change in the 1990s has been the increase in the number of African countries absorbing Swaziland's exports, partly due to the regional trade agreements, particularly COMESA and SADC. In addition to the SACU members, other notable African destinations for Swaziland's exports include Mauritius, Mozambique, Tanzania, Zambia, and Zimbabwe. However, with the exception of South Africa and Mozambique, the shares of total exports to the individual African countries remain very small (less than one percent). Jointly African countries (excluding South Africa)

absorbed approximately 10 percent of Swaziland's total exports in 1997 (see Table 2.12). With respect to trade activity with Mozambique and South Africa, geographical proximity seems to be a major explanatory factor and, in the case of South Africa, Swaziland's major trading partner (with a 74 share in total exports in 1997) trade is also facilitated by the SACU and CMA agreements. The resurgence of Mozambique as a significant export destination in the 1990s could be due to the peaceful political transition in that country and, the improvements in the communications network between the two countries, seem to have facilitated trade.

Table 2.12 Market Shares for Export Destinations in 1996-97

Country	1996		1997	
	%	Rank	%	Rank
Belgium	0.92	9	0.34	13
Botswana	0.19	19	0.02	29
Finland	0.40	14	-	-
France	4.22	4	0.55	11
Germany West	0.25	16	0.13	16
Ireland	0.03	32	0.06	19
Italy	0.05	27	8.75	2
Korea (Dem. People's Rep)	0.92	10	-	-
Malawi	1.06	8	0.71	9
Mauritius	0.38	15	0.58	10
Mozambique	5.13	3	5.19	3
Namibia	0.23	17	0.09	18
Netherlands	0.10	23	0.14	15
Philippines	0.21	18	-	-
Portugal	2.81	6	0.13	17
South Africa	68.10	1	74.04	1
Switzerland	0.03	31	0.20	14
Tanzania	0.89	11	1.40	7
Uganda	-	-	0.35	12
United Kingdom	6.86	2	2.12	5
United States of America	3.28	5	2.42	4
Zambia	0.83	12	0.72	8
Zimbabwe	1.16	7	1.68	6
All other	1.95		0.38	

Source: CSO (1997a).

2.4.1.2 Regional and International Groupings

Another key factor in explaining Swaziland's external trade pattern is the country's membership in regional and international groupings. Swaziland belongs to five regional groupings, namely, the Southern African Customs Union (SACU), the Common Monetary Area (CMA), the Common Market for Eastern and Southern Africa (COMESA), the Southern African Development Community (SADC), and the Cross Border Initiative (CBI). The section below gives a brief on some of these groupings and explains how they impact on the country's trade pattern.

The Southern African Customs Union

Swaziland, together with Botswana, Lesotho, and Namibia (known as the BLNS countries) are part of a customs union with South Africa. The Customs Union was formed in 1910, and since then several renegotiations of the agreement have been held.¹⁸ The three most important features of the SACU agreement are: the almost universal absence of barriers to trade amongst the member countries hence facilitating the free movement of goods, capital and labour between the member countries the application of common external customs and excise duties, and the revenue sharing aspect through a special formula.

The main benefit of this Customs Union to Swaziland has been the stable revenue, accruing from the revenue pool, which includes both customs and excise taxes. This revenue is shared between the member countries on the basis of a formula, which combines imports, excisable production, a compensatory factor to the smaller states and a stabilization factor. Since the revision of the revenue sharing formula, under the re-negotiated SACU agreement, the revenues accruing to Swaziland from the Customs Union have been a substantial part of Government Revenue, constituting more than 40 percent (see Table 2.13). Despite these benefits, there are costs to the country associated with the SACU membership. The most obvious ones being the loss of

¹⁸ Namibia was not part of the 1910 agreement, but joined the Customs Union in 1990, when that country gained independence. The initial agreement was renegotiated in 1969 with the independence of

fiscal discretion, increased prices (arising from South Africa's quantitative restrictions), trade diversion and the polarization of economic activity, and lastly, the Common External Tariff has been determined with a bias towards South African interests (Maarsdorp, Robson and Hudson, 1995; Mwase, 1994). Given the differences in the economic structures and levels of development of the two countries the benefits of the tariffs are skewed towards South Africa.

The Common Monetary Area

The Common Monetary Area (CMA) was born out of a 1986 Trilateral Monetary Agreement, signed between South Africa, Lesotho and Swaziland and it replaced the original monetary arrangement between these countries, which was known as the Rand Monetary Area (RMA). The RMA was signed in 1974 and it was basically a formalization of a *de facto* monetary union that existed, prior to 1974, between Botswana, Lesotho, South Africa, and Swaziland.¹⁹ The RMA provided for the free movement of funds between the member countries and ready access to the South African money markets, whilst allowing the members to circulate their own currencies along with the South African rand. Under this arrangement the South African Reserve Bank took the responsibility of managing the rand, and gold and foreign exchange reserves for the union and this effectively meant that neither Lesotho nor Swaziland could alter the union's money supply (Lundahl and Petersson, 1991). However South Africa was supposed to compensate the other members (Lesotho and Swaziland) for the loss in seignorage.

the BLS countries, amended in 1976 to introduce a stabilisation factor, revised in 1990 when Namibia achieved its independence and the latest renegotiated agreement was signed in year 2000.

¹⁹ Botswana declined to join the RMA and opted to establish her own central bank and issue her own currency known as the 'pula'.

Table 2.13 Major Sources of Government Revenue

Year	Current Revenue E'000	Customs Union %	Company & Personal Tax %	Sugar Export Levy* %	Sales Tax** %	All Other %
1969	15.4	13.0	32.5			54.5
1970	18.5	40.5	25.4			34.1
1971	18.5	36.2	27.7			36.1
1972	18.6	45.8	31.0			23.2
1973	22.5	46.7	33.7	0.0		19.6
1974	28.6	46.5	37.4	2.7		13.4
1975	46.3	40.4	22.7	19.4		17.5
1976	69.9	25.8	30.0	34.2		10.0
1977	55.7	25.6	39.9	19.2		15.3
1978	80.9	48.1	30.1	10.2		11.6
1979	104.3	54.7	27.1	6.4		11.8
1980	133.4	58.8	25.9	6.2		9.1
1981	163.3	57.7	23.8	8.9		9.6
1982	134.2	47.4	31.8	9.3		11.5
1983	182.1	64.2	25.5	0.8		9.5
1984	185.3	67.2	23.9	0.0		8.9
1985	213.3	61.1	24.2	0.0	2.1	12.6
1986	244.8	55.8	24.3	0.0	5.6	14.3
1987	255.1	47.0	26.4	0.6	12.3	13.7
1988	337.3	40.0	37.1	1.0	10.4	11.5
1989	428.2	37.9	33.6	4.3	11.9	12.3
1990	584.7	31.9	37.6	3.3	11.9	15.1
1991	756.4	44.7	29.3	1.8	10.4	13.8
1992	816.1	31.4	32.0	0.8	11.7	24.1
1993	890.3	40.3	32.0	0.0	11.8	15.8
1994	981.9	46.6	30.6	0.1	12.5	10.2
1995	1200.0	47.2	28.7	0.0	10.9	13.2
1996	1442.9	51.6	25.6	0.0	12.0	10.9
1997	1704.2	50.0	27.2	0.8	12.2	9.8
1998	2038.7	49.4	24.9	1.3	12.5	11.9
1999	2290.2	47.0	24.5	0.8	12.0	15.7
2000	2567.9	47.6	26.2	0.7	13.0	12.5

Sources: CSO *Annual Statistical Bulletin*, Various years; CBS, *Quarterly Review*, Various years.

Notes on Table 2.13

* The Sugar export levy was introduced in fiscal year 1973/1974. In the early 1980s it was inoperative due to low world market prices of sugar.

**The Sales tax was introduced in 1984.

Over the years several revisions to the initial agreement have been made to accommodate the developments in the economies of the member countries and the incorporation of a new member, Namibia, in 1992. The Multilateral Monetary Agreement (MMA), signed in 1992 as a replacement of the TMA, is the latest development in the monetary union arrangement involving South Africa, Lesotho, Namibia and Swaziland. Under the MMA member countries issue their own local currencies and they own central banks. The respective Central Banks are responsible for the management of their domestic currency and their respective foreign exchange reserves. In terms of the prevailing CMA arrangement 'the primary responsibility for monetary policy within the CMA lies with the South African Reserves Bank' (CBS, 2000:7). However, unlike in the past, in recent years there has been increased consultation among the member countries.

Swaziland established her own Central Bank in 1974, introduced her own currency known as the 'Lilangeni' (Emalangeni for plural) and subsequently delinked from the rand in 1986 (CBS, 1999b).²⁰ Even though this development meant that the rand was no longer legal tender in the country, the rand still circulates freely in trading places in the country because of the trade relations between the two countries. Owing to the country's membership to the CMA and the trade relations between South Africa the inflation and interest rates trends in Swaziland always closely track those of South Africa (CBS, 2000). In recent years, there have been calls from various quarters for the country to withdraw its membership to the CMA. These calls have been mainly a result of the continuous deterioration of the rand against major currencies. The Central Bank of Swaziland has, however, defended the country's membership to CMA, maintaining that the benefits from this arrangement outweigh the costs (CBS, 1999a).

A major disadvantage to the country, arising from the financial integration agreements in the region, has been the persistent failure of the domestic financial system to translate domestic savings into productive investment within Swaziland, consequently dampening the growth potential of the country. This is mainly because banks always channel excess funds to higher earning South African investments, leaving very little

to domestic credit (CBS, 2000). In fact financial institutions in the country have been blamed for their lack of support to the development efforts of the country. Consequently, the Central Bank has recommended that local banks need to be encouraged to 'extend credit facilities' to, for example, small and medium enterprises.

Other Regional and International Groupings

To a large extent the two institutions (SACU and CMA) discussed above, are the ones that explain the high degree of integration between Swaziland and South Africa and they also explain the observed external trade pattern of the country. Over the years South Africa has remained the most dominant trading partner for Swaziland, accounting for about 60 percent of total exports and 85 percent of total imports in 1998. Other important agreements in Swaziland's external trade are the Lomé Agreement and the Generalised System of Preferences (GSP), which facilitate the sale of Swazi sugar into the lucrative European Union and United States markets, respectively.

Swaziland is also a member of the Common Market for Eastern and Southern Africa, (formerly known as the Preferential Trade Area for Eastern and Southern Africa), which has more than twenty member countries, namely, Angola, Burundi, Comoros, Congo, Djibouti, Ethiopia, Eritrea, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe. This institution was established with the aim of encouraging trade among member countries and the 1994 COMESA Treaty seeks to establish a common market with a common external tariff. One of the major targets of this institution was the elimination of tariffs on intra-PTA trade by the year 2000. Unfortunately this target proved very difficult to achieve because the reduction of tariffs was constrained by the lack of alternative sources of revenue for the member governments. For Swaziland implementing the COMESA agreement, especially the tariff reduction component, was not practical as long as the SACU membership subsisted.²¹ Despite the fact that over the years some achievements have been recorded in the area of tariff reductions within COMESA, the intra-regional trade remains low,

²⁰ The Lilangeni was set at par with the South African rand.

an indication that there is a need to concentrate on other factors for the stimulation of trade amongst the member countries.²²

The Southern African Development Community (SADC) is another institution that Swaziland holds membership of. This institution was formed in 1980,²³ initially with the aim of reducing dependence on South Africa and promoting regional cooperation in regional infrastructure projects, especially in the areas of transportation and communication, food security, and energy. However, with the political developments in South Africa, the emphasis on the objective of SADC has shifted to include issues of trade integration, something that was not part of the initial agenda. Consequently, in 1997, SADC members signed a Trade protocol with the intention of phasing in a free trade area over a period of eight years.

It is worth noting that Swaziland's trade with African countries, excluding South Africa, remains relatively insignificant. In 1999, for example, Swaziland's exports to other African countries were estimated to be less than five percent (CBS, 2000). The benefits to Swaziland of the COMESA market have come mainly through the sale of refrigerators, whilst the trade benefits of the SADC membership are still yet to be realized.

2.4.1.3 A Measure of Concentration in Swaziland's Exports Using the Herfindahl Index

A high degree of concentration in exports (by both product and market) is considered not good and risky because it increases the economic vulnerability of the country. The vulnerability tends to be higher in the case of small open economies where foreign exchange earnings are crucial for the country's economic survival and development. Over the years the Government of Swaziland has attempted to diversify the export base by promoting the exports of non-traditional commodities. To some extent, the

²¹ In terms of the SACU agreement the BLNS countries are unable to independently determine trade policy without the collective approval of the other members.

²² Fouratan and Pritchett (1993) suggest that the low level of intra-regional trade can be explained by a lack of trade potential as measured by low levels of GDP.

²³ The SADC replaced the Southern African Development Coordination Conference (SADCC). The original membership list to SADCC included Angola, Botswana, Lesotho, Malawi Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. Namibia became a member on her independence in 1990.

impact of the promotion measures can be seen in the change in the number of 'new' export commodities and their percentage contribution to foreign exchange earnings, over time. As shown earlier (see Table 2.11) the number of significant export commodities has increased from 3 to 9 over the period 1968 to 1998, with the changes occurring as follows: 1968-1976, n=3; 1977-1980, n=7; 1981-1986, n=8; and 1989-1998, n=10. However, using concentration measures, like the Herfindahl Index, helps to shed more light on the success or failure of the promotion schemes, hence the analysis below.

The Herfindahl Index is one of the methods that have been used in previous studies to measure the degree of concentration (see for example Birks, 1981; Adelman, 1969). In general the Herfindahl Index can be used to measure the degree of industry concentration, market concentration and product concentration. The Herfindahl Index formula is as follows:

$$H = \sum_{k=1}^n \left[v_k / \sum_{k=1}^n v_k \right]^2$$

Where,

vk is the value of the relevant variable for the k^{th} firm.

For purposes of this analysis, the degree of concentration is investigated at two levels, i.e., *product concentration* and *market concentration*. Hence, for product concentration, vk is the share value of an export commodity in total export earnings; whilst for market concentration, vk is the market share value for a particular trading partner.

Since the objective of the analysis is to understand the degree of concentration over time, an attempt was made to include as many years in the study period, as much as data availability allowed. Hence, the product concentration investigation extends over a 20-year period, covering the years 1977–1996, whereas for market concentration, detailed data was available only for the period 1992-1995.

The nature of data utilised is export earnings, listed by commodity and market destination. This data was obtained from the following sources:²⁴ *Annual Statistical*

²⁴ The inadequacy of data necessitated the use of several sources.

Bulletins; (CSO, various years); *Quarterly Reviews* (CBS, various years); and *Development Plans* (Swaziland Government, various years). The results for product concentration are summarised in Table 2.14.

Product Concentration

Over the period 1977 to 1996 the lowest degree of product concentration was in 1988 (with an “H” index value of 0.176) whilst the highest product concentration was in 1980, when an “H” index value of 0.299 was recorded. In general the degree of product concentration has been falling over the years as more products are introduced and as the dominant position of the traditional export commodities (sugar and woodpulp) has been reduced. For example, in the period 1977-1980, the Herfindahl Index averaged 0.246 whilst in the period 1993-1996 the average Herfindahl Index was 0.193. In addition, over the period 1977-1980, when the number of export commodities was seven, the Herfindahl Index averaged 0.246, but when the number of commodities increased to ten (1989-1996) the index averaged 0.1934. On the basis of these results it can be concluded that the increase in the number of export commodities has, to some extent, helped to decrease the degree of product concentration.

The results, however, also show that even though the degree of product concentration has relatively decreased over time, since 1994 the concentration index has been on the increase. This could be due to the increasing importance and domination of ‘soft drink concentrates’ in Swaziland’s foreign exchange earnings and also the diminishing share of minor commodities versus the major ones. For instance, the share of the minor commodities has decreased from 14 percent to a mere three percent over the period 1977-1996 (see Table 2.15).

In addition, despite the increase in the number of export items, the heavy dependence on primary commodities is still a problem as indicated by the sporadic swings in the index values (e.g., in 1980, 1984, 1986, and 1996). These swings are to be expected given the unstable nature of primary commodities’ income. In the case of Swaziland, these swings are partly due to changes in international commodity prices²⁵ and

²⁵ The most relevant international commodity prices are for sugar and wood pulp.

climatic conditions (e.g., good rains and drought). The latter affected the yield and hence, the export volumes and foreign exchange earnings. In particular, in 1984, owing to the good rains, Swaziland obtained a good sugar yield and was able to sell most of the output, hence increasing the dominant position of sugar in export earnings which is then reflected in the higher “H” index value for that particular year.²⁶

Table 2.14 Product Concentration: Herfindahl Indices for Swaziland Exports, 1977–1996)

Year	Herfindahl Index (H_i)	“equality H” (HE_i)*	% prop.deviation ($(H_i - HE_i) / HE_i$)%
1977	0.225525	0.142857	57.87%
1978	0.226690	0.142857	58.68%
1979	0.232745	0.142857	62.92%
1980	0.299206	0.142857	109.44%
1981	0.260796	0.125000	108.64%
1982	0.249704	0.125000	99.76%
1983	0.237117	0.125000	89.69%
1984	0.266509	0.125000	113.21%
1985	0.235927	0.125000	88.74%
1986	0.256878	0.125000	105.50%
1987	0.196397	0.100000	96.40%
1988	0.176483	0.111111	58.83%
1989	0.193176	0.100000	93.18%
1990	0.198738	0.100000	98.74%
1991	0.188964	0.100000	88.96%
1992	0.189563	0.100000	89.56%
1993	0.187759	0.100000	87.76%
1994	0.189865	0.100000	89.86%
1995	0.193392	0.100000	93.39%
1996	0.205992	0.100000	105.99%

Notes on Table 2.14:

* The “equality H” = $1/n$ where n is the number of export commodities.

²⁶ In 1984 the earnings from sugar exports were 42 percent of the total value of Swaziland’s exports.

Table 2.15 Comparisons of the Herfindahl index and Percentage Share of 'Major' and 'Minor' Commodities

Component	Year							
	1977	1980	1983	1986	1988	1990	1993	1996
Herfindahl index (H_i)	0.226	0.299	0.237	0.257	0.176	0.199	0.188	0.206
Deviation from HE_i (%)	57.8	109.4	89.7	105.5	58.8	98.7	87.8	106.0
Share of top 3 commodities (%)	68.6	65.6	60.3	71.3	65.8	70.2	63.7	58.1
Share of minor 3 commodities (%)	14.2	9.2	8.8	9.0	11.5	7.4	3.3	2.9
Share of major commodity (%)*	36.2	46.0	37.1	40.2	28.8	32.6	29.8	30.8
Share of "other" (%)**	17.1	25.1	24.7	13.7	12.3	9.6	15.7	24.8

Notes on Table 2.15:

* Since 1993 sugar was relegated from 1st position by soft drink concentrates.

**The category other in this case refers to unclassified commodities.

As an additional exercise the observed "H" index values were compared with the index value that would have been obtained had all commodities contributed equally to total export earnings (hereafter, referred to as the "equality H", and calculated as $1/n$). These results are presented in Table 2.14 columns 3 and 4. A major observation from this exercise is the lower deviation from the "equality H" in the 1970s compared to the 1980s and 1990s. This could imply that in the 1970s, even though there were a few export commodities, the distribution between major and minor commodities was less unequal.²⁷ Alternatively it could imply that over the years some commodities have been marginalised, and therefore, become (individually) insignificant contributors to total export earnings.²⁸

Market Concentration

In as much as the number of major markets for Swaziland's exports has remained remarkably constant over the years, there have been significant changes in the market

²⁷ See Table 2.11 for the shares of major commodities in selected years.

shares of these major trading partners. In 1966 the United Kingdom was Swaziland's major trading partner, with a 39 percent market share, by 1995 its market share had decreased to only six percent. On the other hand, between 1966 and 1995, South Africa's market share increased from 20 percent to 58 percent.²⁹

Using the Herfindahl Index to measure market concentration the results show that over the period 1992-1995, there was a steady decrease in the degree of market concentration (see Table 2.16). Whilst in 1992 the "H" index value was 0.54 by 1995 it had decreased to 0.19. This represents a more than 50 percent decrease in the degree of market concentration. These results support the trend that is observed in the percent shares of the individual member countries. In 1992 the top two markets had a 76.3 percent market share, but by 1995, they only had a 62.5 percent market share.

Table 2.16 Market Concentration (1992 –1995)

Variable/Year	1992	1993	1994	1995
Herfindahl index (Hi)	0.5373	0.3778	0.3243	0.1938
"Equality H" (HEi)	0.0208	0.0208	0.0204	0.0204
RSA share	72.8%	59.5%	55.1%	58.4%
UK share	2.0%	13.4%	10.7%	6.2%

On the basis of these results it can be concluded that there has been some improvements in diversifying the markets for Swaziland's exports. Despite this achievement, a comparison of these indices to the "equality H" values indicates that there is still a wide gap between the two indices, confirming the fact that the overall distribution of market shares is still highly uneven. The extent of the uneven distribution in market shares poses a challenge to policy makers to strive for further market diversification, if they are to further reduce the dependency risks and economic vulnerability.

²⁸ Another possible explanation could be the increase in the share of the "other" category, which might be inflating the concentration measure.

²⁹ Another notable change in the market structure of Swaziland's exports has been the regional distribution of market shares. Over the years the share of exports to Asian countries (and to a lesser extent African countries) has increased.

Summary

The overall structure of Swaziland's exports is reminiscent of many developing countries in the sense that agricultural products and raw materials form the bulk of exports from the country. Some changes have occurred in the overall structure, with crude inedible materials dropping in significance from first to second position. Another significant change involves the relative importance of sugar, which used to be the country's single most important export commodity, but has been overtaken by 'soft drink concentrates' in 1993.

The Herfindahl Index results on concentration do confirm the slight changes in product and market concentration. Whilst these improvements are applauded, the analysis also revealed the fact that still, to a great extent the export commodity base and the number of market destinations is limited and hence exposing the country's vulnerability in external trade. These findings confirm the need for the country to strive for further diversification of the export products' base and market destinations.

2.4.2 Composition of Imports

Imports have been increasing rapidly over the years, partly due to increased demand, the general increase in import prices of various items and lately the depreciation of the Lilangeni against major currencies. The value of imports was recorded at 6438.6 million Emalangenis in 1999 compared to E41.1 in 1968 (CBS, 2000a; CBS, 1974). Over the post-independence period, the average growth rate of imports is estimated at 18 percent. An analysis of imports by commodity section is hampered by the inconsistencies in the classification of commodities (as evidenced by the erratic changes in the "other commodities" category), and the under-recording of imports data due to under-declaration.

In general the overall structure of imports has remained the same during the period under study. The 'machinery and transport equipment' category (SITC 7) has largely been the dominant category of imports, occupying more than 20 percent of the total imports (see Table 2.17). The dominance of this category can be explained by the

absence of domestic production of such products and the increased demand for industrial equipment and materials due to increased manufacturing activity. In addition, the continued investment in infrastructure, as part of government's strategy for promoting FDI and economic growth, have contributed to the increase in imports of machinery and transport equipment because most of the machinery and equipments required in, for example road construction, have been imported.

The second most important import category is the 'Manufactures classified by material' followed by 'Minerals, fuels and lubricants' in third position. These account for about 15 and 14 percent of total imports, respectively. The share of 'Food and live animals' took a downward trend in the early 1970s averaging less than ten percent of total imports and reaching a low of 5.4 percent in 1979. But in the 1980s it started increasing, steadily and it stabilized in double digits in the 1990s, averaging about 12 percent for the period 1990 - 1999. The persistent poor weather conditions in the 1980s and early 1990s led to poor crop harvests, hence necessitating an increase in food imports to cover the shortfall in food requirements. In addition, the Ministry of Economic Planning speculates that part of the increase in food imports could have been due to sophistication in tastes as a result of the general economic upswing in the late 1980s and early 1990s (Swaziland Government, 1998).

2.4.2.1 Sources of Imports

South Africa has always been the major source of Swaziland's imports, accounting for more than 80 percent throughout the post independence era (see Table 2.18). In 1968, South Africa provided 91.2 percent of Swaziland's total imports; in 1999 its share was 80.4 percent (CBS, 2000a). The main reason for this dominance is that there are no trade barriers between the two countries, because of the South African Customs Union and the Common Monetary Area agreements to which both countries are signatories. In addition, the geographical position of Swaziland makes South Africa the nearest, quickest and convenient supplier, thus making it more like a natural source of imports for Swaziland. Other sources of Swaziland's imports include Japan, and the European Union. Together these two sources supply approximately five percent of Swaziland's total imports.

The structure of Swaziland's imports is similar to that of many developing countries in that it is dominated by machinery and manufactured goods which tend to be expensive and yet they are crucial for production and the development of the country. Imports have also been growing at a higher rate than exports and hence contributing to the increase in the trade deficit (see Figure 2.4).

2.5 Summary

Swaziland is a small, landlocked country with an extremely open economy as evidenced by the high proportions of exports and imports in GDP, which in the 1990s averaged more than 70 and 80 percent, respectively. Limited domestic markets, a narrow resource base, and extensive exposure to the outside world have encouraged this outward orientation. Whilst, the importance of international trade is not bad *per se*, as it enlarges the market and presents the country with the opportunity to reap economies of scale, it may generate some insecurity and vulnerability when the level of dependence is too high. For example, there are uncertainties relating to sources of supply for critical inputs and heavy dependence on export markets to generate income to finance the large import bill. In addition, when the firms involved in exporting are mainly large and foreign-owned then there may be dangers of limited benefits to the domestic economy.

The country's small size and geographical location (being located next to a large and relatively developed country, South Africa) also pose major challenges for policy makers. The discussion on the external trade sector in Swaziland (see section 2.4) revealed the extent and magnitude of the country's dependence on South Africa for the supply of merchandise and services imports. Whilst the high degree of integration with the South African economy has had some positive impacts on the Swaziland economy, there is no question that it poses some major challenges with regard to policy formulation, given the differences in the level of development for the two countries. It also provides increased competition to new and small enterprises in Swaziland because South African firms are relatively more established. For example, since the abolition of the apartheid government in 1994, Swaziland has experienced increased

competition for direct foreign investment, as evidenced by the closing down of several firms that have relocated to South Africa. The relocating firms were attracted by the larger market and comparatively developed infrastructure (CBS, 2002). Moreover, the Swaziland government's efforts at creating more employment opportunities by making the domestic investment environment attractive have been met with more attractive responses from South Africa and other neighbouring countries, thus creating major difficulty in policy development. The challenges posed by the unique characteristics of the country (small developing economy, landlocked, extreme openness) highlight the importance of focusing on the domestic investment environment. In particular it justifies the search for policies that will increase opportunities for involving SMEs and indigenous enterprises in export activities because of the potential benefits that these enterprises have to offer in addressing the many development, social and economic challenges currently facing the country.

The export-led development strategy adopted by the country is responsible for the tremendous economic growth achieved in the past and it has helped in the transformation of the economy as evidenced by the increased manufacturing activity and increased contributions to GDP by various sectors of the economy. In contrast to the good economic performance of the 1970s and 1980s, in the last decade, however, the country has been going through a challenging period economically and socially, as it has been confronted with high unemployment and population growth rates, declining FDI, slackening economic growth, high HIV/AIDS infection rates and, most worryingly, increasing levels of poverty.

The uncovering of the increasing levels of poverty seem to indicate that the benefits of the high export and economic growth rates did not trickle down to the large proportion of the population, hence the need for scrutinizing past development strategies and investigating the past, present and potential role of SMEs in export activities. Moreover the increasing rates of unemployment could be an indication that the export firms are using relatively more capital-intensive production strategies thus making limited contributions towards employment creation. This highlights the role of involving and promoting firms that make use of labour-intensive production strategies, such as SMEs.

Table 2.17 Imports - Classified by SITC Commodity Section
(Percentage Share in Total Imports)

Year	SITC Commodity Section's Percentage share in Total Imports										Annual growth in Imports*
	Food & Live Animals	Beverages and Tobacco	Crude inedible materials	Minerals, Fuels & Lubricants	Animal's and Vegetable's oils and fats	Chemicals and Chemical Products	Manufactured items classified by material	Machinery and Transport Equipment	Miscellaneous manufactured items	Commodities not Classified by kind	
1965	14.4	5.1	1.4	7.6	0.03	10.5	13.2	30.4	8.2	9.3	
1966	14.8	5.7	0.7	9.2	0.54	11.9	13.6	26.4	10.0	7.3	
1967	12.3	4.6	0.0	9.1	0.00	11.5	20.0	23.9	15.4	1.8	
1968	12.2	4.6	1.1	8.6	0.49	9.2	20.9	29.5	11.6	1.5	
1969	13.5	4.8	1.8	8.2	0.51	8.5	22.1	24.7	12.7	1.9	-0.7
1970	11.6	8.7	1.2	8.2	0.42	8.5	17.5	26.2	11.6	9.5	18.6
1971	9.6	5.3	1.3	8.4	0.41	9.1	16.6	28.5	11.3	9.8	10.7
1972	8.9	5.0	1.0	8.2	0.51	11.1	17.6	25.9	13.6	8.3	23.3
1973	8.7	6.6	1.4	8.7	0.44	10.1	16.4	24.4	10.5	12.8	30.9
1974	8.1	4.1	0.7	11.6	0.45	10.7	13.6	24.8	12.7	13.3	23.0
1975	8.7	5.0	0.7	10.1	0.43	9.0	11.0	26.0	9.8	19.3	14.0
1976	8.4	4.6	0.7	10.9	0.27	7.4	10.0	30.0	9.0	19.8	32.1
1977	10.1	5.0	0.7	15.0	0.39	9.9	12.5	24.6	10.9	10.9	13.3
1978	7.0	2.9	0.5	9.5	0.27	8.7	10.4	25.0	7.3	28.3	41.4
1979	5.4	1.4	0.6	13.0	0.07	11.7	18.6	16.6	15.4	17.3	34.1
1980	6.8	1.3	0.6	15.8	0.14	10.2	12.4	20.2	14.1	18.3	22.9
1981	8.2	0.9	0.7	15.3	0.18	8.4	11.5	20.2	14.7	17.6	17.9
1982	8.5	1.3	0.4	14.5	0.20	15.1	8.6	21.6	10.4	19.7	1.6
1983	9.8	5.0	1.1	14.2	0.26	11.5	10.4	31.0	6.1	14.4	5.3
1984	8.9	2.4	0.7	17.0	0.24	6.2	12.1	25.9	7.4	16.7	6.7
1985	7.6	1.6	2.4	27.1	0.23	5.1	10.4	23.3	7.0	14.5	10.0
1986	9.8	1.6	1.6	14.3	0.23	4.9	12.8	21.2	10.3	23.3	17.8
1987	11.4	1.6	1.5	14.8	0.36	7.6	11.6	16.3	11.3	23.5	12.2
1988	12.9	1.6	2.7	13.5	0.39	11.8	17.9	23.0	10.7	5.7	32.6
1989	11.8	1.2	2.9	14.6	0.57	7.4	14.6	33.7	9.5	3.8	89.5
1990	14.8	1.7	2.9	11.9	0.45	9.6	15.7	27.4	10.9	4.7	9.5
1991	13.5	1.9	5.0	13.2	0.41	9.2	13.7	27.9	10.7	4.7	12.8
1992	12.7	2.9	5.3	12.5	0.53	7.7	17.1	22.7	10.8	7.8	12.8
1993	15.4	2.2	4.7	10.4	0.53	9.9	17.9	26.5	10.7	1.9	14.0
1994	14.5	3.4	8.3	5.7	1.0	11.7	17.3	24.5	11.6	1.8	-0.3
1995	17.4	2.4	10.2	6.7	1.0	13.0	16.7	21.3	10.7	0.3	21.7
1996	15.1	2.2	4.4	11.8	1.1	15.1	14.7	24.9	9.4	1.2	22.2
1997	14.4	2.0	4.1	12.6	1.3	11.6	15.8	24.3	12.4	1.5	7.7
1998	13.3	1.7	4.4	13.1	1.4	11.3	15.6	28.5	9.3	1.5	13.6

Source: CSO *Annual Statistical Bulletins*, various years; CBS, *Quarterly Reviews*, various years.

Notes on Table 2.17:

* The growth rate is calculated as the simple percentage change over the previous year's value.

Table 2.18 Major Sources of Imports (Percentage Share and Ranking)

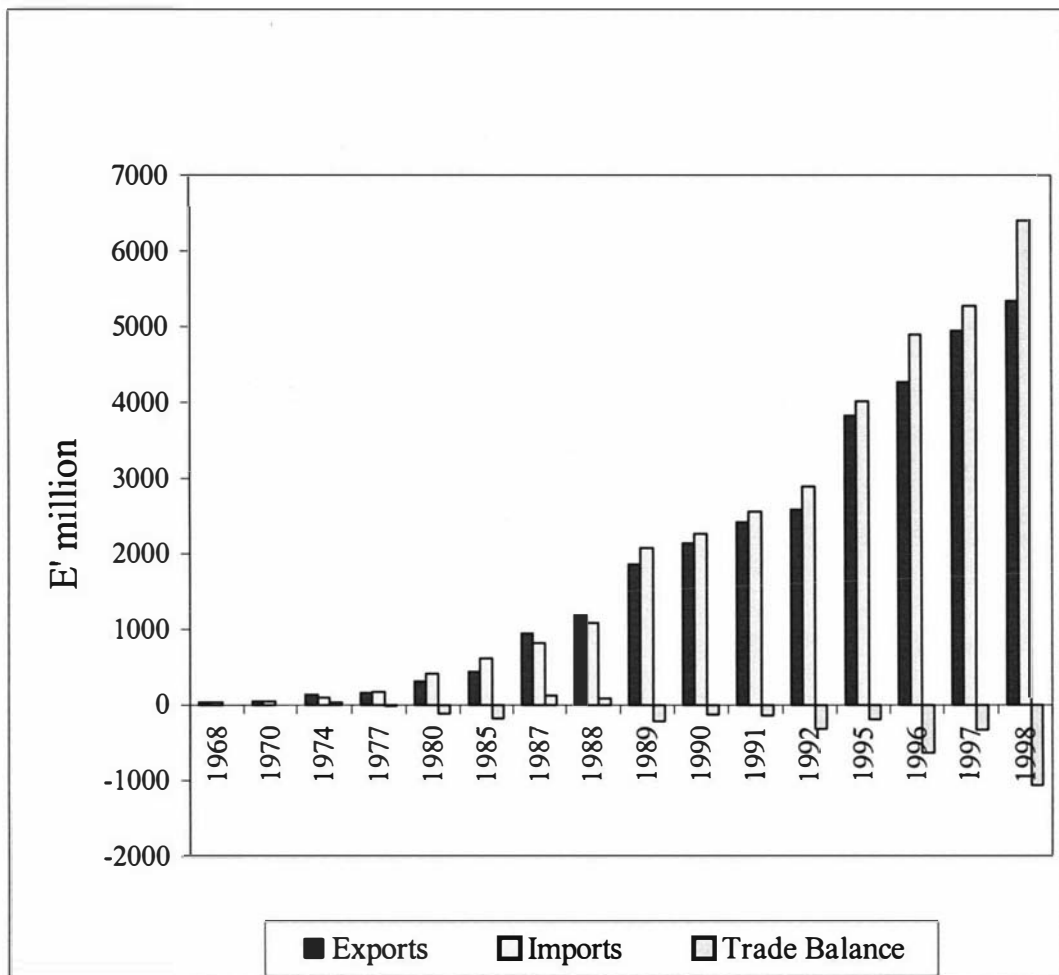
Country source	1994		1995		1996		1997		1998	
	%	rank*	%	rank	%	rank	%	rank	%	rank
South Africa	87.72	1	87.75	1	96.29	1	90.31	1	82.93	1
Japan	0.90	4	1.69	2	0.48	4	1.28	2	1.90	2
United Kingdom	1.83	3	0.83	8	0.69	2	0.74	8	1.73	3
Singapore	0.55	6	1.15	4	0.48	3	1.01	4	1.50	4
France	0.24	13	0.45	10	0.10	9	0.34	10	1.05	5
Hong Kong	0.24	12	0.60	9	0.04	14	0.40	9	0.92	6
USA	0.56	5	1.47	3	0.09	11	1.20	3	0.87	7
Italy	0.48	8	0.85	6	0.36	5	0.80	6	0.85	8
Germany	0.36	10	0.35	11	0.06	13	0.21	11	0.66	9
Korea (DPR)**	0.22	14	0.04	26	0.00	26	0.02	26	0.64	10
Taiwan	0.00	55	0.00	55	0.00	55	0.00	55	0.60	11
Mozambique	0.13	15	0.85	5	0.24	6	0.90	5	0.58	12
Korea (Republic of)	0.00	45	0.00	49	0.00	47	0.00	49	0.53	13
India	0.04	24	0.30	15	0.06	12	0.10	15	0.52	14
China Republic of	0.41	7	0.11	20	0.03	17	0.05	20	0.27	15
Denmark	0.11	18	0.34	12	0.16	8	0.15	12	0.23	16
Belgium	0.05	21	0.71	7	0.04	15	0.48	7	0.21	17
Netherlands	4.46	2	0.19	17	0.09	10	0.07	17	0.20	18
Zimbabwe	0.32	11	0.12	19	0.12	7	0.07	19	0.20	19
Madagascar	0.00	36	0.00	34	0.00	32	0.00	34	0.18	20
Spain	0.00	31	0.07	22	0.02	19	0.05	22	0.16	21
Canada	0.12	17	0.19	18	0.03	16	0.07	18	0.14	22
United Arab Emirates	0.00	58	0.00	58	0.00	58	0.00	58	0.12	23
Thailand	0.02	26	0.08	21	0.00	31	0.05	21	0.11	24
Australia	0.01	27	0.33	13	0.01	23	0.14	13	0.11	25
All other countries	1.25		1.52		0.61		1.57		2.80	

Source: CSO, *Annual Statistical Bulletins*, various years.

Notes on Table 2.18:

* Rank represents the country's position as a source of imports in a particular year.

** The full country name is Democratic Peoples Republic of Korea.

Figure 2.4 Trade Balance (1968-1998)

In addition, since SMEs tend to have low import content of raw material inputs (Wiboonchutikula, 2002) then an intensified programme of promoting their increased export involvement can help to contribute towards the reduction of the country's balance of trade deficit. Moreover, since FDI has been declining, due to increased global competition for investment funds, therefore as the country intensifies its efforts for attracting investment funds it is important to pay attention to local investors and possible linkages between foreign-owned and domestic-owned firms, and between large and small enterprises.

Promoting export-oriented labour intensive firms, particularly SMEs, can generate the highest benefits to the country by not only increasing employment opportunities but by contributing towards the government's efforts towards improving income distribution and poverty alleviation. The government recognises the role that export promotion can play in promoting an export-led recovery of the economy as evidenced by the emphasis on promoting export-oriented firms and efforts to facilitate international trade by taking up membership in various regional and international trade organisations (or being a signatory to international trade agreements). In addition, the establishment of various SME assistance programmes highlights the Swaziland Government's recognition of the potential role that SMEs can play in increasing employment opportunities and in the fight against poverty. However, despite the various export promotion efforts and the establishment of various SME assistance programmes the extent of the export participation of SMEs is not clear. Given the potential benefits of increased export involvement by SMEs, this study was aimed at investigating the effectiveness of SME assistance programmes in promoting SMEs' participation in export activities. Also, in view of the 'tight' government budgetary position it is important to spend public funds on those activities that will yield maximum benefits to the economy, therefore this study investigated the major obstacles to SME growth and makes some policy recommendation on how to best support SME activities.

CHAPTER THREE

SMES IN THE ECONOMY: A REVIEW OF THE LITERATURE

3.1 Introduction

Small and Medium Enterprises are increasingly attracting the attention of both developed and developing countries' governments, policy-makers and researchers in recognition of their economic role, contribution to growth, and development potential. SMEs have played an important role in the classic development success stories of Taiwan, Hong Kong, Singapore and Japan (UNCTAD, 1998a; Chou, 1992; Choy and Goh, 1994; Chen, 1986) and they continue to be important in many developed economies (OECD, 2000; Robbins *et al.*, 2000; Bednarzik, 2000; Guisnier, 1994; Acs, 1999; Johns, Dunlop and Sheehan, 1989). Many developing countries, however, have not been able to take advantage of the full developmental potential that SMEs have to offer and, as such, the contribution of SMEs is still very limited (UNCTAD, 1998a; Mead, 1994b).

The relative absence of growth-oriented SMEs has been identified as one of the key factors behind the poor performance of the majority of developing countries. According to UNCTAD (1996a; 1998a), the shortage of small and middle-sized growth-oriented firms has created a structural imbalance in these countries which, among other things, has stifled the SMEs' potential contribution to economic growth and also deprived these countries one of the important entrepreneurial engines, resulting in forgone growth opportunities. In the literature, the absence of growth-oriented small and medium-sized enterprises has been referred to as the 'missing middle' problem (Economist, 1990; World Bank, 1991; Theocharides and Tolentino, 1998, UNCTAD, 1998a; 2000a, 2000b).

In this chapter we investigate the nature and causes of the ‘missing middle’ problem, the potential role of SMEs in the economy, and the factors constraining SMEs’ growth and development. We also consider some of the suggested strategies and policy interventions aimed at promoting the growth and development of SMEs and, hence, solving the ‘missing middle’ problem. Given that the literature is so diverse with respect to what constitutes an SME sector, we first look at the issues surrounding the definition of SMEs and then proceed to the other topics relating to SMEs. Whilst the focus of this research is from a small developing country context, the literature review will make use of studies from both developed and developing countries, partly because of the relatively limited information on SMEs in small, landlocked, developing economies, but also for purposes of learning from the experiences of SMEs in developed countries. This is justified because, to some extent, there are some similarities in the major issues pertaining to SME policy, constraints, and promotion strategies.

3.2 Definition of SMEs

There is no universally accepted quantitative or operational definition of SMEs. Definitions of SMEs have generally varied according to the ‘purpose of the definition/study’, country size, industry and sector. According to Storey (1994), firms differ in their level of capitalisation, sales, and possibly employment. Hence, definitions that employ measures of size (e.g., number of employees, turnover, etc.), when applied to one sector could lead to all firms being classified as small, while the same size definition when applied to other sectors could possibly result in no firms being classified as small.

One of the early attempts at overcoming the problem of defining a small enterprise came from the United Kingdom in the Bolton Committee Report (Bolton, 1971). This Report devised a definition that embraced both the economic and management characteristics of the enterprise and also provided some statistical definition. Hence, a small firm was described as having the following characteristics: in economic terms, a small enterprise is one that has a relatively small share of its market; it is managed by

owners or part-time owners in a personalised way, and not through the medium of a formalised management structure; and it is independent in the sense that it does not form part of a larger enterprise, and the owner-managers should be free from outside control in taking their principal decisions. This definition however is useful, only, for descriptive purposes as and it does not allow comparisons between sectors. Thus it became necessary to quantify 'size' using such criteria as employment in the manufacturing, construction, and mining and quarrying sectors, sales turnover or ownership for service sectors, and finally physical assets, and number of vehicles in the road transport sector (see Box 3.1 for the magnitude of the cut-off points for the various variables). However, the use of several definitions and criteria and the multiple upper limits has been criticised for making the definition too complex to enable cross-country comparisons (Storey, 1994; Curran and Burrows, 1993).

In general, in defining SMEs whether for research, statistical, and/or policy purposes, several variables have been used. The variables used include number of employees, total value of assets, invested capital, sales turnover, profitability, number of shareholders, production capability, and average income. What complicates the definition issue further is the fact that even within a variable the cut-off points differ drastically and are largely influenced by country size and/or the purpose of definition.

The 'size of employment' criteria is the most commonly used variable to classify enterprises by size. Adopting the 'number of employees' variable some studies have defined a small firm as having less than 100 employees and a medium-sized firm as having between 100 and 500 employees (Kwoka and White, 2001; Acs and Audretsch, 1990). Bonaccorsi (1992) employed the upper limit of 500 employees but excluded firms that employed less than 10 people, arguing that they were too small. For studies involving most European Union member countries the upper limit has been set at 250 employees (OECD, 2000). In other studies, lower cut-off points have been adopted, for example, Minguzzi and Passaro (2001) used a range of 10 to 99 employees, Sammie and Walters (1990) used a range of 1 to 99, whilst for New Zealand, the range of 6 to 99 employees seems to be the official definition of SMEs (Cameron and Massey, 1999).

Box 3.1 Various Definitions of SMEs**Bolton Committee Definition of SMEs^a**

Manufacturing sector	==>	Employees '<=' 200
Construction, Mining & Quarrying sector	==>	Employees '<=' 25
Retailing, Miscellaneous Services	==>	Sales Turnover '<=' £50,000
Motor Trades	==>	Sales Turnover '<=' £100,000
Wholesale Trades	==>	Sales Turnover '<=' £200,000
Road Transport	==>	Five Vehicles or less
Catering	==>	All excluding multiples and brewer-managed houses

European Commission SMEs' Definition^b

SMEs are Non-subsidiary firms with < 250 employees; '<' EUR 40 million annual turnover; and/or < EUR 27 balanced sheet valuation

Further Subdivision:

Micro firms ==> less than 10 employees

Small firms ==> less than 50 employees, a turnover of less EUR 7 million, and a balance sheet valuation of EUR 5 million.

World Bank Definition of SMEs^c

Micro-enterprises -> '<=' 10 employees, total assets up to \$100,000, and annual sales \$100,000

Small enterprises -> up to 50 employees, total assets up to \$3 mil., and annual sales \$3 million

Medium enterprises -> up to 300 employees, total assets up to \$15million, and annual sales up to \$15 million

USAID classification used in Southern and Eastern Africa in the 1990s^d

Very small enterprises ==>> < 5 workers

Small -enterprises ==>> 5 to 50 workers

Kenya -Definition of SMEs^e

Micro-enterprises ==>> < 10 workers

Small -enterprises ==>> 10 to 50 workers

Medium -enterprises ==>> 51 to 100 workers

South Africa - Definition of SMEs^f

Micro-enterprises ==>> < 5 paid employees, annual turnover <R0.15million

Small -enterprises ==>> 5 to 49 employees, annual turnover <R25million

Medium -enterprises ==>> 50 to 199 employees with capital assets (excluding property) worth R5 million

Swaziland - Definitions of SMEs**(i) According The Enterprise Trust Fund^g**

Enterprise Classification	Non-family Employees	Swazi Ownership	Total Assets(E'000)	Annual Turnover (E'000)
Micro ==>>	'<='5	100%	< E25	<E50
Small ==>>	6-20	'>=' 51%	E25-E100	E50-E150
Medium ==>>	21-50	'>=' 51%	E100-E300	E150-E300

(ii) According to Public Policy Coordination Unit^h

Micro ==>>	'<='2;	100%	<E5
Small ==>>	'<='5	'>=' 51%	'<=' E25
Medium ==>>	6-20	'>=' 51%	E25-E200

Notes on Sources: ^a Bolton (1971); ^bOECD (2000); ^cWorld Bank (2002a); ^dMead (1994b); ^eGray, Cooley and Lutab ngwa (1997); ^fSouth Afr can Government (1995, 1996); Nts ka (2000); ^gEnterpr se Trust Fund (2001); ^hPPCU (1998).

In developing countries, owing to the generally smaller average company size, the employment size cut-off points are lower, with any firm employing more than 100 people generally regarded as large (UNCTAD, 1998a) (refer to Box 3.1 for a sample of SME definitions). Based on a series of studies carried out in the 1990s, focusing on the SMEs sector in selected southern African and Latin American countries, small enterprises were generally defined as those employing less than 50 people (Fisseha and McPherson, 1991; Fisseha, 1991; Daniels and Fisseha, 1992; Daniels and Ngwira, 1993; Mead, 1994a, 1994b; McPherson and Liedholm, 1996; Mead and Liedholm, 1998; Daniels, 1999; Liedholm and Mead, 1999).

Studies that have used the annual sales variable have also employed a wide range of cut-off points: Ali and Swierz (1991) chose less than US\$5 million for small firms and between US\$5 million and US\$50 million for medium-sized firms; Moini (1992a) used an upper limit of US\$10 million; whilst in the European Union firms classified as SMEs must have an annual turnover of less than EUR 40 million (OECD, 2000). Using the profitability variable, Holtz-Eakin (2000) define SMEs as those firms that have less than US\$50,000 in taxable profit, whilst medium-sized firms have taxable profits in the range of US\$50,000 to US\$75,000.

Useful as the above quantitative definitions of size might have been, they have been criticised for often implying “a false homogeneity among economic units distinguished by the selected quantitative indicators. In an extreme form, this leads to the postulation of a small firm sector in the economy whose members are assumed to share some set of characteristics which separate them from other larger-sized economic units” (Curran and Burrows, 1993:180).

The main reasons behind the need for an acceptable definition of what constitutes the SME sector are policy formulation and information. In order to enable policy-makers to formulate appropriate SME policies, they need to have a good knowledge of the sector. By being able to separately identify small, medium and large enterprises, it is possible to study the nature, problems and needs unique to each group, and also to assess the individual group’s contribution to the economic development of a country.

Some studies have attempted to overcome the definition problem by combining several variables, like employment and sales or employment and ownership (Weaver, Berkowitz and Davies, 1998; Hansen, Gillespie, and Gencturk, 1994). Irrespective of the variable or combination of variables used there seems to be little consensus. The lack of consensus is partly exaggerated by the fact that definitions that relate to measures of size (such as number of employees, sales turnover, profitability, etc.) make sense when viewed relatively in the context of the size of the country. Moreover, comparing monetary units over time requires appropriate adjustments to cater for inflation and currency fluctuations, an exercise which may lead to curious results (Curran and Burrows, 1993).

UNCTAD (1998a) argues that whether a firm is really an SME or not is a question of relative size and states that the only common characteristic of SMEs is that they are 'not large'. Others have suggested that there are three unique characteristics of small enterprises which differentiate them from large enterprises: the uncertainty associated with being a price taker, limited customer base, and uncertainty associated with greater diversity of objectives as compared to large firms (Wynarczk *et al*, 1993). It is worth mentioning that, just as there is lack of consensus on the upper-boundary that differentiates SMEs from large-scale enterprises there are equally irresolvable issues with respect to the lower cut-off point that distinguishes small-scale enterprises from other smaller economic/income-generating activities, normally referred to as survivalist enterprises, informal enterprises, craftwork, subsistence activities, etc.³⁰ Several suggestions have been put forward, on the characteristics distinguishing these other groups from small-scale enterprises. These include features such as unregistered, self-employment with no wage labour, very little or no capital invested, unskilled and or illiterate workers, no formal business cite or address, unregulated, etc. (Hart, 1973; ILO, 1972, 1986; Harper, 1985; Charmes, 1990; Castellis and Portes, 1991). Despite the extended debates and research on these activities/enterprises still there is some ambiguity surrounding the definition. As alluded to by many researchers there is still no strict definition for these groups of activities or enterprises neither are there clear cut-off points, and sometimes the controversy and debate

³⁰ See Lachaud (1990) for a list of names used to describe these lower boundary activities.

surrounding the characterisation of these enterprises tends to be more on ideological and political grounds.

From the above discussion it is obvious that the issue of defining a small business and classifying firms into micro, small, medium, and large categories remains a complex one. It has been recommended therefore that researchers have to coin their own operational definitions, which are more appropriate to their 'target' group (Storey, 1994). Hence, in general, the appropriateness of the definition and size-classification adopted will depend upon the problem under investigation.

3.3 Evolution on the Role of SMEs in the Economy

The growing interest in SMEs stems from their multifaceted role in the achievement of economic growth and development of a country. The promotion of SMEs has recently been considered as one of the viable strategies for achieving national development goals such as economic development, poverty alleviation, democratisation of economic participation, employment creation, strengthening the industrial base and local production structure, depressed area development, balanced development among regions, economic sectors and sub-sectors, and a host of other social, economic and political objectives of national development (ILO, 1986; UNCTAD, 1995a).

Conventional views on growth,³¹ however, have tended to overlook the acute importance of a dynamic SME sector and the potential significant contribution it can make to a country's economic development. In what has been labelled as the 'Long View', a notion that prevailed for a better part of the 20th Century, small firms do not play an important part in the economy and their role is expected to progressively diminish (Acs, 1996a). The underpinning of the 'Long View' is the theory of economies of scale (Smith, 1976). According to Acs, this view was especially true in the manufacturing sector where large firms dominated Western economies throughout

³¹ Views such as the Lewis theory of development and the Rostow's stages-of-growth model of development.

most of the 20th Century, to the extent that in many countries, developed and developing, free market and planned economies, official policies favoured large units of production and mechanisms of ownership (Acs, 1996a; Hirschman, 1958). Large enterprises were promoted as cornerstones for economic progress and growth, which would yield the necessary economies of scale, high productivity and efficiency. By contrast, small enterprises were often thought to be relatively inefficient and technologically backward, attracting those with limited education and training (Johns, Dunlop and Sheehan, 1989). According to this view, small enterprises were thought to be playing a transitory role towards a higher stage of development and were important only for countries in an early stage of industrialisation. Consequently it was expected (maybe hoped) that in the course of a country's economic maturation small enterprises would gradually decline.

Elaborating on the 'Long View', Thurik (1994) notes that two decades ago economists looked at large firms as the engines of economic growth, job generation, innovation and international competitiveness. Consequently, some less developed countries, unwisely, became prejudiced against small firms on the basis of ideological grounds, categorising it alongside the underground economy, the informal economy, and so on (Morales, 1994). For a long time governments in many developing countries ignored small-scale enterprises, instead, they promoted industrialisation using policies that favoured large-scale private and parastatal enterprises and discriminated against small farmers, small enterprises, and rural areas/communities (Colclough and McCarthy, 1986; Colclough and Fallon, 1983). Little, Mazumdar and Page (1987) state that, up until the 1970s, with the exception of India, developing-country governments showed little concern for small-scale enterprises.

Commenting on the evolution of economic policies in developing countries, International Finance Corporation (1998b) states that, during the colonial era in Africa, among the key facets of economic activity were the emphasis on natural resource exports - particularly minerals, plantation-based agriculture, and associated commerce in imported consumer goods. Most of these activities were characterized by the licensing of monopolies, the creation of trade restrictions, and the dominance of large-foreign owned firms. Regrettably, post-independence development strategies in many of these countries tended to follow closely those of the colonial period -

cooperating with (or nationalisation of) economic interests that had been put in place during the colonial era, and/or the extension of public ownership of new state-owned ventures, often funded through surpluses of export crops such as coffee and cocoa. Consequently, the environment that ensued failed to foster indigenous entrepreneurial skills in the formal sector, and it created various barriers to the formalisation and operations of the small-scale indigenous sector. On account of the biased development and industrialisation strategies/policies these countries missed out on the potential growth opportunities inherent in a dynamic SME sector.

In recent years, however, the 'Long View' has been losing support. Johns, Dunlop and Sheehan (1989) remark that earlier perceptions of small business have changed for the better and add that the expression 'small is beautiful' has gained wide currency. Interest in small firms was, to a great extent, ignited in the 1970s by, among others, the early works of Ernst Friedrich Schumacher, which are documented in his book 'Small is Beautiful' (Schumacher, 1973). Schumacher suggested that there is beauty in smallness, argued for alternate small-scale technologies as engines of growth, and highlighted the importance of 'duality' for human requirements - arguing that humans need both large and small structures. Schumacher's work, although initially controversial, caused people to look at small business with more of an open mind.

The mood within major international institutions and donor agencies has been changing in favour of promoting SMEs. At the beginning of the 1970s the World Employment Programme of the International Labour Organisation reintroduced the subject of small-scale enterprises (ILO, 1972) after investigations revealed that a considerable part of the urban population in some developing countries was making a living from small-scale enterprises. The World Bank, also, in its report on long-term development prospects for Sub-Saharan Africa devoted special attention to issues relating to the promotion and development of small-scale enterprises (World Bank Report, 1987). This in a way signalled the Bank's recognition of the strategic role of this sector in the economies of developing countries. Gibbon (1992) argues that beginning in the 1980s, World Bank policies favoured the creation of large numbers of small-scale enterprises as the focus for reducing unemployment, and, in addition, since agriculture was no longer seen as a site for backwardness, the subsistence

farmer was redesigned as a rural entrepreneur. In general, as nations of the world experienced economic difficulties (e.g., increasing unemployment, high incidences of poverty, and trade deficits), small enterprises have increasingly been seen and used by many governments as instruments for providing employment and possibly balanced growth.

The features of SMEs such as flexibility, innovativeness and problem-solving action orientation are now being considered as vital for success in the 21st Century. Some have commented that SMEs have much to teach all companies and regions about commercial success, and further argue that even large firms are learning something about (and from) SMEs as they try to cope with the increased competition in international markets (Schmitz, 1995). Dallago (2000) and Lloyd-Reason and Mughan (2000) observe that among the factors contributing to the increased importance of SMEs were increasingly differentiated demand and new technologies which made scale economies less important. It has been suggested that another factor that has added to the increased attention on SMEs has been the invention of powerful microcomputers and the availability of large datasets. Microcomputers have facilitated a more thorough scrutiny of industry data-sets, hence enabling researchers to gain a better understanding of the economic role of small firms (Acs, 1996a). Acs concludes that a major revelation from the research on small enterprises has been the fact that small enterprises and entrepreneurship are playing a much more important role in the economy than had been acknowledged previously.

The recent success of small firms in international markets has also added another dimension to the focus on the role of SMEs in an economy. In developed and newly industrialising countries (NICs), where data on exports by size of the exporting firms are available, evidence shows that several countries have relied on SMEs for employment creation (OECD, 2000), export growth, economic growth (Acs, 1999) and, SMEs account for over 30 percent of total exports (UNCTAD, 1995a; Kim and Nugent, 1994; Banaccorsi, 1992). In many other countries SMEs have in recent years been the major engine of growth and as a result have been regarded as 'king' (Flannery and Shapiro, 1992; Maggina, 1992; Smith, 1997; UNCTAD, 1998a). Owing to these revelations, increasingly many countries are now looking upon SMEs as the major engines of economic growth and technological progress (Mulhern, 1995;

UNCTAD, 1995b). Consequently governments in many countries have introduced a variety of measures aimed specifically at assisting small businesses, or alternatively reducing the market imperfections and regulatory distortions that tended to impede the growth and development of small businesses (OECD, 2000; South African Government, 1995).

It is evident, from research documents, government statements and the various SME-related 'White Papers' that have been produced, that worldwide there have been remarkable shifts in attitudes, among policy-makers and scholars, regarding the status and role of SMEs in the economy. At least SMEs are now being recognized as important players in the pursuit for economic growth and in the development process in general. The section below looks at the various potential contributions that SMEs can offer to the economy.

3.4 Potential Contributions of SMEs in the Economy

3.4.1 Job Creation

In many countries, the vast majority of enterprises are SMEs (OECD, 2000; UNCTAD, 2000a; World Bank, 2002a). (SMEs are not only important in contributing to the number of businesses in a country, there are potential economic and social benefits arising from their capacity to create jobs with relatively less capital.) Because of their dynamism and flexibility, SMEs have proved to be crucial for the creation of new employment opportunities. While large-scale enterprises have been shedding jobs (Bednarzik, 2000), SMEs continue to be the main, and sometimes the only, source of new jobs in both developed and developing countries (Byrne, 1993; UNCTAD, 2000a; OECD, 2000, World Bank, 1989a, 1989c; Liedholm and Mead, 1999). According to Solomon (1986) small business can create a disproportionate number of new jobs when other important economic entities like large enterprises and government can't.

Evidence of the employment creating potential of SMEs dates back to the 1970s', based on research carried out by David Birch using employment data in the USA.

Birch presented findings to the effect that larger firms were no longer the major providers of new jobs, instead most new jobs emanated from small firms (Birch, 1981, 1987). This research initiated the systematic study of small businesses and since then several country and regional studies on the role of SMEs have and are being undertaken, and there is evidence that confirms the critical role of SMEs in generating employment in the economy. In the OECD countries, for example, over 95 percent of the enterprises are SMEs and they account for 60-70 percent of jobs in most of these countries (OECD, 2000). In many Asian-Pacific countries SMEs also dominate – they constitute more than 99 percent of the total number of enterprises in South Korea and contribute more than 70 percent to total employment; in Thailand SMEs constitute more than 95 percent of the total number of industrial entities and they account for about 18 percent of the total employment; in Singapore SMEs constitute about 92 percent of all establishments and they employ about 52 percent of the workforce; in Japan, SMEs account for approximately 99 percent of enterprises and more than 60 percent of total employment (APEC, 1998, OECD, 2000); in Australia in 1998-99 small businesses (i.e., businesses employing less than 20 people) accounted for more than 96 percent of all private sector businesses and provided employment to approximately 47 percent of the economy's private sector workforce (Australian Bureau of Statistics, 2000); in New Zealand more than 98 percent of the enterprises employ 19 or fewer fulltime employees and SMEs account for 42 percent of all employees (Firm Capability Team, 1999) in Papua New Guinea SMEs contribute approximately 53 percent of total employment (APEC, 1998). In Latin American countries SMEs constitute more than 70 percent of total industrial enterprises and they contribute up to 70 percent to total employment (Späth, 1993). In African countries, it is estimated that SMEs constitute more than 80 percent of the total enterprises and they employ between 20-60 percent of the adult population (UNCTAD, 1998a; Rondinelli and Karsada, 1992; Mead, 1994b; Mead and Liedholm, 1998).

According to Brugger and Rajapatimarana (1995) an estimated 150,000 people enter the labour market of developing countries daily and most will be employed in small enterprises as owners or employees. Although the scale of operations in small enterprises may be very small the amount of employment generated by these enterprises can be quite high. Mead (1994b) and Liedholm and Mead (1999) reported

the following employment densities (i.e., number of people engaged in micro and small enterprises per 1000 persons in the population) for a group of developing countries in Africa and Latin America: 71 in Botswana; 109 in the Dominican Republic; 83 in Kenya; 84 in Lesotho; 92 in Malawi; 118 in Swaziland; and 127 in Zimbabwe. Moreover, they estimated that in these countries employment in smaller enterprises is nearly twice the level of total employment in registered, large-scale enterprises and in the public sector.

The above statistics serve as an indication of the critical extent of microenterprises and SMEs in job creation. Due to poor statistical bases, however, the actual share of enterprise units and jobs contributed by microenterprises and SMEs in many African countries is not known, but it may possibly be much more than what is recorded. McPherson and Liedholm (1996) reported that in Niger and Swaziland a large number of small enterprises remain unregistered despite being legally required to do so. In addition, some definition problems may result in the exclusion of some small enterprises in the formal records. For example, some countries try to differentiate between what they label 'survivalist' enterprises³² and microenterprises (South African Government, 1995). In other cases there is confusion of whether to include family labour in the employment statistics, and what constitutes informal sector activities and whether they should be included in the statistics for small enterprises. Whilst there may be disagreements about definitional and methodological issues what is clear is that smaller enterprises in their entirety (i.e., formal and informal) play a much more important role in the economies of many developing countries than what is actually acknowledged and recorded in official government statistics.

The contribution of SMEs to total employment in a country and their ability to create new jobs has been challenged by some researchers, who argue that the figures are a statistical flaw since the analysis does not take into account offsetting factors that make the net impact modest (Nasar, 1994; Storey, 1994; Brown, Hamilton and Medoff, 1990). The critics argue that increases in employment in SMEs are not

³²Survivalist enterprises have been defined as "activities by people who are unable to find a paid job or get into an economic sector of their choice. Income generated from these activities usually falls far too short of even a minimum income standard, with very little capital invested, virtually no skills training in the particular field and only limited opportunities for growth into a viable business" (South African Government, 1995:4).

always associated with increases in productivity. In addition, they argue that the quality of jobs, remuneration and conditions attached to the jobs created by SMEs are not always commensurate with those in large enterprises. Definition and methodology issues, like what constitutes a fulltime job, and which statistical methods are appropriate for the investigation, deepen the controversy. Despite these criticisms, the substantial evidence from various country studies has largely confirmed David Birch's conclusion on the critical role of SMEs as job creators. What is debatable is their overall contribution to the quality jobs especially in the case of developing countries where employment and wages data is incomplete and therefore renders the evidence unreliable and therefore inconclusive.

Notwithstanding these controversies, the important role performed by SMEs cannot be overlooked. Because they tend to be more labour-intensive than larger firms, they have lower capital costs associated with job creation. A study in Malaysia, for example, revealed that the fixed-asset-per worker in establishments employing 100 and above fulltime workers is more than forty times higher than in establishments which employ less than 100 fulltime workers (Mohdi, 1991). One interpretation arising from this finding is that, since SMEs use less capital for a given amount of labour, they (SMEs) will create more jobs if it (capital) is spread over a larger number of SMEs than if it is concentrated on a few large enterprises. Given the scarcity of capital that developing countries are always confronted with, the ability of SMEs to create jobs at lower capital costs is an aspect of SMEs that cannot be overlooked by these countries. Moreover, on the basis of the available evidence from various studies which confirms the superiority of SMEs over large enterprises in terms of employing more labour per unit of capital, and, if the policy objective is to reduce unemployment and increase job opportunities, then the promotion of SMEs should be an integral part of a developing country's national development strategy.

3.4.2 Balanced Growth and Improved Income Distribution

SMEs perform useful roles in ensuring income stability, balanced growth, and a better distribution of income. Due to their flexible nature, SMEs are better placed to

withstand adverse economic conditions thereby contributing to a steady flow of income. According to Albers and Kumar (1991) the flexibility inherent in small businesses provides them with the ability to adapt to environmental changes more quickly than larger enterprises. SMEs demonstrated more resilience in coping with difficult economic conditions in Asia during the financial crisis in the late 1990s, in Africa during national difficulties arising from natural and economic disasters (e.g., wars, drought and Structural Adjustment Policies) and some developed countries during recessionary periods (Chirathivat and Chantrasawang, 2000; Gauthier, 1996; IFC, 1998b; Berry, Rodriguez and Sandee, 2001; Curran and Blackburn, 1994; Guisnier, 1994). Because SMEs tend to be less reliant on formal credit and formal markets, they are able to respond more quickly and flexibly to sudden shocks compared to their larger counterparts (Berry, Rodriguez and Sandee, 2001). Liedholm and Mead (1999) reported that during a crisis, small and micro enterprises gain in importance via the substantial growth of new business start-ups, arguing that the driving force behind many of these start-ups is the absence of better alternatives and the need to generate income, no matter how low it may be.

In a study of the performance of small enterprises during periods of economic crisis, Tambunan (2000) concluded that, although there are variations among industries, their findings indicate that small enterprises that were export-oriented were better able to cope with crisis. Studies that have investigated the impact of Structural Adjustment Programmes (SAPs) in Africa have reported that smaller enterprises have been more resilient during the implementation of SAPs. However, larger enterprises which were accustomed to operating under a protected environment had more difficulty adjusting to liberalisation measures (Gauthier, 1996; IFC, 1998b). It is worth mentioning though that there are reports that in some countries small businesses were severely affected by SAPs – via falling incomes, which led to a decrease in the demand for their goods and services, unaffordable imported inputs, and shortages of previously domestically supplied goods that were now being exported (Dawson, 1994).

Evidence indicates that the pattern of growth has implications for sustainable development and that maintaining a pattern of growth that makes efficient use of labour, the main asset owned by many developing countries, is the most effective way to reduce poverty (Pscharopolous and Nguyen, 1997). Since SMEs tend to adopt

more labour intensive production strategies, they have a higher probability of delivering more distributional benefits to the economy compared to large firms.

In developing countries SMEs are particularly important to marginalised groups, especially low income groups and women (Mead and Liedholm 1998; Liedholm and Mead 1999), because through the employment opportunities they offer, they help to promote a more broadly-based participation in productive activities, leading to a more equitable distribution of income (UNCTAD, 1995a, 1995c; OECD, 1993). Given that a majority of SMEs are located in rural areas (Liedholm and Mead, 1999), they contribute to a more even distribution of economic activity and they help to slow-down the flow of migration to large cities. Moreover, through the income opportunities they offer to the rural population they contribute to a reduction of the rural-urban income-gap. Over time, through their growth, expansion and development, the benefits can spread to a wider population. SMEs tend to produce a significantly large number of relatively low-wage earners whereas large firms tend to produce a limited number of elite high wage-income earners. Therefore SMEs can contribute to a more equitable distribution of income.³³

SMEs are particularly important to women because often women find themselves without access to jobs in large formal enterprises due to either a lack of training and/or the competing demands of household maintenance and childcare and yet they are the ones who increasingly shoulder financial burdens of the family (OECD, 1993; Mead and Liedholm, 1998). Rondinelli and Karsada (1992) add that small enterprises provide women and children opportunities to supplement household income and they offer and low and middle class families essential goods and services. SMEs therefore have an important contribution to make towards the economic empowerment and welfare improvement of women and families in rural and peri-urban areas.

³³ For a detailed discussion of the role of SMEs in the evolution of income distribution see Fei, Ranis and Kou, 1979.

3.4.3 Backward and Forward Linkages

SMEs can help to improve forward and backward linkages between economically, geographically, and socially diverse sectors/regions. The linkages pertain to intermediate goods, capital funds, consumption goods, and business. Backward linkages indicate the interconnection of a sector to those sectors from which it purchases inputs, whilst forward linkages indicate the interconnection of a sector to those sectors from which it sells output (Miller and Blair, 1985). An important element of these linkages is the origin of inputs, i.e., whether they are produced locally or imported. In general, the larger the portion of inputs that can be produced locally, the greater the multiplier effect from an increase in exports because it can have ripple effects throughout the economy, leading to greater employment and increased incomes.

In developing countries SMEs perform a vital role in enhancing forward and backward linkages between the various segments of the economy like agriculture and industry, rural and urban areas, traditional and modern production systems, formal and informal sector workers, the urban poor and small-scale farmers (Rondinelli and Karsada, 1992). Since many SMEs in developing countries tend to produce locally consumed goods, this creates linkages with other sectors in the economy. In Tanzania, for example, maize and rice processing have offered significant backward linkages particularly through premilling activities such as threshing, drying and handling (Bagachwa, 1992). Boomgard *et al.* (1992) also report on a couple of case studies of small firms that demonstrate the nature of backward and forward linkages and the benefits to the economies concerned. In Botswana, for example, he reported on small firms involved in traditional beer brewing and demonstrated the nature of linkages by describing, how at various stages of the brewing process, various segments of the economy benefited from those processes.

SMEs can also play a vital role in enhancing linkages with large and multinational corporations, hence deepening the industrial base of a country (UNCTAD, 2000c; Abdullah, 2001; Rondinelli and Karsada, 1992). Therefore, they can maintain a healthy balance between large enterprises (mainly foreign-owned) and small and

medium scale enterprises (mainly locally-owned) can help a country to enhance inter-sectoral and inter-industry linkages and achieve balanced development.

3.4.4 Better Use of Scarce Resources

SMEs tend to use their own resources (mainly personal savings) to finance business start-ups and operations especially during the early stages of the business (Levy, 1991; Johns, Dunlop and Sheehan, 1989; Little, Mazumdar and Page, 1987). Since SMEs tend to provide a large proportion of their own capital compared to large firms, they contribute significantly to the efficient mobilisation of financial resources and the increase in total saving in the economy. The capital mobilised for investment in SMEs would have been devoted to consumption expenditure if SMEs had not been established. It is this propensity to save and invest, induced by the development of SMEs, that directly contributes to the overall savings ratio of the population.

In addition, small enterprises contribute to the productive use of scarce natural resources. Schumacher (1973:53,31) pointed out that “production from local resources for local needs is the most rational way of economic life” and that small entrepreneurs are more likely to “take better care of *their* land or other natural resources than anonymous companies or megalomaniac governments which pretend to themselves that the whole universe is their legitimate quarry.”

Another dimension of the resource argument pertains to foreign exchange. Since small enterprises are more likely to use locally produced raw materials, and equipment, partly as a result of financial constraints, they help the country save on scarce foreign currencies, which might otherwise be used on imports. Furthermore, through their involvement in exporting, SMEs can stimulate economic development of a country as well as contribute to the reduction of national balance of payments deficits (Sammie and Walters, 1990). The foreign exchange argument is more relevant to developing countries because, more often they are struggling to cope with high foreign exchange rates, balance of payments deficits, and foreign debt repayments, consequently sometimes they are unable to acquire critical goods and

services. SMEs therefore can make a modest contribution towards alleviating the foreign exchange problem.

3.4.5 Production of Goods and Services

SMEs contribute significantly to the economy in terms of output of goods and services. In some of the leading Asian economies SMEs contribute around 40-60 percent of total output and value added (UNCTAD, 1998a). SMEs are able to operate in markets where smallness precludes the survival of large-scale enterprises and they are better able to supply goods and services that are appropriate to local needs because of their local involvement in, and understanding of, the local community which in time can lead to reduced reliance on inappropriate imports of goods and foods (Hailey, 1986). Based on an investigation of soap, shoes, furniture and bicycles in four developing countries it was suggested that there is a tendency for local products, produced in using labour intensive equipment to be more appropriate for the needs of people (Baron and van Ginneken, 1982). Since SMEs have the capacity to sustain activities that are more likely to be dependent on local raw materials, they not only help to widen consumer choice, but they also help to reduce the demand for foreign currency required to finance imports. In addition, it has been reported that SMEs have been particularly adept at the development of non-traditional exports in agribusiness e.g., horticulture, fisheries, and fruits and vegetables (IFC, 1998b).

3.4.6 Training Ground for Upgrading and Developing Skills

SMEs serve as a training platform for upgrading and developing a pool of skilled and semi-skilled workers and entrepreneurs (Hailey, 1986; Nadvi and Schmitz, 1994; Abdullah, 2001; Bowles, 1994). Unlike large firms which have specialised departments and therefore tend to require specialised training, small businesses require a more general and diverse set of skills from their workers. On the job they offer more general skills' instructions and training in order to enable their employees to carry out tasks at different stages of the production process. Although the nature of

training may be informal, over time the employees are enriched with a wide range of skills, such as verbal and written communication, computer literacy (Bowles, 1994), and other vocational skills.

Since many owners and employees of SMEs in developing countries often do not have a higher level of academic education and have limited professional skills (Fairbairn, 1988, Mead and Liedholm, 1998; Liedholm and Mead, 1999), the on-the-job-training and experience acquired in the operation of the enterprise provides an opportunity for those involved to upgrade and possibly develop new skills. Furthermore, for those who already possess certain skills acquired either through apprenticeship or other forms of training, the newly established small enterprise enables the newly initiated entrepreneur to apply his/her skills and knowledge. Small businesses, therefore, play an important role in offering training and advancement opportunities to workers.

3.4.7 Broader Participation

SMEs provide an opportunity for broader participation in the economy which promotes a progressive decentralisation of economic and political power. Levy *et al.* (1994) argued that broadening the private sector base leads to less concentration of economic power, which can reduce the risk of the emergence of mutually beneficial, but socially unproductive, rent seeking relationships between business and government. Moreover, broad-based participation can help ease social tensions, especially in countries where there are strong divisions between the economically dominant group and other groups in society. In southern Africa, for example, owing to the ills of colonial rule and the apartheid regime in the case of South Africa, governments' licensing systems were designed to limit indigenous entrepreneurs' entry into certain industries, like manufacturing and trade, consequently the bulk of industrial activity is dominated by white-owned enterprises (Kaunda and Miti, 1995; Levy, 1996; Keyser, de Kruif and Frese, 2000; van Steekelenburg *et al.*, 2000). Enhanced opportunities for businesses are, therefore, being used as a means of improving the participation for historically excluded segments of society.

In addition, partly as a result of previous policy biases and continued colonial ties, which favour large foreign investors, the business life in many small developing countries tends to be dominated by a few large foreign owned corporations (Fairburn, 1988; World Bank, 1996; Good, 1992; Foley, Anthony and Griffith, 1992). This foreign domination has created a gap between indigenous and non-indigenous entrepreneurs, a situation that is unhealthy for the economic maturity of a country. Because the SME sector can provide an excellent breeding ground for entrepreneurial and managerial talent, its growth and development opens up more opportunities for indigenous people to participate actively in the development process and also foster a pattern of development that is conducive to social and political stability.

3.4.8 Low Wage Inflation

Small businesses tend to have a stifling effect on wage inflation because they tend to pay lower wages than large businesses. Solomon (1986) states that the small business sector tends to act as a cushion for the economy in a downturn and as a brake during inflationary periods. He adds that the small businesses' reaction to inflation is to work harder, and absorb the resource cost hikes of goods and services, whereas large businesses' reaction is to pass on their costs to the consumer in the form of higher prices. The beneficial effect of small businesses have also been ubiquitous in situations where wages and unemployment are artificially high because of unionisation and other factors in the economy. During such situations, small businesses have been successful in increasing their share of employment by creating low-wage jobs thus helping the economy to "reduce inflation without paying the punitive price in unemployment" (Solomon, 1986:86).

3.4.9 Productivity and Innovation

The traditional view on innovative capacity and firm size is that large enterprises are uniquely endowed (with market power and economies of scale) to exploit innovative opportunities (Schumpeter, 1950). This is because innovative activities, like Research and Development (R&D), entail high fixed costs to finance (Comanor, 1967).

Galbraith (1956) argued that because development is costly, it is likely to be undertaken only by larger enterprises that possess the commensurate resources. In addition, the economies of scale in production yield benefits to large enterprises that provide scope for economies for R&D.

However, the traditional view about SMEs has been challenged by some researchers who argue that SMEs, compared to large enterprises, possess several advantages that are more conducive to innovative activity (Scherer, 1991; Link and Bozeman, 1991). These advantages stem from, among other things, the differences in management structures between large and small enterprises (Rothwell, 1989). Link and Rees (1991) argue that innovation-based diseconomies of scale exist in large firms owing to the fact that bureaucratisation in the innovation decision-making process inhibits not only inventiveness but also slows the pace at which new inventions move through the corporate system toward the market. Scherer (1991) argues that SMEs have less bureaucratic layers, whereas large enterprises have highly structured organisations, consequently SMEs are more suited to innovations. Link and Bozeman (1991) reported that, because innovative activity flourishes in environments that are free of bureaucratic constraints, often researchers are forced to leave large enterprises, and opt for small firm ventures because they felt thwarted by the large managerial restraints apparent in large enterprises.

Numerous studies have provided evidence to support the notion that SMEs are generally more productive than large enterprises, especially in terms of innovations per dollar of R&D and innovations per employee (Freeman, 1974; Acs and Audretsch, 1988; LaFalce, 1990; Pratten, 1991; Link and Rees, 1991; Almeida and Kogut, 1997). Little, Mazumdar, and Page (1987:4) however, argued that the innovation argument is less relevant to developing countries because in these countries “innovation consists ... of learning about, choosing, importing, absorbing, and quite often modifying foreign technology. Larger firms have considerable advantages in these respects, and the very small are often able to acquire modern technology only via large enterprises”. Nadvi and Schmitz (1994), however, in a study of industrial clusters in several LDCs concluded that a number of small firm clusters showed signs of innovation and technological upgrading.

Other researchers cast doubt on the validity of findings on innovation and technological change. It has been suggested that the state of knowledge regarding technological change has been misguided because the kind of data used in the analysis has been incomplete and, at best, represented only a proxy measure reflecting some aspect of the process of technological change (Acs and Audretsch, 1990). As earlier observed by Little, Mazumdar and Page (1987), the argument about innovative capacity of small and large enterprises is likely to remain open given the difficulty in measuring contributions to innovation. Based on the various arguments and research findings, it can be concluded that although large enterprises might possess certain advantages over SMEs, there is case for acknowledging SMEs' innovative capability, at least in some industries.

3.4.10 Seedbed, Private-Sector Led Growth /Competitive Environment

Of all the many potential roles of small enterprises in the economy one of the crucial ones is that they act as a seedbed that would nurture and train entrepreneurs needed to develop robust private sectors, a feature that is important for the long-run health of the economy (Levy, Berry, and Nugent, 1999). According to this argument the promotion of small enterprises can provide a nursery for a forest of firms, some seedlings will die but others will survive and prosper – which fosters continuing dynamic competitiveness, and forms a good environment for private sector-led growth. Underscoring the importance of the seedbed function of small firms, the Bolton Committee argued that the health of the economy requires the birth of new enterprises in substantial numbers and the growth of some to a position from which they are able to challenge and supplant the existing leaders of industry (Bolton, 1971). Furthermore, they add that a thriving small firm sector will help to guard against possible ossification and decay of the economy as a result of domination by large firms. In a related argument Acs (1999:x) states that, “the crucial barometer for economic and social well being is continued high level of creation of new and small firms in all sectors of the economy.”

SMEs, because they exist in large numbers, can help to challenge the monopoly power of large enterprises (Johns, Dunlop and Sheehan, 1989; Little, Mazumdar and

Page, 1987). Their mere existence helps to promote a more competitive environment, thereby benefiting consumers in terms of lower consumer prices and a wider choice of consumer goods. In developing countries, because SMEs and microenterprises exist in large numbers, they are seen as the emerging private sector; they form the base for private sector-led growth (IFC, 1992, 1998a, 1998b, 2000), and they hold the promise for achieving more flexible and competitive domestic economies (Bruton, 1985, 1997). The development of small enterprises therefore can help towards the development of local entrepreneurship and local production structures, thus laying a good foundation for private sector-led growth, whilst simultaneously benefiting the country in terms of employment creation and achieving a fairer balance in the distribution of national resources, income, knowledge and power.

The presence of small enterprises in an economy is particularly important during the early stages of industrialisation. Evidence suggests that SMEs can help a country to maintain (i) a low cost of living in the short run in order to ensure long-term improvements in people's standards of living; (ii) a low-wage policy to boost labour intensive industries (Choy and Goh, 1994). These features should be desirable to many poor countries because of low incomes and high levels of unemployment.

One of the greatest challenges facing developing countries in the 21st Century is to position themselves against the threats of globalisation and be able to seize opportunities. Whilst globalisation is being hailed for opening up opportunities for all, the results so far have produced winners and losers and sadly many developing countries fall in the latter category.³⁴ There are reports that globalisation has led to uneven development by widening the gap between the rich and the poor within countries and regions, disturbed national industrial structures, and some countries have experienced de- and under-industrialisation (Abdullah, 2001; Harvard, 2001). Joseph Stiglitz, former World Bank chief economist, in his book 'Globalisation and its Discontents' argues that globalisation left millions of people worse off in year 2000 than they were in 1990 (Stiglitz, 2002). The promotion and development of SMEs, therefore, is potentially viewed as strategically important with respect to

³⁴ For various views about Globalisation see for example Stiglitz (2002); Harvard (2001); Grunberg (1998); Ohmae (1990; 1996); Giddens (1999); Gray (1998); Dobbin (1998); James (2001); Rugman (2001); Strange (1996, 1998); Tomlison (1999); Dunning (1997); Prakask and Hart (2000).

achieving a counterbalancing force, which will reduce the existing imbalanced industrial structures of many developing countries.

SMEs also have the potential for reducing the large dependency on foreign-based investments and to widen the industrial base. The importance of SMEs in widening the industrial base and reducing foreign domination has to do with linkages. Foley and Griffith (1992) explain this concept very well by arguing that although the economist's concern is not necessarily with nationality *per se*, but with the different economic characteristics and implications of foreign owned-industry branch plants of multinationals *vis-à-vis* locally-owned or indigenous industry, ownership and size raise important economic issues such as linkage patterns, profit repatriation, research and development and the mobility of plants. Unfortunately large enterprises, which tend to be mainly foreign owned, have negative implications on these economic issues, hence SMEs (mainly locally owned) are needed to counter these negative effects and promote a more balanced private sector development agenda. Also, SMEs are needed because increased FDI, which tends to bring in large manufacturing enterprises, has proved insufficient, on its own, to solve regional disparities between, say, rural and urban areas.

3.4.11 Summary

To summarise, SMEs have numerous benefits to offer the economy and contribute to the achievement of social and economic development of a country. They can provide an outlet for entrepreneurial talents, a wide range of consumer goods and services, a check to monopoly inefficiency, a source of innovation, and a seedbed for new industries - all features reflecting the competitive spirit that a market economy needs for efficiency. Most importantly SMEs have the potential to increase employment opportunities to skilled and unskilled workers, offering income opportunities to marginalised groups thus contributing to a more equitable distribution of income. Because of their flexible nature, they enable an economy to be more adaptable to structural change through continuous initiatives embodying new technologies, skills processes or products (Ibielski, 1997).

It is accepted that the extent and magnitude of the benefits and impacts from SMEs may differ depending on the level of development of the country, the maturity of SMEs, and the environment in which they operate. IFC (1992) stated that for anyone that believes that the future in Africa depends on the private sector, then they have to pay a lot of attention to the small business sector. Dallago (2000:309) assert “small firms are relatively more important to small economies than in large economies and in less developed countries compared to developed countries.” The accuracy of the statements about the relative importance of SMEs to developed and developing countries are a subject of further research. There is no doubt, however, that SMEs have a lot to offer to the economies of both developed and developing countries.

Given the increasing evidence on the strategic role of SMEs in the fast growing economies of Asia, and other developed countries, there is growing recognition of the fact that SMEs are a critical factor in achieving a sustainable economy. Several developing countries are now focusing on the development of their SMEs, by designing special programs aimed at releasing the potential of SMEs. The focus on SMEs as a solution to the many problems facing developing countries has been endorsed by international donors and lending agencies (like the World Bank, UNCTAD, ILO, etc.) who, in recent years, have reassessed their commitment to the development of SMEs. Consequently they (international institutions) have stepped up financial and technical assistance to this sector. As Dana (1996a) notes, small enterprises are now looked upon as the ‘cure-all’. Within countries there are several enterprise-related projects, some established with the assistance of international institutions, focusing on micro, small and medium enterprises.

UNCTAD has, however, cautioned that not all SMEs play an important role in economic growth and development, and advises that promotion efforts should be more focused on growth-oriented small and middle-sized enterprises, which typically, tend to have a higher degree of internationalisation. This group, it has been argued, is often ‘missing’ in many developing countries (UNCTAD, 1995a, 1995b, 1998a) partly due to policy biases and/or improper targeting (or design) of government assistance programs (Moini, 1998).

In the following section, we discuss the 'missing middle' issue by looking at its characteristics, problems created by its existence in an economy, and the research evidence.

3.5 The Nature, Characteristics, and Causes of the 'Missing Middle'

3.5.1 The Nature and Characteristics of the 'Missing Middle'

The concept of a "missing middle" has often been used in development economics when discussing issues of entrepreneurship in developing countries, particularly in Africa. According to UNCTAD (1998a) there are four major defining features of the existence of a 'missing middle' in an economy. These are, first, the disproportionately large contribution by large-scale enterprises to Gross Domestic Product (GDP). Secondly, SMEs tend to be concentrated in the informal sector, craft and agricultural sector. Consequently they tend to be mostly small, of relatively low productivity and not growth-oriented. Thirdly, there tends to be limited opportunities for entrepreneurs to move from the informal sector and then grow. In this regard, the most commonly cited impediments include an inability to attract finance and a lack of managerial skills. Lastly, there is an absence of a core group of dynamic SMEs. This group has a history of achieving, on average, growth rates that are at least double the rate of national economic growth rates, and are generally inclined to be internationally competitive.

3.5.2 Evidence on the 'Missing Middle'

Development economists have often complained of a 'missing middle' when discussing issues of entrepreneurs in Africa (Theocharides and Tolentino, 1998). They argue that Africa has vast state companies and thousands of subsistence hustlers, but virtually nobody in between, thus implying that SMEs are either absent or insignificant. UNCTAD (1998a) argues that some developing countries face a structural imbalance in terms of both the distribution and economic role of their enterprises by size. Furthermore, the presence of a 'missing middle' (absence of

growth-oriented SMEs) in these economies makes it difficult for these countries to achieve long-term sustainable growth; it blunts their competitive edge; and most importantly, it deprives them one of the most important engines for driving economic growth, i.e., the “entrepreneurial engine.”

In Sub-Saharan Africa, whilst small firms make up the bulk of enterprises, larger firms tend to make a more significant contribution to economic growth (Daniels, 1999; UNCTAD, 1998a; Anderson, 1982; Nafukho, 1998; Wignaraja, 2002). Smaller firms, on the other hand, are in the informal sector and tend to face difficulties in making a transition to growth, partly because they lack the prerequisite management skills and financial resources (UNCTAD, 1998a; Daniels, 1999; Gray, Cooley and Lutabingwa, 1997; Miller, 1993; van Dijt, 1992; Rabelloti, 1995).

Liedholm and Mead (1999) acknowledge the heterogeneity among small enterprises and categorise them into four groups: ‘new starts’, ‘non-growers’, ‘small growers’ and ‘graduates’. They estimate that, at any point in time, ‘new starts’ constitute about 25 percent of all micro and small enterprises (MSEs), and state that teething problems among this group are many, consequently survival rates tend to be low; ‘non-growers’ (measured in terms of employment) constitute a majority of MSEs, they are mostly women-owned, and located mainly in rural areas (about 75 percent); ‘small growers’ are the group of enterprises that have survived the difficulties encountered in the early stages of establishing a business (about 20 percent), and the owners possess characteristics that suggest a more commercial, business-like approach to the enterprise; lastly, ‘graduates’ are the enterprises that, although started very small, have managed to grow. Of major significance from this categorisation is the fact only one percent of enterprises that started out very small managed to grow.

SMEs in developing countries tend to be very small and they tend to be concentrated in activities that have very little value added possibilities. In a study involving six countries in Southern and Eastern Africa, Mead (1994a) reported that one-person enterprises constitute more than 60 percent of micro and small enterprises; about 50 percent are engaged in trade, 45 percent in light manufacturing, and the remaining 5 percent in transport, construction and other services. The dominance of one-person enterprises may contribute to the ‘missing middle’ because, research evidence

suggests that they are the least efficient, and most of them don't grow (Liedholm and Mead, 1999).

There is no doubt that the lack of a reliable statistical base on the small, micro, and medium enterprises (SMMEs) in developing countries constrains thorough investigations and analysis of the dynamics of this very important sector. The evidence at hand, however, seems to confirm the existence of a 'missing middle' in the enterprise structures of these countries. It also highlights the possibilities of a growth dilemma facing the majority of smaller enterprises in developing countries.

3.5.3 Causes of the 'Missing Middle'

Little (1987) argued that for a long time, many developing countries equated development and industrialisation with the growth of large-scale industries and hence paid inadequate attention to small and medium industries thus creating an imbalance in their economies. He argued that in these economies the large firm bias created a situation where, a small minority of people work with ever increasing amounts of capital, while the great majority continue to scratch a bare living with few primitive tools. Commenting on the large firm bias Tendler (1988) stated that most small firms cannot compete effectively with larger firms because of preferential government policies and programs that tend to favour the latter.

In Sub-Saharan Africa the 'missing middle' has also come about partly as a result of historical policies with respect to private sector development. Antoine (1988) argues that in many such economies the private sector played a limited role because many African governments pursued policies that tended to discourage large private sector investments, consequently the private sector was dominated by small, relatively unsophisticated enterprises. Research in both developed and developing countries has also shown that, several policy biases, including export-promotion programs have contributed to the 'missing middle' problem because of their direct or indirect negative impacts on SMEs (Young, 1993; Weaver, Berkowitz and Davies, 1998; Moini, 1995, 1998; UNCTAD, 1998a; Bijmolt and Zwarts, 1994; Levy, Berry, and Nugent, 1999).

In small developing countries the over dependence on FDI for export growth has, to a large extent, contributed to the missing middle problem. Small countries in their desperation to attract export-oriented FDI have either neglected or not paid adequate attention to their SME sectors. The export oriented FDI in these countries has mainly been directed at larger projects and larger firms (Cole, 1993; UNCTAD, 1998a). Large firms have contributed tremendously to export growth in many small developing countries, and such contributions are worthy of recognition. However, over time it has become apparent that a focus on large firms and export growth, *per se*, does not always guarantee a solution to the many problems faced by these countries. In fact, in many cases such a strategy has not only fallen short of the country's macro economic and social objectives, it has lead to a structural imbalance in their economies (UNCTAD, 1998a).

Accepting the potential crucial roles of exports and SMEs in developing countries implies that that there is a need to marry the policies in the two sectors and ensure that they are both complimentary and reinforcing. One way of ensuring that this marriage lasts over time is to continuously assess the impact of existing SME policies and export assistance programs so as to improve their effectiveness. The design of well-targeted assistance programmes is crucial in achieving high levels of effectiveness in these programmes. The starting point in designing well-targeted assistance programmes is to develop a full understanding of the factors constraining SMEs from achieving their full development potential. In the next section we investigate the various problems facing SMEs.

3.6 Constraints Faced by SMEs

The potential contribution of SMEs is inhibited by such factors as lack of access to credit, raw materials; technology; skilled labour and lack of managerial skills, business premises and sites; marketing; lack of demand, and inadequate information; poor infrastructure; etc. Whilst there is no general agreement about the definition of SMEs there seems to be much consensus on their general characteristics and the constraints they face, especially in developing countries. Studies have shown that

small enterprises in developed and developing countries are affected by similar constraints, though to different extents (Levitsky, 1996). Most of these constraints, however, are not unique to SMEs, because they affect all enterprises irrespective of size. However it is believed that their severity is more to SMEs because of the lack of resources to insulate themselves. Below we present a discussion of these constraints and how they impact on the development of SMEs.

3.6.1 Access to Credit

Access to credit is critical for facilitating business start-ups, upgrading technology, expanding production, and continued capitalisation of a business. Cameron and Massey (1999:76) emphasize the importance of credit facilities in a business by stating “cash flow is the lifeblood of a business, regardless of size...”, and they continue to state that “...at some point in a firm’s development, the internal funds available to the business may be insufficient...”, hence the need for external sources of finance. Most SMEs identify finance as one of the most important constraints to the smooth operations, growth and development of their businesses (ILO, 1999; OECD, 1998a; Kim and Nugent, 1994; Levy, 1996; Gray, Cooley and Lutabingwa, 1997; Maysami and Goby, 1999). The World Bank reported that about 90 percent of the surveyed small enterprises in East Asia indicated that access to credit was a major constraint to new investment (World Bank, 1994). Research evidence also confirms the importance of credit facilities for the success or failure of small businesses (see for example, Reinke, 1998; Sreenivisan, 1987; Austin, Fox and Hamilton, 1996; Johns, Dunlop and Sheehan, 1989) consequently, financial assistance is considered one of the most critical forms of support for their development. In a study of small enterprises in Botswana, Lesotho, Malawi, South Africa, Swaziland and Zimbabwe issues of credit and finance were found to be among the serious problems holding back rapid expansion of these enterprises (Mead, 1994a; Liedholm and Mead, 1999).

Despite the worldwide developments in financial systems and the increased number of financial institutions, SMEs worldwide still experience finance -related constraints although at different degrees. In both developed and developing countries, research evidence suggests that large proportions of SMEs depend on personal savings,

relatives, and friends to finance business start-ups and operations, especially during the early stages of the business (Rogerson, 2000; Peterson and Shulman, 1987; UNCTAD, 2000a; Yusuf, 1995; Webster and Charap, 1994; Fairburn, 1992; Johns, Dunlop, and Sheehan, 1989; Rondinelli and Karsada, 1992; Little, Mazumdar, and Page, 1987; Levy 1991, 1993, 1994; Gray, Cooley and Lutabingwa, 1997; Deng, Hassan and Jivan, 1995; Mead, 1994b; Hailey, 1988).

The problem of access to credit seems to be more pronounced in developing countries because of the lack of financial institutions that are capable of coping with problems of imperfect capital markets and worse in Africa because capital markets are still at their rudimentary stages of development (Little, 1987; Diaz-Alejandro, 1985). In small developing countries it has been argued that owing to the problem of small population, the problems of access to credit are exacerbated by the limited number of financial service providers (Fairburn, 1992; Little, Mazumdar, and Page, 1987; World Bank, 1996). The limited domestic size of the market tends to encourage the development of monopolies and/or oligopolies in financial markets eventually making consumers worse off. Capital market development has profound effects on the character of industrial development and the size distribution of firms (Shinohara, 1968). According to Nugent and Nabli (1992) owing to the greater relevance of transactions costs, asymmetries in information, and government intervention in LDCs, financial markets are more underdeveloped in these countries than in DCs, and financial constraints tend to have more effects on their manufacturing activities. Singh and Weisse (1998) observed that markets in developing countries take a long time to develop and deepen and do not necessarily work in predicted ways thus further complicating the behaviour of financial markets in developing countries.

Stiglitz explains the disadvantaged position of firms in developing countries as follows:

“In more developed countries, large firms have developed internal capital markets, that lead to reallocation of funds among units that are the size of many firms in LDCs. The LDCs are thus at a double disadvantage: not only are there informational imperfections, leading to credit and equity rationing; not only are these informational imperfections likely to be more

important within LDCs, because the process of change itself leads to greater informational problems; but more importantly, the institutional framework for dealing with these capital market imperfections are probably less effective, because of the small scale of firms within LDCs and because the institutions for collecting, evaluating, and disseminating information are likely to be less well developed” (Stiglitz, 1989: 200-201).

The issue of finance is one of the widely researched areas of small business support. The emerging conclusion from various studies is that in many developing countries financial institutions and financial support programmes do exist, giving the impression that ‘availability of finance’ is not so much of a problem, instead, ‘lack of access’ is the main issue (Fairburn 1988; Levy, 1991; Meier and Pilgrim, 1994; Hailey, 1988; ECI, 2000; Berry, Rodriguez and Sandee, 2001). The specific problems of access to finance faced by SMEs, include, high interest rates and transactions costs, collateral requirements, and prejudice by financial institutions.

3.6.1.1 High Interest Rates and Collateral Requirements

High interest rates and high transactions costs make the cost of borrowing too high and therefore unaffordable. Explaining the rationale behind the high interest rates, Storey (1994:211) states that in competitive markets, credit prices (interest rates) are “higher for ‘uncertain’ borrowers than for ‘certain’ customer because the lender has to incur additional costs in monitoring/assessment, as well as covering the greater likelihood of bad debt.” Commercial banks view lending to small businesses as high risk, consequently they tend to charge high interest rates on loans to these enterprises. However, it has been pointed out that the strategy of raising interest rates to cover risk is not always the best and could be counter productive to banks, hence producing a lose-lose situation. Stiglitz and Weiss (1981) argued that the problem of asymmetric information between the entrepreneur and the banks cannot be cleared through prices and add that increasing interest rates or collateral requirements could increase the riskness of the bank’s loan portfolio, either by discouraging safer investors or by inducing borrowers to invest in riskier business projects. They point out that where

banks have less information about the expected success of the business/project than the decision not to offer credit can lead to the exclusion of potential clients thus reducing the returns to banks. They arrive at a sad conclusion that, because of imperfect information in credit markets, potential borrowers who are denied loans would not be able to borrow even if they indicated their willingness to pay more than the market interest rates.

Collateral requirements are another factor that limit SMEs access to credit. Banks require collateral to secure against the possibility of a default in repayment of a loan. The acceptable forms of collateral are normally in the form of personal resources of the entrepreneur or some identifiable assets of the business e.g., title-deed land, a house, insurance policy, etc. Small business owners tend to have problems satisfying the conventional, and excessive collateral requirements demanded by financial institutions hence they are automatically excluded from accessing loans. The financial institutions' inability to create more flexible forms of collateral, coupled with SMEs limited ownership of fixed assets have been blamed for the collateral - related problems of access to credit (UNCTAD, 2000b).

Scholtens (1999) argues that owing to information asymmetries in credit markets, which unfortunately tend to be more pronounced in the case of small firms, well deserving investment projects may not be financed and undertaken or may not obtain funding at reasonable cost. He argues that small firms are more disadvantaged in finance options because they are limited in the extent of their internal earnings and potential to issue equity, and yet when it comes to bank loans they are in a less favourable position. He concludes that when it comes to finance, small is not always beautiful.

3.6.1.2 Prejudice by Financial Institutions

Financial institutions are generally more comfortable dealing with large businesses than small enterprises and in many countries banks are openly favourably biased towards large corporate borrowers (UNCTAD, 2000b). In developing countries, it has been reported that historical orientations towards larger-scale enterprises continue

to restrict small enterprises' access to credit (Steel, 1994). Banks go to extra lengths to develop relationships with large corporate businesses as evidenced by the establishment of specialised branches and departments to concentrate on servicing large corporate customers. For example, Barclays Bank in South Africa (Turnbull and Gibbs, 1987) and in Swaziland in recent years opened corporate branches and corporate banking divisions offering expertise and personalised banking services in order to establish and maintain ongoing relationships with select corporate customers. However, there are no comparable efforts aimed at reaching out to smaller customers.

In developing countries, limited competition in the financial sector has contributed to the banks' bias against small businesses. The limited number of financial service providers creates a monopoly or oligopoly situation in the provision of financial services. The absence of competition, the kind that would force efficiency gains and entry into new markets (Webster, Riopelle and Chidzero, 1996) has meant that banks have not been under pressure to develop their lending to smaller clients. As such banks are normally happy to lend to large businesses to the exclusion of smaller clients. Limited competition also implies that banks can exploit consumers by charging exorbitant service fees without fear of losing customers to a competitor.

In some countries, partly because of their foreign ownership status, commercial banks are less keen to participate in developmental activities like developing the SMEs sector. The commercial banks' lack of commitment and interest in smaller clients is also evidenced by the fact that banks are not marketing their services to this group (Sreenivisan, 1987). Also, their participation in government financial assistance programmes seem to be nothing more than token participation with comparatively fewer loans issued under their auspices (World Bank, 1996).

To some extent the problems of prejudice by financial institutions towards SMEs have to do with the high cost of processing small loans and the failure by SMEs to prepare bankable proposals. The paper work involved in processing a loan application does not decrease with the size of the loan. Hence financial institutions may sometimes find it tedious and administratively expensive to deal in very small loans. Whilst bank officers allege that SMEs have contributed to the problem by their inability to produce business proposals that satisfy bank standards, SMEs on the other hand,

complain that the procedures for obtaining loans are cumbersome, over bureaucratic, and time wasting (Berry, Rodriguez and Sandee, 2001; Mambula, 2002), thus making the loan application process unnecessarily expensive.

The problems of finance and credit to SMEs seem to be gender sensitive. Women's problems of access to credit are due to various reasons, such as lack of collateral since ownership of family fixed assets is more often in the name of the husband; an unwillingness on the part of banks to accept household assets as collateral; the small amounts requested by women yet banks have little interest in small loans; and the negative perceptions towards female entrepreneurs by loan officers (World Bank, 1989b; Cromie, 1991; Carr, Chen and Jhabvala, 1996; OECD, 1998b). Some traditions and laws tend to create a male superiority bias in access to credit. For example, married women have a minority status, consequently, banks require women to solicit their husbands' consent when applying for bank loans and yet there are no similar requirements for males (Mkhonta and Barwa, 1999). The implication of all these factors is, because banks treat their male clients more favourably than their female counterparts, women have fewer opportunities than men to gain access to credit. The male bias exists despite the fact that female borrowers are better at loan maintenance compared to males (CBS, 1999a; World Bank, 1996; Reinke, 1998). The Grameen Bank of Bangladesh provides evidence on the good loan maintenance record by women. The Grameen Bank is a group-lending scheme that offers small loans (without collateral) and its clientele constitutes mainly women (about 95 percent). Its records show a remarkable loan performance with an average loan repayment rate of approximately 98 percent (Yunus, 2002) thus confirming the good loan maintenance record by women.

From the above discussion, it would seem to a large extent, the problems of credit are due to market failure. For markets to allocate resources efficiently, all market participants must have the same relevant information. In the real world, however, this seldom holds, and the resulting market failures can create biases against small firms. In credit markets it is costly for banks to obtain information on the creditworthiness of potential clients. Banks therefore can choose not to lend to this group because of the perceived risk or, if they do get involved they decide to pass on these costs to the client, hence making the cost of borrowing too high. The general problems of

asymmetric information in credit markets seem to explain why informal sources of credit, despite the high interest rates they demand, seem to be a more accessible source of finance for many SMEs.

Researchers have made some suggestions on how to improve the problems associated with SMEs' access to credit and the delivery of financial assistance programmes. Dallago (2000) has suggested that locally based banks are more suited for serving SMEs. He argues that since the interest of locally-based banks in the local economy is permanent, they have an interest in investing resources to acquire specific knowledge of the local economy and its actors, explaining that the cost of such an investment is dispersed over a long time and the return is likely to accrue for a long period. Levy, Berry, and Nugent (1999) allude to the fact that transactions costs in dealing with SMEs will always be higher than for large-scale enterprises. However they argue that it is possible to reduce these costs by, for example, decreasing the amount of paperwork involved and the time required to process SME loans. The suggestions they put forward for addressing this issue include ensuring that well qualified personnel deal with loan applications, adopting a more participatory method in issues relating to SMEs so that the concerned parties can have 'a voice' and may help to design ways of streamlining the loan applications process.

In view of the constraints surrounding fixed land and property ownership in developing countries, UNCTAD has suggested that financial institutions need to explore other forms of collateral, such as group guarantees and peer pressure. In addition, business associations and business service providers could be relied upon to pre-screen potential loan clients hence helping out with the client assessment process. Group lending schemes, like the Grameen Bank in Bangladesh, provide an alternative option to the traditional lending offered by financial institutions. In relation to service delivery, it has been noted that, in view of the needs of SMEs, focusing on access to credit alone will not solve the problems of SMEs, hence, it is important that financial service programmes be linked to advice and training programmes in order to improve their effectiveness (Netherlands Ministry of Foreign Affairs, 1991). Other suggestions include the use of repayment incentives to reward good performers. This may contribute towards creating a strong repayment culture and responsibility among SMEs.

3.6.2 Raw Materials

SMEs face a variety of constraints in factor markets. These constraints relate to the cost and non-availability of raw materials and components, inadequate quantities and required specifications, at reasonable prices, and at the right time (UNCTAD, 2000a; Dawson, 1994). Due to poor communication networks the transportation of raw materials from remote areas becomes too costly, hence inflating the cost of production. In some instances certain economic and regulatory policies have negatively impacted on the affordability and availability of certain inputs and raw materials. Dawson (1994) reported that trade liberalisation policies succeeded in increasing the drive to export goods, but they also created input problems for small enterprises because, previously domestically available and affordable inputs became expensive and scarce. He argues that since most entrepreneurs preferred to export their goods this created domestic shortages leading to a hike in prices of many inputs. Also, due to rising import costs, large enterprises were making use of recycled raw materials, for which small enterprises previously faced little competition.

Sometimes the lack of raw material supply is a result of bottlenecks in the economy or simply the lack of bargaining power, which makes SMEs lose out to large enterprises in the securing of raw materials (Chen, 1986). Because SMEs buy their inputs individually in smaller quantities, they do not benefit from bulk purchase discounts, hence the unit cost of inputs tends to be higher than those of large enterprises. In instances where inputs are sourced from outside the country, the inability of SMEs to obtain foreign exchange to purchase equipment, spare parts etc, can lead to delays or stoppages in production.

In southern Africa, issues related to access to raw materials and intermediate inputs are reported to be among the most important problem areas impacting on business start-ups, survival and growth, and exporting capabilities of small enterprises (Mead and Liedholm, 1998; Mcpherson, 1996; Mead, 1994b; Rogerson, 2000). Protectionist policies under the SACU Agreement, for which Swaziland is a signatory, have contributed to the increased cost of acquiring inputs. In particular, high tariffs on

imported inputs and anomalies in local pricing policies have contributed to high domestic costs of production structures (Calof and Vivers, 1995). Overall, the high cost of inputs deteriorates the cost competitiveness of SMEs' products thereby reducing their export propensity.

3.6.3 Inadequate Infrastructure

Infrastructure-related constraints pertain to poor roads and telecommunications networks, erratic electricity supplies, inadequate water supplies, poor sewerage systems, and lack of appropriate training facilities (Gray, Cooley and Lutabingwa 1997; Liedholm and Mead, 1999; Levy, Berry, and Nugent, 1999). Poor communication networks lead to time delays in obtaining inputs and meeting customer orders. It also increases transportation costs when obtaining raw materials and also moving output to markets. An additional problem that arises due to the infrequency and irregularity of transport, is that enterprises have to keep large stocks to meet the sudden changes in demand, implying additional costs of production, associated with capital, rent of warehousing and wages of store keepers (Briguglio, 1995, 1998). It has also been argued that "high transport costs undoubtedly reduce a country's foreign trade, just as tariff barriers can: in a simple Ricardian model, the introduction of sufficiently high transport costs will eliminate trade altogether" (Srinivisan, 1986:213). The transport-related problems are likely to inhibit the growth potential of small enterprises more than large enterprises.

Another infrastructure-related constraint emanates from the lack of suitable and appropriate premises and sites, which sometimes are a result of the land tenure system (Carroll, 1988; Matsebula, 1996; Mcpherson, 1996; IFAD, 2001). Many SMEs are believed to have insufficient land, business premises or sites for expansion or their present scale of operation (Mead and Liedholm, 1998; Mcpherson, 1996; Carroll, 1988). In Southern Africa, it has been reported that police harass entrepreneurs for doing business in what are labelled 'wrong places' on the basis of health, yet, sometimes, it is a disguise to protect existing enterprises from competition (Mead, 1994a:13, *with emphasis*). Mead (1994a:13), illustrates the point of disguised protection very well by stating that sometimes public officials will argue "that the sale

of used clothing constitutes a health hazard,” an assertion that is very difficult to make sense of. The lack of appropriate business premises forces SMEs to locate in places that are not suitable for industrial purposes (e.g., residential places, roadside or illegal land). This has negative effects on the quality of products, and production and sales volumes.

Overall, the lack of appropriate infrastructure implies that SMEs have to try and improvise. Operating under such constraints may lead to higher production costs and poor quality products thus negatively impacting on the competitiveness of SMEs.

3.6.4 Marketing

Marketing is one of the important determinant factors in the success of a business. Often however, owing to the high fixed costs associated with marketing research, small businesses find marketing to be one of the major hurdles to the good performance and growth of the enterprise (Rogerson, 2000). Marketing-related constraints faced by SMEs also stem from a lack of information about markets and their inability to engage in meaningful advertising. Lall (1991) argues that information gaps as well as transaction costs arising from scale economies in advertising and distribution act as significant marketing barriers to entry and expansion by new small exporters from developing countries.

The marketing problem is more complicated by the failure of firms to conduct proper marketing research and consequently the failure of marketing assistance to address the ‘real problem’. Agar (1999) explains that the marketing problem is frequently presented as ‘help me to find more customers for what I make’, and yet the correct approach is seeing things from the customer’s perspective and then designing products to match the customers’ needs and tastes. This is particularly important because product design is a crucial factor in cases where markets are constantly changing such as in the case of handicrafts (Mikkelsen, 1999), a sector which tends to be infested by small business entrepreneurs. Agar further argues that, often marketing trainers are requested to design a programme that they believe will meet the researched needs of a particular group of small businesses. However in practise there

may be very different understandings of what is meant by marketing between the commissioner(s) of the research, the researcher(s), those being researched, and those who design the training programmes. Hence, it is important that those assisting SMEs with marketing see things as the small business entrepreneur sees them and helps the entrepreneur to think like the customer and then design techniques that will help improve sales and earn profits faster. Marketing strategies will be more effective if based on the demands of a particular market/customer (Mikkelsen, 1999). Such a customer focus approach will enhance the financial performance of the business and drive it towards a more profitable future.

Agar (1999) acknowledges that marketing research is an expensive and sophisticated exercise that many SMEs can rarely afford. However, he suggests that a bit of creativity and imagination can produce some good positive results. He advises that it is not necessary to research markets and recommends 'talking directly to potential customers' as the most effective method of research. In some cases making use of simple techniques like signboards can work wonders in the case of local markets. Collaborating with other entrepreneurs to share advertising can help to reduce the costs associated with this exercise.

3.6.5 Technology

Technology constraints faced by SMEs relate to the cost and choice of appropriate technology. The acquisition and use of modern technologies by SMEs are constrained by SMEs' limited internal resources particularly with respect to finance, management resources, and knowledge base. Often SMEs lack information and knowledge on appropriate technology thus making it difficult to acquire and utilise the best technology to enhance their production processes (Bagachawa, 1992; Dosi, 1988; Nelson, 1981; Lall, 1992). Sometimes, due to limited resources and lack of financing, SMEs cannot afford to make lump sum payments in order to acquire appropriate technology (McGregory and Gomes, 1999). Bagachwa (1992) argued that owing to the limited technical expertise in many small enterprises, the multiplicity of makes and models render it difficult and more expensive to shop around for the appropriate technology.

The problems associated with the acquisition of technology, although prevalent in some developed countries (OECD, 2000), are more intense in developing countries (Wilson, Balance and Pógany, 1996; UNCTAD, 2000a). In many developing countries, SMEs' poor access to technology is manifested in their traditional methods of production, low productivity, and low quality products. In many cases, they still use outdated machinery, and testing facilities and quality control are limited or absent. SMEs in developing countries face financial, managerial and technical difficulties in acquiring technological capabilities (Bell and Pavitt, 1993; Bagachwa, 1992; Lall, 1992). Bagachwa reported that in the area of technological capabilities, one of the constraints faced by Tanzania was the limited supply of indigenous managerial skills, pointing out that in the grain milling subsector "the most technically qualified miller held a diploma in flour milling while only five out of 25 branch managers had prior managerial experience in grain milling" and concludes that, "to a large extent, the indigenous managerial constraint explains why there was no expert participation in key technological tasks in any cases involving rehabilitation or establishment of new milling capacity" (Bagachwa, 1992:106). The lack of indigenous managerial skills is a problem facing many developing countries, hence the Tanzanian scenario, as described above, is reflective of the nature and extent of the technological capability problem in developing countries in general.

Wignaraja (2002:268) reported that, in Mauritius "the majority of SMEs did not know about the ISO 9000 system³⁵ and its many advantages..." which include, "...the improvement of quality, more rapid productivity growth, and increasing the attractiveness to overseas buyers of output." The absence of quality control systems/mechanisms makes SMEs' products fail to make a breakthrough in international markets.

In solving the technology-related problems there are roles for government and SMEs. SMEs need to be more cautious when discarding indigenous technologies and selecting foreign technologies (Lall, 1992; Bagachwa 1992). In view of the handicaps that SMEs have in selecting appropriate technology and the variations that exist in

³⁵ ISO refers to International Organization for Standardization. On its relevance and importance, particularly to exporting SMEs, see ITC (2001:52).

factor intensities of various technologies, it has been suggested that government can play an important role in influencing the selection process by, for example, putting in place neutral macroeconomic policies which will influence both product and factor prices and eventually choice of production technique (Bagachwa, 1992). In addition, governments can help to address the financing bias that favours large enterprises in the acquiring of technology.

3.6.6 Information

The lack of information on various production and market-related issues are a barrier to the smooth operations, growth and development of SMEs. In general, for markets to allocate resources efficiently all market participants must have the same relevant information, therefore imperfect information makes markets inefficient even if they are competitive (Samuelson and Nordhaus, 2001; Nicholson, 1999).³⁶ SMEs have variable information needs relating to markets, suppliers, export opportunities, incentives, etc., and these needs differ according to industry, product lines, prices and market demands (Darling and Postnikof, 1985; Duncombe and Heeks, 2002). Owing to the inefficiencies of markets, acquiring information tends to be a costly expenditure. The high fixed costs associated with acquiring information on foreign buyers, distribution channels, quality standards, and new technologies act as a hindrance to SMEs ability to enter and compete effectively in export markets. Research evidence suggests that SMEs have difficulties accessing information on opportunities, markets, inputs, and technology, and they have poor knowledge of distribution channels and marketing tools required (Ali and Swiercz, 1991; Weaver and Pak, 1990; Diethl, Koeglmyer, and Mueller, 1990; Kathawala *et al.*, 1989; Kedia and Chokkar, 1986a, 1986b; Duncombe and Heeks, 2002; Darling and Postnikoff, 1985), consequently they are constrained from getting involved in export markets. Lack of sufficient information on overseas demand/markets, price trends, consumer preferences, changing designs and fashions, competition, issue of tenders, overseas distributors, and trade enquires are amongst the major difficulties faced by small

³⁶ In the real world this condition seldom holds hence resulting in various market failures. For a detailed discussion on information -related market failures see Greenwald and Stiglitz (1986); Keyfitz and Dorfman (1991); Klitgaard (1991).

entrepreneurs that are involved (or aspiring to get involved) in exporting (Aginihotri, 1986; Bilkey, 1978; Czinkota and Johnson, 1983; Keng and Juan, 1989).

The general lack of information creates a vicious circle of problems as it disadvantages SMEs from accessing and utilising various business support services. Scholtens (1999) argues that the existence of information asymmetries in financial markets presents a challenge to borrowers and lenders. Potential lenders have problems when identifying the default risk associated with borrowers and this eventually disadvantages small firms because it is translated into higher funding costs. Haron (1996) points out that small business owners are not supplied with information on the banks' lending policies and criteria, and concludes that for as long as there is an 'information gap' between banks and small business owners, the issue of finance and insufficient finance will persist. Cafferata and Mensi (1995) concluded that the lack of information to support the internationalisation process of SMEs is a barrier that many are not able to overcome, hence leading to their failure.

In recent years, whilst in some countries SMEs are excited about the information revolution (Bonk, 1996) and are increasingly taking advantage of the Internet (e-commerce) to improve access to information, enhance their communication, and target niche markets, many SMEs in developing countries do not have Internet access. In fact very few SMEs in developing countries own computers (UNCTAD, 2000b). In their study on information, information communication technologies (ICTs) and small enterprises, Duncombe and Heeks (2002:299) reported that most small business owners "could not afford to buy a personal computer and if one is bought, most find it difficult to obtain commensurate benefits in the short/medium term." They therefore conclude that lack of finance and skills are major constraints to information acquisition.

Given the vital role of information in the development of SMEs and the general market failures created by imperfect information, one of the important tasks of a government is to identify those areas where informational deficiencies are economically significant and then embark upon appropriate remedies. This will help to improve the 'level playing field' and enable SMEs to compete fairly and operate efficiently.

3.6.7 Lack of Skilled labour and Management skills

The lack of manpower with relevant skills, knowledge, and expertise is a problem facing many enterprises in developing countries (Levitsky, 1996; Ndlovu, 1996; Aryeetey *et al.*, 1994; Levy, 1993; Hagen, 1975) and it constrains the growth potential of SMEs. The insufficient supply of skilled labour can limit the specialisation opportunities, raise costs and reduce flexibility in managing business operations. SMEs may have difficulties hiring and retaining specialised/qualified labour because they cannot afford to compete with large firms who can attract employees by offering better employment packages. Since large enterprises are reported to be paying up to 30 percent more in wages than small firms (Storey, 1994), this implies that the cream of the labour force will always prefer employment in the former. Cromie (1991), Aryeetey *et al.* (1994), and Rodder (1995) reported that of the many personnel-related problems, finding staff with the right skills and the right attitudes stands out as one of the major problems faced by young firms.

Managerial skills are crucial for the proper running and success of a business and yet it is another area in which many managers of SMEs have been found to be lacking. Abdullah (1999) argues that SMEs, more than large enterprises, need highly organised and systematic entrepreneurs because they have relatively small and limited resources to withstand any major mistakes in their businesses. Many of the problems experienced by SMEs seem to stem from a lack of managerial skills/experience. Owner managers of SMEs lack managerial, accounting, marketing, and technical skills necessary for successful entrepreneurship (Kaunda and Miti, 1995; Croulet, 1988; Mead, 1994b). UNCTAD reported that, SMEs in developing countries “are characterised by scarcity of appropriate skills in areas such as project execution, pre-investment studies, management consulting, production management, product development, marketing, engineering design, quality control, laboratory testing, packaging, accounting, insurance, banking, legal services, repair, maintenance, data management, computer and software, telecommunications and transport” (UNCTAD, 2000a: 9).

The education system in developing countries has been blamed for the lack of appropriate business and technical skills. The education system tends to socialise the populace to enter labour markets as wage employees rather than becoming entrepreneurs (Rogerson, 2000; Weaver, Rock and Kusterer, 1997). Part of the problem stems from the fact that, often some owners of SMEs got into business prematurely (e.g., after a redundancy/lay off by large enterprise (Mead, 1994b) and therefore lacked the prerequisite skills for running a business. Women entrepreneurs are more likely to be disadvantaged by the lack of relevant skills because they tend to be less likely to have had education and experience relevant to starting and managing a business (Fischer, 1992; Carter and Kolvereid, 1998).

SMEs also have a problem in investing in training and development of their staff. In developing countries, due to the lack of adequate training facilities, especially for highly technical fields, often - specialised training requires the sending of staff abroad, mainly to developed countries. Whilst large companies can afford to use this channel in order to equip their staff with the necessary skills, limited financial resources forbid SMEs from utilizing that option. Hence they are often compelled to make do with whatever is available locally.

In order to improve their competitiveness, SMEs need to devise flexible and workable solutions to address the issue of labour skills and managerial-related problems. As has been suggested, “this will require skills formation and upgrading programmes often beyond the financial capability of SMEs to formulate and implement on their own; moreover, SMEs lack the economic resources to invest in skills that are general in nature, hence they need assistance in either developing skills programmes on their own or obtaining access to existing ones in order to achieve and maintain competitiveness in export markets” (Dhungana, 1993:25).³⁷ Indeed this constitutes one of the plausible areas of intervention in which a government can assist in order to enhance the performance and development of SMEs.

Another area that developing countries need to watch closely is industrial relations and the power of trade unions because of its implications on human resource-related

³⁷ For a detailed discussion on the importance of managerial techniques in determining competitive ability see Wilson, Balance and Pógany (1995).

constraints *vis-à-vis* the growth and development of enterprises, particularly smaller enterprises. In recent years, trade unions' activities and labour legislation have been robbing the labour market of the much-needed flexibility in employment creation, through demands for high wages by trade unions and minimum wage legislations by governments. In a study of South African SMEs Levy (1996) reported that about 86 percent of the enterprises identified trade unions and industrial councils as the most difficult agencies to deal with. In addition he observed that as enterprise size expands, the level of unionisation increased, but so too did the extent to which firms perceived industrial relations as an obstacle. In southern Africa labour strikes organised by trade unions have been on the increase and many firms (both large and small) have incurred huge losses not because they were at loggerheads with their staff but because the unions had called for a 'sympathy strike'. What is more perturbing is that sometimes non-labour issues have been at the centre of the dispute. Such problems relating to labour have serious repercussions to the economy – they impact on the competitiveness of SMEs and may firms to use capital-intensive strategies - outcomes that are detrimental to an economy suffering from high unemployment levels.

3.6.8 Limited Market Share/Lack of Demand

Small businesses tend to have a small market share and are unlikely to exert much influence in the sector they operate. As such they are price takers and may well face significant competition - especially if there is a high threat of new market entrants (Porter, 1990). SMEs' tendency to first establish in markets with low entry barriers was confirmed by Levy (1996) who reported that in all the sub-sectors included in his study, the costs of initial entry were relatively low, so firms had an opportunity to start small and subsequently expand incrementally. At establishment, therefore, small businesses tend to be confronted by a highly competitive environment, greatly increasing the risk of failure. In such a competitive environment securing a share of the market is the entrepreneurs' biggest challenge and also the most critical factor for the survival of the firm because, without a market there is no business.

Lack of demand, which sometimes may be due to market saturation (Dawson and Jeans, 1997), or low purchasing power in the economy (Harper, 1985), adds to the problems facing SMEs. Small enterprises tend to initially establish themselves in low value markets, partly because of the few entry barriers to those sectors. These sectors, however, can become crowded easily leading to saturated markets. With saturated markets the only hope for growth becomes innovation and new product development, an alternative which may be difficult to pursue given the high fixed costs associated with such an option against the limited resources constraint of many enterprises. High unemployment levels exert downward pressures on the purchasing power of many people. This has a negative effect on demand and hence the sales of many SMEs.

The problems associated with market demand may be even more acute for SMEs located in small developing countries. A small domestic market may be a constraint to the performance of an enterprise and it can impact negatively on the rapidity with which an aspiring small entrepreneur can enter export markets. Domestic demand is important in that it provides domestic producers with a ready market for their goods given that success in exporting depends on the experience gained in domestic markets (Srinivisan, 1986). A sizeable domestic market may afford the small entrepreneur an opportunity to benefit from the learning by doing effects, a feature which is crucial in the early stages of product design and development, and is important for innovation (Lall and Gosh, 1982). Consequently, small businesses in small countries may suffer disadvantages in developing their production capacities, developing appropriate technology, and in the marketing of their products abroad. Subcontracting is one way of ameliorating SMEs' problems associated with demand and competition. The feasibility of this option is explored in a later section.

3.6.9 Policy Biases and Business Environment

The overall policy environment has important bearings on the development of SMEs. There are several policy-induced constraints that make it impossible for SMEs to realise their full potential. These constraints emanate from biases in economic, agricultural, foreign trade, and administrative and regulatory policies. Steel (1994) argues that economic policies in the post independence period, in many developing

countries, were not favourable to SMEs, highlighting that incentives favoured large state owned investments over small private ones; large import substitution industries received protection, and pricing policies were unfavourable to agriculture. Investment incentives policies have also tended to favour large enterprises by, for example, restricting tax concessions to firms of some minimum size (Little, 1987). Sometimes tax systems disfavour younger, smaller and less capital-intensive firms (Davis and Henrekson, 1999). In Swaziland, 'tax holidays' are often used to attract and reward large foreign investments, and yet there is no corresponding inducement package for small or domestic investors.

Agricultural policy biases include the concentration on urban infrastructure that short-changes rural roads, inadequate public investments for R&D in agricultural technologies, and the pro-industry bias in trade and pricing policies such as centralised marketing and pricing for agricultural commodities (Young, 1993). In the area of foreign trade, policy biases include trade barriers, like tariffs, export incentives, and import licenses that discriminate against small businesses. Often the structure of tariffs is more protective to large firms compared to small ones. Export incentives are inaccessible to small firms because of their inability to export the minimum export quantity or value necessary to benefit from the incentives, and exchange rates are overvalued, which reduces the incentive to export, and the supply of inputs and demand for goods and services (Levy, Berry, and Nugent, 1999; UNCTAD, 1998a; Young, 1993). Apparently, the bigger the divergence from fair trade principles, the more difficult it becomes for SMEs to get involved in exporting.

Public procurement procedures also discriminate against SMEs. In particular government procurement procedures, which often involve large quantities and require lots of paper work, discourage successful bidding by SMEs. Public contracts are often awarded on the basis of influence and personal connections rather than quality. Consequently, since SMEs do not have the bargaining power and political clout, they often lose out on such opportunities (Webster and Charap, 1994; Meir and Pilgrim, 1994). SMEs also suffer disproportionately under inefficient administrative systems involving excessive administrative requirements like complicated registration and licensing procedures requiring excessive paperwork, demanding frequent inspections, etc. (Mead, 1994a). The existence of overlapping rules, regulations, licenses and fees

(Hagglabade and Hazell, 1989; Journard, Liedholm and Mead, 1992; Ahwireng-Obeng and Piaray, 1999) and the time and money involved in learning about and satisfying government regulations, tend to raise compliance costs (OECD, 1998a). These administrative inefficiencies are manifested in higher fixed regulatory costs and general delays in obtaining a trading license. Whilst large firms can afford to pay for specialised staff to deal with registration and licensing, to SMEs this is an added cost which in most cases they cannot afford because, often they are struggling to raise start-up capital.

Others have identified the lack of clear policy guidelines, defining or prioritising the role of SMEs in the local economy as clear evidence of public policy bias against small firms and a display of limited commitment to the development of the SMEs sector (Hailey, 1988; World bank, 2002a). Briscoe, Nair and Sibbald (1990) reported that in the Pacific Islands unclear or incoherent government policies were creating uncertainties among small businesses. In Swaziland, the lack of coordination and alignment between government efforts and the various agencies offering support services to SMEs has been identified as one of the factors stifling the development of small businesses (Barwa and Magagula, 2000).

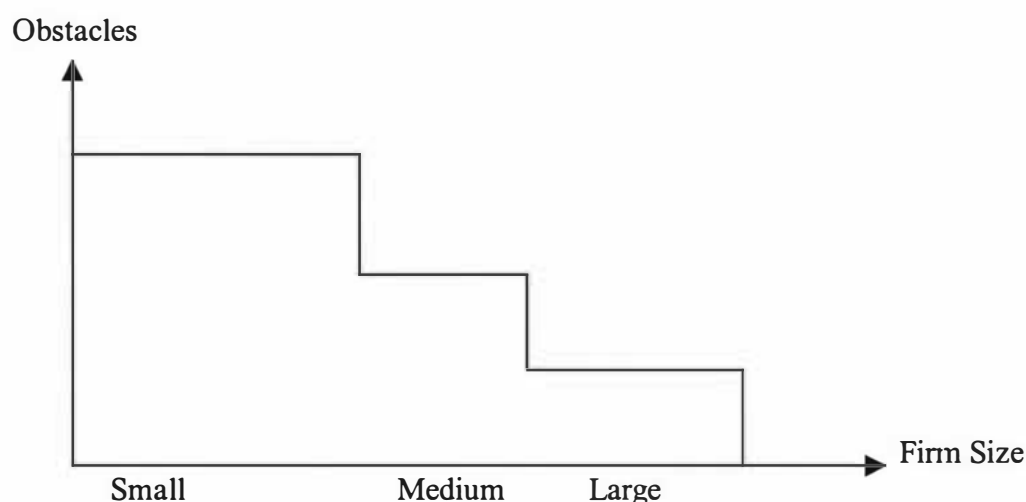
The development of SMEs is particularly sensitive to the quality of government policies. Research evidence suggests that in less developed countries small and local firms face significantly more difficulties which in part emanate from discriminatory public policies (Brunetti, Kisunko and Weder, 1999). Therefore, removing the various policy biases would go a long way towards levelling the playing field and enabling SMEs to compete fairly and achieve their full potential.

3.6.10 Summary on Constraints

The business environment is crucial for the success of firms. It is true that some of the obstacles identified in the above discussion present challenges even to large enterprises. However, it is believed that SMEs experience more obstacles and are more vulnerable because of their limited resources, lack of bargaining power, and poor access to information. The nature of the relationship between constraints to a

business and the size of the firm can be illustrated as shown in Figure 3.1. Schieffer and Weder (2001) hypothesized that there is a decreasing relationship between firm size and obstacles. Their hypothesis was confirmed in a study involving 10,000 firms from Asia and Pacific, Latin America, and Africa, thus validating the statement that smaller firms have more problems than larger firms. It is on the basis of this disadvantaged position that public policy is urged to pay special attention to the needs and problems of smaller firms.

Figure 3.1 Relationship Between Firm Size and Constraints*



*Adapted from Schieffer and Weder (2001:28).

SMEs located in small developing countries may be faced with even more hurdles because of the constraints imposed by a 'small country size' (see Box 3.2). These hurdles emanate from the small domestic population and its implications for markets and the growth and development of the manufacturing sector. For instance, in small economies there are limited possibilities for economies of scale especially in the manufacturing sector. The small domestic market, coupled with the limited availability of natural and human resources create increased difficulty for the development of indigenous technology. The added constraints imposed by a 'small country size,' when combined with the general difficulties faced by small and new

enterprises, provide enough justification for the setting up of special support programs aimed at promoting the growth and development of the SME sector.

Box 3.2 Challenges Faced by Small Economies

Disadvantages of smallness:

- Limited domestic market;
- Limited possibilities for economies of scale especially those related to manufacturing;
- High per unit cost of infrastructure;
- Limited domestic competition;
- Limited natural resources;
- Inability to develop indigenous technology;
- High degree of openness;
- High product and market concentration;
- Problems with public administration;
- Problems with human resources;
- Limited independence in creating macroeconomic and monetary policies;
- Problems with international competitiveness;
- Difficulty in formulating an appropriate industrial strategy; and
- Vulnerability to external shocks and natural disasters.

Source: List compiled from Srinivisan (1986); Streeten (1993); Bri ublio (1995, 1998); DeVries (1984).

3.7 Best Practise Policies for the Promotion and Development of SMEs

Since SMEs play a strategic and crucial role in the development of a country, they have a claim from growth-minded governments. Although there is a general recognition of the importance and need to develop the SME sector, in developing countries this recognition has not fed through into policy because many governments in these countries do not have written down SME policies.³⁸ Often developing countries' governments pay lip service to the need to promote and develop SMEs, as

very little of the 'talk' about small enterprises is translated into action or policy. Instead many governments try to initiate new assistance programmes more often driven by political motives rather than being based on a needs assessment. The Netherlands Ministry of Foreign Affairs (1991:13) observed that for many governments "the concern to support small-scale enterprise is often limited to the setting up of special departments or institutes within a ministry for industry to deal with the problems of small businesses'. Owing to the lack of clear policies many of these SMEs assistance programmes or initiatives have fallen short of eliminating the real obstacles faced by (and/ or addressing the real needs of) SMEs. The discussion below gives a brief summary of the various ways in which public policies can support the development the SME sector.

It is accepted that governments cannot solve all the problems of SMEs therefore the policy challenge is to identify those areas where government can make a useful contribution. There seems to be some agreement on the areas in which a government can make the maximum impact to SME growth and development. These areas include human resource development, advisory services and management training, finance, market access, information access, regulatory burden and regulatory infrastructure, technology, technology transfer and technology sharing, cooperation between private sector and government, and cooperation among small firms and between small and large firms (OECD, 1997a; APEC, 1994).

In general, the expansion of SMEs requires a steady economic growth and both supply- and demand-oriented growth policies accompanied by private sector and government procurement programs (Rondinelli and Kasarda, 1992). Demand-side oriented policies aim at stimulating the demand for SME goods and services and improving the overall legal, regulatory and administrative system to make the business environment more conducive to business start-ups and firm expansion. Supply side policies, on other the hand, aim at removing barriers or obstacles that inhibit firm expansion either within the domestic market or into foreign markets. Figure 3.2 gives various examples of both demand-side and supply-side policies and illustrates the various ways in which these policies and programs can impact on SMEs

³⁸ See ILO (2002) for a list of developing countries with small enterprise policies.

and address some of the obstacles to SME growth. Both demand-side and supply-side policies are important for the development of SMEs. Rondinelli and Kasarda (1992) suggest that to have maximum impact demand-side and supply-side policies must be used to complement and reinforce each other.

Various researchers point to the importance of maintaining a stable macroeconomic policy and a predictable framework of laws and regulations as a way of facilitating the growth and development of SMEs (Steel, 1994; Mead, 1994a; UNCTAD, 1998a). Meier and Pilgrim (1994) argue that in principle there are two broad policy approaches to dealing with the business environment. They argue that governments can choose the regulatory approach, whereby they make use of protective measures and other interventions or they may choose to follow a more liberal approach which emphasizes a non-regulatory, non-interventionist policy environment as a precondition for private sector development including SMEs. Evidence from various countries suggests that none of the extreme cases is good for SME development. Business environments that are characterised by too many regulations and overly protective policies tend to create inefficiencies hence not favourable for the long-term growth and development of the SME sector. On the other hand, a too liberal policy stance is not, on its own, sufficient for producing a dynamic SME sector. It appears that a mix of the two approaches favours SME development. What is required is a stable macroeconomic environment supported by micro policies that favour SMEs. Some countries have used a combination of fiscal and monetary policies and complemented these with appropriate institutions to address specific SME needs (Koning & Snijders, 1992; Crick, 1995, UNCTAD, 1998a).

Investment in tangible and intangible infrastructure is another beneficial way of supporting the growth and development of SME. Tangible infrastructure takes the form of road networks, bridges, railways, ports, telecommunications systems, power supply, water and sewerage systems, etc, whilst intangible infrastructure includes education, management training, technical training, research and technology development, banking systems etc. A well-developed infrastructure facilitates the business operations of SMEs and can contribute to their improved efficiency and competitiveness. For example, providing good roads and improving the reliability of

communications and power supplies systems can contribute to reduced costs of production and consequently to improvements in the cost competitiveness of SMEs.

Providing credit for operating SMEs and supporting the education and training needs of SME owners is one of the supply side policies adopted by some governments. These policies are crucial for supporting the establishment of new businesses and the expansion of existing ones and for improving the efficiency and competitiveness of these enterprises. Researchers have found that the availability of support in the way of credit facilities and technical assistance can make a critical difference in overcoming constraints or in creating confidence, particularly for those new in business, seeking to expand, and or venturing into exporting for the first time (OECD, 1998c; UNCTAD, 1995a). Financing constitutes one of the most commonly supported areas in SME services. Most of this assistance has taken the form of subsidised credit. However studies on the impact of subsidised credit programmes seem to point to the limited success of these initiatives (Webster, Riopelle, and Chidzero, 1996; AsDB, 1997; Storey, 1997, 1993). Problems with such credit schemes have included failure to reach the target group, fund diversions to non-business expenditures, low loan repayments rate partly due to some schemes being politicised, failure to achieve financial sustainability. Several suggestions have been made on how to improve SME finance services (see for example Gallardo, 1997; Levitsky, 1997; Sagari and Guidotti, 1992). These suggestions emphasize the importance of operating financial assistance schemes as a business as opposed to a charity, decentralising and simplifying loan applications to reduce transactions costs, using lending rates based on market interest rates, encouraging a culture of savings among SMEs, and making use of leasing, venture capital, credit guarantee schemes, and other forms of finance. Financial institutions are encouraged to design new, more flexible forms of collateral to accommodate SMEs with few assets. In this regard group guarantees and peer pressure have been recommended.

The limited success of previous financial assistance programmes also highlighted the importance and need of providing SMEs with more than just credit. Overall the suggestion is that whilst credit is the lifeblood of a business and therefore necessary for the growth and development SMEs, on its own it not sufficient. This raises the need to complement it with appropriate business development services. On business

development services the best practise is to adopt a demand-driven approach as opposed to a supply-driven approach. This entails carrying out a proper assessment of the true needs of the SME sector and structuring the business development services along those lines.

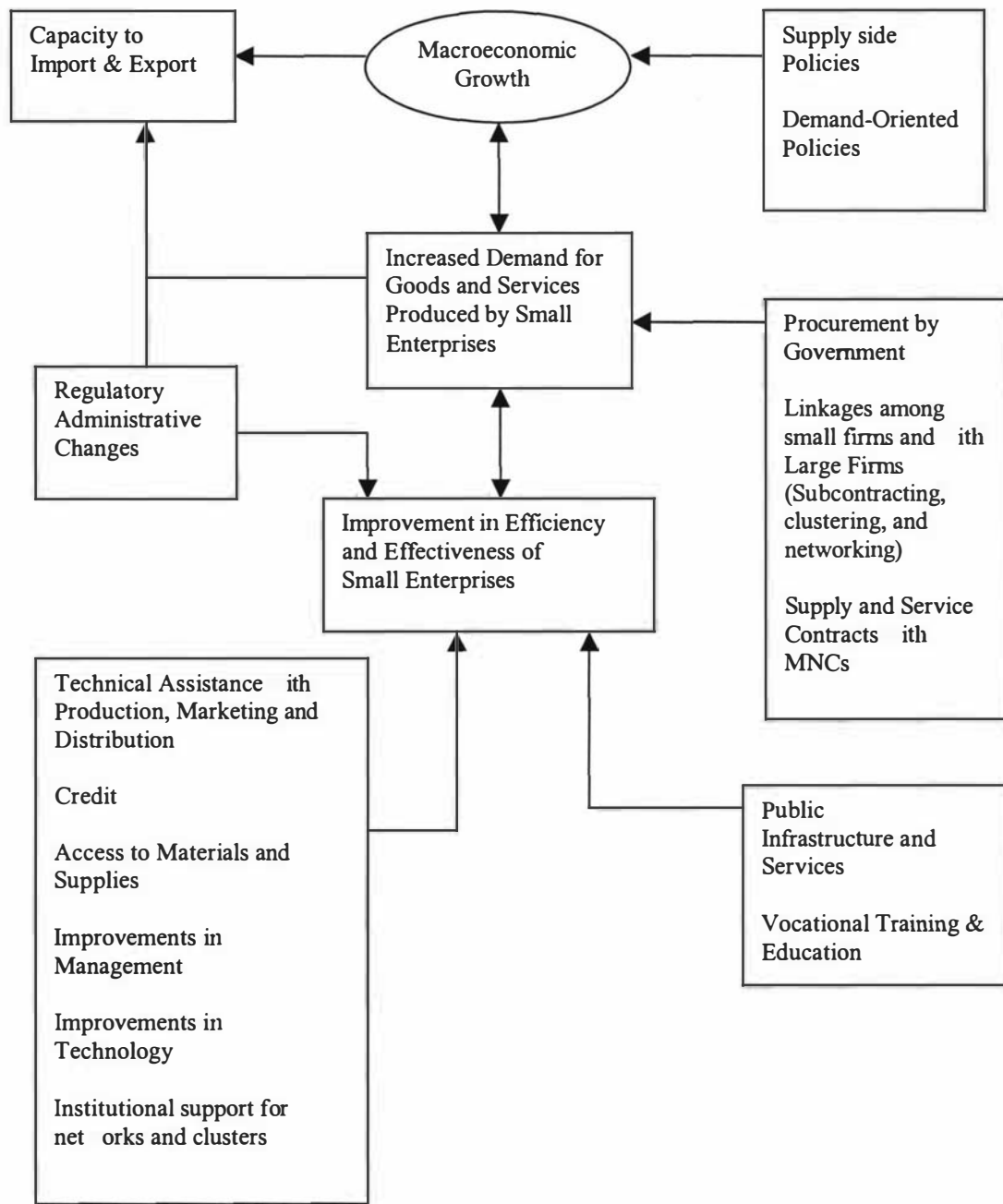
Encouraging cooperation among SMEs and with large enterprises is one of the ways in which a government can promote the development of SMEs. Through collaboration, SMEs may be able to overcome the various constraints associated with general SME growth and exporting in particular (Berry and Levy, 1999). Forms of cooperation include subcontracting, clustering and networking. Subcontracting has been useful to the growth of many small firms in Asia (Nugent and Yhee, 2002; Berry, Rodriguez, and Sandee, 2001, 2002; Wiboonchutikula, 2002; Shinorama, 1968), while clustering has been hailed for the success of small firms in some developing countries (Nadvi, 1997; Schmitz and Musyck, 1993; Rasmussen, Schmitz and van Dijk, 1992; Berry, Rodriguez and Sandee; 2002). Networking is useful to firms for providing support to each other by, for example, solving common problems, sharing costs of expensive equipment, exchanging technology, or sharing market information (Arzeni and Pellegrin, 1997; Amin and Thomas, 1996). Supporting various forms of inter-firm cooperation is therefore regarded a beneficial way of helping firms to provide support to each other. An ITC study of involving developing countries in the Asia-Pacific region (ITC, 1994) concluded that business organisations/associations and public institutions have an important role in providing support services to SMEs and therefore suggested that governments should support these institutions.³⁹

Regarding export promotion policies, the promotion of SMEs in the export sector generally requires the establishment of a favourable macroeconomic policy, and legal and regulatory environment for enterprise development as well as appropriate policy and institutional support for SME development. Since producing for the export market exposes firms to the rigours of international competition and to the workings and demands of the international market place, basic information about potential markets is essential. In this regard SMEs' information needs relate to general and business

³⁹ There is increasing evidence on the importance of public institutions in the development process (see for example, *Economist* (2002)).

culture, consumer preferences, packaging and quality standards, market potential, capabilities and product lines of competitors, the retail system, the relevant trade measures, the legal and regulatory environment, domestic sourcing etc. (Levy, Berry, and Nugent, 1999).

Figure 3.2 Factors Affecting Small Enterprise Development*



* Adapted from Rondinelli and Karsada (1992:259)

With respect to export incentives, several researchers have documented the inadequacy of conventional export support programmes in addressing the needs of smaller firms (Albaum, 1983; Buckley, 1983; Czinkota and Ricks, 1981; Walters, 1983; Pointon 1978). Therefore, to address the export needs of SMEs programmes that are well-targeted and geared towards addressing specific needs of SMEs are preferable (Yildirim, 2000; Demick and O'Reilly, 2000). A too restrictive trade policy does not benefit SMEs. Import substitution policies, for example, tend to benefit capital-intensive industries (mainly large firms) rather than labour-intensive ones (mainly small firms) these restrictive trade policies tend to be more protective to large firms than small ones. Small firms need policies that will make it easier to import inputs at reasonable prices and be able to sell their products at competitive prices.

The nature of SME policies and assistance programs has evolved in response to a number of influences. These include changes in macroeconomic conditions, recognition and learning from previous mistakes by local economic development organisations, change of attitude and policy by central governments, change in the global market environment, and needs by SMEs. Many SME promotion policies and programs have also come about as a response to research findings that exposed the disadvantages/obstacles faced by SMEs in their operations. There is no prescribed set of policies that will work for all countries. Countries will have to adopt policies that suit their situation better and are likely to produce the required results. Due to the changing nature of SME needs, it is also advisable to monitor the needs of SMEs and the business environment, conduct impact assessment of policies on a regular basis so as to realign policies with current SMEs needs.

3.8 Conclusion

SMEs have a strategic role to play in the achievement of economic growth and development of a country. In the past many governments concentrated on support systems for large firms as the sole route to industrialisation and development. However, economic difficulties of the 1970s and 1980s forced fundamental changes in the strategies, policies, and support programmes adopted by governments. In

recent years, there has been a change of attitude amongst policy-makers and scholars - increasingly the potential role of SMEs is being acknowledged and recognised by many governments. Although many governments acknowledge the strategic role of SMEs and recognise the need to develop the SMEs sector, examples are hard to find in developing countries, in which this recognition has actually fed through into substantive policies or actions. Instead, the concern to support small enterprises is often limited to the setting up of a special department within a government ministry, often understaffed, and/or staffed with people with inappropriate or inadequate skills. Because of this lip service recognition to SME issues, SMEs continue to face many obstacles. Subsequently, a structural imbalance ('missing middle') exists in the industrial structures of many developing countries.

Overall, a non-supportive policy structure has serious repercussions for the performance, growth and development of small firms. It tends to impede the establishment of new firms and creates a growth trap as it frustrates the development of small firms into more efficient medium sized firms, subsequently creating a 'missing middle' in the industrial structure of the country. There are some factors that are natural determinants of the equilibrium size distribution of firms - e.g., technology based endowments, resource endowments. However factors like transaction costs, some types of fixed costs, degree of competition and segmented and distorted markets are influenced by policy and institutional factors that are within the realm of public policy. Addressing existing policy biases against small firms is a crucial step in levelling the playing field and helping SMEs to fulfil their potential role in the economic growth and development process.

In solving the many constraints that restrain SMEs from achieving their full growth potential, there are roles for the various stakeholders (i.e., government, SMEs and large companies) in the economy. It has been suggested that one of the strategies of overcoming the high costs associated with marketing, R&D, technological knowledge, training, etc., is for companies to collaborate and share costs, skill, information, and access to markets (Ohmae, 1993). Governments, on the other hand, contribute to SME growth and development by creating a more conducive business environment for SMEs to compete and operate efficiently (UNCTAD, 2000b). This off-course will entail engaging in selective/strategic interventions, as it has been

confirmed that creating a conducive business environment *per se* is not sufficient for spurring the development of SMEs (Tomesen and Gibson, 1999; Rondinelli and Karsada, 1992). Lastly there is a need to create strategic partnerships between and among SMEs, government and large companies. In a later section we shall consider the possibilities for these strategic partnerships in small countries like Swaziland. In addition the various suggestions on the promotion and development of SMEs shall be compared with existing efforts in the country in an attempt to evaluate the effectiveness of the various assistance programmes in Swaziland.

On the export promotion side, traditional structures of export incentives are blamed for making assistance programs inaccessible to small firms because, often SMEs do not have full information about the available support services and/or sometimes are unable to export the minimum necessary to benefit from these incentives. In addition, overvalued exchange rates, in many developing countries, have tended to reduce the incentive to export. The question is in a more liberalising and globalising world what are the policy options available to a small African developing country like Swaziland. What lessons can be learned from the experiences of other countries. This research gives us the opportunity to learn the obstacles that impede SMEs from achieving their full development potential, which will provide a basis for making recommendations on how to improve the support services for the promotion and development of SMEs in the country. The next chapter lays down the conceptual framework and methodology for conducting the investigation.

CHAPTER FOUR

CONCEPTUAL FRAMEWORK AND RESEARCH METHODS

4.1 Introduction

Many developing countries are currently refocusing their attention on the search for strategies and the design of policies and assistance programmes aimed at the promotion and development of their SMEs. The persistent and increasing levels of unemployment, income inequalities, trade deficits, and other economic and social problems exposed the extent of the failure of large-scale industrialisation policies, hence the change of attitude in favour of SMEs. Encouraging SMEs to export a proportion of their output to overseas markets is a desirable alternative strategy for promoting the growth and development of SMEs. This is because export orientation helps SMEs to stay in business (i.e., it increases their survival chances), helps them to grow faster, increase their productivity and competitiveness (Berry, Rodriguez and Sandee, 2001; Bagchi-Sen, 1999; Daley, 1997; Briton, 1989b), whilst at the same time benefiting the country by contributing towards the reduction of the national balance of payments deficits (Levy, Berry and Nugent, 1999; Samie and Walters, 1990). Conscious of the potential benefits offered by exporting (refer to Box 4.1 for a list of benefits to exporting), a recent development which is increasingly being accepted and addressed by many small developing countries is the need to promote export oriented SMEs in order to achieve sustainable development in an export-led economy, and hence, addressing the structural imbalance (the 'missing middle') in the economy. Several countries have since established SMEs export promotion schemes as a way of promoting the growth and development of SMEs whilst simultaneously addressing or avoiding the 'missing middle' problem.

The design and implementation of sound policies and effective assistance programmes for the development of SMEs, however, can only be achieved if policy-makers have a good understanding of the dynamics of the SME sector. Faced with a limited public budget and competing public demands, a critical area of interest to practitioners and policy makers is how to design effective assistance programmes and streamline the

assistance in such a way that it produces maximum benefits to the economy. Effectiveness can be achieved if the assistance programmes are carefully designed and well targeted, hence the need to continuously evaluate existing programmes so as to improve on their effectiveness. Likewise, owing to the ever-changing business environment, the needs and challenges facing SMEs have to be continuously assessed so as to improve the targeting of the assistance programmes.

Box 4.1 Potential Benefits from Exporting

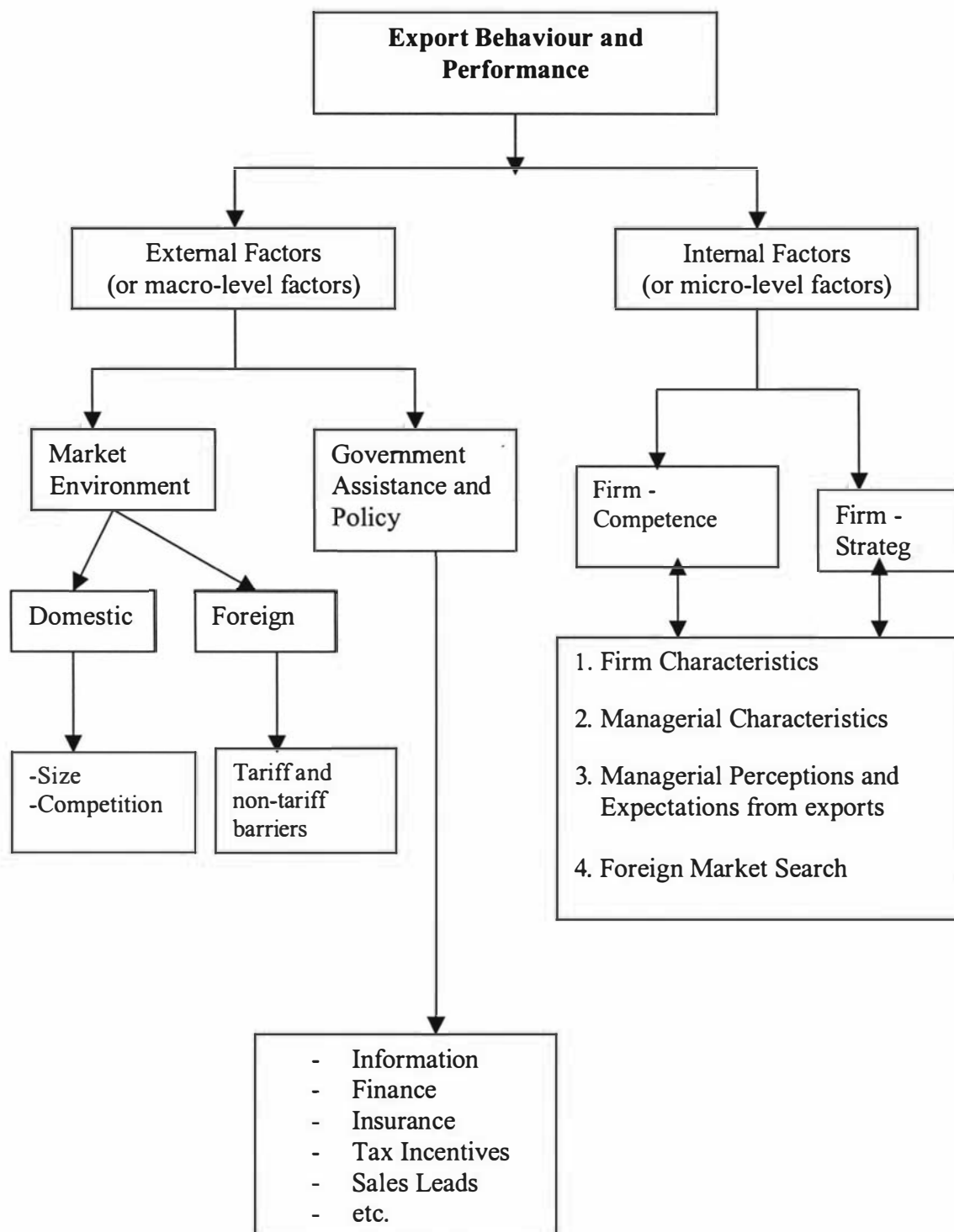
Exporting can help a firm to:

- Increase sales and profits thus enhancing chances of survival and growth
- Reduce dependence on existing markets
- Stabilize seasonal market fluctuations
- Utilise excess production capacity
- Improve productivity
- Enhance domestic competitiveness
- Enhance potential for corporate expansion
- Extend the sales potential of existing products
- Contribute towards the reduction of the trade deficit
- Contribute towards accelerated employment creation
- Gain information about foreign competition

Source: Compiled from Daley (1997); Berry, Rodriguez and Sandee (2001); Briton (1989b); Samie and Walters (1990); Levy, Berry and Nugent (1999).

This chapter develops the conceptual framework with which the investigation and analysis in this study will be carried out and then presents the methodology and data collection techniques adopted in the investigation. The analytical framework for this study borrows its concepts from various disciplines – mainly development economics, management, and marketing. In this study it is conceptualised that the extent of export involvement by SMEs and their performance is a joint function of factors that are internal and external to the firm (see Figure 4.1 for a pictorial illustration of the relationships and Box 4.2 for a detailed list of the factors). The basic feature that differentiates these determinant factors is the degree of control and or influence that the firm has over the factor. Typically the firm has direct control over internal factors and very little or no control over external factors. A discussion of these factors is presented below.

Figure 4.1 Factors Influencing the Export Behaviour and Performance of SMEs



Source: Adapted from Aaby and Slater (1989:9); Bijmolt and Zwart (1994:72); Naidu and Prasad (1994:110).

Box 4.2 Internal and External Determinants of Export Behaviour and Performance**Internal Factors Include the Following Variables:**

- **Firm Characteristics**
 - Size
 - Years of experience
 - Comparative advantages
 - Management expertise
- **Managerial Characteristics**
 - Age
 - Education
 - Knowledge of foreign languages
 - International travel/exposure
- **Managerial Perceptions About Exporting and Expectations From Exporting**
 - Risk
 - Cost
 - Profitability
- **Foreign Market Search**
 - Frequency of visits to foreign markets; and
 - Systematic explorations of export possibilities.

External Factors Include the Following Variables:

- **Market Environment**
 - Size of the market
 - Competition
 - Tariffs and non-tariff barriers to entry
 - Physical and psychological distance from the home country
- **Government Policy and Assistance**
 - Information
 - Sales leads
 - Tax incentives
 - Foreign exchange rate policy
 - Finance
 - Insurance
 - Complexity of paper work

Source: Compiled from Bilkey (1978, 1977); Aaby and Slater (1989); Moini (1995); Bijmolt and Zwart (1994); Naidu and Prasad (1994).

4.2 Factors Determining SMEs' Export Propensity and Performance

Several factors influence SMEs' ability to identify appropriate export opportunities and to eventually participate successfully in exporting. These factors, as illustrated in Figure 4.1 and Box 4.2, can be categorised into two groups: internal and external factors. The dichotomisation of export behaviour/performance determinants could be alternatively labelled as macro and micro level factors (Abermathy, Clark and Kantrow, 1983). Internal factors (or micro level factors) define the firm's competence, structure, and strategy. They include firm specific and decision maker characteristics such as the size of the firm, age or years of experience, management calibre, etc. Because these factors are within the realm of the firm they are considered controllable at the level of the individual firm. External factors (or macro-level factors) define the domestic and international business environments under which the firm operates. From the individual firm's point of view all external factors are not controllable. Nonetheless, some of these factors are controllable at the national level through public policy, for example, on export promotion, investment incentives, taxation, physical and institutional infrastructure, etc. Factors defining the international business environment are neither controllable at the individual nor national level, and they include such factors as international economic conditions, international competition, and trade barriers.

Considerable empirical research has been carried out on the subject of export behaviour of SMEs and or stages in the export development process (see for example, Bilkey and Tesar (1977); Czinkota and Johnston (1983); Yaprak (1985); Axinn (1988); Seringhaus and Rossson (1989, 1991); Aaby and Slater (1989); Keng and Jiuan (1989); Reid (1981); Louter, Ouverkerk and Bakker (1991); Koh (1991); Caughey and Chetty (1994); Calof (1994a); Moini (1992a, 1992b, 1995, 1998); Calof and Vivers (1995); Weaver, Berkowitz and Davies (1998); Levy, Berry and Nugent (1999)). Likewise the topics studied cover a wide range of issues including: internal and external stimuli to exporting; factors influencing export performance; obstacles to exporting; stages in the export development process; the influence of firm and managerial characteristics on a firm's export potential; the differences between exporters and non-exporters with regard to exporting, firm growth, and profitability; perceptions toward exporting; and the role and impact of export promotion

programmes. These studies have revealed that both external and internal factors are important for explaining the export behaviour of SMEs.

According to Edmunds and Khoury (1986) the decision to export is an individual initiative by the SME based on several considerations. If we assume, however, that the assumption that the fundamental objective of any business firm is profit maximisation, then increased profit is the key underlying principle influencing the decision to (or not to) export. Several studies have found that perceived profitability is one of the major reasons behind the decision to export which can then propel SMEs to make use of existing export assistance programmes (Moini, 1995, 1998; Edmunds and Khoury, 1986; Caughey and Chetty, 1994; Louter, Ouverkerk and Bakker, 1991). Other motives to exporting include diversification of export sales, growth and excess capacity (see Box 4.3 for a list of motives for exporting).

Despite the publicised benefits of exporting (both perceived and realised) and the various efforts by both public and private institutions aimed at encouraging SMEs to export, very few SMEs in developing countries are exporting (Levy, Berry and Nugent, 1999). Some of the reasons why SMEs have not been exporting include: managerial constraints; lack of knowledge about overseas markets for their products; perceived complexity of exporting; lack of awareness of government assistance; and financing difficulties of export sales (see Box 4.4 for more reasons). Edmunds and Khoury (1986) argued that the strategic disadvantages in terms of realisation of exports and other potentials differ significantly between small and large firms. For example, problems of information, bookkeeping, finance, and experience tend to be unique to small firms. According to North, Smallbone and Vickers (2001) a firm's limited human resources can influence its propensity and ability to be aware of and respond to opportunities and threats presented by the external environment. Therefore, a small firm's ability to capitalise on export opportunities is to a large extent constrained by the limited resources at its disposal. A non-resource related internal barrier to exporting relates to the attitudes of managers in small firms towards exporting. Because of the distinctive organisational culture that typifies many SMEs, i.e., combination of ownership and management, the individual traits of the owner-manager are critical for the development of export capability, success, and failure of the business.

Box 4.3 Motives for Exporting**Factors that motivate SMEs to get into exporting include:**

- Profit
- Tax incentive
- Growth
- Diversify sales base
- Fortuitous orders from foreign customers
- Limited domestic market
- Competitive domestic market conditions
- Excess capacity
- Educational and foreign travel experience

Sources: Edmunds and Khoury (1986); Caughey and Chetty (1994); Bilkey (1978); Brooks and Rosson (1982); Rondinelli and Karsada (1992).

Box 4.4 Reasons for not Exporting**Reasons for not exporting normally given by SMEs:**

- Limited resources to support complexities of exporting
- Perceived complexity of exporting
- Lack of awareness
- Intensity of foreign competition
- Transport and transaction costs
- Perceived low profitability
- Trade barriers
- Lack of information about overseas markets
- Lack of financial resources
- Inadequate managerial skills
- Lack of managerial commitment (or lack of interest)

Sources: Edmunds and Khoury (1986); Darling and Postnikoff (1985); Dichtl, Koeglmayr, Mueller (1990); Brooks and Rosson (1982); Kaynak and Kothari (1984); Kedia and Chokkar (1986); Kathawala *et al* (1989); Nelson (1984); Chenier and Prince (1990); Caughey and Chetty (1994); Howard and Herremans (1988); Rondinelli and Karsada (1992); Czinkota and Johnston (1983).

Olson and Wiedersheim-Paul (1978) suggested that SMEs would make the decision to export in response to internal and external stimuli. Internal stimuli factors are primarily related to the goals of the firm and the expected fulfilment of these goals and they include factors like product and firm characteristics, expansion objectives, and response to excess capacity. External stimuli factors, on the other hand, include factors like foreign market opportunities, fortuitous orders from foreign customers, competition, economic integration, and government stimulation measures (like export assistance programmes). The most closely scrutinised of these factors are those relating to the firm (Czinkota and Ursic, 1991). Since exporting requires more managerial and financial resources (Samiee and Walters, 1991; Erramilli and Rao, 1993), firm-specific and managerial characteristics are regarded as an important predictor of export propensity (Tookey, 1964; Calof, 1994a).

4.2.1 Firm-Specific Characteristics

The commonly studied firm-specific variables, in relation to the propensity to export and/or the intensity of export activities, are: firm size, firm-age, and ownership (Moini, 1995, Bonaccorsi, 1992; Louter, Ouverkerk and Bakker, 1991; Calof, 1994; Cavusgul and Zou, 1994; Keng and Jiuan, 1989; Aaby and Slater, 1989; Axinn, 1988 Yaprak, 1985; Bilkey and Tesar, 1977). It is normally argued that the possession of certain firm-specific characteristics impacts positively on the firm's ability to identify appropriate export opportunities and participate successfully in exporting.

4.2.1.1 Firm-Size

Some studies have identified a positive relationship between firm size and the firm's ability to export (Kaynak, 1985; Cavusgul and Naor, 1987; Hirsh and Adar, 1974; Maleksadeh and Nahavandi, 1985; Burton and Schlegelmilch, 1987; Masden, 1987; Reid, 1982, Tookey, 1964; Westhead, 1995). These studies indicate that exporting firms tend to be larger in terms of number of employees than non-exporting exporting firms, and others add that firms with higher sales are more likely to engage in export activity. Having conducted a review of the exporting research literature, Miesenbock (1988) concluded that on the whole most studies tend to show that the larger the firm

is, the easier it starts exporting. Other studies have, however, reported that firm size is not significantly related to the export propensity of a firm (Diamantopoulos and Inglis, 1988, Hester, 1985; Bilkey and Tesar, 1977; Cooper and Kleinschmidt, 1985). Bilkey (1978) suggested that the relationship between firm size and export activity might be complicated by a possible correlation between firm size and the quality of management, whilst Reid (1985) argued that size is an important but complex variable influencing export activity. Czinkota and Johnston (1983) question the direction of the causality with regard to firm size and exporting and ask the crucial question: does exporting activity increase firm size or does size lead to exporting? They conclude that the correlation between firm size and exports only exists up to a certain level, beyond which the relationship fails. In a similar investigation Philp (1998: 80) posed the questions: "Does exporting lead to overall growth and eventual large size or has a certain large size to be first established domestically before a firm is capable of exporting and succeeding in that task? Is size really just a proxy for other, more revealing, explanatory variables or is the size factor overwhelmed when other explanatory variables are more accurately captured and then taken into account?" He concluded that when a comprehensive range of explanatory variables are modelled with firm size, the size variable ceases to contribute significantly to explaining the probability that a firm is an exporter.

Despite the numerous research studies undertaken over the years, the debate on the firm size - export relationship is still alive, partly because of the mixed research findings. Recently, Wagner (2001) presented a critique of previous methods used in the investigation of the firm size – export relationship, arguing that since many small firms do not export directly, the inclusion of indirect exports would alter the firm size – export relationship as reported in previous studies. He found that in some industries, an inversely U-shaped nexus explain the relationship between firm size and exports. He supports the notion that the inclusion of several other factors (like human capital, innovative products, etc.) reduces the significance of firm size in export activity and therefore concludes that, smallness must not be an obstacle to exporting - that is hard to overcome in every industry. It seems, along the lines of Wagner's argument, there is an emerging literature on the microeconomics of small exporting firms that emphasizes the role of various other factors, besides size, as determinant factors of a small firm's ability to export (see for example, Levy, Berry and Nugent

(1999); Aw, Chung and Roberts (1999); Das, Roberts and Tybout (2000)). Notwithstanding these developments suffice to say that, so far, there is no clear empirical relationship between firm size and export propensity or export success.

4.2.1.2 Firm Age

With reference to the relationship between age of the firm and export propensity, some studies have reported that firm age contributes to both export propensity and export performance (Kirpalani and MacIntosh, 1980; Ursic and Czinkota, 1981; Kaynak and Kothari, 1984; Hansen, Gillespie and Gencturk, 1994). These studies argue that younger firms exhibit more interest in foreign markets than older or more established firms. Conversely, some studies have suggested that older firms are more likely to export than younger firms (Lee and Yang, 1998; Welch and Wiedersheim-Paul, 1978). However, Diamantopoulos and Inglis (1988) reported that there is no relationship between firm age and export propensity.

4.2.1.3 Firm Ownership

In contrast to the plethora of studies on firm size and firm age, few studies have included the firm ownership variable in the investigation of export propensity. Firm-ownership investigations have either compared locally-owned firms to foreign-owned firms (Keng and Juan, 1989) or publicly-owned versus privately-owned firms (Yang, Leon and Alden, 1992). The rationale for including firm ownership is that foreign-owned firms might have an exporting advantage over locally-owned firms because they are more likely to have market links in their country of origin or company headquarters. Likewise, public ownership is expected to be an advantage because public corporations are better equipped to deal with the complexities of exporting because they, relatively, have more resources at their disposal. Moreover, it is generally believed that the pressure of publicly held corporations to maximise shareholder wealth will compel these businesses to explore new markets more readily than their privately held counterparts. Keng and Juan (1989) reported that the locally-owned enterprises had a lower level of export involvement compared to foreign-owned enterprises. Yang, Leon and Alden (1992) reported that, even though the export propensities of publicly-owned and privately-owned enterprises differed, the differences were not statistically significant.

Overall, despite the vastness of the literature on the relationship between firm-specific characteristics and export propensity it is evident that the research evidence is mixed and therefore remains inconclusive. In the exporting literature, of the various firm-specific variables normally considered, firm size is one of the most analysed variables, partly because of the perception that lack of 'large size' acts as a barrier to exporting in new and small firms (Becker and Porter, 1983; Lang, 1977). After reviewing 55 studies, Aaby and Slater (1989) concluded that there is little agreement on the impact of firm size on export propensity. Earlier, Miesenbock (1988) had reported that the majority of the studies he had reviewed supported the view that there is a positive relationship between exporting and firm size. Gemunden (1991) reported that a positive relationship between firm size and export propensity is generalizable but refrained from making the same conclusion with respect to firm size and export intensity. After a comprehensive review of the literature on firms' export behaviour, Bonaccorsi (1992:619) acknowledges that because of resource constraints, it is true that some small firms may not consider exporting, but explains that the relationship between firm size and the ability to export "may be the result of different processes with different time paths, so that the statistical correlation at any point in time should not be assumed to be a proof of a causal linkage." He summarizes that whereas the probability of being an exporter increases with firm size, the variable does not have any significant effect on export intensity.

4.2.2 Managerial Characteristics

Managerial characteristics are considered to be important in the firm's export activities because a company's decision to venture into exporting is ultimately taken by the individual decision-maker (Axinn, 1988). Managerial characteristics that have been studied include: education; age of the manager; international exposure or experience (e.g., foreign language skills; international travel), and perceptions about exporting (Weaver, Berkowitz and Davies, 1998; Lautenen, 2000; Carrier, 1999; Katsikeas, Piercy and Ioannidis, 1996; Moini, 1995; Aaby and Slater, 1989; Axinn, 1988; Reid, 1981).

4.2.2.1 Education

Several studies that have investigated the nature of the relationship between the managerial characteristics and export behaviour have established that a clear positive relationship exists between the educational level of the manager and the degree of export involvement of the firm (Keng and Jiuan, 1989; Axinn, 1988; Reid, 1983; Simpson and Kujawa, 1974; Burton and Schlegelmilch, 1987). According to these studies, more educated managers are more likely to be willing and able to deal with foreigners and international transactions than less educated managers, hence they report that the more educated the manager the greater the propensity to export. On the contrary, Ogram (1982) reported that there are no significant differences in the education levels of managers in exporting and non-exporting firms and concluded that there is no relationship between education and export propensity.

4.2.2.2 Decision Maker's Age

Evidence on the relationship between the decision maker's age and export behaviour is mixed. Aaby and Slater (1989) established that a significant relationship exists between the age of the decision-maker and the export propensity of the firm, suggesting that firms with older managers tend to take fewer risks and are less willing to be innovative and expand internationally. However, Kaynak and Kuan (1993) found evidence to the contrary, suggesting that firms managed by older managers tended to be more involved in exporting and had better export performances.

4.2.2.3 International Exposure and Experience

International exposure and experience help to lessen the psychic distance [where psychic distance is defined as the "sum of factors preventing the flows of information from and to the market, for example, differences in languages, education, business practise, culture, industrial development, etc." (Johanson and Vahlne, 1977:24)]. International exposure and experience may be acquired through education, international travelling, and ability to converse in foreign languages. International exposure and experience enables the manager to discuss exporting with foreign reference groups with better ease. It has been argued that firms that have decision makers that have worked, lived, or travelled abroad or speak foreign languages are expected to have better export performances than firms that have monolingual

managers (Moini, 1995; Kaynak and Kuan, 1993). Non-exporters have cited the lack of language abilities or cultural understanding as a barrier towards exporting (Johanson and Vahlne, 1977; Dichtl, Koeglmayr and Mueller, 1984). In a comparative study involving five countries (Germany, Japan, South Africa, Finland and South Korea), focusing on the international orientation of business managers Dichtl, Koeglmayr and Mueller (1990) identified language proficiency and unavailability of qualified personnel as major problems facing potential exporters. Carrier (1999:36) reported that language constituted a significant obstacle for at least a quarter of the respondents in his sample of Quebec small firms; and Kathawala *et al.* (1989) reported that, in Illinois-USA linguistic and cultural differences created one of the most formidable barriers to successful exporting by small businesses. In a study of New Zealand based SMEs Caughey and Chetty (1994:66) reported that, compared to non-exporting firms, managers of exporting firms had “more management education, ... have travelled abroad more extensively, have lived overseas, and have an extensive network of overseas contacts”. Lautanen (2000:121) in his study of small manufacturing firms in Finland concluded, “... it does not seem, among other things, that the financial risk related to exporting, nor the lack of experience, nor the education level of the white collar staff is likely to determine which small firms develop exporting quickly, but rather the language skills of the entrepreneurs”, but cautioned against generalisations of the results, mindful of limitations of his small sample size.

4.2.2.4 Perceptions and Attitudes

Managers' perceptions and attitudes towards exporting are considered important for the export involvement of a firm. It has been argued that the decision maker in the management of a small business is the key variable in the internationalisation process of the firm (Miesenbock, 1988; Nevin and Cavusgul, 1981; Carrier, 1999). Ali and Swiercz, (1991) state that firms headed by managers who perceive global marketing as an opportunity and challenge rather than an undesirable burden are much more likely to respond favourably to foreign market opportunities. Simpson and Kujawa (1974) reported that the perceptions to risk, profit, and cost of pursuing export marketing were important in determining the firm's export orientation. Several authors have identified clear differences between the owner-managers of exporting

and non-exporting firms in terms of their perceptions of risks and difficulties associated with the export process (Axinn, 1988; Cavusgul and Naor, 1987; O'Rourke, 1985, Ogram, 1982; Sharkey, Lim and Kim, 1989; Kedia and Chokkar, 1986b; Simpson and Kujawa, 1974). Kedia and Chokkar (1986b) found that non-exporters perceive the costs and risks of exporting to be significantly higher than do exporters. Exporters, even though they perceived risk in exporting, they expected to be compensated by higher levels of profits. In another study Ogram (1982) found that non-exporters generally perceived exporting costs to be high, while exporters considered such costs as either the same or moderately higher than costs in the domestic market.

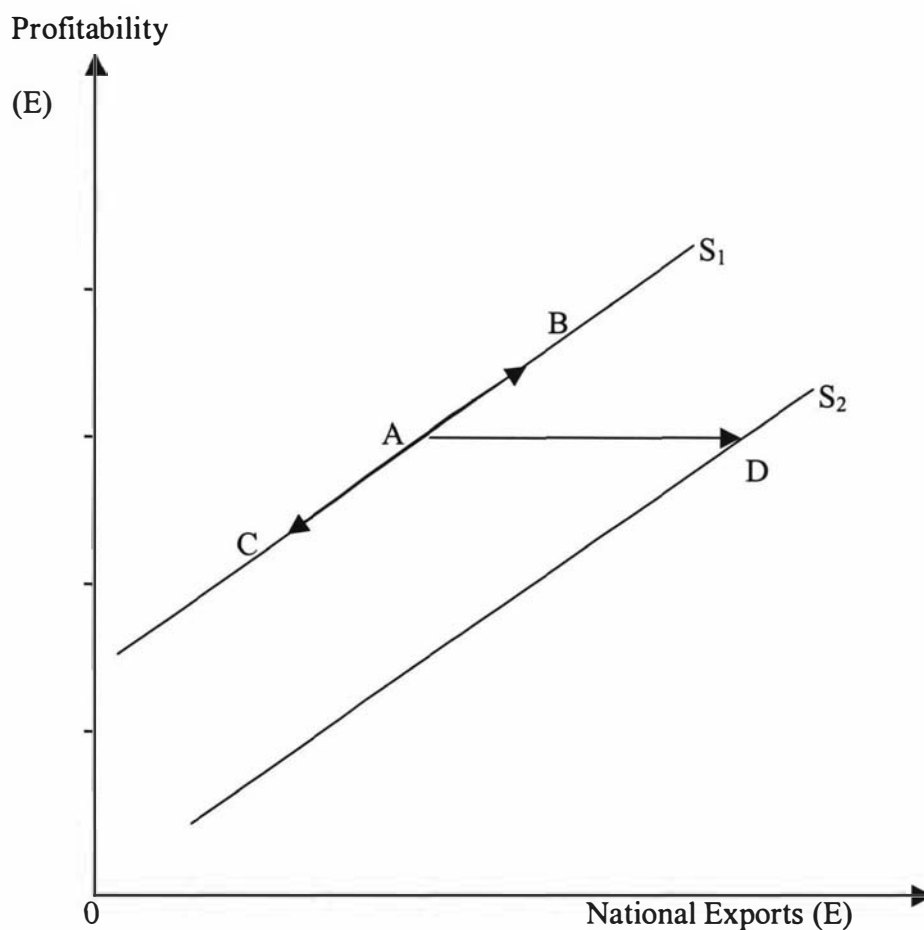
North, Smallborne and Vickers (2001) reported that the conservative attitude of owner-managers of small firms acted as a barrier towards the use of external assistance. They noted that some managers, due to their conservative attitude, would not seek external finance because they either believed they stand little chance of getting it, perceived it to be too expensive, or they simply wish to minimise their exposure to debt. Consequently, they advice that attitudinal change, on the part of owner managers is necessary and should be encouraged and targeted by support programmes in order to reduce their perceived exposure to risk. This argument is in line with previous findings in a Swedish study by Wiedersheim-Paul, Olson and Welch (1978) where changes in management's attitudes (together with changes in external factors) were regarded as the major causes of an increase in the willingness to export. In this context, Carrier (1999) recommends training and development as a potential solution to the problem of attitudinal change. Influencing the managers' perceptions and attitudes towards exporting seem to hold the key towards increased use and effectiveness of assistance programmes because, as noted by Seringhaus (1986:28), "if assistance is to act as a stimulus to export involvement, it can only be of benefit if management perceives exporting as a viable business activity."

4.2.3 External Stimuli Factors

External factors play a crucial role in enhancing the export propensity, performance and success of SMEs (Czinkota and Ricks, 1981; Reid, 1984; Axinn, 1988; Olson and

Wiedersheim-Paul, 1978; Nyiri, 1993; Moini, 1998; Levy, Berry and Nugent, 1999). Unlike in the case of internal factors the scope of investigation in the case of external factors has been limited, owing to the difficulties and deficiencies in data pertaining to the external business environment of SMEs. Amongst the external stimuli factors that have been studied are government assistance programmes, fortuitous orders from foreign customers, economic integration, market opportunities and competition. Government stimulation measures are a major component of external stimuli to the export behaviour of SMEs. According to Bilkey and Tesar (1977) government programmes result in two kinds of impacts on the aggregate export supply curve. Conceptualising an export supply curve with total national exports on the x -axis and export profitability on the y -axis, they pointed out that: one aspect of the generated impacts is to create a movement along the export supply curve; and the other aspect is to create a shift in the overall position of the export supply curve (refer to Figure 4.2).

Figure 4.2 Shifts and Movements in the Export Supply Curve



Depending on the nature of the impact generated by the stimuli, resultant movements can be in an upward or downward direction along the export supply curve. For example, making exporting more profitable can result in an upward movement along the export supply curve. Alternatively, an impact can result in an inward or outward shift of the export supply curve. For example, Bilkey and Tesar (1997:95) argue, “by increasing managements’ international interests (perhaps promoting foreign language instruction, foreign visits, international business education, etc.), by obtaining export orders for firms, by instituting management development programmes, by removing perceived barriers to exporting...” the export supply curve can be shifted to the right. Other stimulation measures, which can result in similar movements along and shifts of the export supply curve, include government assistance to SMEs with respect to attendance at international trade fairs/shows, participation in trade missions, establishment and maintenance of overseas offices, and export marketing consultancy services.

International trade shows/fairs normally take place in a fixed location overseas or domestically (but with foreign participation). They provide potential exporters with an opportunity to: have face to face contact with both existing and potential customers; sell their products; gain access to decision makers; disseminate facts about their services and products; identify prospects; maintain an image in the industry and with the media; gather intelligence about competitors; and enhance and maintain employee morale (Seringhaus and Rosson 1990; Howard and Herremans, 1988, Bonoma, 1983). International trade shows are viewed positively by those firms that are already prepared to export (Reid, 1984; Ramaswami and Yang, 1990). Howard and Herremans (1988) reported that in terms of helpfulness of groups or activities offering export assistance to small firms, trade shows and trade fairs were ranked second (out of 23) by executives of exporting small businesses.

Trade missions act as an on-site tutorial that provides a learning experience to firms by enabling them to visit foreign markets, investigate and acquire information about how business is conducted overseas and what products/services are already available, gauge receptivity of potential buyers to the firm’s products and services and to expand their knowledge of the exporting process (Seringhaus, 1987). According to

Seringhaus and Rosson (1990) trade missions and trade fairs are a comparatively more useful export promotion vehicle to existing exporters than to non- and new-exporters. They argue that because non-exporters have either never considered marketing their products or services overseas, or have yet to be convinced of the merit of the idea of selling abroad, motivational methods (like promotional campaigns to create awareness of export potential) may be the more appropriate export promotion vehicle for this group. Strategies to increase export awareness may include advertisements, export success stories, and 'export month' promotions/campaigns). In general trade shows/fairs and trade missions are expected to increase the demand for the country's exports, to which local exporters are expected to respond by increasing their supply, eventually resulting in an increase in national exports.

The appropriateness of the various stimulation measures varies with the stage reached by the firm in the export development process (see Box 4.5 for an illustration of the stages). In general, the firms' export behaviour is assumed to move from an unwilling position (Stage One), progress to a willing and experimental position (Stage Four), and finally on to experienced exporter (Stage Six) (Bilkey and Tesar, 1977; Czinkota and Johnston, 1981). According to Bilkey and Tesar (1977), a multifaceted export development programme is advisable for a government seeking to stimulate exports for firms at various stages of the export development process. However, they point out that countries that are at different levels of development may require different strategies, and advise that developing countries, who in most cases, are likely to have more firms concentrated in export 'Stage One' should refrain from blindly imitating the export development programmes that are appropriate for an industrialised country.

Various studies have revealed that government policy and assistance programmes can either help or hinder the export performance and success of SMEs (Czinkota and Ricks, 1981; Reid, 1984; Axinn, 1988). Some studies have confirmed the crucial importance of export assistance programmes in enhancing the export performance and success of SMEs (Moini, 1998; Nyiri, 1993; Czinkota and Ricks, 1981; Reid, 1984; Axinn, 1988; Olson and Wiedersheim-Paul, 1978). In Lesotho, for example, an export finance programme, introduced by the Government of Lesotho in collaboration with the IFC, not only helped small enterprises to grow more rapidly, becoming strong competitors in their sectors, but also contributed to the tremendous growth of total

exports and the introduction and expansion of non traditional exports (Nyiri, 1993). Nyiri reported that between 1987 and 1992, Lesotho's exports more than tripled, and he attributed this tremendous growth to the export finance assistance programme and the involvement of SMEs in exporting. In Madagascar, an export promotion programme targeted at small shrimp producers was identified and used as a basis for developing the SMEs' export capability. IFC (1997) reports that this project has provided significant benefits in terms of employment, income generation and poverty reduction, a positive fiscal impact, substantial foreign exchange earnings, infrastructure improvements, and development of the private sector.

Box 4.5 Stages in the Export Development Process

<u>Export Stage</u>	<u>Export Behaviour/ Activity</u>	<u>Type of firm/ Segment label</u>
Stage One →	Management is not interested in exporting; firm would not even fill an unsolicited export order.	Non-exporter
Stage Two →	Management would fill an unsolicited export order, but does not explore the feasibility of exporting.	Export Intender or Passive exporter
Stage Three →	Management actively explores the feasibility of exporting (Note: This stage could be skipped if unsolicited export order received).	Experimental exporter
Stage Four →	The firm exports on an experimental basis to one or a few markets that are most likely considered psychologically close).	Experimental exporter
Stage Five →	The firm is an experienced exporter to that country and adjusts exports optimally to changing exchange rates, tariffs, etc.	Experienced exporter
Stage Six →	Management explores the feasibility of exporting to additional countries that, psychologically are further away.	Experienced exporter
	And so on .	

Sources: Modified version of Bilkey and Tesar (1977:93); Rogers (1962:81-86).

Export marketing consultancy services help to tie the export promotion programme to the needs of current and potential exporters (Naidu and Rao, 1993). According to Naidu and Rao (1993) export-marketing services, although useful to non-exporters and exporters, were identified as the more desirable service by 'Export Intenders' (i.e., those who have not participated in exporting but would like to explore export opportunities) and Sporadic Exporters (i.e., those who export on a sporadic basis).

Other studies have confirmed the importance of economic integration as an external stimulus to exporting by SMEs (Caughey and Chetty, 1994; Weaver, Berkowitz and Davies, 1998). Caughey and Chetty (1994) conducted a study on small manufacturers in New Zealand and found that the small domestic market forced many firms to look for foreign markets. They argue that for SMEs in New Zealand, economic integration with Australia acted as an important external stimulus for firms which wanted to expand. Leonidou (1998b) and Ramaseshan and Soutar (1996) reported that declining domestic demand or saturated domestic markets were key factors in stimulating export activity. Earlier, Rabino (1980) reported that large domestic markets inhibited exporting, arguing that larger domestic markets tended to provide enough demand to the extent that firms participating in these markets are unlikely to search for new markets.

Despite the positive evidence on the important role of export assistance programmes, and other external stimuli in enhancing SMEs' export involvement and success, often issues of awareness, knowledge, and utilisation undermine the effectiveness of these stimuli (Naidu and Rao, 1993; Moini, 1998). Some studies have revealed that assistance programmes have low usage rates and that SMEs still mention unawareness of the existence of the assistance programmes as one of the reasons for not utilising the schemes (Kathawala *et al.*, 1989; Kedia and Chokkar, 1986b). Seringhaus (1986:33) reported that the firms' level of awareness of assistance programmes is lined to their relative stage in the export involvement process, arguing, "when exporting experience is absent or low, awareness of external information assistance is growing and perceived as beneficial to export activity." Other problematic areas in the case of assistance schemes pertain to a mismatch between the needs and the availability of assistance programmes due to factors such as lack of precise objectives, poor targeting of client groups and lack of understanding of user needs (Naidu and

Rao, 1993; Weaver, Berkowitz and Davies, 1998; Katsikeas, Piercy and Ioannidis, 1996; Seringhaus and Rosson, 1990). The revelations of low levels of awareness and low usage rates of assistance programmes imply that some governments are not getting a full return on their investment in such programmes. The biggest challenge, therefore, facing governments is how to ensure maximum effectiveness, hence the importance of continuous evaluation of implemented programmes.

The need for continuous evaluation to ensure the effectiveness of implemented export assistance programmes is widely accepted but is constrained by the difficulty in selecting an appropriate evaluation criterion, as alluded to by several researchers (IFC, 1997; Naidu and Rao, 1993, Moini, 1998; Weaver, Berkowitz and Davies, 1998; Seringhaus and Rosson, 1991). The determination of the usefulness of, for example, export promotion programmes, is made difficult by the fact that it is essentially an information gathering and dissemination activity, for which satisfactory measures are not easily available (Root, 1971). The challenges presented by the task of evaluating or measuring benefits of assistance programmes have been widely debated in small business research (see for example, Wood (1994, 1999); Chrisman and McMullan (1996)). In measuring the effectiveness of export assistance programmes, indicators that have been used have included the degree of awareness by SMEs of the existing programmes; expected or realised benefits of the programmes; and export success. According to Kedia and Chokkar (1986) the usefulness of various assistance programmes which provide general information, assistance, and advice largely depends on their utilisation by small and medium-sized firms, and on the benefits they generate in initiating or developing export markets. Naidu and Rao (1993) proposed that if the objective is to increase the effective use of the stimulation programme then the ratio of 'users' to 'awareness' is a good measure of the impact of the programme. The importance of including 'awareness' in the measure of effectiveness was previously highlighted by Kedia and Chokkar (1986:14), who argued that whilst it is possible that respondents may evaluate programme effectiveness on the basis of hearsay, general knowledge, etc., such assessments by respondents who may not even be aware of their existence cast doubts on the validity of the results. Using the effectiveness measure suggested by Naidu and Rao (1993), Moini (1998) reported that export assistance programmes had a higher effectiveness ratio with exporters than with non-exporters.

Some recent studies have used 'export success' as a measure of the impact of export assistance programmes (Weaver, Berkowitz and Davies, 1998; Moini, 1995). However this measure is not straight forward because, export success is not an objective term – given that what one entrepreneur may consider as an excellent success, another may regard as poor performance (Louter, Ouverkerk and Bakker, 1991). The methodology used in measuring export success varies among the different researchers owing to the complexity of the issue, data availability and the focus of the study. Two alternative approaches to export success have been adopted in previous studies: that is, whether the study considers exporting and non-exporting firms or only exporting firms and whether external factors, internal factors or both are considered. Commonly used techniques are regression analysis and analysis of variance (ANOVA). Export success (the dependent variable) is normally measured with a multiple item set, selected from the following indicators – percentage of exports in total sales; export growth; profitability or perception towards exporting; and satisfaction of the exporter.

4.2.4 Summary

The export involvement of SMEs is conceptualised to be a function of both internal and external factors. These factors operate in a complementary manner to enhance the export involvement of firms. Research evidence suggests that for SMEs to be successful they need to possess certain firm-specific and managerial characteristics, which will help them to respond positively to opportunities in the foreign market. External factors can enhance or hinder small firms' export involvement. Government assistance programmes, if properly designed and targeted can help to enhance small firms' ability to export.

Most of the work that has been done on the export behaviour of SMEs has been based on data pertaining to developed countries. Whilst these studies have been useful in improving our understanding on this subject, there is still an information gap about developing countries. Many developing countries have, in recent years, introduced various forms of assistance and export promotion programmes - conceived around

what policy makers think are the needs of SMEs, and modelled along the lines of similar programmes in developed countries. However, given that little is known about the export behaviour of small firms in developing countries, one wonders what was the basis for designing those assistance programmes? If no proper needs assessment studies were undertaken prior to the introduction of the assistance programmes, could it be that the assistance programmes were supply-driven as opposed to demand-driven? If so what have been the impacts of those programmes and how can they be improved?

It has been noted that attempting to generalise firm's export behaviour on the basis of findings from an industrialized economy to, for example, a developing country's exporting context, might both be dangerous and misleading (Katsikeas and Piercy, 1993). Generalisations of these findings into African developing countries could even be more deceptive because of the different economic, political and social structures. Due to country differences in factors such as social and organisational structures, operations of financial institutions, constraints of SMEs, family and human capital development, and other demographic factors, the export behaviour of SMEs and hence the impact of assistance programmes might differ.

In view of these country differences, Singh, Reynolds and Muhammed (2001) have highlighted the need to test theories and results derived in developed countries before they are applied to developing countries. This study therefore aims at investigating the factors that enhance the export propensity of SMEs in the case of a small developing country, by using Swaziland as a case study. It has been suggested that, in order to improve the effectiveness of small firms' assistance and promotion programmes, policy makers and practitioners should utilise widely available secondary information on organisational characteristics to target resources to firms that have a higher probability of reporting superior business performance (Storey, 1993, 1994). If Storey's suggestion is adopted, the question is what kind of organisational characteristics should be utilised? In this study, through the investigation of the differences in firm-specific and managerial characteristics for exporting and non-exporting firms, and through the measurement of the effectiveness of currently existing government assistance programmes, it is hoped that useful information will

be compiled and subsequently used to improve the design and targeting of SMEs' assistance programmes.

4.3 Methodology

The broad objective of this study is to investigate the 'missing middle' supposition in the context of the export involvement of firms and evaluate the effectiveness of export assistance programmes. In line with this objective the investigation is carried out at three levels. At the first level the focus is on the extent of the participation of SMEs in the export sector, which is aimed at testing the missing middle hypothesis. At the second level the intention is to evaluate the effectiveness of assistance programmes, whilst at the third level the intention is to identify those firm and managerial characteristics that distinguish exporting from non-exporting SMEs with the aim of contributing towards the pre-identification criteria for potential exporters and therefore better design and targeting of assistance programmes. Since there is no internationally accepted definition of Small and Medium Enterprises, this study tried to adopt a definition that reflects local circumstances. For operational purposes and in consonance with most other international studies, the number of employees was used as a size measure. Consequently SMEs in this study were defined as those enterprises that have up to 100 employees. Outlines of the research methods used at the various stages of the investigation are provided below.

4.3.1 Investigating the Export Involvement of SMEs

The nature and extent SMEs' participation in the export sector will be achieved through a categorisation of the firms by size and then measuring their contribution to employment and total export sales. Monetary values (presented in Emalangeni (E), the local currency) are used for total sales and export sales. Proportions will be used to estimate each group's contribution to total employment and total exports. The 'missing middle' proposition will be tested by analysing the overall distribution of firms in Swaziland.

4.3.2 Investigating the Effectiveness of Government Assistance Programmes

The second level of the investigation focuses on the role of external factors in determining the export behaviour of SMEs. Government assistance programmes (in the form of information, finance, insurance, tax incentives, and sales-leads), export policy, and other business environment factors are regarded as the key external influencing factors and, therefore, are assumed to play a central role in influencing the export propensity of SMEs. Due to the general difficulty of obtaining data on external factors (as alluded to in other studies), coupled with the nature and limited diversity of assistance programmes in the country, this study concentrated on government assistance programmes only, and attempts to incorporate various assistance programmes in the areas of finance, information, and trade. The intention is to measure SMEs' level of awareness and usage rates of the various assistance programmes, and then measure the effectiveness of the business development and promotion programmes. The assistance programmes for which the evaluation is carried out are as follows: the Small Enterprise Development Company (SEDCO); the Ministry of Enterprise and Employment's business development programmes; the Enterprise Trust Fund (ETF); the Small-Scale Enterprise Loan Credit Guarantee Scheme (SSELGS); the Export Credit Guarantee Scheme (ECGS), domestic trade fairs (DTF); overseas trade fairs (OTF) and trade attaches. A detailed discussion on the nature of each of these assistance programmes is presented in the chapter on 'Public Assistance Programmes in Swaziland'.

The methodology adopted for measuring the effectiveness of each assistance programme is in line with that suggested by Naidu and Rao (1993). Accordingly, the effectiveness of the assistance programme will be assessed in the following manner: First, the firms' awareness of the existing programmes is measured; and second, the use of the export assistance programmes by the firms. These results are then used to find the '*effectiveness ratio*,' which is the ratio of "*users*" to "*awareness*". Symbolically represented as follows:

$$\text{Effectiveness (Eff)} = \left[\frac{\text{Users}}{\text{Awareness}} \right] * 100 \quad 0 \leq \text{Eff} \leq 100 \quad (4.3.2.1)$$

Effectiveness can take on values from 0 to 100, where a 0 (zero) would represent complete ineffectiveness, implying that all firms are either completely unaware or none of them are using the assistance programme. An effectiveness value of 100 would imply that all firms that are aware of the assistance programme are using it. Ideally, programmes that record effectiveness rates closer to 100 are desirable because that would imply that once SMEs are aware of the programme they use it, hence public expenditures on those assistance programmes would be justified.

4.3.3 Investigating the Differences Between Exporting and Non-exporting SMEs

At the third level the investigation seeks to identify those characteristics that distinguish exporting from non-exporting SMEs. It is assumed that by understanding the key differences between exporters and non-exporters, a more concentrated effort to motivate and assist non-exporters into entering exporting will be undertaken. Since the investigation at this stage is partly exploratory, and therefore attempts to establish if there are any differences in the behaviour of certain variables for the exporting and non-exporting firms, the Analysis of Variance (ANOVA) method was deemed to be suitable. ANOVA is a method that simply lets us know if there are any significant differences between two or more population means (Keller and Warrick, 2000; Tabachnick and Fidell, 1989). According to Keller and Warrick (2000: 481) “this technique analyses the variance of the data to determine whether we can infer that the population means differ.” ANOVA is considered ideal for our needs because it will let us know if there are any significant differences between exporters and non-exporters in terms of the means of the various firm-specific and managerial characteristics.

In this study the choice of variables that were included to represent firm-specific and managerial characteristics were guided by a review of the international literature and the local business environment. The firm-specific characteristics that were targeted for this part of the investigation were: firm size, measured in terms of employment and sales in 1999; firm-age, measured in terms of number of years in business since the firm’s establishment, and the proportion of female employees in the company. The

variables used to represent managerial characteristics were the decision maker's age, level of education, knowledge of languages, and business related international travel. The hypothesis being tested was whether there were any significant differences in the firm-specific and managerial characteristics between the exporting and non-exporting firms.

4.3.4 Investigating the Factors Determining the Export Propensity of SMEs

As indicated earlier, part of the objective of this study was to contribute towards the development of a systematic procedure that can be used to identify currently non-exporting firms with a high export potential so as to enhance the targeting of export promotion programmes. To achieve this objective, the final stage in this part of the investigation aims at identifying the determinants of the likelihood of an SME being an exporter. The logit model was used to determine the overall contribution of the various firm-specific and managerial characteristics to export propensity.

Logistic analysis is a widely used statistical technique for analysing dichotomous (or binary) dependent variables, such as exporter ($Y=1$) and non-exporter ($Y=0$). According to Gujarati (1995:541) "the dichotomous dependent variable is a special case of the polytomous or multiple category dependent variable". He adds that, among the methods used to handle cases where the dependent variable is dichotomous, the four commonly adopted approaches are: the linear probability model (LPM), the logit model, the probit model, and the tobit model. The LPM, even though regarded as the simplest, is said to be an unattractive model logically, because it assumes that the conditional probabilities increase linearly with the values of the explanatory variables. Moreover, it has limitations in terms of non-normality of the error term, heteroscedasticity, and the possibility of the estimated probability lying outside the 0-1 bounds (Gujarati 1995:576). The problem of estimated conditional probabilities lying outside the logical limits can be overcome through the use of a cumulative distribution function (CDF) and the maximum likelihood estimation techniques. Both the logit and the probit models do guarantee that the estimated probabilities will lie within the logical limit of between 0 and 1.

From this brief discussion it is clear that, out of the initial four models, the possible choice of an appropriate model narrowed down to two – i.e., the probit and the logit models. Although the two models (logit and probit) are quite comparable, “the logit is generally used in preference to the probit,” partly because “it is slightly less” complicated (Gujarati 1995:568, 576), hence we selected the logit model for this part of the investigation.

Since in this study the available data distinguishes whether an SME is an exporter or non-exporter, the dependent variable is a dummy variable taking the value 1 if the SME is an exporter, and the value 0 if the SME is a non-exporter. Therefore the probability that an SME would be an exporter given its characteristics could be computed based on the cumulative logistic function. The model development and specification are presented below:⁴⁰

$$\text{Assume } Z_i = \beta_1 + \beta_2 X_{i2} + \dots + \beta_k X_{ik} \quad i = 1, \dots, N \quad (4.3.4.1)$$

where Z_i is assumed to be a continuous index which ranges from $-\infty$ to $+\infty$ and it represents a set of firm-specific and managerial characteristics.

Let, $Y = 1$ if the SME is an exporter
 $Y = 0$ if the SME is a non-exporter

Since the logit model assumes that Z_i is a logistic random variable, the probability that an individual SME would be an exporter given its characteristics can be computed from the (cumulative) logistic distribution function evaluated at Z_i as follows:

$$P_i = F(Z_i) = \frac{1}{1 + e^{-(B_1 + B_2 X_i)}} \quad (4.3.4.2)$$

where, P_i is the probability that the i^{th} SME is an exporter;
 $F(Z_i)$ is the cumulative logistic function evaluated at a specific value;

In Equation (4.3.4.2) as Z_i ranges from $-\infty$ to $+\infty$ P_i ranges between 0 and 1; and when $Z_i = 0$, $P_i = 0.5$.

⁴⁰ Gujarati (1995) was used when developing the model.

Equation (4.3.4.2) can be rewritten as follows:

$$P_i = \frac{1}{1 + e^{-Z_i}} \quad (4.3.4.3)$$

where $Z_i = \beta_1 + \beta_2 X_i$.

Equation (4.3.4.3) represents the cumulative logistic distribution function. In equation (4.3.4.3) since P_i gives the probability that the i^{th} SME is an exporter, then $1 - P_i$, would be the probability that the i^{th} SME is a non-exporter, and can be written as follows:

$$1 - P_i = \frac{1}{1 + e^{-Z_i}} \quad (4.3.4.4)$$

Simplifying equation (4.3.4.4), by multiplying both sides of the equation by $(1 + e^{-Z_i})$, dividing the result by P_i , and subtracting 1 from both sides yield the following:

$$\frac{P_i}{1 - P_i} = \frac{1 + e^{Z_i}}{1 + e^{-Z_i}} = e^{Z_i} \quad (4.3.4.5)$$

In Equation (4.3.4.5), $\frac{P_i}{1 - P_i}$ is the odds ratio in favour of being an exporter – (i.e., the ratio of the probability that the i^{th} SME will be an exporter to the probability that it will not be an exporter).

Taking the natural logarithm of Equation (4.3.4.5) gives the following logit (L_i) result:

$$\begin{aligned} L_i &= \ln\left(\frac{P_i}{1 - P_i}\right) = Z_i \\ &= \beta_1 + \beta_2 X_i \end{aligned} \quad (4.3.4.6)$$

In the logit model the dependent variable is, therefore, the log of the odds that the i^{th} SME will be an exporter. The regression coefficients are estimated using the

maximum likelihood method. A given slope coefficient shows how the log of the odds (that an individual SME will be an exporter) changes as the corresponding explanatory variable changes by one unit, or as an attribute different from that of the base category is considered. The statistical significance of the slope coefficients may be assessed from their respective standard errors, t -ratios or ρ -values. A test of the hypothesis that all the regression coefficients in the model are zero can be done via the likelihood ratio test where the chi-square test statistic has $k-1$ degrees of freedom.

For estimation purposes we can write the following:

$$L_i = \ln\left(\frac{P_i}{1-P_i}\right) = B_1 + B_2 X_i + u_i \quad (4.3.4.7)$$

$$L_i = \ln\left(\frac{1}{0}\right) \quad \text{if the SME is an exporter} \quad (4.3.4.8a)$$

$$L_i = \ln\left(\frac{0}{1}\right) \quad \text{if the SME is an in a non-exporter} \quad (4.3.4.8b)$$

The estimated logit model is thus

$$\hat{L}_i = \ln\left(\frac{\hat{P}_i}{1-\hat{P}_i}\right) = \hat{B}_1 + \hat{B}_2 X_i \quad (4.3.4.9)$$

In dichotomous dependent variable models, the conventionally computed coefficient of determination (the R^2) is of questionable value as a measure of goodness of fit (Gujarati, 1995: 545-46, 561, 579). Consequently, several alternatives have been suggested in the literature. A number of those are reported with the regression results in a later chapter on findings.

When the regression coefficients are exponentiated, the derived values or the antilogs indicate the effect of each explanatory variable directly on the odds of being an exporter rather than on the log-odds. Subtracting 1 from the antilogs and multiplying the results by 100 would give the percentage changes in the odds corresponding to a one unit change in the explanatory variables (Gujarati, 1995: 559).

Finally, the explanatory variables used in estimating the model, and the final coefficients of the model are presented in the analysis chapter.

4.3.5 Computer Packages used in the analysis

Three computer software packages were used for analysing the data. These are Microsoft Excel 2000; Microsoft Access 2000; and the Statistical Package for Social Scientists (SPSS for Windows) version 10.1. These computer packages were chosen because of their user friendliness and they made it possible to sort the data, use various statistical techniques to understand the behaviour of individual variables, and to explore relationships among the various variables in the model. The Microsoft Access software was used to sort company data, run queries and crosscheck for any errors. SPSS was used for analysing the data. Specifically, this software was useful for calculating basic descriptive statistics, cross-tabulations, ANOVA, and estimating the logit model. The Microsoft Excel software was useful for creating tables and charts.

4.4 Data Collection

4.4.1 Sources of Data

Data on SMEs in Swaziland are generally scanty. Therefore for this study it was necessary to collect primary data and then supplement it with whatever secondary data was available. Secondary data were obtained from several local (Swaziland) reports and documents. The following reports were used: Central Bank of Swaziland Quarterly Bulletins and Annual Reports; Central Statistical Office' Annual Bulletins; National Development Plans; Swaziland Business Year Books; and Annual Statistical Reports for the Export Credit Guarantee Scheme, the Small Scale Enterprise Loan Guarantee Scheme, LULOTE, Enterprise Trust Fund, Small Enterprise Development Company, Federation of Swaziland Employers and Swaziland Chamber of Commerce. In addition, various international publications were consulted, these

included journal articles, reports and books. A detailed bibliographic record on all reference material is provided in the bibliography section.

Primary data was collected by means of a survey questionnaire. There are three ways of implementing surveys. These are: mail survey, telephone survey and personal interviews. Mail survey questionnaires are normally regarded as the preferred mode of collecting data of the nature required in this study because they are relatively inexpensive, can be wide ranging, self administering, and anonymous (Conant, Smart and Walker, 1990; Isaac, 1982). However, mail surveys often face a problem of low response rates and sample selection bias, especially when a large proportion of the sampled fail to return the questionnaire (Bordens and Abbott, 1991; Keller and Warrack, 1999). In addition, mail surveys are considered to be less effective compared to telephone or personal interviews, because the latter methods enable the interviewer to tailor the questions to the respondent's particular circumstances (Yu and Cooper, 1983). Despite these disadvantages, mail surveys are one of the frequently used methods of data collection, especially when the survey population is large and the issues involved are wide ranging.

In view of the potential problems that come with mail questionnaires, several steps were taken to improve the response rate by following on suggestions made by Keller and Warrack (1999) and Dillman (1978), on how to improve response rates in survey questionnaires. These measures included exercising care in designing the questionnaire, personalising outgoing letters, providing information about the research in a cover letter, and supplying a stamped return-addressed envelope. In addition, telephone call reminders were made to try and improve response rates. However, due to the low response rate from the mail survey questionnaires, it became necessary to carry out face-to-face interviews. Personal interviews have the advantage of ensuring a high response rate and good quality data. Their main disadvantage is that they are relatively more expensive, and sometimes respondents may not be free to express themselves in the presence of an interviewer (Maholtra, 1999; Keller and Warrack, 1999). Details on the interview process are presented in a subsequent section.

4.4.2 Questionnaire Design

To ensure that information is collected from both the service providers and users of SMEs' assistance programmes, two questionnaires were developed with the aim of soliciting qualitative and quantitative data - one for the SMEs, and the other for government officials and other service providers to SMEs, e.g., managers of SMEs Associations and Chambers of Commerce. The investigation pertaining to SMEs formed the core of the research, therefore a well-structured questionnaire was carefully designed and used to obtain both quantitative and qualitative data on various aspects of SMEs, including: the firm-specific and managerial characteristics; views on business environment factors; and various export related activities. The questionnaire was targeted at owner-managers or the most senior personnel officer. In designing the questionnaire, reference was made to materials and methods used in previous similar studies. In particular, questions used in recent similar studies (such as those reported in UNCTAD (1998a); Moini (1998); Weaver, Berkowitz and Davies (1998)) were used as a reference to guide the process of developing this study's questionnaire. The final choice of questions to be included in the questionnaire was influenced by the objectives of this study. Questions were listed in a logical order and grouped in sections. The various sections of the questionnaire were designed with the following aims:

- To obtain information from exporting and non-exporting SMEs on firm-specific and managerial characteristics, and perceptions about (and motives for) exporting;
- To determine the extent of SMEs participation in exporting;
- To determine SMEs' degree of awareness and use of the various assistance programmes;
- Obtain information on the needs of exporting SMEs so as to assist in the design of effective assistance programmes that can enhance the performance, growth and development of SME;
- Solicit views about the conduciveness or otherwise of business environment factors; identify the impediments to the growth and development of SMEs, and policies and programmes that are of assistance to SME development.

The questions were asked in simple English to ensure clarity, and they were presented in a polite manner. Clear instructions were provided on how to provide responses and spaces were provided for respondents to present their comments on any issue(s) that may be of concern to them but might have been missed in the questionnaire.

A draft questionnaire was prepared and circulated among colleagues and professionals for comments. In addition, discussions on the draft questionnaire were held with four different service providers to solicit their views on the appropriateness of questions in terms of sensitivity and coverage of issues. Comments obtained from these groups were used to modify the questionnaire appropriately.

The second questionnaire for service providers contained a list of open-ended questions on various issues ranging from the nature of SME services provided by the institution, to views about the policy environment, and suggestions on how to improve the current status of SMEs in the country.

4.4.3 Pilot Survey

A pilot survey was carried out to pre-test the questionnaire for SMEs. Five firms (two exporters and three non-exporters) were involved in the pre-testing of this questionnaire. Telephone calls were made to all five firms to seek permission to do the pilot study. Although the intention was to send the questionnaire in the mail, two firms preferred receiving the questionnaire by fax and communicating by telephone only when it was necessary, the other three preferred personal interviews. After collating the responses from all five firms, appropriate adjustments were made to some of the questions and a few questions had to be excluded because they were not yielding usable responses due to their sensitivity. For example, questions on the profitability of exports compared to local sales had to be excluded because firms were generally reluctant to provide such information. The questionnaire for service providers was not pre-tested because it was mainly developed to guide general discussions. The final questionnaires used for SMEs and the service providers are attached as Appendix 4.1 and 4.2, respectively.

4.4.4 Sampling Process

Since the investigation involved two separate groups (SMEs and service providers), there were two target populations with two separate sampling processes.

4.4.4.1 Sample Process for SMEs

The population figure for SMEs is not known in Swaziland because there is no comprehensive and/or up-to-date register of firms. Even though companies are required by law to register, many small enterprises remain unregistered (McPherson and Liedholm, 1996). The problem is compounded by the fact that the functions of registration and licensing of companies are carried out by separate government departments, located under different ministries, and, the records are not computerised at the time when this research was undertaken. So the population was compiled based on lists obtained from the various private sector SME services providers - which included: the Association of Swazi Business Community (ASBC), Business Women Association (BWAS), FSE and SCC. The lists obtained from these institutions were then complemented with company lists obtained from several public organisations which included the Employment Statistics Department at the Ministry of Enterprise and Employment, the Customs and Excise Department, the Balance of Payments Department at the Central Bank of Swaziland and the Trade Promotion Unit. Generally, it was comparatively easier to obtain basic information (e.g., telephone, fax, physical and postal address, products, contact person, etc.) about the exporting firms than for non-exporting ones. From the lists obtained, it was only possible to tell, before hand, which companies exported in 1999, but for non-exporters, it was not always possible to tell if the company still existed in 1999. Information on employment was generally incomplete (either missing or not up-to date). In many cases it was necessary to make telephone calls, where possible, to get the employment figures. Due to the inaccuracy and inadequacy of employment data, a decision was made to involve as many exporting firms as possible. Although not intended initially this had the *potential* advantage of providing export information about the different group sizes of firms, and therefore gaining more insight and understanding on export

activities and export behaviour of firms in Swaziland. The identified populations for the exporting and non-exporting firms, and the sample number of firms included in the survey are presented in Table 4.1.

Initially the questionnaire was sent out to 236 firms categorised as follows: all firms who exported in 1999 as listed in the Customs and Excise Department records (134 in total); plus the 102 firms identified as non-exporting SMEs. It should be noted that the initial exporters' group included all firms irrespective of size, however later a sample was selected from SMEs only. Owing to the poor response rate from the mail survey various measures were adopted in order to improve the response rate. The various service providers were contacted and requested to cooperate in encouraging their membership to participate in the study. Consequently the questionnaire was re-circulated (with the assistance of the ASBC secretariat) to all members of the ASBC.

Table 4.1 Sampling Procedures

Activity	Exporters	Non- Exporters	Total
Total identifiable population*	134**	102	236
Questionnaires sent out	134	102	236
Non-deliverable (Returned)	7	21	28
Interviews conducted	20	26	46
Final usable questionnaires	20	20	40

Notes on Table 4.1:

* The total identifiable population was compiled after harmonising the lists obtained from the various service providers. The final list excluded firms engaged in 'transport services' and 'retail and trade'.

** 134 represented all exporting firms. Of these 80 had an employment size of 100 or below.

After two months the response rate was still not satisfactory and the information in some of the returned questionnaires was incomplete and in some instances unusable. In order to improve on the response rates, it became necessary to change the data collection strategy and adopt a more persuasive technique. Hence, a decision was made to use personal interviews with a smaller number of firms in the sample. For exporting firms, a 25 percent sample was selected using the stratified random sample

method. The sample size for non-exporting firms was influenced by the experience from sampling the exporters, given that the main interest of the study was on the export behaviour of firms. In addition assistance was sought from SEDCO with regard to the selection of participants for the non-exporting group. Consequently 26 non-exporting SMEs (representing a 25 percent sample) were selected. Overall, 46 interviews were conducted. However from the non-exporters group, six questionnaires had incomplete data and therefore were categorised as unusable and eliminated from the sample. The final sample constituted of 40 firms, representing a 22 percent of the identifiable SME population.

4.4.4.2 Sample Process for Service Providers

The target population for the service providers was as follows:

- i) Government officials in departments that deal with SMEs - Ministry of Enterprise and Employment; and the Trade Promotion Unit at the Ministry of Trade and Employment.
- ii) Managers/Directors of Employers' Federations and Chambers of Commerce – Federation of Swaziland Employers Swaziland Employers (FSE); and the Swaziland Chamber of Commerce.
- iii) Managers/Officials of SMEs' Assistance Programmes – Small-scale Enterprise Loan Guarantee Scheme; Export Credit Guarantee Scheme; LULOTE; and the Enterprise Trust Fund.
- iv) Managers of SME Associations and Groups - Association of Swazi Business Community; Business Women's Association of Swaziland; and IMBITA.

The sample for the service providers' group was selected purposively based on the researcher's knowledge of the local environment and also guided by information gathered during consultations with SEDCO and the Ministry of Enterprise and Employment. Overall, interviews were held with 13 service providers - with at least one official interviewed from each of the above groups.

4.4.5 The Data Collection Process and Problems

Telephone calls were made to the various SMEs to secure consent for personal interviews as an alternative to the mail questionnaires. Appointments were secured, and subsequently interviews were finally undertaken over a six-month period between May and October 2000.

The data collection process posed some major challenges to the researcher. First, there was the problem of poor communication networks. Due to the heavy rains that occurred in the first quarter of 2000 most of the infrastructure (roads and telephone lines) was damaged. This made it difficult to move around the country and also to communicate with key institutions and individuals. As a result, there were delays in carrying out the pilot survey. Then there was the problem of reluctance on the part of business owners to sacrifice time away from their activities to participate in the research. This led to poor response rates to the mail questionnaires and eventually a reduction in the pre-targeted sample size. In general, maintaining anonymity and avoiding personalisation in mail questionnaires is regarded as an additional means of increasing response rates in small business research (Andreasen, 1970). However, in this study assurance of anonymity seems to have done little to improve response rates, hence the resort to face-to-face interviews. Resort to personal interviews risked the loss of some of the information, which firms would not easily reveal in an interview compared to a mail survey. Nonetheless this procedure, although relatively more expensive, had some clear advantages over the mail survey. For example, it had the flexibility of either allowing the respondent to fill in the questionnaire in the presence of the investigator or the investigator writing down the responses. In the event that the respondent preferred filling in the responses it was possible for him or her to seek clarification where necessary and the investigator could review the responses immediately and sort out any ambiguities. On the question of sensitive information (like sales and costs) attempts were made to encourage firms to share such information by using estimates and grouped data (for example, using statements like below X or above X, or within a certain range). To some extent this helped but it certainly compromised some of the detail required, and eventually the pre-selected methodology for analysing the data.

Although the problems of refusal to disclose financial information and poor response rates were extremely frustrating, to some extent they were expected because, these are a common phenomenon in small business research. For example, Kathawala *et al* (1989) reported that out of 821 firms only 160 (19.5 percent) responded, and approximately 36 percent of the responding firms did not disclose information regarding the percentage of export sales as part of gross sales. Elsewhere, response rates as low as 5.3 percent (in a sample of 1000 firms) have been reported in similar studies involving SMEs (Dogan and Smyth, 2002). Overall, the strategy finally adopted in this study, i.e., using personal interviews, helped to improve the response rate and the quality of the responses.

4.4.6 Assurance of Confidentiality

An initial rapport was developed, through meetings, with executives of key organisations that provide services to SMEs (i.e., Federation of Swaziland Employers, Swaziland Chamber of Commerce, Business Women's Association and Association of Swazi Business Community). These meetings helped to inform these organisations about the purpose and objectives of the study and to seek their cooperation and support in ensuring that their membership understands the importance of such a study and to encourage them to participate. After establishing this initial rapport, a cover letter, to accompany the questionnaire, was prepared. This cover letter outlined the aims and objectives of the research, and gave assurance that all information will be treated as strictly confidential. It also assured participating firms that results of the survey would be reported collectively so that no individual firm or manager's response would be identifiable. This letter also identified the researcher as a staff member of the Economics Department at the University of Swaziland⁴¹, and supplied full contact details to be used in case of any questions or clarifications needed about the questionnaire. Respondents were also promised access to a summary of the results upon request. In addition to this letter, when firms were contacted by telephone and again during the personal interviews, the researcher explained the purpose of the

research and also reiterated the confidentiality assurance procedures. However, despite this assurance, still some firms were reluctant to divulge financial information, and some refused to participate in the study. Some firms expressed willingness to participate only if they were assured of specific individual firm benefits. In such instances, since the researcher could not guarantee such benefits those firms did not participate in the survey.

4.5 Limitations of the Study

Researching SMEs in developing countries is not easy. This research encountered externally imposed limitations, which led to the reduction of the sample size. In addition the scope of this study is limited by the inclusion of only a selected number of internal and external factors, compared to the several that have been identified in the literature as determinants of export propensity and export success. For instance, whilst issues of price and non-price competitiveness, product quality, and technology uptake, are acknowledged as important determinants of the international competitiveness of SMEs (McGregory and Gomes, 1999; Wignaraja, 2002; Wijewardena and Cooray, 1995; Duncombe and Heeks, 2002), it was not possible to incorporate all these variables in this research. To this end the analysis presented here constitutes only a partial investigation. However, notwithstanding these caveats, this exploratory study has provided information that makes it possible to draw some implications for the promotion and development of SMEs in Swaziland. Moreover, it provides a good base upon which future studies can be undertaken, hence improving our understanding of the export behaviour of SMEs and also contributing to the design of more effective assistance programmes.

4.6 Summary and Conclusion

In this chapter the analytical framework to be used in this study was developed. In particular, several internal and external factors were identified as important determinants of the export propensity and performance of SMEs. The various

⁴¹ For strategic reasons the researcher had to use the Swaziland address for correspondence, as opposed to the Palerston North address. However during the interviews respondents were informed that the researcher was studying at Massey University.

techniques adopted for purposes of exploring relationships among the variables influencing export propensity were presented. A multiple method approach is adopted and it combines the use of basic descriptive statistics, ANOVA, Logistic analysis, and qualitative assessments of policy. Finally, the data collection procedures used in the investigation was discussed. The survey method was selected as the most appropriate for obtaining the required quantitative and qualitative data. A questionnaire was developed, and subsequently personal interviews were conducted over a six-month period during year 2000. The findings from the survey will be presented in the chapters to follow.

CHAPTER FIVE

PUBLIC ASSISTANCE PROGRAMMES FOR THE DEVELOPMENT OF SMEs IN SWAZILAND

5.1 Introduction

The effective involvement of the SME sector in a country's export activities has been an important element of the route to equitable growth and development through the international market place. Moreover, a growing and dynamic SME sector holds the promise of providing a seedbed for the emergence of efficient and large-scale national firms, and consequently a more flexible and competitive domestic economy (UNCTAD, 1995a). Despite the potential benefits of exporting, both to the individual SME and the nation at large, venturing into international markets is not easy for any enterprise. SMEs, more than large firms, often find exporting more challenging because they lack the required resources to invest in administrative, technical, and marketing skills that are necessary and vital for an enterprise's success in international markets. Often, the ability of SMEs to enter and compete effectively in export markets is discouraged by the high fixed cost of acquiring information on foreign buyers, distribution channels, quality standards, and new technologies (IFC, 2000).

The realisation of the strategic role of small and medium enterprises in the economic development of the country, coupled with the recognition of the existence of market distortions which place small businesses at a disadvantage form the major basis and justification for the establishment of SME assistance programmes. The International Finance Corporation notes that the fact that small, medium and micro enterprises are the emerging private sector in poor countries, and thus form the base for private sector-led growth, is enough reason for governments in these countries to pay special attention to their development (IFC, 1998b). In addition, UNCTAD (1996) has reported that in less developed countries SME assistance programs are normally more crucial because most enterprises are still in the rudimentary stages of development and so are their factor and product markets.

The purpose of this chapter is to present an analysis of the various government-initiated assistance programmes that aim at supporting the growth and development of SMEs in Swaziland. The discussion focuses mainly on those assistance programmes that have a potential of promoting the involvement of SMEs in the export sector.

5.2 The Nature of Public Assistance Programmes in Swaziland

Swaziland, like many developing countries, recognises the need for government intervention in promoting the development of SMEs in general and into the export business in particular. Consequently, the Government of Swaziland has, over the last three decades, established various SME assistance programmes and institutions targeting areas of finance, training and business development. One of the very first initiatives was the establishment of the Small Enterprise Development Company (SEDCO), in 1970, which initially operated as a one-stop shop because it offered a wide variety of services including business management training and counselling, finance, and marketing. Subsequent initiatives have, however, been more focused in terms of the area of assistance targeted by the program. In the area of finance the institutions and assistance programmes that have been established are as follows: the Small-Scale Enterprise Loan Guarantee Scheme (SSELGS); the Export Credit Guarantee Scheme (ECGS); the Enterprise Trust Fund (ETF); and the Regional Empowerment Fund. In the area of training and business development the support programmes are as follows: Lulote (also known as the Business Management Extension Programme (BMEP)); the Swaziland College of Technology (SCOT); the National Handicraft Training Centre (NHTC); the Vocational and Commercial Training Institute of Matsapha (VOCTIM), and the vocational training centres in Manzini, Nhlanguano and Siteki, normally referred to as MITC/NASTC/SITC. In addition to the support programmes/institutions listed above, various government departments offer support services to SMEs. Of particular significance and relevance to this study is the Trade Promotion Unit housed at the Ministry of Foreign Affairs and Trade.

It is worth noting that some of the support programmes/institutions listed above, offer their services to all enterprises irrespective of size. Others offer their services to all SMEs irrespective of the market orientation of the enterprise. For example, the Trade

Promotion Unit offers a variety of promotional services to all exporters irrespective of size, and the Small Scale Enterprise Loan Guarantee Scheme and the Enterprise Trust Fund can be accessed by both exporting and non-exporting SMEs. The Export Credit Guarantee Scheme is the only assistance programme that is exclusive to SME exporters. The training institutions are open to all enterprises, exporting and non-exporting, small, medium, and large. The discussion below will present a review of each of the above SME assistance programmes. The presentation is grouped into financial and non-financial assistance programmes.

5.3 Financial Assistance Programmes

The Swaziland Government recognises the important role that finance can play in the development of the SME sector and has been mindful of the fact that the formal financial system has not dealt well with the needs of smaller enterprises. This recognition is reflected in the various financial assistance programmes that have been initiated, many of which were introduced in the 1990s. Among the major initiatives are the Export Credit Guarantee Scheme, the Small-scale Loan Guarantee Scheme, and the Enterprise Trust Fund. The section below discusses each of these financial assistance programmes, starting with the Export Credit Guarantee Scheme.

5.3.1 The Export Credit Guarantee Scheme

The inability of many SMEs to acquire credit for both the production and shipping of exports was identified as a major constraint to the improvement of Swaziland's export performance (Swaziland Government, 1996). In particular, the inability to raise sufficient collateral and to afford high interest charges on loans, were identified as the leading problems of exporting companies. In an attempt to redress these problems, the Government of Swaziland established the Export Credit Guarantee Scheme in 1991, with technical assistance from the United Nations International Trade Centre. Part of the logic behind establishing the scheme was to provide a mechanism which would encourage the commercial banking sector to finance smaller loans to a segment of the market that they did not previously serve. This was because of the perception that

banks were avoiding this type of customers and were hoarding their excess liquidity (World Bank, 1996). The specific objectives of the Scheme were stated as follows:

- ◆ “To assist small and medium size exporters of Swaziland to entertain more export orders with greater ease, thus contributing to the overall improvement of the country’s trade balance;”
- ◆ “To increase the competitiveness of small and medium size exporters of Swaziland on external markets by backing their export deals, involving short-term deferred payment;” and
- ◆ “To facilitate the penetration of Swazi-made products to new markets by providing exporters with similar short-term credit facilities, which competitors are already enjoying” (CBS, 1991:1).

Due to the absence of an independent credit corporation, the Government of Swaziland requested the ‘Central Bank of Swaziland’ to assist with the implementation of the Export Credit Guarantee Scheme. The Scheme is therefore housed at the Central Bank of Swaziland, under the Development Finance Division.

The Scheme works as an export financing facility and offers two kinds of loans namely pre-shipment and post-shipment financing. The pre-shipment financing facility was designed to cover a broad range of working capital and production costs. Pre-shipment loans can be guaranteed by the Scheme’s fund up to a maximum of 75 percent of the total loan amount. On the other hand, post-shipment credit is closely tied to the actual export of goods, with the normal trade documentation in effect, and loans can be guaranteed up to a maximum of 85 percent of the total loan amount.

The operational procedure of the export financing scheme in Swaziland is somewhat different from other schemes of a similar nature that have been established in other countries in that the commercial bank instead of the exporter, approaches the credit guarantor directly for cover. To access the Scheme’s funds an exporter is expected to place an application through his/her bank. This implies, therefore, that for an SME exporter to benefit, the Scheme’s requirements presume that the exporter has an account relationship with a commercial bank, operates proper accounts, and possesses some fixed assets or inventory over which the bank can place a lien for its credit exposure.

Under this Scheme there is no minimum loan level, however the maximum guarantee that can be issued to any one exporter was initially set at E2.5 million with an allowance for periodical reviews. There is also a limit on the maximum interest rate that can be charged by the commercial banks under this Scheme, and that is the *prevailing* prime rate, which has fluctuated between 15 and 21 percent during the period over which the Scheme has been operational.⁴² The guarantee premium charged under the Scheme ranges from 0.53 percent to 2.33 percent, depending on the type of credit insured and the length of time that the coverage is required. In addition, exporters are required to pay a nominal issuance and renewal fee of E25 whenever a guarantee is issued or extended.

At establishment, the Swaziland Government injected E5.5 million as initial capital. Subsequent injections have been made by the Government and from premiums received from banks, such that by February 2000 the capital value of the Scheme was recorded to be E21.5 million⁴³ (Central Bank, 2001). This implies that in its first nine years of operation the Scheme's capital fund had quadrupled. A breakdown of the lending activities under the Scheme by participating institutions and by sector, since its inception, is presented in Tables 5.1 and 5.2 and Figures 5.1 and 5.2.

By February 2000 the Scheme had facilitated the approval and disbursement of a total of 273 loans totalling a value of E165,409,608 (see Table 5.1)⁴⁴. Loan sizes that have been extended have ranged from as little as E1,771 to as high as E2.0 million, but the average loan amount for the entire program was E605,896. The Scheme's records also indicate that almost 50 percent of the total number of loans disbursed have been for amounts that are under E100,000 while at the upper end almost 20 percent of the loans have been for amounts over E1.0 million.

⁴² Source of prime rates is CBS, *Quarterly Reviews*, Various Years.

⁴³ The Government of Swaziland's share in the total capital fund of the Scheme is now approximately 55 percent.

⁴⁴ For confidentiality reasons the Bank names are not revealed, instead they are represented by alphabets, A, B, C and D.

**Table 5.1 Export Credit Guarantee Scheme Lending Activities
Distribution by Participating Institution**

	Bank				
	A	B	C	D	TOTAL
Loans Disbursed					
Total number of loans	25	148	61	39	273
% share in total number of loans	9.2%	54.2%	22.3%	14.3%	100.0%
Total Value (E)	4,276,132	96,130,220	49,086,325	15,916,931	165,409,608
% share in Total Value of loans	2.6%	58.1%	29.7%	9.6%	100.0%
Average loan size (E)	171045	649529	804694	408126	605896
Loans Repaid					
Value of loans repaid (E)	3,700,841	86,657,143	43,609,825	14,748,448	148,716,257
% Repaid to Granted	86.5%	90.1%	88.8%	92.7%	89.9%
Guarantees Issued					
Value of Guarantee Issued (E)	3,247,099	76,266,645	37,368,458	11,938,418	128,820,620
Bank's Share in total (E)	2.5%	59.2%	29.0%	9.3%	100.0%
Defaults					
Total value of defaults (E)	330,291	6,296,606	0	0	6,626,897
Default share to loans granted (%)	7.7%	6.6%	0.0%	0.0%	4.0%
Loans in Force					
Total number of loans	1	2	3	2	8
% share in total number of loans	12.5%	25.0%	37.5%	25.0%	100.0%
Total value (E)	245,000	3,176,471	5,476,500	1,168,483	10,066,454
% share in Total Value of loans	2.4%	31.6%	54.4%	11.6%	100.0%
Value of guarantee (E)	183,750	2,500,000	4,357,375	876,363	7,917,488
Bank's share in total (E)	2.3%	31.6%	55.0%	11.1%	100.0%

Source: Central Bank of Swaziland

Notes on Table 5.1

Bank names are not revealed for confidentiality reasons. Instead they are represented by alphabets.

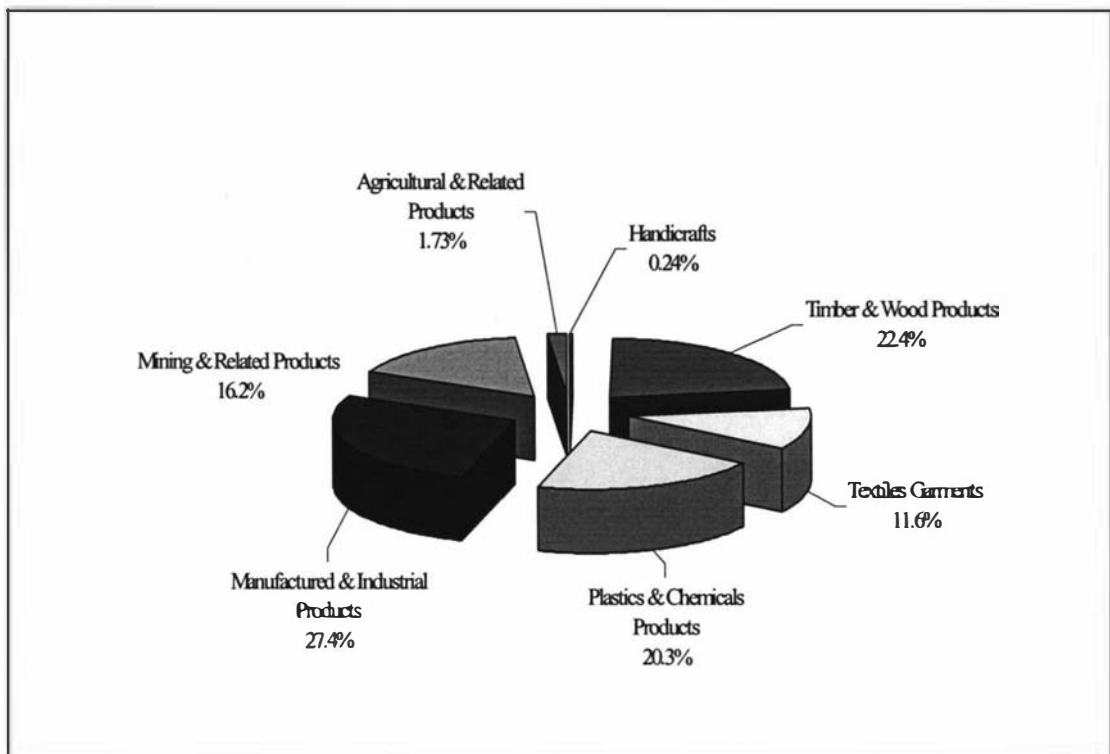
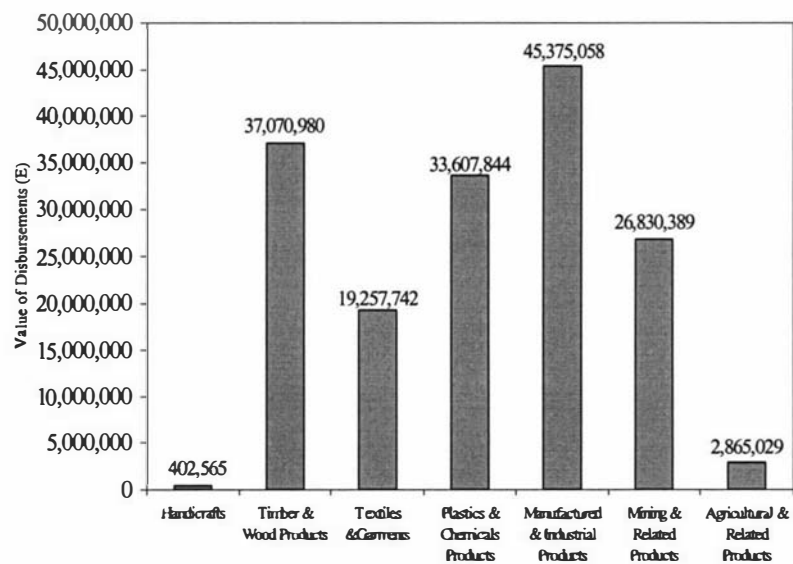
An industry analysis of the loans disbursed under the Scheme shows that exporters in manufacturing industries have received the largest share of the total value of loans disbursed (see Figures 5.1 and 5.2). For example, exporters of 'Manufactured and Industrial Products' and exporters of 'Plastics and Chemical Products' received 27.4 percent and 20.3 percent, respectively. On the other hand, exporters of 'Handicrafts' have received less than one percent of the total amount of loans disbursed.

Whilst approximately 24 percent of the loans disbursed have been to the agricultural and forestry sector, less than two percent have been to exporters of non-forestry related products. Given that the majority of smaller businesses that are exporting are involved

in handicrafts and non-forestry related agricultural activities, it would seem that more of the upper-sized businesses have been able to access the Scheme's funds. This seems to indicate that smaller exporters still have some problems accessing the Scheme and hence this explains why, despite the availability of the Scheme, finance is still regarded as one of the major constraints by many of the smaller SMEs. The fact that to successfully access funds from the ECGS, the Scheme's requirements presume that the exporter has an account relationship with a commercial bank, operates proper accounts, and possesses a level of fixed assets or inventory, is one of the reasons why many of the smaller enterprises have not been able to access the Scheme's funds, given that these presumptions are based on features that tend to be problem areas for many SMEs.

Lending activity under the ECGS indicates that the usage rate of the Scheme grew rapidly during the first five years of the program, but in the last half of the 1990s the number of new loans disbursed decreased drastically. More than 70 percent of the loans disbursed under the Scheme were issued by the end of 1996. In addition, whilst the average number of loans in force since the Scheme's inception was approximately 30 per year, for the period 1997-1999 the average number of loans was less than 10. In 1999, for example, only 8 loans were in force.

It has been suggested that one of the major reasons why, in recent years, the growth in the Scheme's usage has slackened is the lack of interest by financial institutions in participating in the Scheme, alleging that commercial banks were pressurised to participate when the Scheme was established (World Bank, 1996). In addition, the World Bank has argued that the structure of the Scheme, which was designed to meet the needs of the smaller exporter, means that most loans and guarantees would be small in size, yet, such credits rarely fall into the category of 'usual trade transactions' and cannot be efficiently administered by the commercial banks. Participation by the various financial institutions is, indeed, increasingly becoming more skewed, with more than 50 percent of the loans having been disbursed by one bank (see Table 5.1) and some banks have not actively participated during some years of the Scheme's life. Hence it has been recommended that a separate institution should be established to administer the Scheme jointly with the other development finance schemes that exist in the country.

Figure 5.1 Export Credit Guarantee Scheme: Lending by Sector (1991-2000)**Figure 5.2 Export Credit Guarantee Scheme: Value of Disbursements (1991-2000)**

Whilst in the international literature it has been suggested that commercial banks are usually deterred from doing business with SMEs mainly because of the perceived credit risks inherent in small transactions,⁴⁵ the repayments rates in the case of the Swaziland's ECGS have been very good. In fact, on average, more than 90 percent of the loans granted have been repaid, which implies that the perceived credit risks are not exceedingly high because most of the SMEs that have accessed the Scheme's funds have repaid their loans (see Appendix 5.1). Even the handicrafts sector which has the bulk of the smaller loans (normally considered high risk and susceptible to high default rates) has a default rate of only 3.2 percent and 96 percent of the loans have been repaid.

Another factor that has been floated in explaining the slackened growth of the Scheme's usage is the possibility that a saturation point might have been reached given the small population of the country. However, during the interviews representatives of the various small business associations dismissed this point, arguing that many of their members are still keen to access the Scheme but seem to be getting a cold shoulder from the commercial banks. The fact that commercial banks in the country continue to show little interest in the Scheme, despite the high repayment rates seems, to confirm the allegation that they (the commercial banks) have no commitment to the developmental objectives of the country.

Generally the performance of the ECGS has been a good attempt at assisting SMEs to get into exporting. However, the recent decline in the Scheme's usage rate and the poor participation by commercial banks, despite the proven good repayments by exporting SMEs, calls for a restructuring in the operations of the Scheme. The anticipated move to establish a separate institution that will manage the Scheme has been welcomed by SMEs Associations and it is hoped that this will contribute to improved access to the Scheme's funds by many SMEs.

⁴⁵ See for example Le y, Berry and Nugent (1999); Storey (1994, 1997); Young (1993); Webster, Riopelle and Chidzero (1996) just to mention a few.

5.3.2 The Small Scale Enterprise Loan Guarantee Scheme

The Small-Scale Enterprise Loan Guarantee Scheme (hereafter referred to as the SSE-Scheme) was established in 1990. This was an initiative of the Government of Swaziland aimed at promoting the growth of the small-scale sector on the basis that this sector had proved to be able to survive during recessions and maintain a comparatively high growth rate, particularly in such industries as transport, services and light manufacturing (Swaziland Government, 1990). The feeling among Government officials, at the time, was that small-scale enterprises represented the embryos of promising new businesses, and therefore were worthy of Government support. The main purpose of the SSE-Scheme was to actively support enhanced access to credit for indigenous Swazi entrepreneurs, by encouraging financial institutions in the country to provide business financing through the reduction of the financial institutions' financial risk under a credit guarantee program.

The specific objectives of the SSE-Scheme were stated as follows:

- ◆ To establish a loan guarantee fund that would encourage participating financial institutions e.g., local development finance institutions as well as commercial banks, to increase lending to small-scale enterprises in Swaziland, by reducing the financial risk to be taken by those institutions.
- ◆ To make better use of surplus liquidity available at banks for a specific development purpose, i.e., actively to support local entrepreneurs (many of whom have no access at present to commercial credit for lack of collateral) to develop their businesses into viable private enterprises.
- ◆ To promote increased participation of Swazi nationals in the economic growth of the country, in particular in sectors of industry suitable for small-scale operations and to improve their competitive position; and
- ◆ To stimulate efficient localisation of small-scale businesses especially in small-scale industry, commerce and services, by providing adequate capital to take over existing shops and workshops or to establish new ones (Central Bank of Swaziland, 1990).

Other objectives of the SSE-Scheme, that are incorporated in its Terms of Reference, are to help to redirect finance to facilitate the growth of small-scale enterprises and balanced economic growth across all sectors, such as gender, region, etc.

The Central Bank of Swaziland (CBS) was entrusted with the responsibility of managing the SSE-Scheme; hence the SSE-Scheme has been operated from the Development Finance Division of this bank. The role of the CBS in the operations of the SSE-Scheme is therefore to approve loans submitted for guarantee, manage the guarantee fund and monitor it against the SSE-Scheme's objectives. Accordingly, the CBS was in turn expected to report annually, on the operations of the SSE-Scheme to the Government through the Ministry of Finance.

The SSE-Scheme was targeted at small-scale Swazi enterprises. Hence, to be eligible for credit under this program, the enterprise must either be owned by a Swazi national or by a legal entity in which Swazi nationals have majority control. In addition, the total business assets of the enterprise were not to exceed E150,000 at the initial stage of the fund and the maximum loan limit was set at E50,000. These amounts were to be reviewed later taking into account the changing economic circumstances. Consequently these limits have been revised upwards with the maximum loan limit set at E100,000 and eligible businesses are not permitted to have more than E300,000 worth in assets.

According to the SSE-Scheme's lending terms, the lending rate of interest for which a guarantee is requested is related to the market interest rates, either the prime or discount rate as per the acceptable definition by the participating financial institution. However, the maximum interest rate that can be charged is fixed at one percent above the prime rate with a maximum term of five years. In addition to the SSE-Schemes' stated eligibility conditions it was expected that the participating financial institutions would use their own standard evaluation criteria to ensure that applicants' business proposals are viable and financially sound before granting credit. Loans can be guaranteed by the SSE-Scheme's fund up to a maximum of 75 percent of the total credit. The remaining 25 percent is supposed to be assumed risk by the lending institution.

The SSE-Scheme was initially capitalised with E4.0 million, but an additional E1 million in capital was subsequently injected by the government. The net balance of the

SSE-Scheme account was recorded at E5.3 million as at 31st December 2000, and this amount incorporated interest income from investments, administration fees and premium incomes from the various participating financial institutions.

After ten years in operation the SSE-Scheme had facilitated the approval and disbursement of 560 loans amounting to E14,532,217 (see Table 5.2). Of the 560 loans disbursed, 194 (35 percent) have been allocated to female proprietors, 203 (36 percent) to male proprietors, and 163 (29 percent) to companies (see Figure 5.3). This indicates that there has been a fairly even distribution in the number of loans granted between male and female owned SMEs. In value terms, however, individual female borrowers have accessed only 20 percent of the entire loan portfolio whilst individual male borrowers have accessed 36 percent, and the largest share, 44 percent, has gone to companies (Central Bank, 2001).

Table 5.2 SSE-Scheme: Distribution of Loans According to Participating Institutions (1990-2000)

PERIOD	Financial Institution*					
	A	B	C	D	E	Total
Total loans approved	61	92	258	43	86	560
% female	16.4%	15.6%	43.8%	20.4%	47.9%	34.6%
% male	44.3%	20.8%	34.9%	36.7%	50.0%	36.3%
% company	39.3%	63.5%	21.3%	42.9%	2.1%	29.1%
% Share in total number of loans disbursed	10.9%	17.1%	46.1%	8.8%	17.1%	
Total value of loans disbursed	E2,119,782	E3,462,850	E5,473,017	E1,627,747	E1,848,821	E14,532,217
Share in total value of disbursed loans	14.6%	23.8%	37.7%	11.2%	12.7%	

Source: Central Bank of Swaziland

Notes on Table 5.2:

* For confidentiality reasons the names of the participating financial institutions are not revealed, instead they are represented by alphabets A, B, C, D and E.

An investigation into the industries that have been financed by the SSE-Scheme shows that about 66 percent of the loans have gone to enterprises in the retail industry, 16 percent to services, 7 percent to manufacturing, and 4 percent to the transport industry (see Figure 5.4). The distribution of loans among the various industries seems to be consistent with the general distribution of SMEs in the country, as most SMEs tend to engage in retail and service activities. Moreover, unlike the other industries, enterprises in the retail industry tend to be relatively smaller in size and therefore are most likely to need assistance in securing bank loans. Another explanation for the fewer loans to the manufacturing sector has been the loan limits. Representatives of SME associations argue that the current loan limits are inadequate for start-up capital in the manufacturing sector, hence fewer number of loans to SMEs in this industry.

At the end of the year 2000, four financial institutions were listed as participating in the SSE-Scheme (see Table 5.3). Institution E joined in 1995 and ceased operations in 1997 and therefore no longer participates in SSE-Scheme. Generally the participation of financial institutions in the SSE-Scheme can be described as weak and on the decline and this has contributed to the stagnation in the growth of the SSE-Scheme.

The distribution of loans by participating institution shows that one financial institution has granted about 46 percent of the loans. This dominance by one institution seems to confirm the Central Bank's observation that commercial banks are less committed to the SSE-Scheme and hence their weak participation (Central Bank, 2000a). The lack of commitment to the SSE-Scheme by financial institutions is also demonstrated in the manner they have handled the issue of guarantees. Even though at inception it was envisaged that up to a maximum of 75 percent of the total credit would be guaranteed by the SSE-Scheme's fund, with the remaining 25 percent of the risk being assumed by the lending institution, in practice this has not happened. Financial institutions have insisted on beneficiaries providing the 25 percent as a way of limiting their exposure. This tendency has restricted access to credit by many SMEs who are unable to raise the 25 percent security.

Figure 5.3 SSE-Scheme: Distribution of Loans by Ownership

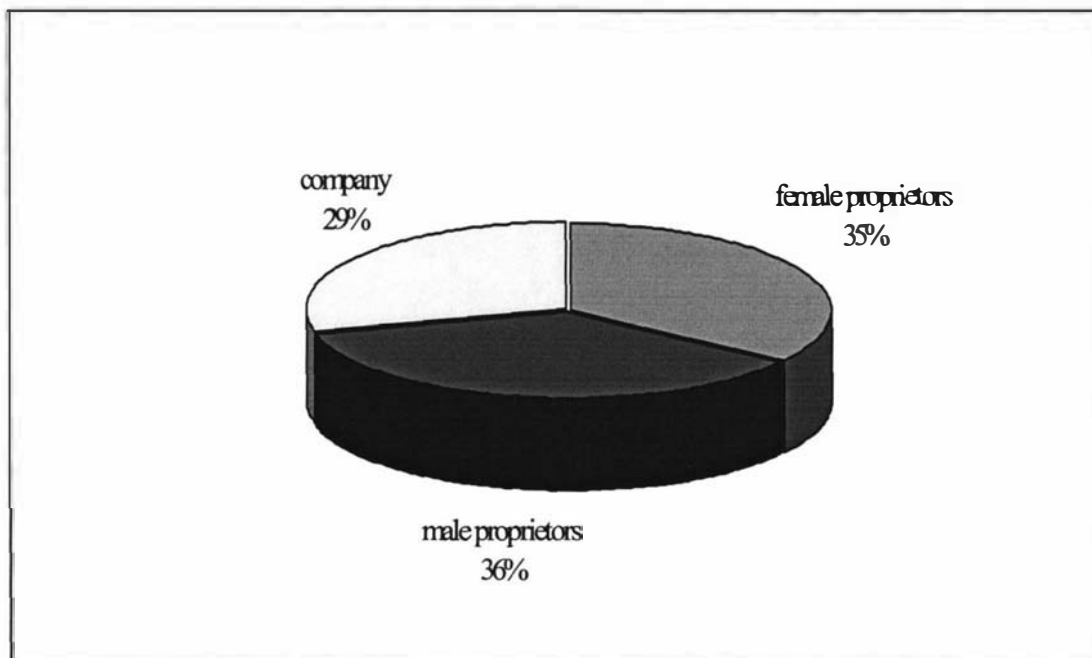


Figure 5.4 SSE-Scheme: Distribution of Loans by Industry

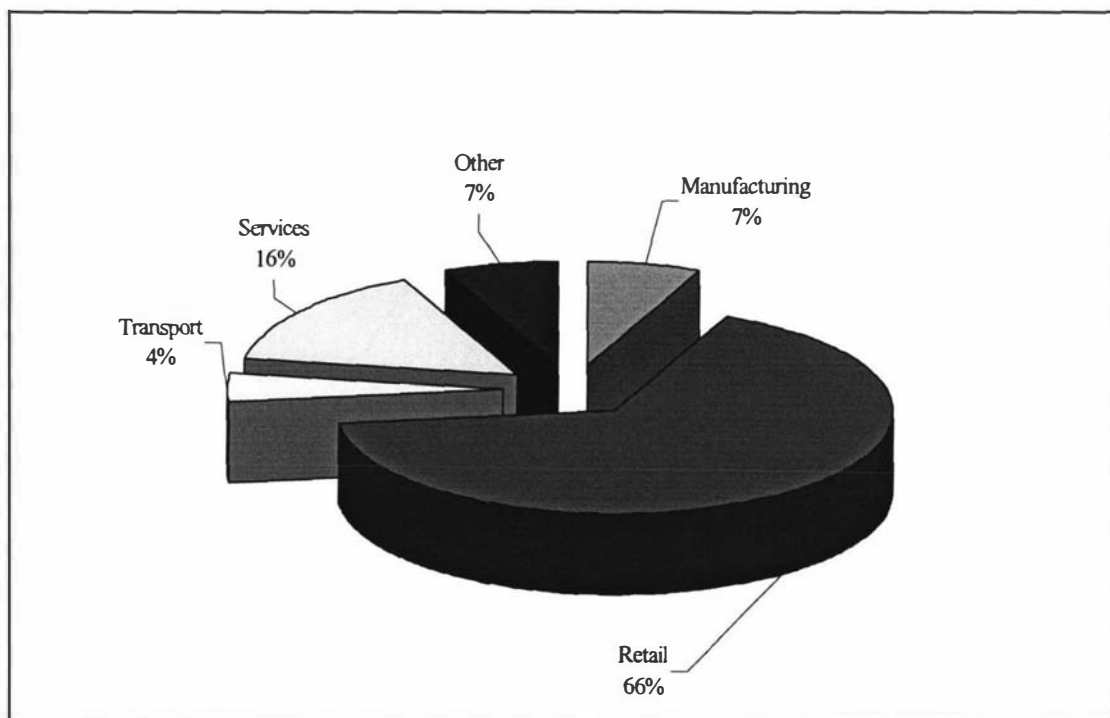


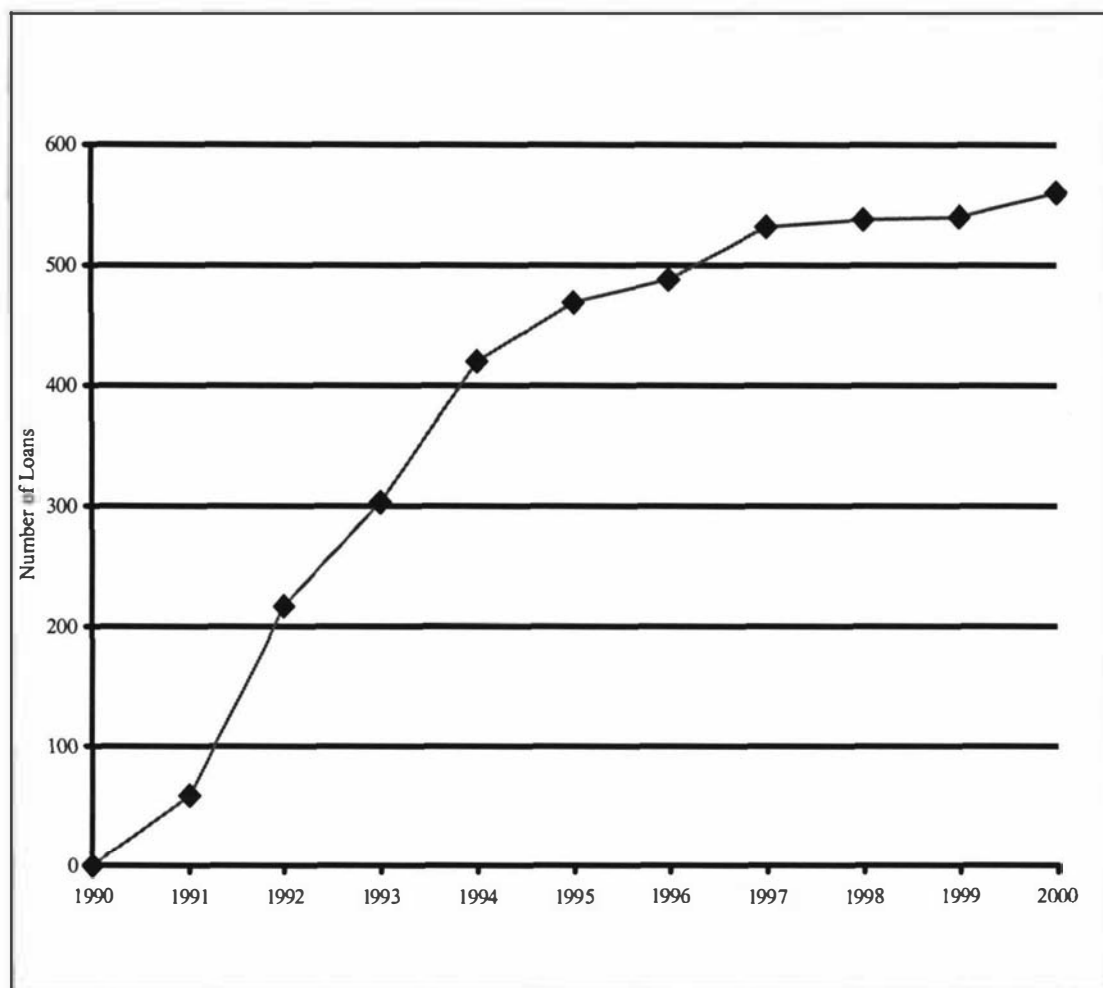
Table 5.3 SSE-Scheme Participation of Financial Institutions

Period	Loans by Financial Institution					Total
	A	B	C	D	E	
1990-91	30	45	145	10	0	230
1992-93	29	31	111	12	0	183
1994-95	2	16	21	3	93	135
1996-97	0	3	1	19	41	64
1998-99	4	7	0	9	0	20
2000	0	9	0	7	0	16
Applications Received	65	111	278	60	134	648
Applications Approved	61	96	258	49	96	560
Bank share of loans (%)	10.9%	17.1%	46.1%	8.8%	17.1%	

Source: Central Bank of Swaziland

The Central Bank reports that the usage rate of the SSE-Scheme was generally high during its first five years in operation (see Figure 5.5). Between 1990-1994 loans approved were increasing at an increasing rate, but between 1996-2000 growth in loans approved decreased drastically. For instance, from its inception in 1990 up to 1993, a total of 303 loans were disbursed, but between 1998-2000 only 28 loans were disbursed. In 2000 the utilisation rate of the SSE-Scheme was only 32 percent, which implies that the SSE-Scheme was performing way below its capacity.

Unlike in the case of the ECGS, the repayment performance under the SSE-Scheme has been comparatively weak with a gross default rate of about 8 percent (CBS, 2000a). The default rate has been attributed to a number of factors, amongst which are the poor client selection and the general lack of business training, monitoring and counselling provided to borrowing SMEs. It has been noted that for a while commercial banks were not being thorough in their assessment of business proposals and, hence, some of the business plans that were financed should not have been accepted passed for credit. The poor repayment performance plus the weak participation of financial institutions have contributed to the stagnation in the growth of the SSE-Scheme (JTK, 1996).

Figure 5.5 SSE-Scheme Cumulative Number of Loans Approved (1991-2000)

Source: Central Bank of Swaziland

Another factor that has negatively affected the performance of the SSE-Scheme is the lengthy and cumbersome loan application process. Participating financial institutions feel that there is too much paper work and the process of securing approval with the CBS is too slow and they argue that these factors tend to negatively affect clients' enterprises. In addition, the procedures for loan recovery are said to be cumbersome and therefore place additional costs on the participating institutions (JTK, 1996).

In evaluating the overall performance of the SSE-Scheme the following observations can be made: first, in terms of mobilising resources, the SSE-Scheme has been able to absorb some of the surplus liquidity in the banking system, since approximately 50 percent of the loans have gone to new clients who were previously unable to access

credit. Secondly, to some extent a balance has been achieved in promoting women entrepreneurs in that approximately 35 percent of the number of loans disbursed have been allocated to female clients. Thirdly, entrepreneurs who have received loans through the SSE-Scheme overwhelmingly recognise the benefit of the credit as it has helped their businesses to grow in terms of the assets held, sales figures or number of employees (JTK, 1996). Nevertheless, there are several factors that have impacted negatively on the operations of SSE-Scheme and there is a need to address them so as to ensure that Swazi SMEs continue to benefit. These negative factors include the high default rate, poor commitment on the part of participating financial institutions, lengthy and cumbersome loan application processes, and poor selection and lack of monitoring of clients. Also, in order to support and promote manufacturing activities by SMEs there is a need to review upwards the current loan limits.

5.3.3 The Enterprise Trust Fund

The 'Enterprise Trust Fund' (ETF) was launched by His Majesty King Mswati III in November 1995 in response to the rising unemployment and poverty levels in the country. His Majesty's vision was to promote micro, small, and medium-sized enterprises through increased access to financial and support services, focusing mainly on rural areas and female-owned enterprises. The focus on rural areas and women was based on the fact that unemployment and poverty levels were recorded to be higher amongst these groups. Therefore, by introducing a fund that will provide cheap capital for business start-ups, it was hoped that entrepreneurs in rural areas and women, in particular, would make use of the cheap credit to start their own businesses. And, it was hoped that this would contribute to an improvement in the incomes and standards of living of women and rural people. The objectives of the ETF are as follows:

- ◆ "To finance and promote the development of Swazi --owned SMEs through intermediary organisations;
- ◆ To support the expansion of loan financing to SMEs through selected intermediary organisations;
- ◆ To support the provision of business advisory services, training, monitoring, technical transfers and development of new products and services for SMEs;

- ◆ To facilitate access to institutional development services and increase long-term capacity of Swazi financial and non-financial SME support intermediaries ” (ETF, 2001).

The ETF was initially capitalised with E44 million, which constituted of donations of E8 million from Tibiyo TakaNgwane⁴⁶ (made on behalf of the King), and E36 million from the Taiwanese Government. Over the years the ETF has received technical assistance from various other donor agencies and governments including the United Nations Development Programme, and the British, Japanese, and Israeli governments (ETF, 2001).

The ETF was designed as a wholesale finance institution. As such it was expected to provide wholesale loans to intermediary organisations such as business associations, co-operatives and banks, and other microfinance institutions, who then act as retailers for loans to small and medium entrepreneurs. In conformity with its function as a wholesale institution, the ETF does not make credit disbursements to individual SMEs directly, although these are its explicitly-acknowledged target groups. In its dealings with intermediaries, the ETF distinguishes between financial intermediaries that advance credit to SMEs and non-financial intermediaries providing SMEs with training advice, and other promotional services. As part of its stated policy, the ETF gives preference and preferential terms to those intermediaries targeting smaller and rural-based SMEs, and it does not finance intermediaries that are in the business of providing premises and other physical infrastructure. The interest rate charged on loans was originally 10 percent but it has over the years been revised upwards due to changes in economic conditions and to accommodate sustainability of the Fund (ETF, 2001). The current interest rate ranges between 15-22 percent.

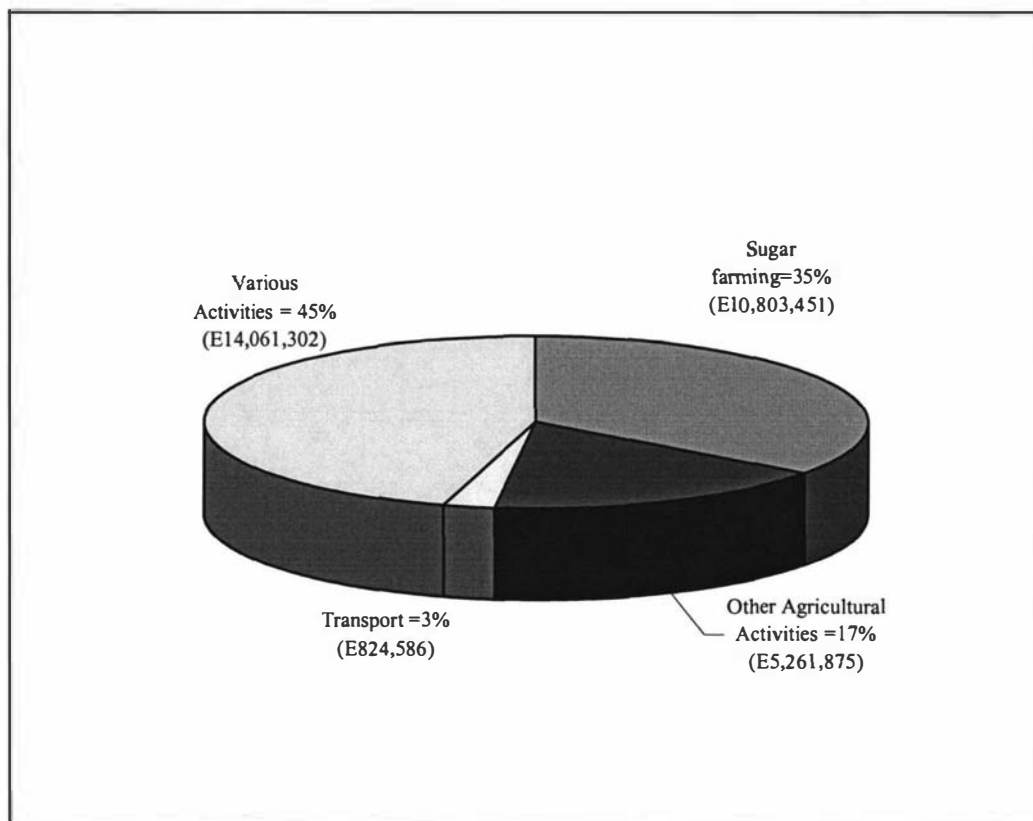
The ETF granted its first loan in 1996 and its first client was a women’s organisation called Umthantazo Wabomake. As of March 31, 2001 it was lending to approximately 150 financial intermediaries and groups. In the first five years over which the ETF was operational it approved loans worth over E60 million, and it was estimated that more than 1700 enterprises had benefited. The value of outstanding loans was estimated at

⁴⁶ Tibiyo TakaNgwane is a national organisation that was created in 1968 by the late King Sobhuza II (discussed in a subsequent section).

E28 million with another E14 million approved but not yet disbursed, and applications for a further E20 million waiting to be reviewed. The ETF reports that the demand for its loans exceeds the Fund's current supply and therefore it is in the process of securing more capital funds in attempt to meet the high demand.

According to the ETF's records about 57 percent of the loans reach women and 43 percent men. In addition, 83 percent of the loans have been disbursed to rural-based SMEs (ETF, 2001). The bias to women and rural-based entrepreneurs is to be expected given the ETF's mandate of focusing on rural areas and women-owned enterprises. In terms of the industry distribution of the loans, it is estimated that approximately 52 percent of the loans have been granted to entrepreneurs involved in agricultural activities (see Figure 5.6). Within the agriculture, sugar cane production is the dominant sub-sector taking up about 35 percent of the total loan portfolio. About 3 percent of the total loan portfolio has been disbursed to SMEs in the transport industry and the other 'various activities' constitute 45 percent of the loan portfolio. The category of 'various activities' refers to loans that have been granted to groups whose members are involved in multiple activities such as handicraft, sewing, trading, hawking, etc.

The ETF boasts of an impressive 91 percent loan repayments rate, which it attributes to its careful selection of intermediaries, plus regular monitoring and supervision of intermediaries and final borrowers by ETF's Project Officers (ETF, 2001). In addition, as part of its lending methodology, the ETF has made savings a prerequisite for all applications. And, to aid in the tracking of defaulters, applicants are required to submit the names and addresses of the end-users, the amount they applied for, business location, etc. When the end-user does not pay, ETF sends its Loan Officers directly to the creditor to collect, by so doing bypassing the intermediary. Whilst this strategy has worked in the short term it is certainly not sustainable given the limited resources of the institution. As part of its long-term strategy the ETF plans to build capacity of intermediaries so as to reduce the default rate and the need for using its Loan Officers for debt collection.

Figure 5.6 Enterprise Trust Fund: Distribution of Loans by Activity

Source: Enterprise Trust Fund (2001).

Based on the distribution of loans it can be argued that to some extent, the ETF is fulfilling its mandate of improving access to credit by women and the rural poor. Like any institution in its early development stage, the ETF has also had its fair share of problems. With the collapse of some of its intermediaries, in particular the Swaziland Business Growth Trust and the Swaziland Development and Savings Bank, getting productive finance to its target group has not been an easy task. Owing to the shortage of appropriate intermediaries (namely, ones that will ensure that the 'targeted clientele' is reached) the ETF has, in recent years, had to seek different kinds of financial intermediaries than those it was originally conceived to serve. The ETF reports that the problem of reaching out to its targeted clientele has been compounded by the fact that commercial banks have demonstrated limited interest in dealing with the SME sector as a result they have only a token participation in the ETF.

Other problems encountered by the ETF stem from the limited business and management skills of the intermediaries and borrowers. Consequently, it has become essential for the ETF to invest a lot of time and money in training so as to improve the performance of its intermediaries. Also, ETF's efforts to encourage a culture of repayment of loans have been hindered by the introduction of complementary, but contradictory mechanisms aimed at supporting the SME sector. These other efforts are complementary in the sense that they provide some form of financial assistance to smaller enterprises, but they are contradictory to the spirit of encouraging entrepreneurship because they are grants. Of particular concern is the recently introduced 'Regional Empowerment Fund', which operates as a grant to finance the development of 'SME support services' in rural areas. This Regional Empowerment Fund has, according to the ETF, sent mixed signals to borrowers who perceive the ETF loans as the 'King's money' and therefore regard it as a gift (ETF, 2001).

In conclusion, there is no question that the ETF has had some positive achievements in its first five years of operation. However, given the short period for which the ETF has been in existence it is still too early to evaluate with great accuracy its overall strategy and performance. The ETF's impact on promoting the export capacity of SMEs is not known so far. On the basis of its emphasis on financing smaller SMEs and its concentration on financing business start-ups, its impact on promoting the export participation of SMEs seems to have been limited so far. This is because very few smaller SMEs are currently involved in exporting and it generally takes time for a new, small business to establish itself in the export market.

The financing of small-scale farmers involved in sugarcane production has the potential to improve the export propensity of SMEs given that Swaziland already has established markets for that commodity. There is a need nonetheless, to investigate and finance other products/activities that can give SMEs a breakthrough into the export market.

Another area to be addressed is the issue of intermediaries that can effectively improve access to credit by SMEs. The wisdom of using commercial banks as intermediaries is questionable. If the ETF's target group is smaller SMEs, commercial banks are not the best agents, given their limited interest in dealing with this kind of clientele. Indeed their token participation bears witness to their inappropriate involvement in the ETF.

5.3.4 Other Financial Support Services

In addition to the financial programmes discussed above there are a few other quasi-government institutions that have supported various avenues aimed at improving access to credit by Swazi entrepreneurs. A brief description of these institutions and the kinds of services they provide is presented below.

5.3.4.1 Swaziland Development and Savings Bank

In 1965 the Government established the Swaziland Development and Savings Bank, also known as the Swazi Bank, for purposes of supporting the development of the Swazi economy. As a development bank, Swazi Bank was intended to provide long term financing for all sectors of the economy, with emphasis on the agricultural, livestock, and housing sectors (Swaziland Government, 1990).

Swazi Bank operated both as a development and a commercial bank. In an attempt to fulfil its development role in the area of improving access to credit by SMEs, Swazi Bank was mindful of the problem of collateral faced by many SMEs, hence it accepted all kinds of non-traditional security as collateral. For example, Swazi Bank was the only financial institution that accepted cattle as collateral. Swazi Bank also participated in a number of development finance schemes like the Small Scale Enterprise Guarantee Scheme, Export Credit Guarantee Scheme, and the Enterprise Trust Fund. In all these schemes the Swazi Bank was the dominant participating institution. Its lending activities were generally biased towards agricultural activities. Swazi Bank has the largest branch network in the country, a strategy that has helped to bring bank services closer to the people, especially in rural areas where this is the only option.

In the 1980s Swazi Bank started experiencing financial problems due to the over politicised nature of its operations and the poor performance of its loan portfolio,

especially agricultural loans.⁴⁷ The financial situation worsened in the 1990s as the bank continued to operate at a loss, and, as a result the Government had to continue injecting funds in an attempt to sustain the bank's operation. Given the worsening situation, in 1995 the Government decided to restructure the bank, a process that is still ongoing.

The extent of the benefits and impacts of the services provided by the Swazi Bank are not known since no cost benefit study has been done. However, the losses incurred by this institution are well documented.⁴⁸ The idea of having a development bank was good given that most commercial banks in the country are foreign-owned and they tend to concentrate on servicing the large foreign-owned enterprises and shun the small-scale entrepreneurs. However, it is important that the institution is operated efficiently and so the ongoing restructuring is welcome. Hopefully it will restore the bank's critical services to the SME sector.

5.3.4.2 Tibiyo TakaNgwane

In 1968, the late King Sobhuza II created Tibiyo TakaNgwane, a national organisation, using royalty income from mining operations. The aim of establishing this institution was to promote economic development in the country by investing in a variety of social and economic projects that are designed to create jobs and preserve the culture of Swazi Nation (Swaziland Government, 1990). The stated objectives of Tibiyo TakaNgwane are a mixture of social and economic development goals, which make it a unique, non-bank finance institution.

Tibiyo TakaNgwane initially dealt with large business ventures, but in 1993 the King mandated this institution to examine the role of SMEs. Since then Tibiyo TakaNgwane has financed a number of SME-related projects. Significant contributions in this area include the E5 million allocated to Swazi Bank in 1994 to fund on-lending to SMEs. In 1995 Tibiyo TakaNgwane donated E8 million for the establishment of the Enterprise Trust Fund. In addition, Tibiyo continues to support various SME projects mainly in

⁴⁷ The poor performance of agricultural loans was partly due to the extended drought, which affected the farmers' production.

the agricultural sector. Recently, it has contributed E1.4 million towards the establishment of a rural based Mushroom Production Project.

Tibiyo TakaNgwane offers support services to SMEs based on funds availability and the selection criteria are based on its own discretion. The role of Tibiyo TakaNgwane in supporting SMEs is important. The institution has the financial resources to address the gaps that exist within the SME sector by providing, for instance, technical assistance, financial training, and other resources.

5.3.4.3 Swaziland Business Growth Trust

In 1992, a non-profit trust organisation, the Swaziland Business Growth Trust (SBGT), was established with joint funding from the Government of Swaziland and USAID. SBGT's functions were to provide training, finance, and business advisory services to help develop businesses in Swaziland. SBGT operated with a 'limited banking license', which implies that it was not permitted to take deposits directly. Its operations were financed through donor funding. SBGT facilitated credit to SMEs through collaboration with the various development schemes in the country such as the Small Scale Enterprise Loan Guarantee Scheme and the Enterprise Trust Fund. SBGT offered several types of loans which it classified as agricultural and non-agricultural. Agricultural loans, also referred to as 'harvester' loans, were for financing crop-inputs for small-farm holders. Non-agricultural loans were of two types: A-type loans were short term (less than a year), for amounts ranging between E2,500-E7,500, carry an interest rate of 33 percent, and were granted without the necessity of formal collateral security; B-type loans were long term (up to 3 years), for amounts ranging from E7,500 up to E300,000, and bear interest rates between 23-27 percent. One of the unique features of SBGT's credit service was the mandatory business training to borrowers, which was credited for the high repayments rate.

In the mid 1990s, SBGT was regarded as one of the most active and effective financial service provider to SMEs (World Bank, 1996). Unfortunately, due to some financial problems, SBGT collapsed and was liquidated towards the end of 1997. Whilst in

⁴⁸ See for example Swazi Bank (various years); CBS *Annual Reports* (various years).

operation, SGBT facilitated credit to many SMEs. In fact, at the time of its collapse, SGBT was ranked second in terms of number of loans issued to SMEs under the SSELGS, even though it had started participating in 1995. Its collapse has negatively affected the operations of both the ETF and the SSELGS (Swaziland Government, 1998).

5.3.4.4 The Regional Empowerment Fund

The Regional Empowerment Fund (REF) is one of the latest additions to the efforts by the Government of Swaziland aimed at promoting the development of SMEs through improved access to finance. The focus of the REF is mainly, but not exclusively, to finance infrastructural projects. In setting up the Fund the Government made an initial injection of E40 million. At establishment, it was envisaged that a specialised new unit, located at the Swaziland Development and Savings Bank, would manage the REF. Unlike the Enterprise Trust Fund, the REF is to be operated on a grant basis.

Critics of the REF argue that because it is operated as a grant alongside other Government efforts which are reimbursable, it tends to send mixed signals to borrowers and therefore is having distorting effects on the microcredit market (ETF, 2001). It has been recommended that the REF should concentrate on financing infrastructure projects so as to have a complementing, rather than competing effect on the various other financial programmes.

5.4 Non-Financial Assistance Programmes

5.4.1 The Trade Promotion Unit

Cognisant of the contribution that export growth can make to Swaziland's economic development, in 1988 the Government established a national focal point organisation for trade promotion called the Trade Promotion Unit (TPU). This Unit was originally placed under the Ministry of Commerce, Industry and Tourism, as this was the ministry responsible for trade development. Subsequently, due to the restructuring of government ministries, which occurred in 1996, the trade development portfolio was

moved to the Ministry of Foreign Affairs and Trade, hence, the Trade Promotion Unit now operates as a department under this Ministry.

At establishment the objective of the Trade Promotion Unit was stated as follows: “to promote the growth of exports by acting, partly, as a catalyst to motivate exporters by providing directly, or in cooperation with other institutions, the services that they require” (TPU, 1990:2). The main thrust of this Unit was to be on the promotion of non-traditional products with the aim of diversifying and increasing export markets. To fulfil its mandate the Trade Promotion Unit was expected to perform four principal functions:

- ◆ Identify products and markets and to develop those export markets;
- ◆ Provide a trade information service;
- ◆ Provide specialised support to exporters; and
- ◆ Export promotion and publicity abroad (TPU, 1990).

It was also envisaged that the Trade Promotion Unit will engage in such activities as “arranging and co-ordinating the participation of exporters” (both large and small) “at trade fairs and exhibitions; arranging trade missions to target markets and buyer/seller meetings; assistance to exporters in the production of promotional aids, product brochures, display modules, exhibition stands and packaging design” (TPU, 1990:3). With the reshuffling of government ministries, which affected certain portfolios, the Trade Promotion Unit was entrusted with an additional responsibility, that of co-ordinating trade matters with regional and international trade organisations, namely, COMESA, SACU, SADC and the European Union. Because of the nature of its objectives and functions it was expected that the Trade Promotion Unit would liaise closely with manufacturers, exporters, industrial development agencies, training institutions, banks, trade and industry associations, and government ministries/departments concerned with the productive sectors and supporting infrastructure.

One of the major, initial and ongoing strategies adopted by the Trade Promotion Unit is the use of publications for promotional purposes. These include the publication of trade news and promotional articles in both local and overseas publications, and information

leaflets about the Unit. The first major promotional publication of the Trade Promotion Unit was the production of a directory in 1990, entitled 'Made in Swaziland: A Directory of Exports and Exporters'. Since then, three additional editions of the 'Directory of Exports and Exporters' have been produced, the latest being the fourth edition, which was published in 1999. The purpose of the 'Directory of Exports and Exporters' (hereafter, simply referred to as the *Directory*) has been to "provide first hand information to potential buyers on the exports and exporters" from the country, "with the primary objective of assisting importers to expedite business transactions with Swaziland" (TPU, 1999:2).

The *Directory* lists exporters under nine categories, namely, Agro-Industrial; Clothing, Textiles and Footwear; Engineering; Handicrafts; Mining; Plastic and Chemicals; Pulp, Paper and Board; Timber and Furniture; and Trading and Services Companies. The *Directory* also provides a listing of Freight and Transport companies', 'Useful Addresses' in the country, Swaziland's Diplomatic Representations Abroad, and Foreign Representatives Resident in Swaziland. A brief section on import and export procedures and general information on Swaziland's export sector is included in the introductory pages. This *Directory* is placed in the various diplomatic offices in the country and abroad, and in some selected business and tourist offices in the country with the hope of catching the eye of potential buyers. In addition, the *Directory* is also distributed in both regional and overseas trade fairs and exhibitions whenever the country is represented.

There is no dispute that the *Directory* contains useful and relevant information and there is no doubt that it provides a valuable advertising avenue to exporters, especially those that cannot afford to pay for independent advertising. However, it is very difficult to measure the extent of its effectiveness, as a result its true impact/value as an export promotion strategy is not known.

Inclusion in the *Directory* is free to the exporter and the Trade Promotion Unit would like to include all exporters. Nevertheless, not all exporters have been listed in the various editions. For example, whilst in 1999 there were 152 exporting companies,⁴⁹ the

⁴⁹ Number of exporters based on 'lists of exporting companies' at the Customs Department and Central Bank of Swaziland.

1998/99 Swaziland Directory of Exports and Exporters, included only 92 companies. This represents a mere 61 percent coverage. Whilst 100 percent coverage may be inconceivable, 61 percent implies that almost 40 percent of the companies that are involved in exporting are not listed in the *Directory*. Therefore, there is certainly room for improvement to ensure that many more exports and exporters are promulgated, and hence, stand a chance of catching the eyes of potential buyers. According to the TPU, inclusion in the *Directory* depends on, first, whether the exporter is known by the TPU, and second, the readiness of the company at the time of compiling the *Directory*. During the discussions held with the staff at the TPU, it was revealed that generally companies are keen to be included in the *Directory*. This implies that those that are excluded are either not known to be involved in exporting or not ready at the time of compiling the *Directory*. It is also noteworthy that the *Directory* does not discriminate between small, medium and large exporters. As such, the inclusion of exporting SMEs is not necessarily a priority. Consequently, in the various editions that have been produced some of the exporting SMEs have been included whilst others were not listed. Given that SMEs normally face many problems in running their businesses, and the fact that they are less likely to afford independent advertising, it is necessary that a special effort is made to ensure that they do not miss the opportunity of being included in the *Directory*.

The *Directory* constitutes just one part of the publications strategy. The TPU is also supposed to publish a 'trade news' magazine. Instead of an independent publication, the TPU submits articles to the Swaziland Chamber of Commerce for inclusion in their quarterly newsletter. The TPU also publishes promotional articles in overseas publications as a way of reaching out to the world market.

There are several other activities that the TPU has engaged in, since inception, in its quest to promote exports. These include, co-ordinating the participation of exporters at regional and overseas trade fairs and exhibitions; organising trade missions to target markets; and collaborating in organising the Swaziland International Trade Fair. Given the high cost of travelling and participating at these events, attendance has been largely dictated by the availability of sponsorship. In instances where the Government has funded the participation, a selected group of exporters attends. To maximise the benefits of the country's participation, the TPU staff sometimes carry products from various

producers to display and/or sell on behalf of those that could not afford to travel. This is a reasonable alternative. However during the interviews some SMEs criticised the selection process alleging that there is favouritism since one and the same people get to attend the international shows. In addition, some of the entrepreneurs who have been afforded the opportunity to send their products for display complained that this is a costly exercise because they never get back their display products alleging that the staff sells and never forward the proceeds and neither do they return the samples. Notwithstanding the problems of this approach, this alternative still seems to be reasonable because it can help to spread the benefits to most exporters if participation is not limited to a select group and if capable and dedicated participants are selected to represent the country.

The effectiveness of activities of this nature is generally very difficult to measure. The difficulty is more pronounced if there is no record of the orders or deals clinched as a result of participation in such events. However, it is known that trade fairs and exhibitions provide an opportunity for entrepreneurs to learn and market their businesses. Suffice to say that participation in such events has positive implications to exporters. Given the limited resource constraint facing many SMEs, there should be a biased effort to ensure that they participate either directly or indirectly in such events.

Another avenue that has been used by the Trade Promotion Unit to promote exports and exporters is the 'Swaziland International Trade Fair'. This is an annual event, which started in 1974, and is held over a ten-day period. Participation is open to both local and international entrepreneurs. The event combines business, educational and entertainment activities. Even though this event is not strictly for business, because of its multi-activity nature it attracts a lot of people and therefore it provides good advertising opportunities. Participation by domestic entrepreneurs is generally high owing to the close proximity of the event and the minimal cost of attending. In collaboration with SEDCO, some limited assistance is provided to a few SMEs. The assistance is normally in the form of a partial subsidy for business stalls at the trade fair, and advice on displays and preparation of promotional materials.

The services provided to SMEs in relation to their participation at the Swaziland international trade fair are commendable, however there is no need for complacency as

this is 'once a year' event not all SMEs get to benefit from the support services provided. Given the usefulness of this event to SMEs it has been suggested that more events of a similar nature should be organised to support the advertising and marketing activities of SMEs (Mkhonta and Barwa, 1999).

Over the years the TPU has engaged in various activities in an attempt to achieve the objectives for which it was established. However, it seems it has fallen short of many of the targets it set out to achieve due to a number of problems. One of the major constraints has been the limited staff and funding allocated to the Unit. Given the numerous activities of the Unit, the resources constraint has made it difficult for the Unit to carry out some of the critical activities. For example, the TPU has not carried out market research and, the databank that was supposed to be created is not in place. In addition, extension services to exporters have been limited due to the limited staff problem. The Library is not well organised as a result exporters do not get maximum benefits from that service.

Finally, entering export markets is generally not easy for any firm. Market research and product design are part of the crucial elements of success in export trade. The fact that the TPU has not done any market research and does not have well qualified staff in these areas implies that exporters have not been assisted in these critical areas. This has been a major disadvantage to SME exporters because they cannot afford to independently pay for such services. Hence it is necessary that the TPU is manned by well-qualified personnel and provided with a budget that will facilitate the provision of the various export support services.

5.4.2 The Small Enterprise Development Company

In terms of assistance to SMEs in Swaziland, the Small Enterprise Development Company (SEDCO) is recognized as one of the oldest, and still existing, institutions. SEDCO operates as a government-supported organisation aimed at the development and promotion of Swazi-owned small-to- medium sized enterprises throughout Swaziland. SEDCO was established in 1970 with the following stated objectives:

- To improve the SME sector of the Swaziland economy;

- To raise the per capita income of Swazis;
- To establish industries in rural areas and promote import substituting industries (SEDCO, 1981).

In order to achieve these goals SEDCO was expected to “provide finance, premises, business counselling and relevant training for entrepreneurs” (SEDCO, 1981:2). Over the years the services provided by SEDCO have changed slightly, a major change being the cancellation of the finance service. The institution’s mission statement, as stated in its ‘Year 2000 product catalogue’ is “to contribute to the creation of wealth and jobs throughout Swaziland by stimulating growth in new and existing SMEs through the promotion of Enterprise and the provision of an affordable package of business support services” (SEDCO, 2000:ii).

SEDCO’s main support service to SMEs has been the provision of business shells/units. The units vary in size between 15m² and 600m² and the average size for a unit is about 60m². Unit sizes towards the smaller end of the range predominate. For a long time the rents for these business units were highly subsidized but lately a policy of progressively raising rents to full-cost levels was adopted and implementation is still ongoing.

In addition to providing business premises, SEDCO also provides training and business counselling services to SMEs, both to tenants and non-tenants. It is reported that SEDCO prepares approximately 120 – 150 business plans per annum for SME clients (SEDCO, 2001). These business plans used to be prepared at no cost to the entrepreneur, but a fee of E400 per business plan is now being charged, a fee considered to be almost half the rate charged by private consultants. Hence this service is still highly subsidized.

In 1999 SEDCO had ten industrial and commercial estates spread throughout the four regions of the country, and located in the following areas: Mbabane; Sidwashini; Manzini; Trade Fair; Nhlangano; Vuvulane; Piggs Peak; Hlathikhulu; Siteki and Matsapha. Based on the 1999 SEDCO register, a total of 113 enterprises benefited from the SEDCO business premises (see Table 5.4). More than 55 percent of the SEDCO assisted SMEs were based around the two major cities, with Mbabane having 38% and Manzini 19%. This confirms the concentration of economic activities around major cities.

Table 5.4 SEDCO Assisted Entrepreneurs 1998/99

Estate	Total		Female Owned Enterprises	
	Number of Enterprises	Percentage	Number	Percentage
Mbabane*	43	38.1%	20	46.5%
Manzini**	21	18.6%	8	38.1%
Nhlangano	21	18.6%	12	57.1%
Vuvulane	10	8.8%	7	70.0%
Piggs Peak	9	8.0%	1	11.1%
Hlathikhulu	3	2.7%	1	33.3%
Siteki	5	4.4%	4	80.0%
Matsapha	1	0.9%	-	-
TOTAL	113	100%	53	46.9%***

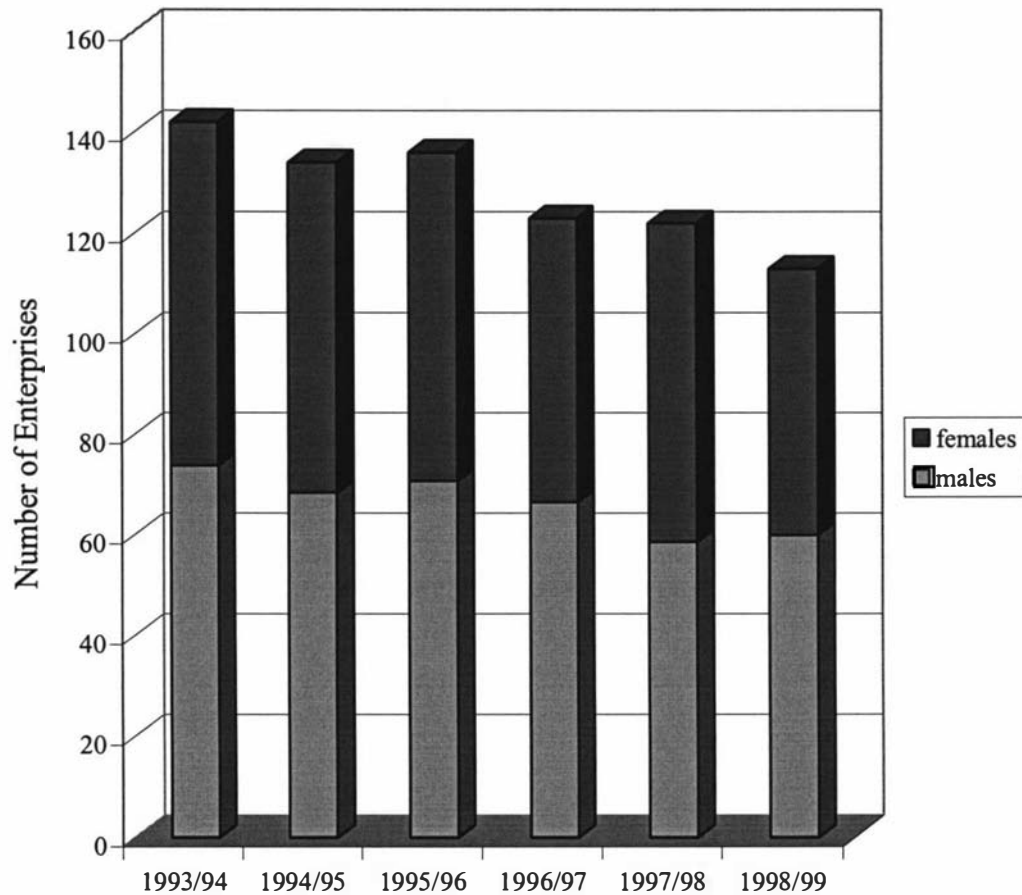
Source: SEDCO 1999 register

Notes on Table 5.4

- * The numbers for Mbabane include the Sidwashini estate.
- ** The numbers for Manzini include the Trade Fair estate.
- *** This is the share of female owned enterprises in all estates.

Table 5.5 provides some salient features about the SEDCO based SMEs for the period 1993 –1999. The data also show that there has been a steady decrease in the number of SMEs based at SEDCO in the 1990s (see Figure 5.7). This decrease has been attributed to the rental increases and the comparatively unfavourable location of the SEDCO estates.

The distribution of entrepreneurs by sex shows that female-owned enterprises have averaged 48 percent during this period, and reached a high of 52% in 1998. The majority of entrepreneurs are middle-aged, classified between the age group 31–50. The average income generated by a majority of the enterprises based at the SEDCO estates is less than E5,000 per month. In terms of type of business activity, sewing has consistently been the most popular, followed by woodworking.

Figure 5.7 Number of Enterprises Based at SEDCO Premises (1994-1999)

Despite the high occupancy rate for SEDCO premises, this institution has been highly criticized for its lack of effectiveness in terms of producing dynamic SMEs and enabling enterprises to graduate from micro to small and from small to medium (Public Policy Coordination Unit, 1998). It has been argued that part of the failure to graduate is due to the lack of diversity in the activities of the assisted entrepreneurs (Keddie and Ziyane, 1996). Most of the assisted SMEs are in sectors with limited growth potential but also growth has been stunted by the lack of proper guidance from the business counsellors (Swaziland Government, 1996). In addition, it has been pointed out that the business stalls are too small to accommodate any meaningful manufacturing activity, hence the concentration of activities in sewing and woodworking (Paige, 1997).

Table 5.5 Characteristics of Entrepreneurs Based at SEDCO Premises (1993-1999)

Parameter	Year					
	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99
Entrepreneurs assisted						
Total Number	142	134	136	123	122	113
Females (%)	48%	49%	48%	46%	52%	47%
Age Group (% of total)*						
Up to 30 years	6	6	7	2	5	5
Between 31 and 40 years	32	27	26	25	27	28
Between 41 and 50 years	34	37	37	35	38	33
51 and above	29	30	30	30	30	34
Education level (%)*						
No education	6	4	3	3	2	3
Primary education	32	32	31	33	30	32
Secondary/High School	51	52	53	50	52	51
College/University	12	12	13	13	16	14
Average monthly Sales (%)*						
Under E5 000	73	60	62	60	56	53
E5 000 - E9 999	9	14	16	15	11	16
E10 000 – E19 999	6	5	7	7	9	13
E20 000+	3	8	7	9	10	9
Refused to reveal	8	13	8	10	14	9
Type of Business (%)*						
Sewing	28	30	31	31	30	30
Woodworking	12	10	9	10	8	7
Welding	6	7	5	6	5	3
Restaurants	5	5	4	6	6	6

Source: SEDCO 1999 Register.

Notes on Table 5.5:

*Percentages may not add up to 100 due to rounding errors.

In general the services provided by SEDCO have been valuable to SMEs in Swaziland. However, the effectiveness of these supported services have been limited by the lack of well-qualified staff to provide expert guidance to entrepreneurs. This issue is being addressed in the ongoing restructuring of the institution and it is hoped that SEDCO will provide quality services in the future. In recent years SEDCO has made attempts to encourage SMEs to diversify their products and markets and also get involved in exporting. Efforts in this respect include the production of an “A Guide to the First-Time Exporter”, a document which describes the advantages of exporting, provides a step by step guide of how to get started with the process of exporting, the

documentation involved, and a list of various support services available to exporters in the country (SEDCO, 2000). SEDCO also assists SMEs with the preparation of promotional materials. The efforts focusing on encouraging SMEs to get into exporting are welcome because of the potential growth and other benefits that come with selling to international markets.

5.4.3 Lulote

‘Lulote’, also known as the ‘Business Management Extension Programme’ (BMEP), was established in 1986 by the management of the Manzini Industrial Training Centre (MITC). Funding for the sustenance of this institution, during the early years of its establishment, was provided by donor agencies and the Government of Swaziland. However, over the years Lulote has had to rely more on income generated from its services.

The purpose of establishing Lulote was to provide clients with business management skills and some financing, as a way of transforming income-generating activities into small enterprises. However, after a few years in operation, Lulote decided to streamline its activities and a decision was made to drop the credit facility. The decision to drop the financing service was partly due to the fact that the credit facility was considered too small and uneconomical even though the facility had repayments rates of over 80 percent (Lulote, 1996). In addition, this decision was meant to eliminate the difficulties associated with combining supportive training/advice with credit to the same clients unless it is clear that credit is the dominant activity with training and advice geared to ensuring loan repayment.

Over the years Lulote has been instrumental in assisting SMEs with the drafting of business proposals in preparation for loan applications submitted to the various development finance schemes. Lulote provides its services at a subsidized rate to small businesses and at profit to large enterprises.

5.4.4 Ministry of Enterprise and Employment's Services

The Government of Swaziland through the Ministry of Enterprise and Employment (MEE) provides various support services to businesses in the country. The role of the MEE in this regard, is to regulate private enterprise and to promote the development of businesses, particularly Swazi-owned businesses. In fulfilling its responsibilities the MEE operates through a number of divisions and through organisations which fall under the Ministry's control.

In its role as a regulatory body the Ministry is responsible for the registration and granting of licenses to business establishments. By virtue of the Ministry's mandate and functions, the development of SMEs falls under its jurisdiction hence the recent establishment of an SME Unit.

Support services provided by the MEE include the following: training to entrepreneurs in business management and marketing; information on various business-related topics; and assistance with promotional activities such as the Swaziland International Trade Fair. The modes of delivering the various support services include radio programmes and extension services (whereby commercial officers are supposed to conduct workshops and seminars to teach entrepreneurs business and management courses). The Ministry reports that, due to the problems of staff shortages, its extension services have been very limited. Radio programmes therefore have been by far the major mode of service delivery. They consist of 15-30 minutes slots, presented twice a week and are delivered both in Siswati and English. The programmes are used for teaching and information circulation.

In addition to using radio programmes, training has also been provided through, and in collaboration with, the various vocational and technical training centres, like SCOT, VOCTIM, National Handicraft Training Centre, MITC/NASTIC, etc. MEE also works closely with SEDCO to deliver business counselling to SMEs. Of significance to SME's in the handicrafts industry has been the existence of a Handicrafts section within the MEE. The Handicrafts section assisted SMEs with marketing services and facilitated their training.

The effectiveness of the various support services to SMEs is unknown given that there has been no monitoring and evaluation mechanism. However, it is known that there were problems in the delivery of services since SMEs voiced these problems through their associations.

One of the major problems with the delivery of government support services to this sector has been the scattered and uncoordinated nature of the various assistance programmes. Even though the MEE has been the designated Ministry that is responsible for the development of SMEs, in the past various government support services to this sector have been provided from several Ministries and have been very uncoordinated. This lack of coherence created unnecessary confusion among SMEs since they did not know which Ministry they were dealing with. Needless to say, this confusion reduced the effectiveness of the assistance programmes. Financial services provide a good illustration of the scattered nature of government support services – for example: the Enterprise Trust Fund is under the Ministry of Finance; the SSE-Scheme and the ECGS are at the Central Bank; and the Regional Empowerment Fund is under the Deputy Prime Minister's Office.

A government commissioned study into investigating strategies for the development of the SME sector recommended the establishment of an SME Unit that will co-ordinate the various activities of government with respect to SME development.⁵⁰ Although the recommendation for establishing an SME Unit was accepted by government and a decision to establish the Unit was made in 1999, the Unit only hired its head in 2001 to start operation. The functions of the SME Unit are stated as follows:

- SME policy development, liaison with stakeholders, and advocacy and cooperation with public policy/regulatory authorities on a wide range of issues, covering laws, regulations and public policy programmes substantially affecting SMEs and their development;
- Serving as a public sector focal point on the National SME forum, acting in close cooperation with public and private sector institutions in that forum;
- In collaboration with various private and public stakeholders, engage in SME promotional activities, including support for SME diversification of products

⁵⁰ The study was undertaken by the Trade Development Institute of Ireland.

and markets; supporting SME trade fairs/exhibitions in key sectors such as manufacturing, commercial agriculture, services; promoting mass media programmes about SMEs; facilitating the hosting of an annual SME of the year award, etc. (Swaziland Government, 2001).⁵¹

The objectives of the SME unit are indeed ambitious but on paper they do seem to address the many constraints currently engulfing the SME sector in the country. It is hoped that the establishment of the SME Unit will help towards achieving a more co-ordinated strategy in support of SME development.

5.4.5 Other Non-Financial Services

There are several training institutions that have been established for purposes of equipping people with vocational skills, with the hope of encouraging them to start their own businesses instead of looking for employment. These institutions are highly subsidised by the Government and also receive substantial funding from donor agencies. These vocational training institutions are: the Swaziland College of Technology (SCOT); the Vocational and Commercial Training Institute at Matsapha (VOCTIM), the vocational training centres in Manzini, Nhlngano and Siteki, normally referred to as MITC/NASTC/SITC, and the National Handicraft Training Centre (NHTC).

5.4.5.1 The Swaziland College of Technology

The Swaziland College of Technology is the largest and oldest technical and vocational training institution in the country and is funded by the Government of Swaziland through the Ministry of Education. SCOT was first established in 1946 as the Mbabane Trade School. In 1967, the school achieved the status of an institute of higher learning and it expanded the range of courses from building and carpentry to include automotive, mechanical and electrical engineering skills. In 1974 the institute became a College and began to offer diploma programmes in hotel and catering courses as well as commercial and technical teacher courses.

⁵¹ See Appendix 5.2 for details on the functions of the SME Unit.

SCOT operates as a typical formal technical training college, offering two to three year courses leading to either a certificate or diploma qualification. The three-year courses have an intervening year (normally the second year of the course) of employment in large industrial or commercial companies. SCOT passes out about 100 graduates per year, 75 percent in sciences and 25 percent in business related disciplines. About five percent of the intakes are mature students, coming in with work experience and sponsored by large companies and the rest are school leavers fully sponsored by the Government (SCOT, 2000).

In the past most graduates from SCOT found employment in large industries and with government departments, (the traditional employers). However, with the economic downturn in the 1990s it has been reported that many graduates were finding it hard to get employment in the country (Swaziland Government, 1996). It is estimated that about 25 percent of the graduates find jobs in South Africa whilst a few have ventured into self employment, by starting their own businesses, but it is not known how many and how successful they have been, since there has been no tracer study (Keddie and Ziyane, 1996).

SCOT has been criticised for offering courses that are too theoretical, producing graduates that are too employment oriented (as opposed to self-employment oriented) and failing to link its graduates with large industrial firms for opportunities of outsourcing/subcontracting (Keddie and Ziyane, 1996). In response to this criticism SCOT has introduced the 'Start Your Own Business (SYOB) training programme as a way of enhancing the business skills of its trainees with the hope that many will opt for self-employment.

5.4.5.2 The Vocational and Commercial Training Institute at Matsapha

The Vocational and Commercial Training Institute at Matsapha (VOCTIM) is an archetypical formal training vocational training institute, which was set up in 1985 with financial assistance from GTZ.⁵² VOCTIM is situated in Matsapha near the Matsapha

⁵² The German name for GTZ is Deutsche Gesellschaft für Technische Zusammenarbeit.

Industrial site for purposes of facilitating apprenticeships since most of the courses require a one-year out in employment in companies.

VOCTIM has seven departments grouped as follows: automotive/auto-electrical; electrical/refrigeration/air-conditioning; machining/sheet-metal; woodworking; bricklaying/building; cabinet-making; and commercial (typing, bookkeeping etc). Most of the trainees at VOCTIM are young (between the age-groups of 18-25). More than 120 students graduate each year. Similar to the case of SCOT most graduates used to find employment in large foreign-owned enterprises, but since job opportunities in the traditional sectors have dwindled, it is not known how many have successfully started their own businesses.

5.4.5.3 MITC/NASTC/SITC

A network of vocational training centres has been established in Manzini (MITC), Nhlangano (NASTC) and Siteki (SITC). The purpose of establishing these centres was to train youths, including school dropouts, in several basic vocational trades. The list of programmes offered include metal-working; wood-working; building; plumbing; sewing; and automotive and electrical repair.

The trades taught in these centres, coupled with the training style are such that trainees may readily set up their own businesses either immediately or after an interval in other employment. Training in these centres is based heavily on production technique of specific sellable products or technical services rather than on more 'all round' but less immediately commercially-utilisable skills (DTI/Jaro, 1994). It is for this reason that MITC/NASTC/SITC programmes are regarded as more closely geared towards the needs of SME development.

5.4.5.4 The National Handicraft Training Centre

Another institution that has supported the development of SMEs, particularly in the Handicrafts industry, is the National Handicraft Training Centre (NHTC) located at Ezulwini. The NHTC was established in 1974 with the assistance of the Chinese

Government. The annual intake at the NHTC ranges between 70-80 and its trainees are normally school-leavers and young adults. Courses offered are normally of one-year duration and they include leather craft; fine craft; general sewing and home-craft; stone carving; ceramics; metalwork; and industrial sewing.

The focus of the training is preparing trainees for self-employment, hence some limited tools and equipment have been donated to graduates to enable them to start their own businesses. Although it is not known how many of the NHTC's graduates have successfully established their own businesses, the mushrooming of crafts markets in and near tourists' sites could well be a result of the outputs by graduates from this Centre.

5.5 Conclusion

The list of financial and non-financial service providers seem to indicate that Swaziland is certainly not poor, at least in 'numbers' of institutions and programmes relevant to SME development. However, their accessibility by SMEs and effectiveness is questionable given the limited number of dynamic and export-oriented SMEs. Most of these programmes have been in place for more than a decade and most institutions tend to offer several services, an element that tends to limit their impact. There is generally a lack of focus and little linkage between the various support services to SMEs.

SMEs' access to the various support services is constrained by, amongst other things, the obscure location of the service providers, and in the case of training programmes the duration and timing of the services which tend to be unfavourable to many SMEs. Most service providers are concentrated in and around the major cities yet with the current problem of communication (both transport and telecommunication) it is difficult for people in rural areas to access these services. Also, there seems to be a problem of poor information flow. There seems to be lack of information as to which organisation does what for whom. The structure and duration of many training programmes seems to favour the would-be entrepreneur and is unfavourable to the already existing SME that might just be in need of up-grader courses in specific areas. For example, most SME managers/owners cannot afford a one-year break to acquire a certificate or diploma. It

would seem that short, more tailored practical courses would be more favourable to the already existing SMEs.

In conclusion, suffice to say that various financial and non-financial support services are available for the development of SMEs but, because of fragmentation, they do not meet the expectations of the various stakeholders. With the establishment of the SME Unit as the focal point for SME development in the country it will be necessary to coordinate the various support services in order to improve their effectiveness.

CHAPTER SIX

THE EXPORT INVOLVEMENT OF SMEs AND THE EFFECTIVENESS OF SME ASSISTANCE PROGRAMMES IN SWAZILAND

6.1 Introduction

In small developing countries, like Swaziland, where the domestic market is limited, expansion into international markets may be a critical factor in firm growth particularly for firms dealing in tradable products. If exporting represents a key step towards expansion, then the success and growth of the small business sector hinges on SMEs' ability to effectively participate in the export sector. Export orientation among small firms should therefore be regarded as a necessity. The participation of SMEs in the export sector may also be important for the diversification of products, sales, and increased profits. The export success of SMEs does not only yield benefits to the concerned firms alone, as there are potential benefits to the country as a whole. As the small businesses grow, more jobs are likely to be created hence reducing unemployment and, through the generated incomes, contributing positively towards the reduction of poverty in the country. At the national level, as the small firms' export sales grow the total export earnings of the country increase thus contributing towards the reduction of the balance of trade deficit.

Based on the premise that exporting is important for the growth and development of small enterprises, investigating the factors influencing SMEs' ability to export is important for developing effective strategies for the promotion and development of these enterprises. Theories of international trade, such as absolute advantage and comparative advantage, although important for macroeconomic policy formulation purposes tend to be of limited use when it comes to explaining small firms' export behaviour (Onkvisit and Shaw, 1993; Czinkota, Rivoli, and Ronkainen, 1992). It is for this reason that most researchers have adopted a micro-business approach to such an investigation.

In this chapter we present the results of the investigation on the extent of export involvement of SMEs in Swaziland, plus an assessment of the effectiveness of SME promotion and development programmes using two criteria, namely awareness and usage of the various public assistance programmes. A discussion on the nature and structure of enterprises in Swaziland is included to help to improve the understanding of the nature of exporting firms in the context of the rest of the economy.

In investigating the participation of SMEs in the export sector a list of exporting enterprises was compiled first from the Swaziland '1998/99 *Directory of Exporters and Exports*', which was prepared by the Trade Promotion Unit at the Ministry of Foreign Affairs and Trade. Since this *Directory* does not include all exporting enterprises in the country and does not provide information on employment numbers, two supplementary approaches were used in order to compile a fuller list of the exporting enterprises and to obtain information on employment. First, a size classification of exporting enterprises by industry was carried out using datasets from the Balance of Payments Division at the Central Bank of Swaziland, the Central Statistics Office and the Department of Customs and Excise, both at the Ministry of Economic Planning and Development. At the Department of Customs and Excise a list of all the enterprises that had exported in a particular year was obtained. Employment figures and other production data for some of the enterprises involved in exporting were obtained from the Employment Statistics Unit in the Ministry of Employment and Enterprise, the Federation of Swaziland Employers, the Swaziland Chamber of Commerce, and in some cases from the companies.

For information on Swazi-owned small and medium enterprises, an investigation was then carried out with the Association of Swazi Business Community, and the Small Enterprises Development Company because, as mentioned in chapter 5, SEDCO is the oldest and major institution in the country entrusted with the responsibility of promoting SMEs. SEDCO also provides business operation stalls and business advisory services in all four regions of the country and is therefore regarded as the major SMEs service provider in the country.

From SEDCO, data was collected on the SMEs that have been, and those that are still beneficiaries from the institution. This data provided information on various managerial and firm characteristics of SMEs. Since information on the internationalisation of these SMEs is not part of the variables listed in the SEDCO register, it had to be obtained through interviews with the senior officials at the SEDCO estates and verified with the SMEs concerned. Information obtained from these various sources was then used to classify the exporting enterprises by industry and by employment size. For the industrial classification of enterprises the International Standard Industrial Classification (ISIC) was used, hence enterprises were classified into nine categories as follows: Agriculture and Forestry (ISIC 100); Mining and Quarrying (ISIC 200); Manufacturing (ISIC 300); Electricity and Water (ISIC 400); Construction (ISIC 500); Distribution (ISIC 600); Transport and Storage (ISIC 700); Finance and Business Services (ISIC 800); and Services (ISIC 900). In the sections below a brief description of the nature of enterprises in Swaziland is present first and then followed by the findings on the export involvement of enterprises.

6.2 The Nature and Size of Enterprises in Swaziland

Figure 6.1 and Tables 6.1 and 6.2 show the distribution of enterprises, total employment and average employment by industry, for the period 1995-1999. During this period the number of enterprises fluctuated between 1392 and 1661 (see Table 6.1). In general, the distribution industry has had the highest share of enterprises (with 31 percent) followed by the manufacturing (with 11 percent) and agriculture and forestry industries (with eight percent). However, in terms of contribution to total employment, the leading industry has been the 'agriculture and forestry' industry contributing more than 21 percent in 1999, followed by the manufacturing industry with a contribution of 20 percent (see Table 6.2). The distribution industry contributed approximately 11 percent to total employment in 1999.

In terms of the average size of enterprises, the agriculture and forestry industries tend to be larger (see Table 6.1), employing on average more than 135 people, an indication of the labour-intensive nature of the activities in this industry. Enterprises in the distribution industry tend to be smaller, averaging less than 25 employees. The gender distribution in all industries is skewed towards more males than females. For example, in the 'agriculture and forestry' industry more than 80 percent of the employees are males (Employment Statistics Unit, 1999). The share of females in the manufacturing industry has been increasing, ranging from 25 percent in 1995 to 39 percent in 1999. The 'services' industry has the highest female representation, with 43 percent.

Table 6.1 Distribution of Enterprises and Average Employment by Industry

Industry	Number of Enterprises					Average Employment Size				
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
Agriculture & Forestry	111	133	143	109	102	197	169	135	181	187
Mining & Quarrying	5	11	10	6	5	225	103	111	155	184
Manufacturing	119	118	140	138	142	139	137	120	130	126
Electricity and Water	10	10	7	9	8	118	119	129	81	176
Construction	40	68	60	59	60	138	74	95	99	90
Distribution	580	712	708	382	414	17	17	16	23	23
Transport & Storage	72	39	45	46	47	58	69	71	71	55
Finance & Bus. Services	130	197	169	151	162	37	31	34	37	46
Services	325	370	379	421	386	68	63	63	57	65
Total (N)	1392	1658	1661	1321	1326					
Average						63	54	53	66	67

Source: Employment Statistics Unit (Various Years).

Figure 6.1 The Distribution of Enterprises by Industry (1995-1999)

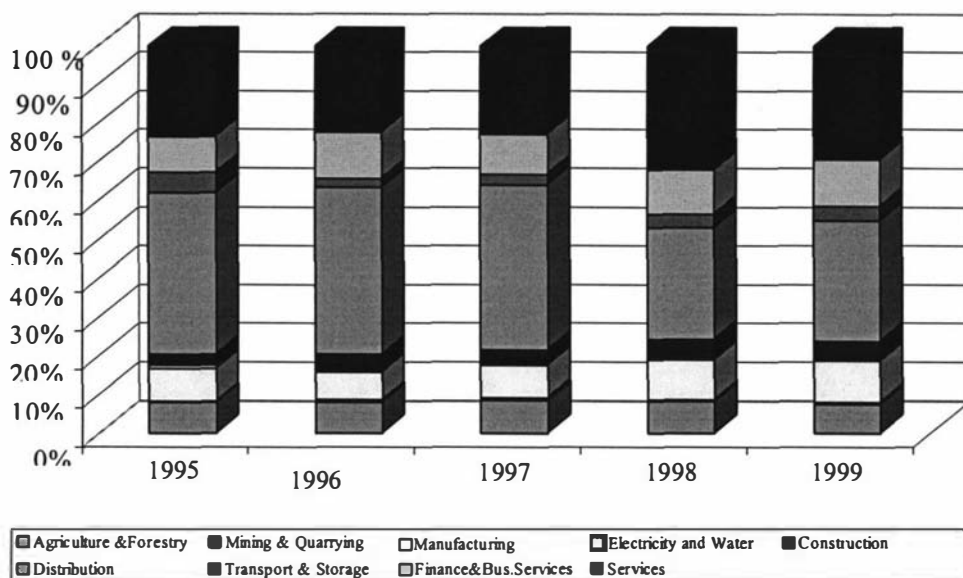


Table 6.2: Employment by Industry (1995-99)

Industry	1995		1996		1997		1998		1999	
	Number Employed	%	Number Employed	%	Number Employed	%	Number Employed	%	Number Employed	%
Agriculture & Forestry	21887	25.1	22437	25.0	19330	21.9	19781	22.8	19028	21.4
Mining & Quarrying	1126	1.3	1138	1.3	1113	1.3	929	1.1	922	1.0
Manufacturing	16558	19.0	16170	18.0	16841	19.1	17974	20.7	17905	20.1
Electricity and Water	1180	1.4	1189	1.3	900	1.0	726	0.8	1411	1.6
Construction	5537	6.4	5001	5.6	5674	6.4	5821	6.7	5422	6.1
Distribution	9823	11.3	11889	13.2	11374	12.9	8969	10.3	9368	10.5
Transport & Storage	4155	4.8	2703	3.0	3180	3.6	3258	3.7	2589	2.9
Finance & Bus. Services	4813	5.5	6168	6.9	5714	6.5	5516	6.3	7382	8.3
Services	21956	25.2	23169	25.8	24056	27.3	23917	27.5	24988	28.1
Total Employment	87035	100.0	89894	100.0	88182	100.0	86891	100.0	89015	100.0

Source: Employment Statistics Unit (Various Years).

6.3 Exporting Companies in Swaziland

In 1999, a total of 152 enterprises were involved in exporting. This number constituted about 12 percent of the total number of enterprises listed in the directory of enterprises by the Employment Statistics Unit at the Ministry of Enterprise and Employment. In general the number of enterprises involved in exporting was steadily increasing in the 1990s (see Figure 6.2). For example, whilst in 1995 a total of 128 enterprises were involved in exporting, by 1998 this number had increased to 165. However a slight decrease (of -8 percent) was recorded over the period 1998-1999, which was due to the shutdown of some companies mainly in the manufacturing industry. Despite the observed increase in the total number of existing enterprises in the 1990s, exporting enterprises still constitute an insignificant proportion (less than 13 percent) of the total number of enterprises operating in the country. Whilst the distribution industry had the highest number of enterprises, in the export sector, most of the enterprises that are involved in exporting are found in the manufacturing and 'agriculture and forestry' industries. Jointly, these two industries constitute more than 80 percent of the total of enterprises involved in exporting (see Table 6.3).

In the manufacturing industry, the number of enterprises involved in exporting was recorded at 111 in 1999 and this number represented 78 percent of the total number of enterprises in the industry. The percentage of exporting enterprises in the manufacturing industry has ranged between 74 and 93 percent, and averaged 84 percent for the period 1995-1999. This indicates the importance of the external market for the survival and growth of firms in the manufacturing industry.

The industry that contributes the second highest number of exporting enterprises was the 'agriculture and forestry' industry. This industry has been contributing approximately 13 percent to the total number of exporting enterprises. The other industries (i.e., 'mining and quarrying', 'services' etc.) jointly contributed approximately 13 percent (in 1999) to the total number of enterprises involved in exporting. The dominance of the manufacturing

and the 'agriculture and forestry' industries in number of exporting enterprises coincide with these industries' contribution to the value of total exports. Jointly these industries contribute more than 80 percent of total export earnings (see Table 6.5).

The industry classification of enterprises into exporting and non-exporting revealed that, with the exception of the manufacturing industry, generally across all the industries, a smaller number of enterprises are involved in exporting. For instance, only in the case of the manufacturing industry is the share of exporting enterprises more than 50 percent. In the 'agriculture and forestry' industry, for example, even though the share of enterprises involved in exporting has been slowly increasing (see Table 6.4), this share averaged only 17 percent over the period 1995-1999.

The revelation that exporting enterprises are not proportionately represented in the overall group of enterprises and the fact that their shares differ across industries imply that there are different circumstances pertaining to the export involvement of a company. These circumstances are dependent, to some extent, on the nature of the industry. This has implications for the export promotion programmes in the country. This is an indication of a need to design industry-specific promotion programmes in order to effectively encourage firms to get involved in exporting.

A comparison of the average employment size for exporting and non-exporting enterprises in the manufacturing and 'agriculture and forestry' industries was also carried out. This exercise revealed that generally, exporting enterprises tend to be larger than non-exporting enterprises. In 1999, for example, an exporting company in the manufacturing industry employed, on average 215 people, a figure which is above the overall industry average (i.e., combining both exporting and non-exporting enterprises), see Table 6.5.

Figure 6.2 Number of Exporting Companies in Swaziland (1995-1999)

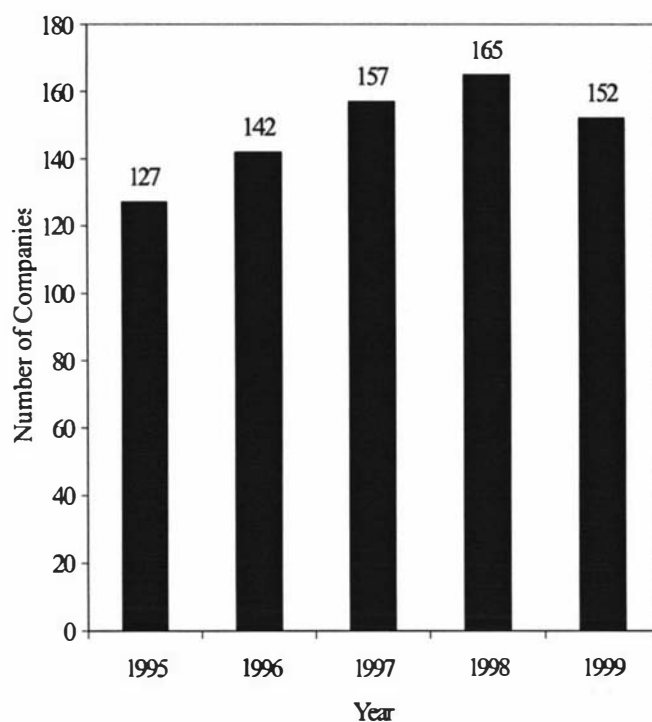


Table 6.3 Distribution of Exporting Companies by Industry

Year	Number of Exporting Enterprises by Industry				Percentage of Total Exporting		
	Agriculture & Forestry	Manufacturing	Other	Total	Agriculture & Forestry	Manufacturing	Other
1995	19	88	20	127	15.0	69.3	15.7
1996	17	110	15	142	12.0	77.5	10.6
1997	21	111	25	157	13.4	70.7	15.9
1998	22	122	21	165	13.3	73.9	12.7
1999	21	111	20	152	13.8	73.0	13.2

Source: Survey data, 2000; Customs and Excise Department

Table 6.4 Share of Exporting Companies by Industry

Year	Agriculture and Forestry			Manufacturing		
	Total	Exporting		Total	Exporting	
		n	%		n	%
1995	111	19	17.1	119	88	73.9
1996	133	17	12.8	118	110	93.2
1997	143	21	14.7	140	111	79.3
1998	109	22	20.2	138	122	88.4
1999	102	21	20.6	142	111	78.2

Source: Survey data, 2000; Customs and Excise Department

Table 6.5 Exporting Companies: Average Employment and Export share

Industry	Year				
	1995	1996	1997	1998	1999
Manufacturing					
Exporting enterprises average employment	162	139	163	210	215
(n)*	(72)	(82)	(76)	(84)	(85)
Industry employment average**	139	146	120	130	126
% share in total X	67.5%	72.2%	63.3%	70.7%	70.4%
Number of exporting enterprises	89	110	111	122	111
Agriculture and Forestry					
% share in total exporting	19.3%	11.2%	20.0%	15.8%	17.1%
Number of exporting enterprises	19	17	21	22	21
All sectors					
%X share of top ten firms in total exports	71.2	71.1	76.4	74.7	72.0

Source: Survey data, 2000; Customs and Excise Department.

Notes on Table 6.5:

X = Exports

* n = sample value (it differs from N due to unavailability of employment data for some enterprises)

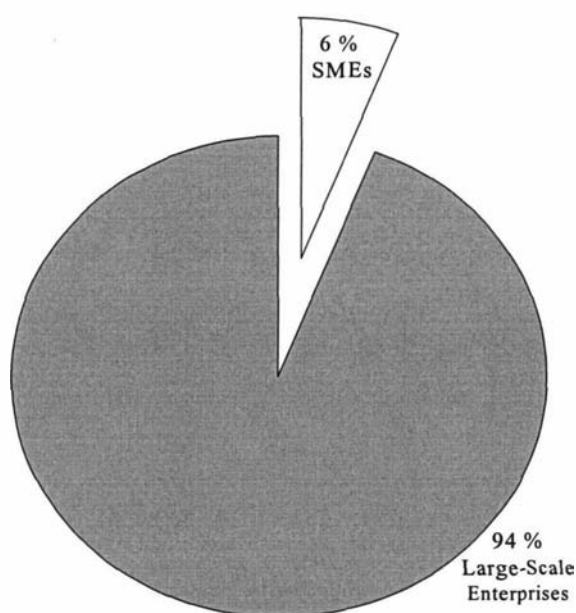
**The Industry average employment is for both exporting and non-exporting enterprises

6.4 SMEs in the Export Sector in Swaziland

The size categorisation of exporting enterprises revealed that very few Small and Medium Enterprises are involved in exporting in Swaziland. The activities in which SMEs were involved in exporting are Textiles, Handicrafts, and Food processing. Of the 152 enterprises that were involved in exporting in 1999, only six percent could be classified as SMEs (see Figure 6.3). Given that SMEs constitute a large proportion of registered enterprises in the country (more than 60 percent), the six-percent share in the export sector implies that SMEs are poorly represented in this sector.

In general, even though over the years the total number of exporting enterprises has been increasing, the share of exporting SMEs has remained relatively insignificant. For example, whilst in 1990, a total of 78 enterprises were involved in exporting only three percent could be classified as SMEs.

Figure 6.3 Size Distribution of Exporting Companies in Swaziland (1999)



The recorded increase in the total number of exporting enterprises during the period 1990-1998 is mainly due to the activities of 'newer large enterprises' that had relocated to Swaziland in the late 1980s and early 1990s. These companies, which are primarily export-oriented, were either escaping from the sanctions imposed against the South African apartheid regime or running away from the 'unknown', in fear as to what might happen after the end of the apartheid regime in 1994 (World Bank, 1996). Relocating to Swaziland provided these companies with the opportunity to service the South African Customs Union market whilst escaping the political instability in South Africa. It also gave these companies access to some of the lucrative overseas markets where Swaziland enjoyed preferential treatment. However the improvements in the political climate in the region, in particular the end of the apartheid regime and the subsequent removal of sanctions against that country, has increased the competition for foreign direct investment in the region. Consequently, the post-apartheid period has resulted in a slackening of foreign direct investment inflows into Swaziland (CBS, 1999a) and some companies are relocating from Swaziland to South Africa because of the latter's larger market and more conducive business infrastructure. This fact is evidenced by the slackening of the growth of companies especially in the general manufacturing sector.

In terms of contribution to total export earnings, a large proportion of the total export earnings is generated by a few large-scale enterprises, and SMEs contribute an insignificant amount. For the period 1995-1999, for example, the top 10 exporting enterprises consistently contributed more than 70 percent to the total value of exports.⁵³ This exposes the nature and extent of the dependency of the country on the performance of a few large enterprises, and hence the vulnerability of its export earnings.

A comparison of the female/male employment ratios for the exporting companies in the manufacturing industry revealed that generally both SMEs and large-scale enterprises tend

⁵³ Refer to Table 6.5 for the share of export earnings contributed by the top ten exporters.

to employ more males than females. However, SMEs had a higher female employment ratio than large-scale enterprises. For instance in 1999, 48 percent of the employees in SMEs were females compared to 39 percent in the case of large enterprises. Encouraging the participation of SMEs in the export sector would help to improve female employment and consequently lead to a higher reduction in the poverty levels in the country.

The low proportionate shares of SMEs in both number of firms exporting and export earnings implies that SMEs are participating insignificantly in the export sector. It can therefore be concluded that in the case of Swaziland's export sector, large enterprises are the more dominant and important group. However, the fact that SMEs tend to have a higher female/ male employment ratios makes SMEs more strategic in the achievement of a gender balance in employment and therefore highlights the need for increasing effort in the promotion of SMEs.

It is generally accepted that SMEs, compared to large firms, tend to face more hurdles when venturing into exporting (ITC, 1994). Often the institutional, information and infrastructure constraints pose a high cost, which tends to dampen the drive to export by SMEs. For example, the ability of SMEs to enter and compete effectively in export markets is discouraged by the high fixed cost of acquiring information on foreign buyers, distribution channels, quality standards, and new technologies. These factors then highlight the need and justification for nurturing SMEs in order to promote their participation in the export sector.

The low participation of SMEs in the export sector brings to question the effectiveness of the country's SMEs development and promotion schemes in addressing the export-related problems of SMEs and hence increasing their export involvement. In particular, the comparative lack of growth in exporting SMEs, whilst large exporting enterprises grew, could be an indication that trade promotion activities benefited large-scale enterprises more than they encouraged and/or supported small firms' exporting endeavours.

A number of studies have been carried out on the subject of SMEs and exports, mostly in developed countries but only a few have been done in developing countries (see Weaver, Berkowitz and Davies, 1998; Moini 1998; Seringhaus and Rosson, 1991; Bilkey and Tesar, 1977; Bigsten *et. al.*, 1999). These studies have revealed that both external and internal factors are important for the export success of SMEs. They found that amongst the significant internal factors explaining the success of SMEs in the export sector are the firms' characteristics and the managerial characteristics of the executives (Axinn, 1988; Yaprak, 1985). On external factors previous studies have noted that whilst external stimuli, government assistance programmes in particular, have contributed positively to the success of SMEs in the export sector, often issues of awareness, knowledge and utilisation undermine the effectiveness of these schemes (Naidu and Rao, 1993; Moini, 1998). Other problematic areas in the case of assistance schemes pertain to a mismatch between the 'needs' and the availability of assistance programs due to several factors such as lack of precise objectives, poor targeting of client groups, and lack of understanding of user needs.

In the section below we investigate the extent to which some of the factors identified in previous studies might explain the low participation of SMEs in the export sector in Swaziland. This investigation is justified because, as noted by other researchers, attempting to generalise from an industrial economy findings to other export marketing contexts may both be dangerous and potentially misleading (Katsikeas and Piercy, 1993) due to differences in economic, political, and social structures in less developed countries.

6.5 Awareness, Use, and Effectiveness of Assistance Programmes

This section examines the SMEs' level of awareness, use and effectiveness of business development and promotion programmes. Due to the limited nature of assistance programmes in the country and the limited diversity of services offered by the Trade Promotion Unit, this study attempts to incorporate various assistance programmes in the areas of finance, information and trade. The assistance programmes for which this

evaluation is carried out are the following: the Small Enterprise Development Company; the Ministry of Enterprise and Employment's business development programmes offered through the radio (MEERP); the Enterprise Trust Fund (ETF); the Small-Scale Enterprise Loan Guarantee Scheme (SSELGS); the Export Credit Guarantee Scheme (ECGS), domestic trade fairs; overseas trade fairs and trade attaches. Details of the nature of each of these assistance programmes have been presented in Chapter Five, under the discussion of development and promotion of SMEs in Swaziland.

6.5.1 SMEs' Awareness of Assistance Programmes

The extent to which the assistance programmes had been communicated to the business community was measured by asking managers of small and medium-sized enterprises if they were aware or not aware of various SMEs' assistance programmes. Table 6.6 presents the survey results on the awareness levels of the eight assistance programmes.

The proportion of those who were aware of the existence of the various programmes ranged from 47.5 percent to 100 percent. Three of the assistance programmes, SEDCO, ETF and domestic trade fairs, were known to all the managers in the sample. The lowest two awareness rates were for overseas trade fairs (52.5 percent) and trade attaches (47.5 percent), and both services are directly under the Trade Promotion Unit's supervision.

The high level of awareness about SEDCO is partly due to the fact that the institution is one of the oldest in the country and it has branches located in all four regions around the country. Also, SEDCO offers a wide variety of services ranging from business stalls to business counselling. Therefore, it is likely to be a reference point for many of the services normally demanded by SMEs. In addition, SEDCO offers business stalls at highly subsidised rates. Given the shortage of affordable business premises in the country, most entrepreneurs are likely to be aware of the facility that is offered by SEDCO.

The high level of awareness about the Enterprise Trust Fund is due to the manner in which the scheme was advertised and the political clout it commands. Spearheading the promotion of the scheme was King Mswati III, the Head of State in Swaziland. The King personally launched the scheme and he continuously makes reference to its existence in most of his public speeches. In fact, to many people in Swaziland, the ETF is known as the 'King's Fund'⁵⁴. There was also an effort on the part of the government to explain the nature and operations of the Enterprise Trust Fund through various media. In rural areas, for example, seminars were arranged for chiefs and other community leaders to sensitise them to the operations of the scheme and their role in encouraging people to utilise it.

Table 6.6 SMEs' Awareness of Assistance Programmes

Assistance Programme	Non-Exporters		Exporters		Total Sample	
	count	%	count	%	count	%
Small Enterprises Development Comp.	20	100	20	100	40	100.0
MEE Radio Programmes	19	95	19	95	38	95.0
Enterprise Trust Fund	20	100	20	100	40	100.0
Small-Scale Loan Guarantee Scheme	18	90	19	95	37	92.5
Export Credit Guarantee Scheme	14	70	19	95	33	82.5*
Domestic Trade Fairs	20	100	20	100	40	100.0
Overseas Trade Fairs	5	25	16	80	21	52.5**
Trade attaches	5	25	14	70	19	47.5**

Source: Survey data, 2000

* Significant at $\rho = 0.05$; ** Significant at $\rho = 0.01$

⁵⁴ This is an English translation from the Siswati phrase 'sikhwama seNkhosi'.

The domestic trade fair is an annual event, which is widely advertised through the various media. Most people in the country, including those that are not in business, are aware of this event because, in addition to business opportunities, it provides entertainment in the form of soccer competitions and music festivals. From a business point of view the domestic trade fairs are a relatively easy way of reaching out to a wider market and to sell their products or services.

The low awareness about overseas trade fairs and trade attaches is an indication of the limited promotional activities by the Trade Promotion Unit. Information on overseas trade fairs is normally shared at government level to enable countries to put together a range of products for showcasing at the fair. To this extent, participating firms use the country stall. Since the Trade Promotion Unit does not have a systematic way of information dissemination it is difficult for SMEs to get timely information on when other countries have the trade fairs. Similarly, due to the poor information flow between the Trade Promotion Unit and the SMEs, knowledge about trade attaches is very limited. Only those SMEs that are familiar with the locations and services offered by Swaziland embassies abroad would know about the existence and services offered by trade attaches. Because information sources are normally a problem to many SMEs, it is not surprising that they are least aware of these services.

Taking the assistance programmes in totality, it is noted that there is generally a high level of awareness, amongst SMEs about the existence of most of the assistance programmes. The overall awareness average is 83.8 percent. However export-specific programmes tend to have a lower awareness than the other assistance programmes, which implies that SMEs are less aware of the existence of assistance programmes that can help them to get involved in exporting.

When comparing the awareness proportions between exporting and non-exporting SMEs, managers of exporting firms were consistently more aware of the assistance programmes than their counterparts in non-exporting firms. The differences in awareness proportions

are more pronounced for the export-specific assistance programmes implying that managers of non-exporting companies were less aware of export-related assistance programmes. A chi-square test of significance in the awareness proportions between exporting and non-exporting SMEs shows that only in the case of the Export Credit Guarantee Scheme, overseas trade fairs and trade attaches are the proportions statistically significantly different. This implies that it is only in the case of these three assistance programmes that managers of exporting SMEs have significantly different awareness levels to their non-exporting counterparts. Otherwise in the case of the other assistance programmes (i.e., services by SEDCO, MEE radio educational programmes, the SSELGS, and domestic trade fairs) there are no major differences in awareness levels between the two groups.

The findings of this study with respect to lower awareness of the available assistance programmes among non-exporting SMEs are consistent with findings of past studies by Moini (1998) and Naidu and Rao (1993) pertaining to SMEs in the USA. Given that exports are viewed by the government as a critical aspect in the development of the country, coupled with the fact that exporting is an important element in the growth of SMEs, increasing the awareness of SMEs, especially among non-exporters, about the existence of various export-specific assistance programmes, is a challenge to the Trade Promotion Unit and all those concerned with the growth and development of SMEs in the country.

6.5.2 SMEs' Usage of Assistance Programmes

The second criterion for evaluating the role and impact of assistance programmes was the extent to which small and medium enterprises made use of the various support services. The usage rate was investigated by asking managers who were aware of a particular service whether they had used it. Table 6.7 presents the proportions of users for each of the assistance programmes.

The results show that for the sample group, the usage proportions of the various programs is generally low. All programmes (except for one) had less than 50 percent 'used' proportions. The domestic trade fairs had the highest 'used' proportion at 72.5 percent, and, this programme ranked first in usage for both exporters (80 percent) and non-exporters (65 percent). The high usage rate of the domestic trade fairs could be explained in two ways. First, it could be that the ease of access makes the facility accessible to many SMEs. Secondly, this could be an indication that marketing is a major priority to many SMEs so that when the opportunity avails itself most entrepreneurs take advantage of it.

Table 6.7 SMEs' Use of Assistance Programmes

Assistance Programmes	Non exporters		Exporters		Total Sample	
	count	%	count	%	count	%
Small Enterprises Development Comp.	8	40	4	20	12	30.0
MEE Radio Programmes	10	50	6	30	16	40.0
Enterprise Trust Fund	2	10	1	5	3	7.5
Small-Scale Loan Guarantee Scheme	5	25	7	35	12	30.0
Export Credit Guarantee Scheme	0	0	8	40	8	20.0
Domestic Trade Fairs	13	65	16	80	29	72.5
Overseas Trade Fairs	1	5	8	40	9	22.5
Trade attaches	0	0	6	30	6	15.0

Source: Survey data, 2000

The MEEs' radio educational and business information programmes were the second highest utilised service with 40 percent of the sampled SMEs having used it. This could be an indication of the accessible nature of the service compared to the other assistance programmes. However, the marked difference between the proportion of those that have used the service and those that were aware could be an indication of the inappropriateness

(or lack of usefulness) of the information broadcast through this programme. Some entrepreneurs indicated that the broadcast times are sometimes awkward and therefore they miss the broadcast programs. Others indicated that the information provided on the programmes tended to be stale, shallow and repetitive, which tends to reduce the value and relevance of the information provided and also discourages continued listening. The proportion of those that had used the radio programmes was slightly higher among non-exporters (at 50 percent) compared to exporters (only 30 percent).

The Enterprise Trust Fund had the lowest proportions of SMEs that have used the facility with an observed 'used' proportion of only 7.5 percent. Several factors could be contributing to the low proportion of users. First, having been in existence for less than six years, ETF is a relatively 'young' assistance programme. Secondly, the conditions of accessing the funds are different from all the other services and therefore, may be unsuitable to SMEs. In fact, some entrepreneurs indicated that the 'membership to some grouping' condition for accessing the funds poses a major constraint to SMEs who are already in business and have no time to organise groups. In general, it takes time to develop a cohesive group with confidence and trust on each other on financial matters.

The proportions of users for the 'overseas trade fairs' and 'trade attaches' were 22.5 percent and 15 percent, respectively. The distant nature of these services coupled with the high costs involved in using these services could be a major limiting factor in the use of these services.

The overall average proportion of users for the various assistance programmes is 29.7 percent, which is 54 percentage points lower than the awareness proportion of 83.8 percent. On the basis of the evidence accumulated so far it is clear that despite the high awareness proportions, usage is relatively low which could be an indication of the problems with access and appropriateness of the services provided under the various assistance programmes. Reports from the Central Bank of Swaziland on the Small-Scale Loan Guarantee Scheme and the Export Credit Guarantee Scheme indicate that the low utilisation

rate of the Schemes is partly because potential users have to access the funds through commercial banks. This is a problem because commercial banks do not have a good service reputation amongst SMEs since they are known to impose very stringent conditions, which make it difficult for SMEs to use bank services.

The results also show that the proportion of those that have used SEDCO's services is higher among non-exporters (40 percent) compared to exporters (20 percent). This confirms the fact that the SEDCO's facilities tend to be more suitable to very small business enterprises. For example, the business operation stalls are very small in size and therefore not suitable for companies with large volumes of output and/or large numbers of employees who have to be simultaneously stationed at the business site. In addition, the business counselling services are not sophisticated due to limited skills of the business counsellors.

Using cross-tabulations in SPSS, usage proportions were contrasted between the two SME categories. However the results show that the differences in the proportions of users between the exporters and non-exporters were not statistically significant. Therefore the next stage investigates the relationship between awareness and usage.

6.5.3 Effectiveness of Assistance Programmes

A good measure of the impact of a program is its effective use. Following on Naidu and Rao (1993), effectiveness is operationally defined as a percentage of actual users to the number who are aware of the programme, and is calculated as follows:

$$Effectiveness = \left[\frac{Users}{Awareness} \right] * 100$$

In general being familiar and not using the service is indicative of low effectiveness of the assistance programme. Table 6.8 shows the effectiveness ratios for the various assistance programmes.

Table 6.8 Effectiveness of Assistance Programmes

Assistance Programmes	Non-Exporters	Exporters	Total Sample
Small Enterprises Development Comp.	40.0	20.0	30.0
MEE Radio Programmes	52.6	31.6	42.1
Enterprise Trust Fund	10.0	5.0	7.5
Small-Scale Loan Guarantee Scheme	27.8	36.8	32.4
Export Credit Guarantee Scheme	0	42.1	24.2
Domestic Trade Fairs	65.0	80.0	72.5
Overseas Trade Fairs	20.0	50.0	42.9
Trade attaches	0	42.9	31.6

Source: Survey data, 2000

The results show that the effectiveness ratios of the various assistance programmes ranged from 7.5 percent to 72.5 percent. Domestic trade fairs had the highest effectiveness ratio (72.5 percent) whilst the ETF had the lowest ratio (7.5 percent). Seven of the assistance programmes had ratios below 50 percent, which implies that only one had an effectiveness ratio above the 50 percent mark. The average effectiveness ratio for all the assistance programmes was 35.4 percent. This implies that approximately one in three SMEs that were aware of the assistance programmes was able to use it. Therefore, it can be concluded that the effectiveness ratio for the various assistance programmes is generally low.

Assistance programmes related to finance, i.e., the Enterprise Trust Fund, the Small-Scale Loan Guarantee Scheme and the Export Credit Guarantee Scheme, have effectiveness ratios of less than 35 percent and they are among the four programmes with the lowest effectiveness ratios. Given that finance was cited as one of the major problems that SMEs face in their operations, the low effectiveness ratio implies that the financial assistance

programmes are not reaching out to those who need them. This could be an indication of improper targeting of the financial assistance programmes. To address this problem it might be necessary to conduct a survey with the users to measure satisfaction with the financial programmes and gather information on problems and suggestions on how to improve the effectiveness of the financial assistance programmes.

The effectiveness ratios seem to differ significantly among exporting and non-exporting companies. Among the non-exporting companies the top three programmes considered effective are domestic trade fairs (65 percent), MEE's radio programmes (52.6 percent), and the Small Enterprise Development Company (40 percent). Among the exporters, however, the assistance programmes with the top three effectiveness ratios are domestic trade fairs (80 percent), overseas trade fairs (50 percent), and trade attaches (42.9 percent). On the part of the exporting companies all the programmes with effective ratios within the top three, are marketing related, which seems to confirm SMEs' concerns, raised earlier, that marketing is one of the major constraints to SME development (Barwa and Magagula, 2000), and therefore when a marketing opportunity avails itself entrepreneurs take advantage of it.

In general the results show that, on average, the effectiveness ratio was higher for exporters than non-exporters which implies that exporters were making more use of the assistance programmes than non-exporters. This result is in line with findings from two other studies by Moini (1998) and Naidu and Rao (1993).

6.5.4 Summary on Awareness Use and Effectiveness of Assistance Programmes

This section has established that SMEs in Swaziland have fair to high levels of awareness about the various assistance programmes. These levels of awareness seem to prevail among both exporting and non-exporting SMEs. The usage and effectiveness rates are generally low but exporting SMEs are on average making relatively higher use of the assistance programmes than non-exporters. Financial assistance programmes have lower usage and

effectiveness ratios amongst both exporters and non-exporters. This could be an indication of problems with access or appropriateness of the financial assistance programmes. The generally low rates of usage for the various assistance programmes is indicative of the need to revisit the programmes in terms of their objectives, target groups, and operations.

The observed differences between non-exporters in terms of awareness, usage and effectiveness highlights the fact that SMEs' needs differ and therefore it is necessary to design more targeted assistance programmes that will address the specific needs of the various SMEs depending on their level of internationalisation.

Export-specific assistance programmes were among those programmes with the lowest effectiveness ratios, a revelation which causes concern about the impact of the Trade Promotion Unit. It has been observed that the export-specific programmes are currently too limited and lacking in many respects and therefore do not seem to be in line with government's objective of sturdily promoting exports. Whilst other developing countries are offering a wide variety of export assistance services, Swaziland is not offering even the most simple and least expensive assistance programmes. For example, services like an information centre or library, exporters' journal, or seminars on various topics relating to exporting are among the services that could be provided with little difficulty and a limited budget. Also, in order to encourage exporting among SMEs an incentive scheme, like an exporters' award, could be introduced so that those SMEs that are not yet exporting are encouraged to export, and, those that are already in the export business are encouraged to strive for excellence in the export business.

It is accepted that not all SMEs have the potential to get into exporting. The focus should be on the growth-oriented SMEs. So it is important to create an understanding of the characteristics and factors that will promote success of SMEs. In order to design more effective programs it is important that the needs of exporters are clearly understood. In the section that follows the characteristics that distinguish exporters from non-exporters will be investigated. Also, the areas that have been identified by SMEs as problematic will be

highlighted and it is hoped that these will assist in the design of more effective programmes.

6.6 What are the Factors that Distinguish Exporting from Non-Exporting SMEs in Swaziland?

Small and medium enterprises may have similar characteristics and face common hurdles in their business operations, but they are certainly far from being a homogeneous group. In order to obtain a better appreciation of the differences and similarities between exporting and non-exporting small and medium enterprises this section investigates the demographic characteristics of the two groups. This is important for purposes of creating a better understanding of the issues pertaining to the low export involvement of SMEs. Using some of the factors that have been found in previous studies to be important for the success of exporting SMEs, the differences and similarities of the non-exporting and exporting SMEs were studied. Statistical tests of significance, t-tests, ANOVA and chi-square tests were used to examine if significant differences existed between the exporting and non-exporting SMEs. This investigative approach will assist in suggesting measures of enhancing each group's export involvement and shed light on how to design more effective assistance programmes.

6.6.1 Firm-Specific Characteristics

The firm-specific characteristics that were measured are: *firm size*, measured in terms of employment and sales; *firm age*, measured in terms of number of years in business since its establishment, and percentage of female employees in the company. The hypothesis being tested is whether there were significant differences in the firm's size and age between the exporting and non-exporting firms. Table 6.9 shows the size distribution of SMEs by employment and sales classified according to exporting and non-exporting, whilst Tables

6.10, 6.11, 6.12, and 6.13 show some descriptive statistics and ANOVA results on tests of significance for the various variables used to represent firm characteristics.

Table 6.9 Firm Characteristics of SMEs

Variable	Non-Exporters %	Exporters %	Total Sample %	χ^2
<u>Number of Employees</u>				
Up to 5 employees	40.0	5.0	22.5	
6 – 20 employees	50.0	35.0	42.5	
21- 100 employees	10.0	60.0	35.0	13.12**
<u>Sales (E' millions)</u>				
< E1 million	65	20	42.5	
E1 - < E5 million	20	15	17.5	
E5 - < E10 million	5	15	10.0	
E10 million +	10	50	30.0	11.24**
<u>Firm-Age (Years in Business)</u>				
Up to 5 Years	30.0	0	15.0	
6 – 10 years	20.0	20.0	20.0	
11 – 15 years	20.0	30.0	25.0	
16 – 20 years	10.0	20.0	15.0	
21 – 30 years	10.0	5.0	7.5	
31+	10.0	25.0	17.5	8.69
<u>Share of Female Employees</u>				
Up to 25%	45	35	40	
26 – 50 %	5	25	15	
51 – 75%	5	-	2.5	
76 – 100%	45	40	42.5	

Source: Survey data, 2000

** Significant at $\rho = 0.01$

A preliminary examination of the data shows that there are some systematic differences in the firms characteristics of exporting and non-exporting SMEs (see Table 6.9). For the sample firms the results reveal that the non-exporting companies employ, on average, fewer people than exporting companies. The average size of employment for exporting firms was 59 people compared to 11 for the non-exporting firms (see Table 6.10). Using a one-way

ANOVA test the average sizes of employment between exporting and non-exporting SMEs were found to be statistically significantly different at the 99 percent confidence interval ($F = 26.416, \rho < 0.01$) (see Table 6.11). About 90 percent of the non-exporting companies employed 20 people or less, whereas more than 60 percent of the exporting companies employed more than 20 people. While 40 percent of the non-exporting companies had a workforce of less than five people, only five percent of the exporting SMEs had less than five employees. It can be concluded that the larger the firm the more likely it is to be involved in exporting.

Table 6.10 Average Size of Employment for Non-Exporting and Exporting SMEs

Group	N	Mean	Std. Deviation	Std. Error of the mean
Non-Exporting	20	11.25	11.10	2.48
Exporting	20	58.65	39.72	8.88
Total sample	40	34.95	37.48	5.93

Source: Survey data, 2000

Table 6.11 ANOVA – Employment for Non-Exporting and Exporting SMEs

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	22467.600	1	22467.600	26.416	.000
Within Groups	32320.300	38	850.534		
Total	54787.900	39			

Source: Survey data, 2000

A comparison of the enterprises based on sales revealed that non-exporting companies generally had lower sales revenue compared to exporting companies. About 65 percent of the non-exporting companies had sales of less than one million emalangeni and only 15 percent had annual sales of five million emalangeni. Exporting companies, on the other

hand, tended to have higher annual sales with 50 percent of the companies having sales of more than 10 million emalangeni. The average annual sales for exporting enterprises were 14 million emalangeni compared to about two million emalangeni for non-exporting firms (see Table 6.12). The differences in the sales for exporting and non-exporting firms were found to be statistically significant at $\alpha = 0.01$ ($F = 10.737$, $\rho = 0.01$) implying that sales for exporting SMEs are larger than those of non-exporting SMEs (see Table 6.13).

Table 6.12 Mean Sales of Non-Exporting and Exporting SMEs

Group	N	Mean	Std. Deviation	Std. Error of the mean
Non-Exporting	20	1881500.00	3304451.98	738897.93
Exporting	20	13802235.00	15930787.38	3562232.35
Total	40	7841867.50	12860711.02	2033456.96

Source: Survey data, 2000

Table 6.13 ANOVA - Sales of Non-Exporting and Exporting SMEs

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.42×10^{15}	1	1.421×10^{15}	10.737	.002
Within Groups	5.03×10^{15}	38	1.324×10^{14}		
Total	6.45×10^{15}	39			

Source: Survey data, 2000

According to both the employment and sales size-measures, exporting small and medium enterprises in Swaziland seem to be larger than non-exporting SMEs. Exporting SMEs

have, on average, a larger workforce and they generate higher annual sales values. This implies that exporting does enhance firm expansion and growth therefore assisting smaller enterprises to get involved in exporting might be one way of increasing the survival rates and also promoting growth for this group of enterprises.

Another firm characteristic that was investigated was the firm age. Firm-age has implications on the firm's capability to engage in export activity because it (firm-age) may affect capital costs and the extent of a firm's learning experience. For the sample firms the results show that exporting companies tended to have been in business for a longer period than non-exporting companies. The average firm-age for exporting companies was found to be 20 years compared to 13 years for non-exporting companies (see Table 6.14 and 6.15). This seems to imply that the longer the firm has been in business, the more likely it is to be involved in exporting. On one hand, this result is to be expected for 'growing' firms, because, over time, the domestic market becomes small and therefore it becomes necessary to get into exporting. Therefore, firms that survived the 'teething troubles' of running a business were able to get into exporting. On the other hand this result could be a signal for the disadvantaged position of inexperienced firms in engaging in exporting. The experience acquired from servicing the domestic market is expected to form a base for the firm to venture into the international market.

These results lend support to the notion that exporting is a learning process (Burpitt and Rondinelli, 1998). Accordingly, if the intention of export promotion programmes is, amongst other things, to increase the number of firms engaged in exporting then assistance programmes should aim at speeding-up the export entry process of firms by, for example, targeting new and inexperienced small firms. Inexperienced firms may need assistance with market search and other international transactions to bridge the experience gap, kick-start export activity, and take advantage of the growth potential in exporting.

Table 6.14 Average Firm-Age for Non-Exporting and Exporting Firms

Group	N	Mean	Std. Deviation	Std. Error of the mean
Non-Exporting	20	12.85	9.49	2.12
Exporting	20	19.90	11.75	2.63
Total	40	16.38	11.13	1.76

Source: Survey data, 2000

Table 6.15 ANOVA: Firm-Age for Non-Exporting and Exporting Firms

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	497.025	1	497.025	4.355	.044
Within Groups	4336.350	38	114.114		
Total	4833.375	39			

Source: Survey data, 2000

6.6.2 Managerial Characteristics

In small firms managerial characteristics are important in the firm's export activities because the company's decision to venture into exporting is ultimately taken by the individual decision-maker (Axinn, 1988). The managerial characteristics that were included in this study are education, decision-maker's age, foreign language skills, and business related foreign travel. The results on each of these managerial variables are discussed below.

6.6.2.1 Education of the Manager

Table 6.16 shows the results on the education levels between exporting and non-exporting SMEs. The educational level of non-exporting firms was found to be significantly lower than that of exporting firms. More than 73 percent of the managers of exporting companies had attained a minimum education level of a college certificate. In contrast, more than 75 percent of the managers of non-exporting companies did not have a college certificate. Whilst more than 47 percent of the managers of exporting companies had post-graduate degrees only five percent of the managers of non-exporting companies had a comparable level of education. None of the managers of exporting companies had less than a high school certificate compared to 15 percent in the case of non-exporting companies.

Table 6.16 Age and Education Levels of Executives in Non-Exporting and Exporting SMEs

Variable	Non Exporters %	Exporters %	Total Sample %	χ^2
<u>Executives' Education</u>				
Less than high school	15.0	0	7.5	
High School	5.0	5.3	5.0	
Some post high school certificate	55.0	21.1	37.5	
College certificate	15.0	15.8	15.0	
University degree	5.0	10.5	7.5	
Post graduate degree	5.0	47.4	27.5	13.96*
<u>Executives' Age</u>				
Under 25 years	0	0	0	
25 – 34 years	10.0	10.0	10.0	
35 – 44 years	30.0	20.0	25.0	
45 – 54 years	35.0	15.0	25.0	
55 – 64 years	0.0	40.0	30.0	
65 and over	5.0	15.0	10.0	4.33

Source: Survey data, 2000

* Significant at $p = 0.05$

On average, managers of exporting companies had a significantly higher level of education compared to managers of non-exporting companies (see Tables 6.17 and 6.18). These results seem to indicate that the education level of the manager is an important factor in the export involvement of a company. There are similarities in these findings with results from several other studies conducted in other countries. For instance, Simpson and Kujawa (1974) found education to be a significant variable affecting and differentiating the responses of exporters and non-exporters to unsolicited orders from foreign customers. Levy *et al.*, (1994) and Keng and Jiuan (1989) also observed that the levels of education among successful SMEs were strikingly high.

In general educated managers are expected to be in a better position to deal with international trade transactions compared to uneducated managers. This is because international trade involves a lot of complex transactions/documentations which may prove too challenging to an uneducated manager. This implies, therefore that additional help might be needed for managers of the non-exporting SMEs to upgrade their skills in international business issues. SME support service providers can be instrumental in the development of educational and training programmes of the type and scope needed to produce efficient managers. Ensuring that managers of SMEs have the appropriate education and training is very important in the overall strategy of promoting SMEs because, without first cultivating the necessary human capital skills, all the other support efforts (e.g., subsidised credit, business sites, etc.) are likely to meet limited success.

6.6.2.2 Age of the Manager/Owner

Another managerial characteristic that was considered was the age of the manager. The results show that exporting companies had slightly older managers than non-exporting companies since the mean age-group for managers in non-exporting companies was 35-44 years compared to 45-54 years in the case of exporting companies (Tables 6.19 and 6.20). However, the mean age between the two groups was not found to be statistically significant. In both exporting and non-exporting companies none of the managers were below the age

of 25 years and only 19 percent were below 35 years in age. One deduction from the apparent lack of relatively young managers in SMEs is that most of the new graduates (who are mostly below the age of 25)⁵⁵ from colleges and the university in the country have not yet been able to start and manage their own businesses. This seems to confirm earlier observations that the education system in the country has not prepared people for self-employment but more for employment in the public sector (Swaziland Government, 1997a).

Table 6.17 Average Education Levels of Non-Exporting and Exporting SMEs

Group	N	Mean	Std. Deviation	Std. Error of the mean
Non-Exporting	20	3.05	1.23	.28
Exporting	20	4.80	1.40	.31
Total	40	3.93	1.58	.25

Source: Survey data, 2000

Table 6.18 ANOVA: Education Levels of Non-Exporting and Exporting SMEs

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	30.625	1	30.625	17.593	.000
Within Groups	66.150	38	1.741		
Total	96.775	39			

Source: Survey data, 2000

⁵⁵ This age is based on the fact that in Swaziland most high school leavers are around age 18 or 19. If they do not join the labour market immediately they go on to study for a two to three years diploma or a four to five years degree. Therefore within the first two to three years after graduating they are still below the age of 25.

On the other hand, the lack of significance in the average age of managers of exporting and non-exporting companies indicates that this data does not provide us with conclusive evidence of the differences in the age of managers in exporting and non-exporting companies. From the simple indicative statistics it appears that young managers can also manage exporting companies just as well as older managers. In other words, if we take the manager's age to be an indicator of the individual's experience, we can infer that the individual's experience is not a distinguishing factor between exporters and non-exporters. Young managers with appropriate managerial skills are managing exporting enterprises along-side older managers.

Table 6.19 Mean Age of Executives in Non-Exporting and Exporting SMEs

Group	N	Mean	Std. Deviation	Std. Error of the mean
Non-Exporting	20	3.80	1.06	.24
Exporting	20	4.30	1.26	.28
Total	40	4.05	1.18	.19

Source: Survey data, 2000

Table 6.20 ANOVA: Age of Executives in Non-Exporting and Exporting SMEs

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	2.500	1	2.500	1.848	.182
Within Groups	51.400	38	1.353		
Total	53.900	39			

Source: Survey data, 2000

6.6.2.3 Foreign Language Skills

The ability to communicate in several foreign languages is considered to be good for business because it makes personal contact with a diverse group of customers possible and it facilitates the process of negotiating overseas business opportunities. Managers that are able to speak foreign languages have been found to be more 'cosmopolitan' and more willing to conduct business with foreigners (Lautanen, 2000). In Swaziland, Siswati and English are the two commonly used languages for business transactions. Table 6.21 shows the extent to which SMEs' managers are familiar with these two languages. Most of the managers in the sample are familiar with both Siswati and English. All the managers in the sample had some knowledge of English, but only five percent had no knowledge of Siswati. Managers of exporting companies were more familiar with English than Siswati with 75 percent of the managers having excellent English language skills compared to only 30 percent for the Siswati language.

In contrast, managers of non-exporting companies were more familiar with Siswati than English. Whilst 60 percent of the managers of non-exporting companies had excellent Siswati language skills only 20 percent had excellent English language skills. The better knowledge of the Siswati language compared to English on the part of managers of non-exporting companies is to be expected because the non-exporting companies tend to be inward looking and therefore the local language is more important for servicing the domestic market. Managers of exporting companies, on the other hand, need to have better English language skills in order to be able to communicate with external customers.

Ten percent of the managers of exporting companies could not speak Siswati whereas all the managers of non-exporting companies had some knowledge of both Siswati and English. This implies that it is possible for an exporting company to conduct a business in the country even though management has no knowledge of the local language. This shows the importance of the English language for business transactions both within and outside the country. It also indicates the importance of the foreign market compared to the domestic market in the case of some SMEs.

Table 6.21 Language Skills of Managers of Small and Medium Enterprises

Language Knowledge	Non Exporters %	Exporters %	Total Sample %	χ^2
<u>Siswati</u>				
None	0	10.0	5.0	
Poor/Fair	15.0	30.0	22.5	
Good	25.0	30.0	27.5	
Excellent	60.0	30.0	45.0	10.09*
<u>English</u>				
None	0	0	0	
Poor/Fair	10.0	0	5.0	
Good	70.0	25.0	47.5	
Excellent	20.0	75.0	47.5	12.63**
<u>Afrikaans</u>				
None	65.0	20.0	42.5	
Poor/Fair	35.0	45.0	40.0	
Good/Excellent	0.0	35.0	17.5	12.06*
<u>Portuguese</u>				
None	80.0	90.0	85.0	
Poor/Fair	10.0	5.0	7.5	
Good/Excellent	10.0	5.0	7.5	4.12
<u>French</u>				
None	85.0	65.0	75.0	
Poor/Fair	10.0	25.0	17.5	
Good/Excellent	5.0	10.0	7.5	6.53

Source: Survey data, 2000

* Significant at $\rho = 0.05$.** Significant at $\rho = 0.01$.

In addition to the two official languages, managers were asked to indicate their proficiency in two other languages that are used in some of Swaziland's major trading partners, namely, Afrikaans, Portuguese and French. Afrikaans is one of the popular languages used in South

Africa, Swaziland's major trading partner, whereas Portuguese is the official language in Mozambique.

The results show that about 43 percent of the managers were not familiar with the Afrikaans language and only 17.5 percent had good to excellent knowledge of this language. Managers of exporting companies had better knowledge of the Afrikaans language compared to managers of non-exporting companies. About 65 percent of the managers of non-exporting companies were not familiar with Afrikaans, 35 percent had very little (poor/fair) knowledge and none had good or excellent knowledge of this language. For the exporting companies, on the other hand, only 20 percent did not have any knowledge of the Afrikaans language, 45 percent had very little knowledge and 35 percent had good to excellent knowledge of this language. Based on a chi-square test of significance, the levels of proficiency in the Afrikaans language by managers of exporting and non-exporting SMEs were found to be significantly different ($\chi^2 = 12.06, p < 0.05$).

In the case of the Portuguese language, about 85 percent of the respondents had no knowledge and only 7.5 percent had good to excellent knowledge of this language. Although non-exporting companies had a slightly higher proportion of those with good to excellent knowledge of the language, the differences were found not to be significantly different.

Of the two languages, Afrikaans and Portuguese, the results show that managers were more familiar with the Afrikaans language compared to the Portuguese language. This is to be expected because South Africa is Swaziland's major trading partner, absorbing more than 70 percent of the country's exports and supplying more than 80 of the imports. On the other hand, trade with Mozambique was for a long time limited due to the war in that country and only started picking-up in the 1990s after the war ended, hence the limited knowledge of the Portuguese language by SMEs in Swaziland.

Another language that managers had knowledge of was French. About 25 percent of the respondents had some knowledge of French. The proportions of those with some knowledge of the French language were higher for the exporting companies than the non-exporting companies, with 35 percent for the former compared to 25 percent for the latter group. Managers of exporting companies seem to have better knowledge of the French language compared to the Portuguese language. Thirty-five percent of the managers in exporting companies had some knowledge of the French language compared with only ten percent in the case of the Portuguese language. The better knowledge of the French language amongst exporters is indicative of the importance of the European Union market, compared to Mozambique, as a market for Swazi exports, source of imports, and source of Foreign Direct Investment.

6.6.2.4 Business Related Foreign Travel

Research has shown that managers that travel abroad tend to be more familiar with foreign cultures, therefore the psychic distance separating them from other nations is smaller, making them more likely to engage in foreign trade (Axinn, 1988; Moini, 1998). In this study managers were asked to indicate the frequency of their business-related foreign travel. The results are indicated in Table 6.22.

Table 6.22 Business Related International Travel by SMEs

Frequency of Travel	Non Exporters %	Exporters %	Total Sample %	χ^2
1 to 2 times a year	20.0	10.0	15.0	
About 3 to 5 times year	20.0	25.0	22.5	
About 6 to 10 times a year	45.0	10.0	27.5	
More than 10 times a year	<u>15.0</u>	<u>55.0</u>	<u>35.0</u>	9.8*
Total	<u>100</u>	<u>100</u>	<u>100</u>	

Source: Survey data, 2000

* Significant at $\rho = 0.05$

Both exporting and non-exporting companies engage in business-related travel outside Swaziland, as all companies in the sample reported that their companies engage in at least one trip a year. Exporting companies engage in slightly more foreign travel than non-exporting companies. About 65 percent of the exporting companies engage in at least six foreign trips compared to 60 percent in the case of non-exporting companies. The results on international travel indicated that non-exporting companies also frequently engage in foreign travel. Enquiries from the managers revealed that the foreign travel was mainly to South Africa, for purposes of purchasing raw materials. If the producer is required to physically visit the input source/supplier this could be an indicator that input supplies' systems are not very good and therefore maybe an important factor in explaining the reported high cost of inputs. Exporting companies on the other hand, engaged in business related foreign travel to various destinations for purposes of making contact with potential and existing customers.

The evidence from this study has revealed that in Swaziland there are significant differences in the managerial characteristics of decision-makers in exporting and non-exporting SMEs. Research has shown that, in general, individual antecedents such as level and type of education, ability to speak foreign languages, foreign nationality, and extent of foreign travel, are likely to be associated with the decision-maker's existing stock of knowledge about international activity, his attitudes, and effective preferences concerning foreign markets. Therefore export promotion officers need to pay attention to these qualities when attempting to improve targeting of- and effectiveness of export promotion assistance programmes.

6.6.3 Determinants of Export Propensity

As outlined in Chapter 4 above, SMEs' export behaviour is a function of both internal and external factors. The logit model was chosen for purposes of investigating the internal factors determining export propensity of SMEs in Swaziland. As such, the model concentrates on the importance of firm and managerial characteristics of SMEs. The role of external factors in determining export behaviour is considered in detail in a subsequent section (see Chapter 7). The logit equation used (reproduced from section 4.3.4.9) is as follows:

$$\hat{L}_i = \ln \left(\frac{\hat{P}_i}{1 - \hat{P}_i} \right) = \hat{B}_1 + \hat{B}_2 X_i$$

The explanatory variables used in the analysis and the abbreviations are presented in Box 6.1.

In an attempt to get the best model that fits the data several estimations of the model were made with variations in the combinations of explanatory variables. To accommodate the ambiguity about the potential reverse causality between export propensity and some of the selected variables (e.g. foreign trips, age, size) several variants of the model were estimated with and without these variables. These issues relating to the logit model are further explored in Magagula and Obben (2001). Two variants of the model were finally settled on - one with the foreign trips variable (Model 1) and the other without the foreign trips variable (Model 2). This was to accommodate the ambiguity about the direction of causality between foreign trips and export propensity. For each variant, there were two stages to the model estimation. At the initial stage a baseline or exploratory model comprising a linear specification of all the variables was estimated (stage A). It was hypothesized that YEARSBUS, SALES, EMPLOYEEES, AGEMGR, EDUC, ENGLISH, AFRIKAAN, FORTRIPS and PERXPRFT would be positively associated with the

dependent variable; and that PERXCOST would be negatively associated with the dependent variable, but FEMALES, SISWATI, FRENCH, PORTUGES and PERXRISK could go either way.

The results from the initial specifications of the model were, however generally not satisfactory as some of the variables were taking counter-intuitive signs whilst others were not significant. Part of the problems with the model could be traced to have emanated from multicollinearity, as reflected in high R-squares and low t-ratios or large standard errors of the slope coefficients. Such is to be expected in baseline models because of high pair-wise correlations among some of the explanatory variables. For instance, the significant computed pair-wise correlations are as follows: EMPLYEES & SALES, 0.71; EMPLYEES & EDUC, 0.68; EDUC & ENGLISH, 0.64; EDUC & SALES, 0.55; and PERXCOST & PERXRISK, 0.51 (see Box 6.2).

Appropriate remedial action was taken to correct for the problem of multicollinearity in the model. If any continuous variable took a counter-intuitive sign, its quadratic form was considered in an interim step to check the plausibility of a non-monotonic relationship. Then the non-significant variables were eliminated sequentially leading to the final model that contained only the significant variables⁵⁶ (stage B). The resulting four logit regression equations are referred to as Model 1A, Model 1B, Model 2A and Model 2B, respectively. This action produced a 'final' version with only four variables being significant out of the initial 16. The logit regression results of the initial and final versions of the two variants of the model are reported in Table 6.23.

⁵⁶ The one- tail t-test at the 10 percent level of significance was used.

Box 6.1 Explanatory Variables and their Abbreviations

The explanatory variables employed in the analysis are:

YEARSBUS = number of years in business;

SALES = gross sales in the year 1999 in millions of Emalangeni (E million);

EMPLYEES = number of employees;

AGEMGR = age of the manager in years;

EDUC = educational attainment of the manager (less than high school = 1; high school = 2; some post high school certificate = 3; college certificate = 4; university degree = 5; post-graduate degree = 6);

FEMALES = percentage of workforce that is female;

SISWATI = proficiency in Siswati (none = 0; poor = 1; fair = 2; good = 3; excellent = 4);

ENGLISH = proficiency in English (none = 0; poor = 1; fair = 2; good = 3; excellent = 4);

AFRIKANS = proficiency in Afrikaans (none = 0; poor = 1; fair = 2; good = 3; excellent = 4);

FRENCH = proficiency in French (none = 0; poor = 1; fair = 2; good = 3; excellent = 4);

PORTUGES = proficiency in Portuguese (none = 0; poor = 1; fair = 2; good = 3; excellent = 4);

FORTRIPS = number of business-related trips to foreign countries;

PERXPRFT = perception of exporting on profits relative to domestic sales (much less = 1; less = 2; about the same = 3; more = 4; much more = 5);

PERXRISK = perception of exporting on risk relative to domestic sales (much less = 1; less = 2; about the same = 3; more = 4; much more = 5);

PERXCOST = perception of exporting on costs relative to domestic sales (much less = 1; less = 2; about the same = 3; more = 4; much more = 5).

Box 6.2 Correlation Matrix for the Various Firm and Managerial Characteristics

	YEARSBUS	SALES	EMPLOYEEES	AGEMGR	EDUC	FEMALES	SISWATI	ENGLISH	AFRIKANS	PORTUGES	FRENCH	FORTRIPS	PERXPRFT	PERXRISK	PERXCOST
YEARSBUS	1.000														
SALES	0.245	1.000													
EMPLOYEEES	0.413**	0.707**	1.000												
AGEMGR	0.465**	0.315*	0.278	1.000											
EDUC	0.277	0.554**	0.681**	0.279	1.000										
FEMALES	-0.219	-0.232	-0.264	-0.253	-0.031	1.000									
SISWATI	-0.152	-0.268	-0.283	-0.270	-0.095	0.188	1.000								
ENGLISH	0.126	0.431**	0.426**	0.152	0.638**	0.056	-0.092	1.000							
AFRIKANS	0.322*	0.181	0.398*	0.145	0.405**	-0.169	-0.295	0.296	1.000						
PORTUGES	-0.169	-0.165	-0.068	-0.262	0.019	-0.060	0.138	-0.017	-0.077	1.000					
FRENCH	-0.062	0.198	0.008	0.167	0.401*	0.188	-0.194	0.377*	0.170	0.281	1.000				
FORTRIPS	-0.133	0.106	0.198	-0.074	0.172	0.258	0.075	-0.081	0.088	-0.130	0.038	1.000			
PERXPRFT	-0.221	-0.255	-0.232	-0.245	-0.103	0.306	0.312	-0.273	-0.287	0.140	0.143	0.279	1.000		
PERXRISK	0.159	-0.264	-0.295	-0.082	-0.192	0.122	0.177	-0.333*	-0.116	0.107	-0.060	0.268	0.283	1.000	
PERXCOST	-0.164	-0.171	-0.278	-0.034	-0.297	0.125	0.063	-0.356*	-0.159	0.203	0.088	0.078	0.407*	0.509**	1.000

** Correlation is significant at the 0.01 level

* Correlation is significant at the 0.05 level

As the results of Model 1A show, when FORTRIPS is included in the model the initial version gives a perfect fit (e.g., three of the R-square measures are equal to 1.00) even though the individual regressors are not significant. This is symptomatic of high multicollinearity. It will be noticed that the age of the manager variable, AGEMGR, and the education variable, EDUC, initially take counter-intuitive but non-significant negative signs. In an unreported interim estimation step, the re-specification of those two variables in quadratic form yielded plausible configuration of signs but the variables were not significant enough to be selected in the final version of the model. The final version, Model 1B, indicates, however, that only one firm-specific variable (EMPLYEES) and three manager-related characteristics (ENGLISH, AFRIKAAN and FORTRIPS) are significant for explaining the differences in the log of the odds of an SME in Swaziland being an exporter. It is worthy of note that there is no high pair-wise correlation among the variables selected in the final model.

In this study the number of employees seem to be a much better scale variable than volume of sales. Since the correlation coefficient between SALES and EMPLYEES is 0.71, it is clear that the volume of sales of SMEs increases as they employ more people (or *vice versa*). The over-riding importance of proficiency in foreign languages, principally English and Afrikaans, for the export propensity of SMEs is upheld by the data. Most of Swaziland's trade is with the Republic of South Africa where the official languages are English and Afrikaans. It stands to reason that these two languages would be featured prominently in the model. The significant and positive relationship between number of foreign trips and the dependent variable augurs well for policies that are designed to assist SME managers with business-related trips to foreign countries.

When FORTRIPS is excluded from the model, the results of Model 2A show that even though the individual regressors are not significant, the likelihood ratio test score (i.e., 39.8496 with 7 degrees of freedom) leads to the rejection of the hypothesis that the estimated coefficients are simultaneously equal to zero. Just as in the case of Model 1A, this outcome is suggestive of high multicollinearity. The variables that initially take

counter-intuitive but non-significant negative signs are age of the manager (AGEMGR), number of years in business (YEARSBUS) and volume of sales (SALES). In unreported interim estimation steps, only the re-specification of the age variable in quadratic form yielded a plausible configuration of the signs of the coefficients from which the final set of variables was selected. It must also be noted that when FORTRIPS is excluded from the model, more variables are selected in the final version of the model.

As expected, the set of variables selected in the final model (Model 2B) is different from that selected when FORTRIPS is included in the specification. Age of the manager appears in a quadratic form significantly in this final model. The combination of the positive and negative signs taken by AGEMGR and AGESQR, respectively, implies that the probability of being an exporter increases at a decreasing rate as age of the manager increases. The upshot is that, in the requisite range of values of a linearly specified age variable, the negative/decreasing component could overwhelm the positive/increasing component (or the other way round) resulting in an overall negative (or positive) effect of age on export propensity. Hence, it is clear that depending on the range of values of age in the dataset a linear formulation of age can turn out either a positive or a negative coefficient, giving the impression, perhaps erroneously, of a monotonic relationship. A quadratic formulation in which age and the square of age do not take alternating signs may be the supporting evidence needed to justify a linear specification of the age variable. This finding is seemingly helpful in resolving the contradictory findings about the effect of age on export propensity reported in the empirical literature.

As in Model 1B, EMPLOYEEES is the only one selected from among the firm-specific variables in Model 2B; the larger the workforce of the SME the more likely that it would be an exporter. The positive coefficients taken by ENGLISH and AFRIKAAN mean the greater the proficiency in English and the Afrikaans language, the higher the probability that the SME would be an exporter. The negative sign of SISWATI implies that, after controlling for the other factors, the probability of being an exporter decreases with the manager's proficiency in the local language. An alternative interpretation is that since the

only respondents who did not have any knowledge at all of the Siswati language were exporters and, inasmuch as the majority of those with poor/fair knowledge of the language were also exporters, it is possible for foreigners with little or no knowledge of the local language to successfully establish and conduct small business and undertake exporting activities based in Swaziland. Perhaps this interpretation could be extended to hypothesize that previous stay in a foreign country has salutary effect on export propensity.

The positive coefficient for PERXRISK means that those SMEs that perceived that export sales are riskier compared to domestic sales are more likely to engage in exporting than those that perceived export sales to be less risky. This suggests that SMEs in Swaziland are not necessarily deterred from engaging in exporting because of a perceived higher risk to sales; the exporting SMEs may be considered to be less risk averse than their non-exporting counterparts.

Conspicuously absent in the final versions of the two variants of the logit model are the variables on number of years in business, volume of sales, educational attainment, share of females in the workforce, proficiencies in French and Portuguese, and perceptions about the effect of exporting on the profitability and cost of the business. The logical interpretation is that, in the presence of the other variables that were finally selected, these variables were not found by the logit model to be critical to the likelihood of an SME in Swaziland being an exporter. Amongst them, the education variable warrants a comment because it was expected to be a highly significant determinant of the export propensity of SMEs. In the ensuing commentary it would be beneficial to recall that the education variable captures/reflects the highest formal academic qualification of the manager.

An examination of the correlation matrix of the explanatory variables reveals that education is highly correlated with English language proficiency, number of employees and volume of sales. English and Afrikaans had their highest correlations (of 0.64 and 0.41, respectively) with education that had its highest correlation (of 0.68) with number of employees which, in turn, had its highest correlation (of 0.71) with volume of sales. The initial specifications

of the model, in which education appeared simultaneously with the rest of the variables, produced the 'classic' symptoms of multicollinearity – high R-squares and low t-ratios.

The remedial action of dropping superfluous variables where the non-significant variables were the natural candidates resulted in the rejection of education in the final versions of the model. The connotation here is that, in the logit model, education is dominated (or crowded out) by the variables with which it is highly correlated. This does not, however, diminish the importance of education in the scheme of things. It signifies that formal education becomes a superfluous variable for modelling if, presumably, it has served its purpose of imparting measurable relevant skills (e.g., excellent command of the English language) that are also being utilized as explanatory variables in the same model. In other words, education is antecedent to the variables with which it is significantly collinear. It is inconceivable that causality runs from sales or number of employees or English language proficiency to academic qualifications of the manager in this research context. Furthermore, it must be emphasised that skills pertinent to the conduct of successful export business (acquired through formal education or other means) are ultimately what matter rather than the academic qualifications *per se*. Whereas education generally improves the human capital, a highly educated person does not necessarily make a successful business manager, let alone an exporter. This is the reasoning proffered for the eventual non-selection of the education variable; and for that, the logit model must be commended.

Table 6.23 Logit Regression Results on Export Propensity of SMEs

Variable	Model With Foreign Trips				Model Without Foreign Trips			
	Model 1A		Model 1B		Model 2A		Model 2B	
	Coef	T-stat	Coef	T-stat	Coef	T-stat	Coef	T-stat
CONSTANT	-390.6	-3×10^{-4}	-21.9	-2.43	-864.9	-0.67	-53.2	-1.75
YEARSBUS	3.739	4×10^{-4}			-3.448	-0.66		
SALES	8.272	3×10^{-4}			-6.682	-0.65		
EMPLYEES	0.819	3×10^{-4}	0.104	1.90**	4.669	0.68	0.200	2.14**
AGEMGR	-11.08	-2×10^{-4}			-30.02	-0.69	12.57	1.40*
AGESQR							-1.83	-1.54*
EDUC	-5.539	-1×10^{-4}			38.47	0.64		
FEMALES	0.694	3×10^{-4}			0.116	0.67		
SISWATI	10.574	1×10^{-4}			-9.421	-0.76	-1.13	-1.37*
ENGLISH	93.325	3×10^{-4}	3.622	2.10**	177.5	0.68	4.452	1.99**
AFRIKANS	28.45	3×10^{-4}	1.520	2.13**	64.65	0.68	2.323	1.92**
FRENCH	-51.16	-6×10^{-4}			-91.76	-0.67		
PORTUGES	73.31	5×10^{-4}			22.67	0.64		
FORTRIPS	97.154	5×10^{-4}	1.983	2.04**				
PERXPRFT	-30.81	-1×10^{-4}			-14.24	-0.59		
PERXRISK	-44.90	-2×10^{-4}			87.92	0.68	3.819	1.56**
PERXCOST	-9.011	-1×10^{-4}			-21.95	-0.71		
Diagnostics								
Log Likelih'd Fn	-5×10^{-9}		-8.2978		-7.9143		-8.8011	
Likelihood Ratio Test	55.452; with 15 d.f.		38.856; with 4 d.f.		39.623; with 14 d.f.		37.8496; with 7 d.f.	
Estrella R ²	1.00		0.81		0.82		0.80	
Maddala R ²	0.75		0.62		0.63		0.61	
Cragg-Uhler R ²	1.00		0.83		0.84		0.82	
McFadden R ²	1.00		0.70		0.71		0.68	
% of Correct Prediction	100%		92.5%		87.5%		90.0%	

Notes on Table 6.23

* = significant at the 0.01 level.

** = significant at the 0.05 level.

d.f = degrees of freedom

6.6.4 Summary on Logit Results

This section set out to ascertain the explicability of why some SMEs in Swaziland are exporters and some are not (i.e., export propensity). Making use of various firm-specific and manager-related variables, as gleaned from the empirical literature on export behaviour of SMEs, it has been possible to estimate the export propensity of SMEs in Swaziland. Because of the potential reverse causality between number of business-related foreign trips and export propensity, two variants of the logit model were estimated – one with, and the other without the foreign trips variable. A good fit was obtained for either variant but the variables selected are slightly different. Important insights were obtained from both formulations of the model.

With or without the foreign trips variable in the model, firm size (as measured by number of employees) and proficiencies in English and the Afrikaans language are significant determinants of the probability of an SME being an exporter. The corresponding policy recommendation is that the design of assistance programmes should include specific schemes to upgrade the English and Afrikaans and foreign language skills of managers of non-exporting SMEs. For a scale variable, the logit model seems to prefer number of employees to the volume of sales. Hence, this study endorses the use of number of employees as the yardstick for classifying SMEs in Swaziland.

When the foreign trips variable is excluded, the empirical model shows that as the age of the manager increases, the probability of an SME being an exporter also increases but at a decreasing rate. It was possible to capture this relationship with the quadratic specification of the age variable. This helps to resolve the seemingly contradictory findings in previous studies in which linear forms of the age variable had been used. Presumably there is some age bracket within which the propensity to export rises with age and beyond that the propensity predictably falls. It seems that in this study, managers who are 65 years of age, or older, are less inclined to engage in exporting activities and so assistance should be targeted at managers *much* younger than 65.

When the foreign trips variable is brought into the model it displaces the local-language proficiency variable, age of the manager and the risk variable from the model. Auspiciously, the greater the number of business-related trips taken out of the country, the more likely the SME is to be an exporter. A policy recommendation that arises instinctively from this finding is that official support, financial or otherwise, targeted towards currently non-exporting SMEs to attend *bona fide* business-related functions outside the country is more than likely to bear fruit in exporting.

In conclusion, as a precaution the upbeat findings of this research must be seen against the backdrop of the relatively small sample studied, the absence of potentially useful variables on which data could not be gathered (e.g., price and non-price competitiveness in the marketplace, training of the manager in export matters). Certainly, a much larger sample would give more robust results.

6.7 Summary and Conclusion

This chapter set out to investigate the nature and extent of the export involvement of SMEs in Swaziland, evaluate the effectiveness of assistance programmes, find out if there are any distinguishing features between exporting and non-exporting SMEs, and make use of the logit model to estimate the export propensity of SMEs in Swaziland. This investigation has revealed that the export involvement of SMEs is generally low in Swaziland. Although in 1999 more than 80 percent of all registered companies were SMEs, only 6 percent of exporting companies were SMEs. Furthermore, SMEs accounted for less than three percent of the country's export earnings, implying that SMEs are participating insignificantly in the export sector in Swaziland. The three percent share contributed by SMEs to total exports is considered low because in other countries SMEs contribute much higher shares to total exports. For example, among the 'Asian Tigers', SMEs constitute about 95 percent of all registered enterprises and account for more than 35 percent of export earnings (Nugent and Yhee, 2002; UNCTAD, 1998a); in the OECD countries SME share of total exports is, on

the average, about 25 percent (OECD, 1997a; Hall, 1995). From these figures, it can be conjectured that the SME share in total exports in Swaziland can be increased up to a dozen-fold if effectual export promotion strategies and policies are put in place. Export success requires sufficient skills, resources, and commitment. Research studies have suggested that individual characteristics are important in understanding small firms' export behavior. Others have highlighted the need for developing countries to engage in strategic export promotion in order to help propel SMEs export involvement (IFC, 1990; UNCTAD, 1995a, 1995b). Therefore, further investigations were undertaken to evaluate the effectiveness of SMEs assistance programmes in Swaziland and to identify any systematic differences between current exporting and non-exporting SMEs that can guide policy and strategies to encourage more SMEs to export.

The sample results established that managers of exporting SMEs were more aware of the export-specific assistance programmes compared to their non-exporting counterparts. Overall, whilst SMEs are generally aware of the existence of various assistance programmes, the utilisation and effectiveness rates of these programmes were generally low. Such findings are congruent with those of other researchers (see for example Moini, 1998; Kumcu, Harcar and Kumcu, 1995). The sample results on the low utilization rates of assistance programmes were in line with the observation made earlier in Chapter 5, wherein it was found that the Small-scale Enterprise Loan Guarantee Scheme and the Export Credit Guarantee Scheme had low utilization rates. An obvious implication of the low usage of assistance programmes is that the available programmes are not serving the purpose for which they were established. Hence, there is a need to revisit the programmes and make them more targeted. The structure of the assistance programmes needs to be revisited in an attempt to improve the effectiveness of these programmes. Since non-exporting SMEs were less aware of some of the assistance programmes it is necessary to improve the information sources for these enterprises. Persuasive messages delivered by persons or institutions that possess high credibility and trustworthiness must show the potential tangible benefits a firm can gain from exporting. In redesigning the assistance programmes it is necessary that policy-makers fully understand the kinds of differences that occur among

SMEs. This is necessary for purposes of ensuring that the assistance programmes effectively move the firms into successful exporting. It is accepted that there are limitations to what external support can achieve in terms of encouraging export activity among firms. For example, some of the firm and managerial characteristics impacting on export activity, like firm-age and experience, are not controllable. Therefore, it is necessary for support services to concentrate on those factors for which it is possible to make an impact and improve small firms' export involvement.

This study has established that certain firm and managerial characteristics like firm size, education, and foreign language skills are associated with export involvement. Therefore, tailoring assistance programmes to the needs of smaller non-exporting enterprises, which were found lacking in many of these attributes is likely to have the highest impact. By providing specialised services, like foreign language training and exposing firms to potential opportunities in foreign markets, they can educate individual decision-makers and increase their level of commitment to exporting.

It is appreciated that due to limited resources, reaching out to all SMEs may not be possible. Therefore, it is important that government agencies develop a screening device for purposes of 'picking the winners' in order to effectively allocate the scarce time and limited financial and managerial resources for support and assistance to SMEs that have an export potential. The adoption of 'direct' export promotion activities, like research support, interest stimulation, export preparation and expansion can help to improve the effectiveness of the assistance programmes. Improved targeting and effectiveness of assistance programmes necessitates the adoption of a diagnostic approach in determining and removing the real barriers to exporting (Keng and Jiuan, 1989).

It should be recognised that, in practise, many small enterprises may not be able to compete on equal terms, particularly with regard to finance or information, therefore some specific additional measures may be needed in order to help them to access credit. For small non-exporting firms that have a potential for being involved in exporting, the assistance should

adopt a diagnostic approach to identifying (and minimising the magnitude of) the real obstacles to export involvement. For example, the government, through the Trade Promotion Unit, could provide export leads or market research to such firms, if their main obstacle is the lack of market contacts. Similarly, assistance programmes for small exporting firms should be sensitive to their needs at different stages of the export development process. The focus of the assistance programmes should be to help the small exporters to establish themselves in foreign markets. And, for those SMEs that are already in the export business the support should focus on helping them to maintain their foreign market shares, to grow and graduate to efficient medium-sized enterprises.

The absence of a reliable database on exporters hinders monitoring and evaluation of the assistance programmes, hence, it is difficult to tell which programmes should be enhanced and which should be eliminated. The Trade Promotion Unit should, therefore, consider systematically collecting, updating and generating information as a way of improving the effectiveness of the assistance programmes. Specifically, a computerised rather than manual storage of data can facilitate the maintenance of an up-to-date register of exporters in the form of company profiles. Such a facility is desirable because it can improve the information flow between the promotion agencies and the companies, and it can also facilitate the sharing of information among the companies. With the availability of contact addresses at the fingertips, the Trade Promotion Unit can mail, telex or email trade information without delay thus improving the efficiency of its operation.

In developing countries the performance of firms is said to be highly linked to external factors, like the economic and political situation (IFC, 2000). Therefore, one of the ways in which government can assist SMEs to excel in their operations and grow, is by ensuring that a conducive business environment prevails. The next section discusses the business environment factors that were highlighted by SMEs as being helpful and those that were considered to be problematic in their business operations. It is hoped that this information will be of assistance in identifying the major obstacles to SME growth and development and therefore facilitate the design of appropriate interventions.

CHAPTER SEVEN

AN ASSESSMENT OF THE BUSINESS ENVIRONMENT

7.1 Introduction

The business environment in which firms operate in impacts on the performance of all firms, irrespective of whether they are small or large, exporting or non-exporting. The growth and development of small businesses is particularly sensitive to the quality of government policies and the overall business environment in which they operate (UNCTAD, 1998a). Some policies, whilst well meaning, tend to hinder the growth and development of SMEs. Policies that impede the growth of SMEs by increasing the cost of doing business, such as excessive regulations, tend to push entrepreneurs into informal sector activities and so reduce their potential contribution to the economic and social development of the country.

The purpose of this chapter is to give some idea of the relative importance of different factors pertaining to the business environment and support systems, as assessed by SMEs in Swaziland. Such information may be useful to policy makers during the identification of business issues that need their attention and it may contribute towards the design of effective assistance programmes. This chapter also aims to identify those factors that have been of assistance to the development of SMEs and it is hoped that these will be strengthened so as to provide continued support to the growth and development of SMEs. The discussion is organised into three major sections. First a presentation of the results on various business environment factors is made. This is followed by a discussion of the findings on export related problems. Finally, a summary and conclusion on the findings on the business environment in general is presented.

7.2 The Business Environment: Helpful and/or Problematic Factors

To investigate SMEs' views on the business environment as part of the research for this thesis, a list of factors relating to the business environment were identified and respondents were asked to indicate for each factor whether it was helpful or problematic

in developing their business (see Question 31 on the questionnaire). The list of factors was developed from the literature review. Adopting an approach suggested in UNCTAD (1998a), respondents were asked to indicate, for each factor, its helpfulness or otherwise by choosing from six possible answers, i.e., 'very helpful', 'helpful', 'neither a problem nor help', 'problem', 'very major problem', and 'not applicable'. For ease of analyses responses to each of the listed factors were then reclassified by combining 'very helpful' and 'helpful' responses into a new group, which was labelled 'helpful', likewise 'very problematic' and 'problem' responses were combined into one group called 'problem'. The reclassified responses were then tabulated and analysed to determine SMEs' overall view on each factor. The results of this exercise are presented in Table 7.1 below. In addition, to capture any additional factors that might have been omitted in the supplied list of business environment factors and maybe pick up those factors that could be unique to SMEs in Swaziland, open-ended questions on the business environment were added to enable the respondents to make suggestions. Responses to these open-ended questions were captured in Question 32 and 33 of the questionnaire. The discussion of the findings on business environment related factors is presented below, and is discussed under the following subheadings: infrastructure; finance and credit; marketing and sources information; inputs; government rules and regulations and policies; and 'other' factors.

7.2.1 Infrastructure

Good infrastructure facilitates the smooth operation of SMEs. Infrastructure related factors that were investigated in this study included the following: telecommunications, roads/transport, and water and sewerage services. Of the three identified infrastructure categories, the roads/transport system was viewed as the most helpful infrastructure with 50 percent of the respondents indicating that it was helpful and only 25 percent indicating that it was a problem. The general view on water and sewerage services could be described as neutral in that the majority of the respondents (62 percent) viewed this factor as neither helpful nor problematic, whilst 22 percent indicated it was helpful, only 16 percent viewed it as a problem. On the other hand, the majority of SMEs (80 percent) view the telecommunications system as the most problematic infrastructure, with only 8 percent indicating that it was helpful.

Table 7.1 Helpful and Problematic Business Environment Factors to SMEs

Factor	[H - P]	Problem (P) %	Neutral (N) %	Helpful (H) %	Number of respondents (n)
Infrastructure and Finance					
Roads/transport	25.0	25.0	25.0	50.0	40
Water and sewerage	5.4	16.2	62.2	21.6	37
Telecommunications	-72.5	80.0	12.5	7.5	40
Availability of reasonably priced finance	-73.0	73.0	27.0	-	37
Inputs					
Access to low cost labour	46.2	2.6	48.7	48.7	39
Availability of skilled staff locally	17.5	32.5	17.5	50.0	40
Availability of skilled staff abroad	18.8	18.8	43.8	37.5	16
Dispute settlement mechanisms	-34.2	39.5	55.3	5.3	38
Labour restrictions	-26.3	26.3	73.7	-	38
Attitude of workers	-27.5	37.5	52.5	10.0	40
Trade unions	-85.7	88.6	8.6	2.9	35
Access to low cost capital	-21.1	21.1	78.9	-	38
Access to technology	10.3	23.1	43.6	33.3	39
Markets and Information					
Access to markets	- 54.1	56.8	40.5	2.7	37
Market intelligence	-67.5	67.5	32.5	-	40
Finding suitable distributors	-17.9	32.1	53.6	14.3	28
Information services	-72.5	72.5	27.5	-	40
Government Rules, Regulations and Policies					
General business regulations	-13.2	15.8	81.6	2.6	38
Approval procedures for investment	0	5.4	89.2	5.4	37
Approval procedures for construction	5.6	11.1	72.2	16.7	18
Reporting requirements	-2.6	5.3	92.1	2.6	38
Tax concessions, incentives	-39.4	48.5	42.4	9.1	33
Corruption in minor officials	-54.3	54.3	45.7	-	35
Corruption in senior officials	-52.9	52.9	47.1	-	34
Local legal system	-26.3	28.9	68.4	2.6	38
Government business advisory services	-64.1	69.2	25.6	5.1	39
Government sponsored trade missions	-30.8	42.3	46.2	11.5	26
Industrial parks	47.8	0.0	52.2	47.8	23
Tariffs /quotas	-57.1	64.3	28.6	7.1	14
Unfair competition	-51.5	54.5	42.4	3.0	33
Local content requirements	-16.7	25.0	66.7	8.3	12
Minimum export requirements	0	11.1	77.8	11.1	9
Export obligations	-40.0	45.0	50.0	5.0	20
Import restrictions	-17.4	26.1	65.2	8.7	23
Cost of imports	-56.8	59.5	37.8	2.7	37
Foreign currency restrictions	-21.7	21.7	78.3	-	23
Remittance limits	-13.3	13.3	86.7	-	15
Other factors					
Market liberalisation	-3.6	17.9	67.9	14.3	28
Services from the Chamber of Commerce	12.8	15.4	56.4	28.2	39
Affiliation to transnational corporations	0	12.5	75.0	12.5	8

Source: Survey results, 2000

The relatively better assessment of the roads/transport infrastructure could be an indication of the recent improvements in the road/transport network system in the country, particularly the upgrading of several major roads connecting the major cities and towns. For example, in 1998 the major highway connecting the two major cities (Mbabane and Manzini) and the major industrial town, Matsapha, brought some relief to many business people because road transport service providers can now spend less time on the road benefiting worker commuters, and goods movers. Moreover, the upgrading of the road network has contributed to a general improvement in public transport facilities and services as evidenced by the increased options in modes of road transportation for both goods and people. The ongoing construction of the highway connecting the capital city and the Oshoek border post will bring in further relief, especially benefiting trucks moving goods between South Africa and Swaziland. An area of concern within the transportation system was the railways service that facilitates the movement of goods from Swaziland to the nearest seaports in South Africa and Mozambique. There were concerns that the service is becoming too costly and unaffordable for some small enterprises. Overall, SMEs seemed to be embracing the improvements in the road network and hoped that even remote rural areas will get the benefits of the ongoing investments in the road networks.

An efficient telecommunications network is crucial for the smooth operations of a business. The telecommunications service in Swaziland seems to be causing problems to many SMEs. Complaints about the telecommunications service included the waiting period for obtaining a telephone line, the long period in fixing faults, and the limited number of telephone lines granted by the service provider (Swaziland Posts and Telecommunications - SPTC). Several companies mentioned that they had to wait for more than three months to get a telephone line. Enquiries with SPTC revealed that the long waiting periods are a result of the overloaded servers in some areas. To get a telephone line in some areas an applicant has to hope that some customer(s) relinquishes his/her line or they have to wait for the next upgrading of the server. Some SMEs complained that the rates charged by SPTC are too high and yet the quality of the services provided is poor. One manager pointed out that part of the problem with the telecommunications service provided by SPTC is due to the fact that the provider is using outdated technology that imposes restrictions on flexibility and the range of services provided. The introduction of the mobile cellular telephone service in 1998

brought some relief but this service is not yet available countrywide. Due to the topography of the country, the mobile cellular phone service has been made available, so far, to some selected areas and the range of available services is still limited - currently the area of service covers only 40 percent of the country (Swazi MTN, 2002). Even with this service some SMEs complained that the service provider (Swazi MTN) was taking advantage of its monopoly status and charging unfair rates. Swazi MTN is aware that its high tariff structure is making the service inaccessible to many people and therefore is in the process of restructuring its rates for the various services it offers (Swazi MTN, 2002).

An inefficient telecommunications network is costly to SMEs because it constrains their communications with suppliers and customers. Failure to link up with suppliers may result in delays in the delivery of raw materials and consequently delays in meeting production orders. On the consumer side, poor telecommunications services can result in loss of clientele, thus impacting negatively on sales and profits. A poor telecommunications system also hinders access to information technologies. In particular, it constrains the use of the Internet, a service that is being hailed as a means by which developing countries can join the global information infrastructure (UNCTAD, 2000a). Overall, a poor telecommunications network impacts negatively on the competitiveness of SMEs. The concerns about the quality of telecommunications services in the country were echoed by officials from the Swaziland Chamber of Commerce, the Federation of Swaziland Employers, and the Association of Swazi Business Community, who confirmed that it is one of the major problems facing businesses in the country.

7.2.2 Finance and Credit

Availability and access to finance and credit is critical for the creation, expansion, and sustainability of SMEs. Generally, availability and access to finance and credit is a cause of concern to SMEs in Swaziland. Despite the existence of several financial institutions and the recent establishment of financial assistance programmes in the country, (as discussed in chapter 5), finance and credit is still considered a problem by many SMEs. About 73 percent of the respondents reported that availability of

reasonably priced finance was a problematic factor to the development of their businesses. Also, in the open-ended section, issues relating to credit were commonly highlighted as a problem by some SMEs. Many of the respondents (63 percent) reported that more than 60 percent of their start-up capital had come from their own funds, and some reported that they had, at some stage of their business life, attempted to secure a loan from a financial institution, but the loan had not been granted.

In Swaziland, there are some indications that the problems of finance and credit relate more to access than availability. An assessment of the liquidity ratios for the various financial institutions indicates that in reality there is no shortage of loanable funds in the country, as evidenced by their excess liquidity status. In fact over the post independence period the country has maintained a reasonable flow of loanable funds. For instance, using the ratio of broad money supply (M2) to GDP as an indicator of loanable funds in relation to the size of the economy, this ratio averaged 0.28 in the period 1990-1998, a figure which is considered to be reasonable for a country classified as a lower middle income country (World Bank, 1996).⁵⁷ Based on the M2/GDP ratio the World Bank (1996:14) concluded, “the availability of domestic bank loanable funds has been high in Swaziland” and added that “generally there has been a surplus liquidity in Swaziland ... and domestic savings have been channelled outside of the country as a capital outflow”.

Others have noted that since 1987 the actual liquidity of several financial institutions in the country has remained way above the required liquidity ratio, an indication that the banking sector is too liquid (Swaziland Government, 1998). Likewise the 2000/2001 Central Bank Annual Report noted that the domestic liquidity of the banking sector had increased by 21.8 percent from the previous year (CBS, 2001). A recent UNDP study on microfinance in Swaziland reported that “the commercial banking sector is highly liquid,” and added that whilst this might imply that the financial institutions should be lending to local enterprises and institutions, the commercial banking sector “has shown very little interest in financing the micro and small enterprise sector in Swaziland” (ECI, 2000:24). The report further argues that “local savings are not being used to stimulate

⁵⁷ In the period 1990-1998 the estimated M2/GDP ratios for developed countries were generally above 0.6, whereas in less developed countries the average ratios were generally below 0.20 (World Bank, 2002).

the growth and development in the country” (ECI, 2000:11) and points out that “a large proportion of the resources in the financial sector are actually deposited outside Swaziland, primarily in South African banks” (ECI, 2000:24). According to ECI, because SME lending is generally perceived as a risky investment, banks in Swaziland find it more profitable and less risky to take deposits locally and then deposit the funds in South Africa where, because of the interest rate differential between the two countries, they earn a 3-4 point spread. However, in defence, bank managers argue that the reason why they transfer their funds to South Africa is because of the lack of viable investment projects in the country.

From the above discussion, it seems that risk aversion by banks is a major factor in the lack of credit for SMEs in Swaziland. Banks refuse credit to SMEs largely because they perceive them as unprofitable and risky. In Swaziland, as in many other developing countries, formal financial institutions are foreign-owned and generally have little interest and experience in term-loans to small enterprises. Over the years the commercial banking sector has offered very little as agents of change with respect to the development of small enterprises in the country. The inapt services of banks towards SMEs may be attributed to several factors, such as the availability of more attractive investment options both in the country and in nearby South Africa. Owing to the oligopolistic nature of the financial sector, banks have been content with the clientele they have - constituting mainly of large firms and government. As a result, very little has been done to adapt financing services to local conditions. For example, bank officers still mention the same excuses of high transaction costs and inappropriate collateral, as reasons for not lending to SMEs. Given the number of years they have been in this part of the world, one would expect that by now they would have made attempts to come up with new lending technologies to reduce the high transactions costs or at least devise new methods of adapting their lending requirements to enable them to service the smaller (but multitude) clients. SMEs’ lack of property ownership is responsible for the problems with respect to finding appropriate collateral. Problems of collateral are exacerbated by the fact that for a long time many Swazis used cattle as their store of wealth, and yet a few financial institutions accepted cattle as collateral.

The land tenure system, with limited title deed land, also contributed to the constraints with respect to collateral and consequently access to credit. This constraint relates

mainly to businesses located on Swazi Nation Land (which covers a great part of the country's land area⁵⁸), wherein there is no individual security of tenure, consequently SMEs located on SNL cannot use it as collateral when applying for credit. Moreover, because businesses located on SNL do not hold a title deed to the land, banks may not accept as collateral houses or other structures erected on it. Generally the land ownership system on SNL has been regarded as one of the major drawbacks in stimulating private sector development, particularly small-scale commercial agriculture (Public Policy Coordination Unit, 1998; Matsebula, 1986, 1988).

In recent years, the introduction of several credit assistance schemes by the government has brought some relief to the credit problem for some SMEs. However, partly because these schemes operate through the very same commercial banks that do not have good reputation and relations with small enterprises, most of these schemes have low utilisation rates. This is an indication that access to the 'bank attached credit assistance schemes' could be a problem. In fact, the ETF, which is not necessarily accessed through the banks, has had higher utilisation rates. The only concerns about it were that it concentrated on group lending and had no allowance for individual enterprises. Owing to the above-mentioned factors, finance and credit issues remain an area of major distress to many smaller enterprises in the country.

7.2.3 Inputs

The discussion on inputs combines survey findings on labour, raw materials, capital and access to technology. In general, with respect to inputs, cost issues seem to raise more concerns among SMEs than issues of availability. Although most inputs are not available locally, Swaziland's location, next to a relatively developed economy, South Africa, seems to have helped with the sourcing of many inputs.

7.2.3.1 Labour

The availability of both skilled and unskilled labour does not seem to be a major problem for most SMEs in Swaziland. Only 3 percent of the respondents indicated that

⁵⁸ Refer to Chapter 2 for a discussion of the land tenure system.

access to low cost labour was a problem. However skilled staff is less available locally and often firms have to rely on expatriates for certain specialised skills. The cost of labour with specialised skills (which is often expatriate labour) was reported to be a problem by some SMEs. Other labour related issues, like attitudes of workers, trade union activity, and the dispute settlement mechanism, seem to be problematic areas for SMEs. The attitude of workers was reported to be a problem by 38 percent of the SMEs, whilst only 10 percent indicated that it was helpful. About 89 percent of the respondents indicated that trade unions were a problem and only 5 percent viewed the dispute settlement mechanisms as helpful. As explained in the introductory chapters, trade union activity heightened in the mid-1990s and several mass 'stay-aways' were organised by trade unions' federations, who were demanding that Government should address several issues pertaining to the work and political environments in the country and labelled 'The 27 Demands' (Swaziland Government, 1996). However, because most of the trade union demands were outside the employer-employee realm, and therefore not directly under the control of the employers, some employers felt that they were victims of the political environment in which they were located for business activity. Owing to the deteriorating industrial climate, there were reports of firms that closed down and moved to neighbouring countries in order to avoid further losses incurred during labour boycotts (Swaziland Government, 1998; CBS, 1999a). In an attempt to address the deteriorating industrial climate the Government has revised various labour legislature and established a Tripartite Committee to replace the old Labour Advisory Board (SIPA, 2000), a move which is seen as a positive step towards improving communication channels between the government, employers, and workers and mending relationships among business stakeholders. Also it is hoped that the ongoing improvements with respect to the industrial court will address some of the concerns with respect to dispute settlement mechanisms.

7.2.3.2 Capital and Access to Technology

In general, most of the machinery, tools and technologies used by producers in Swaziland are imported from South Africa. In this study SMEs reported that most of the equipment and technology they need, although not available in the country, is available in South Africa, and because of the trade agreements among the southern African countries, most goods can be moved with relative ease. Therefore availability of inputs, per se is, is not a major concern. However, SMEs pointed out that the cost of

some equipment is often too high. About 23 percent of the respondents reported that access to technology was a problem, whilst 44 percent of the respondents reported that it was neither a problem nor help, and 33 percent viewed it as helpful. Given that most SMEs in Swaziland still use relatively simple, unsophisticated equipment and technologies in their production, it is not surprising that technology was not seen as a major problem. However it is important that SMEs take advantage of the latest available technologies in order to improve on productivity and the quality of their products.

7.2.4 Markets, Marketing, and Information Sources

Marketing is one of the critical factors in the growth and development of SMEs. SMEs in this study viewed issues relating to marketing and markets as a problem. About 57 percent of the respondents indicated that access to markets was a problem. In addition, finding suitable distributors was on the balance more of a problem than a helpful factor. Some service providers indicated that one of the daunting challenges facing SMEs in the country is finding markets for their products. Most SMEs start producing without carrying out a thorough market research for their products. As a result they often get stuck with their products. According to some service providers, sometimes the piling up of stock is not because of insufficient demand, but because of poor connections between suppliers and demanders - often attributed to a lack of advertising and poor information flow. Owing to the resource constraint facing many SMEs, most are unable to engage in meaningful market research and or advertising. Announcements over the local radio are the most affordable mode of advertising. Besides that, many try to participate in the domestic trade fair, held annually for two weeks in September. Consequently, some service providers noted that, partly as an indication of the difficulties SMEs face and the importance attached to marketing, popular requests for assistance by SMEs pertain to locating markets and marketing activities.

Firms at different stages of development need different kinds of information pertaining to input and output markets. Information sources tend to be crucial during the early stages of a firm's development, as management seeks to enhance its knowledge about suppliers, customers, distribution networks, competitors and other factors relating to the business environment. Often the information needed by firms, whether export-oriented

or non-exporting, is not available internally in the firm. Therefore, external sources of information (like consultants, agents, government promotion officials) are potentially important sources. In this study SMEs were asked to indicate their major sources of information by choosing from a list of possible sources (which included social occasions, exhibition fairs, visits to other enterprises, specialised publications, government departments, and consultants from the southern Africa region). The three major sources of information as indicated by SMEs were exhibition fairs (73 percent), specialised publications (70 percent), and social occasions (60 percent) (Table 7.2). A surprising finding was that government information sources (publications and officials) were ranked very low (eighth). This has several implications: it could be that SMEs are using less of government information sources because of lack of awareness of the various information services that government departments have to offer; or it is possible that the information services offered by government departments is not very relevant to SMEs needs and therefore SMEs have not relied heavily on government information sources.

Table 7.2 Major Information Sources Used by SMEs

Information Source	Used (Percentage)	Rank Order
Social Occasions	60.0	3
Exhibition Fairs	72.5	1
Visits to Other Enterprises	32.5	4
Specialised Publications	70.0	2
Consultants	30.0	5

Source: Survey results, 2000

7.2.5 Government Rules and Regulations and Policies

SMEs were asked in this research to indicate helpful and problem factors from a list of government rules and regulations, and policies. On the balance SMEs view most of the government-controlled factors as causing problems than assistance to their operations (Table 7.1). For example, factors like, tax concessions, general business regulations, tariffs, unfair competition, the legal system, and corruption among government officials were reported to be problematic to the operations SMEs. About 69 percent of the

respondents indicated that government business advisory services were a problem - a somewhat surprising finding.

With respect to government related factors, SMEs seem to indicate that there is some discontent about the quality of services offered by the government officials and, some of the rules and regulations are not of assistance to the business operations of firms. A view held by both SMEs and service providers is that the Government has for a long time been more interested in providing incentives to large foreign investors than encouraging small and local investors. They cite the investment incentives as an example of the biased attention in favour of foreign and large investment. They add that SEDCO, the major institution established by the Government to promote the growth and development of Swazi owned small enterprises, is not sufficiently fulfilling its functions. SEDCO is said to be particularly deficient in its business advisory function, partly because of the lack of experienced and qualified staff. Another problem cited was the lack of representation of SMEs in policy making bodies. For this factor, some managers admit that part of the problem has been created by SMEs themselves through their lack of cooperation and failure to create strong representative bodies. Mindful of the disadvantages of being too fragmented and too independent, many SMEs now seek membership to some group or association. Through their associations they hope for better representation in government policymaking bodies.

SMEs acknowledge that some of the government efforts have been helpful to their operations, like the establishment of industrial parks, and financial assistance programmes. But they are quick to point out that these assistance programmes are falling short of fully addressing their needs mainly because of the manner in which they are structured. The concerns raised by SMEs, coupled with the evidence on the low utilisation rate especially for some of the financial assistance programmes (e.g., ECGS and SSLGS), seem to indicate that there was poor consultation between the designers and users of the financial assistance programmes. However SMEs and private sector service providers expressed hope that with proper consultation, now that they have some windows of representation, some of the assistance programmes could be restructured to make them more accessible. The establishment of the SME Unit, located within the Ministry of Enterprise and Employment, was greatly anticipated as it was hoped that it would help to address some of the policy related problems and also

improve the communication channels between SMEs and the various government bodies that deal with SME related issues.

7.2.6 Other Factors

SMEs expressed their views on several other internal and external business environment factors in addition to those captured in Table 7.1. Some of the commonly cited problems included depreciation in the exchange rate, increasing interest rates, inflation, power supply, and the land tenure system. An area of major concern was the depreciation of the Lilangeni exchange rate against major currencies, in particular the US dollar and the British Pound (see Chapter 2, Table 2.10). Whilst a depreciation of the domestic currency can have positive impacts on domestic exports, by making them more price competitive, for a country that is heavily depended on imports it can cause problems. In Swaziland imports constitute a large proportion of the goods in circulation. After a long period of relatively stable exchange rates, the Lilangeni/US dollar exchange rate took a downward twist in the mid 1990s. The deterioration in the value of the Lilangeni has had negative impacts on the inflation rates and eventually manifested in increased cost of imported raw materials and other inputs. On the whole, the continued depreciation of the Lilangeni against major currencies has impacted negatively on the competitive ability of domestic producers.

Another challenge cited by SMEs was fluctuations in inflation rates. In the last two decades inflation rates in Swaziland have fluctuated greatly, ranging as low as 6.4 percent to a high of 20.1 percent (CSO, 1997; CBS, 1974, 1978, 1988, 1990, 2000). To a large extent the variations in inflation rates in Swaziland are determined by developments in the South African economy owing to the close integration of the two economies. Inflation impinges on the activities of SMEs in various ways. Of major concern was its impact on the prices of raw materials. Due to increases in inflation, the prices of some raw materials increased thus pushing up the overall costs of production.

Some managers mentioned high interest rates as one of the challenges to the smooth operations of their businesses. High interest rates increase the cost of borrowing, thus making credit unaffordable to small firms. Problems of finance and credit force SMEs

to opt for less than optimal solutions to their problems, like using informal lenders, or buying in smaller than economical quantities, therefore losing-out on quantity and payments discounts.

The land tenure system was identified as not conducive to business, not only with respect to constraining credit access but also for business sites. Representatives of SME association noted that the process of establishing a business on SNL is long and complex. Potential entrepreneurs are required to secure permission with the area chief, obtain a clearance from the commercial Amadoda,⁵⁹ and then wait for authorisation from the King. This process bureaucratic process takes a long time (sometimes more than a year) and is not conducive to the development of SMEs. It is on the basis of the problems posed by the land tenure system that SMEs have suggested that SNL should be granted on a 99-year lease-hold terms so that it gives business developers a long-term right of use of the land, a system which can facilitate business start-ups on SNL (Public Policy Unit, 1998).

Other problems mentioned, although to a lesser extent, included: inability to offer credit as a means of attracting customers; impacts of the South African Value Added Tax (VAT) on goods sourced from South Africa; and the poor power supply services. On the VAT issue, one manager explained that the concerns emanate from the “delays in refunds on VAT charged on incoming goods because these delays lead to cash flow problems.” With respect to power supply, SMEs pointed out that frequent power cuts were causing disruptions in production processes and causing failure to meet production targets. All these problems impact negatively on the growth and development of SMEs.

7.3 SMEs Extent of Difficulty with Export Activities

Each of the managers of exporting SMEs was asked to indicate the extent of difficulty for 21 exporting related activities. For each of identified export activities, managers were asked to rank their level of difficulty with them on a scale of 1 to 5 (where 1 = “much less of a problem”...5 = “much more problematic”). The responses were

summarised by categorising them into five subgroups, i.e., logistics; legal procedures; servicing of exports; sales promotion, and foreign market intelligence. A summary of the responses to these export related activities is presented in Table 7.3 below.

Table 7.3 Extent of Difficulty of Export Activities

Activity*	Difficulty Mean **	Group Mean
<u>Logistics</u>		3.0
Arranging Transportation	3.3	
Transport rate determination	3.1	
Handling Documentation	3.9	
Obtaining financial information	3.6	
Distribution coordination	2.7	
Packaging	2.1	
Obtaining Insurance	2.5	
<u>Legal Procedure</u>		2.5
Government red tape	3.0	
Product liability	2.0	
Export licensing	2.4	
Customs/Duty	2.7	
<u>Servicing Exports</u>		2.2
Providing parts availability	2.2	
Providing repair service	2.2	
Providing technical advise	2.0	
Providing warehousing	2.2	
<u>Sales Promotion</u>		3.1
Advertising	3.1	
Sales Effort	2.6	
Marketing Information	3.4	
<u>Foreign Market Intelligence</u>		3.3
Locating markets	4.3	
Trade Restrictions	2.7	
Competition Overseas	3.0	

Source: Survey results, 2000

Notes on Table 7.3

* Responses obtained from exporting companies only.

** Difficulty scale: 1= much less of a problem; 2= less of a problem; 3=just a problem; 4= more of a problem; 5=much more problematic.

⁵⁹ The commercial madoda is a committee that is responsible for inspecting business sites in rural areas and making a recommendation to the King on the appropriateness or otherwise of the proposed business in relation to the suitability of the site.

In general activities relating to markets and marketing seem to cause the most problems for SMEs. For example, activities such as locating markets and obtaining information about markets recorded difficulty mean scores that were relatively high. The highest mean score was 4.3 for the 'locating markets' activity. Other problematic areas included obtaining marketing information, advertising, and dealing with competition from overseas companies. Exporting poses new challenges to SMEs even if they have been in business for some time. It requires new knowledge and information, new ways of advertising and selling, and familiarity with foreign ways of doing business in foreign cultures. Given the constraints facing SMEs in terms of physical, human, and financial resources, the demands related to these exporting activities cause an extra strain on a small firm's resources.

Exporting activities categorised under logistics included the handling of export documentation, the cost and general organising of transportation facilities, packaging, and other information and support services. For this category of export activities managers of exporting SMEs seem to be having the greatest difficulty with the handling of export documentation, arranging transportation, and obtaining financial information. With respect to legal procedures, 'red tape' by government officials seem to cause the most problems, followed by customs and excise duties.

The overall findings with respect to the perceived levels of difficulty of the various export related activities are, to some extent not surprising. Although there are similarities between the processes of how firms sell goods to overseas markets and how they operate in the domestic market, the former involves some complex activities, which may create pitfalls to firms. Exporting firms, especially first-time exporters, may not be able to identify and/or deal with all the complexities of exporting. Moreover, even when a firm is knowledgeable about the various export activities, it may still be faced with other difficulties because expansion into foreign markets involves substantial initial fixed costs. These fixed costs are associated with the processes of gathering information about foreign demand conditions, adjusting products to suit foreign customers, marketing, establishing distribution channels, arranging for warehousing, etc. Obtaining the relevant information on overseas demand, market opportunities, learning about the available support services, and making the correct choices and

decisions, constitutes one of the biggest hurdles to smaller firms. In addition exporting firms have to familiarise themselves with foreign cultures of doing business and learn to deal with foreign competition, tariff and non-tariff barriers, and foreign exchange risks.

The cumulative demands of the various export related activities might be too overwhelming for small firms, such that inexperienced managers may require some degree of handholding, especially during the initial stages of exporting. Because export activities require larger financial and managerial resource investments, external support services are of crucial importance for the small firms' export development process. External financial support services may be required to fund the production and marketing processes, plus the period between shipment and payment of orders. Financial institutions may be more risk averse with regard to funding export activities (compared to activities relating to the domestic market), because international markets are associated with greater uncertainties. For this reason, exporting SMEs tend to have limited finance and credit options. Moreover, small firms may be face size-related disadvantages with respect to some of the export related expenditures. For example, the larger the firm, the lower the average costs of exporting. Size may also lower the capital costs of banking services, which may be more important for export than domestic sales. Consequently, financial support services, like pre- and post-shipment finance, credit insurance, and insurance for foreign exchange risks, can be an invaluable service to small firms. On the whole, there is no doubt that access to relevant information and advice is by far, one of the most critical services that can be provided to potential, new and experienced exporters. In particular information about markets and providing sales leads, may provide the important breakthrough for the small firm.

7.4 Summary and Conclusion

Managers of small enterprises face numerous problems that threaten the survival and prosperity of their businesses. Whilst many of these problems are compounded by lack of managerial and technical expertise and resource shortages, the business environment in which these firms operate has important bearings on the welfare of their businesses. This chapter gave some insight on SMEs' assessment of the various business environment factors. This was done by highlighting those factors that SMEs consider to

be hindrances (problematic) or supportive (helpful) to the smooth running of their businesses.

It is acknowledged that SMEs' perceptions on the various business environment factors are not homogenous because, for example, what one SME views as a major problem may not be an issue of concern to another SME. Notwithstanding these differences, there were some common denominators. Business environment factors that were reported to be causing the most problems to SMEs included the telecommunications systems, industrial relations issues, cost of technology, access to credit, marketing and markets, and government rules and regulations.

Whilst finance and credit is often identified as the major constraint to the development of SMEs, other support services are crucial for the smooth operations of SMEs. Finance and credit is important for solving the liquidity problems and contributing to the expansion of existing activity, but it cannot unilaterally lead to increases in productivity, improvements in operational efficiency and competitiveness. A good infrastructure, in terms of roads and railways, telecommunications, power supply, and water and sewerage services are crucial for the growth and development of SMEs. Therefore there is a need to improve the quality of infrastructure services in particular the telecommunications and electricity services.

Technological change is also another key factor to increasing the productivity and competitiveness of SMEs. New technologies can help SMEs to raise their product output, quality, reliability, and packaging, thereby opening up avenues for new markets. Improved technologies can help SMEs to reduce costs through faster production, thus making their businesses more profitable and sustainable. The cost of technology was highlighted as a factor that limits SMEs access to the latest technologies. Therefore it is important that SMEs explore various financing options that will facilitate access to the latest technologies and take advantage of the benefits that it has to offer to their businesses.

Government business advisory services were viewed as inadequate. SMEs also have concerns about the dispute settlement mechanism and other government rules and regulations. Interventions to improve the industrial relations climate and the regulatory

and institutional environment, in which businesses operate, are important for the good performance of SMEs. Although SMEs want government assistance, excessive regulations and/or an overly bureaucratic legislative framework and an associated tendency towards corruption are viewed as interference, cause resentment towards Government, and are an obstacle to SME growth and development. An inappropriate regulatory environment creates obstacles by raising the cost of business entry and growth. So, unless the identified regulatory and institutional problems are addressed, policies and assistance programmes designed to promote SMEs are highly unlikely to be effective.

The investigation in this section also revealed that activities related to markets and marketing pose the greatest problems to SMEs. Part of the problems was created by lack of appropriate information. Therefore focused information and advice, tailored to the needs of SMEs, is important. Improved information is particularly important to exporters because the unfamiliarity with certain activities may result in a bewildering choice, especially to inexperienced firms. In previous sections we saw that the SMEs' level of awareness of the available government assistance programmes was low, this suggests that some firms are missing out on potentially useful services.

Whilst heavy demands upon scarce development resources preclude the provision of direct assistance to the vast majority of SMEs, improving information services and providing an improved business environment creates a good foundation for businesses to grow and supports the majority of SMEs. One way in which the Government can help in the development of SMEs is to continuously monitor the business environment by assessing the needs and problems of SMEs and addressing the problematic areas. For a long time SMEs did not have adequate voice in decisions and policies that relate to them. An improvement in the consultative framework is necessary because it would lead to the design of effective assistance programmes and policies that will provide an enabling environment for businesses to grow and prosper.

CHAPTER EIGHT

CONCLUSION AND POLICY RECOMMENDATIONS

8.1 Introduction

This study has investigated the nature and extent of SMEs' export involvement and the effectiveness of SME promotion and development programmes in Swaziland. In the preceding chapters some background information on the Swaziland economy, highlighting the deteriorating economic and social conditions in the country was presented. It is these challenges that justify the search for policy alternatives that will help fight unemployment, alleviate poverty and contribute towards the economic recovery of the economy. In addition, an analysis of the nature of SME public assistance programmes in the country was carried out with a view to gaining insights into the structure of SME support services. A review of the literature on the role of SMEs in the economy, and the problems that tend to hamper SME development provided a basis for conceptualising the study.

In this study both secondary and primary data were used in order to overcome the problem of scanty data on SMEs. To gain insights on the SME sector, this study relied heavily on data collected through survey questionnaires that were administered to a sample of SMEs and support service providers during the year 2000. The questionnaires facilitated the collection of both quantitative and qualitative data on various aspects of SMEs including, firm and managerial characteristics, their economic activities, perceptions on the business environment. Secondary data, mainly aggregates, were collected from various government departments and private sector agencies and was useful for understanding the historical industry trends from an aggregate stance.

The survey results provided various insights into the nature and extent of SME export involvement in Swaziland and the awareness and use of SME assistance programmes. In line with the secondary objectives of this study, an attempt was made to investigate the determinants of export propensity of SMEs by studying the firm and managerial characteristics that distinguish exporting from non-exporting enterprises. In addition this

study explored SMEs' assessment of the business environment in Swaziland by highlighting those factors that are helpful and/or problematic to business operations.

This concluding chapter presents a summary of this study's key findings and contributions to research, recommendations for public policy, and suggestions on directions for future research. The discussion in this chapter is organised into five sections. Following this introductory statement is a summary of the key findings and significance of the results and that section is followed by a presentation of some observations and implications for public policy, particularly with respect to SME development and SME export promotion activities. The last two sections are a presentation of the contributions from this research and some suggestions on the scope for directions of future research.

8.2 Summary of Findings and Conclusions of the Study

SMEs are increasingly being recognised as imperative for the achievement of socio-economic development objectives of a country, especially in providing increased employment opportunities, balanced growth, and sustainable growth and development. In both developed and developing countries SMEs have played, and are increasingly playing, an important role in the development of individual economies. Among the key desirable features of SMEs are their potential contribution to the creation of employment opportunities, flexibility, training ground for upgrading and developing skills, seedbed for nurturing entrepreneurs, and the achievement of balanced growth and improved income distribution.

There is no international consensus on the definition of SMEs. Definitions of what constitutes an SME vary according to industry, country size, phase of economic development as well as prevailing social conditions within a country, and or purpose of the definition. Among the various variables that have been adopted to define SMEs, the commonly used are employment and sales. In general, SMEs in small and developing countries tend to be smaller than those in large and developed countries. In this study SMEs were defined as those enterprises with less than 100 employees.

Although it is widely accepted that SMEs are important in both developed and developing countries, there are considerable differences in the role they play and contribution they make in the various economies. Traditionally SMEs have played a major role only in their domestic economies. However, in recent years SMEs have increasingly been involved in international trade thus increasing their contribution to the development of their respective economies. In some countries in Asia, SMEs contribute up to 35 percent of total export earnings. Unfortunately, not all countries have benefited from this changing role of SMEs. In developing countries SMEs still play a limited role in the export sector, whilst large-scale enterprises dominate. Many small enterprises fail to grow or graduate into efficient small and/or medium-sized enterprises. Consequently a 'missing middle' has been created in the industrial structures of many developing countries.

In the literature it is suggested that the pattern of growth has implications for sustainable development and that maintaining a pattern of growth that makes efficient use of labour, the main asset owned by many developing countries, is the most effective way to reduce poverty (Pscharopolous and Nguyen, 1997; UNCTAD, 1998a). SMEs, because they tend to adopt more labour-intensive production strategies offer better chances of delivering more distributional benefits to the economy compared to large-scale enterprises. Hence the suggestion that for governments that want to achieve more balanced growth and reap potential benefits of SMEs, they need to adopt economic and development strategies that are pro- SMEs (IFC, 2000; UNCTAD, 1998a). Others have suggested that nations which achieve highly competitive positions in world markets tend to have small and medium-sized firms actively involved in international markets (Ali and Swiercz, 1991). Undoubtedly a dynamic SME sector has the potential of contributing enormously to the economic and social development of the country thus pointing to the need for strategic interventions in order to nurture and promote SMEs.

The Swaziland Government recognises the importance and benefits to the economy of having a dynamic SME sector. However, in the past this recognition has not been backed by appropriate actions and policies. Efforts at developing the SME sector have been fragmented and uncoordinated. It is only recently (in 2001) that an SME Unit was established to, amongst other things, coordinate the various government programmes aimed at promoting and developing SMEs.

A major concern in Swaziland (and for many developing countries) is the fact that most active SMEs are predominantly engaged in petty services, mainly small-scale retailing, with the corollary that very few are engaged in any meaningful manufacturing involving the use of new technology. This sector is also characterised by low survival rates and low incomes. Consequently, large-scale enterprises have a more dominant role in terms of their contribution to GDP and exports. SMEs experience difficulties in exploiting markets, primarily due to their inherent physical characteristics and externally imposed constraints. It is therefore important to study the characteristics of these firms, to understand their capabilities, gain knowledge on their survival/coping strategies, and to learn first hand their needs and anxieties. This invaluable knowledge will contribute towards a better design and targeting of assistance programmes, leading to a more effective use of public funds. A summary of the key findings from this study is presented below.

In contrast to the good economic performance of the past, Swaziland is facing serious economic and social challenges such as high unemployment and increasing poverty. SMEs have a role to play in achieving an export-led recovery of the economy, hence the need and justification for public intervention to promote the growth and development of this sector.

The analysis of the sectoral distribution of enterprises revealed that in 1999, the distribution industry had the highest proportion of enterprises, followed by manufacturing, and then the 'agriculture and forestry' industries. Although the distribution industry had the highest number of enterprises, in terms of contribution to total employment, the agriculture and forestry industry is the major contributor, with a 21 percent contribution, thus confirming the importance of the primary sector to the Swaziland economy. The high proportion of enterprises in the distribution industry is a cause for concern because this sector offers limited opportunities for significant backward and forward linkages, consequently limiting the benefits to the economy. A concentration of firms in the manufacturing industry is more desirable.

With respect to the export involvement of enterprises, this study found that for many firms in Swaziland the export orientation is zero. Only a limited number of firms (12 percent) were found to be involved in exporting and most of these are in the manufacturing, agriculture and forestry industries. Jointly these two industries contribute more than 80 percent of the total export earnings. This study's investigation on exporting firms and composition of exports

revealed that large-scale enterprises play a major role in the export sector in Swaziland. They dominate both in the numbers of firms involved in exporting and contribution to total exports. SMEs, on the other hand, are poorly represented in the export sector. Although SMEs constitute the majority of firms in the country, very few (about six percent) are involved in exporting and they contribute about three percent to total export earnings. The products exported by the few SMEs involved in international trade are mainly handicrafts, textiles, and processed food items. Clearly, the observed increases in the number of firms have not been accompanied (or matched) by proportionate increases in the number of exporting firms, particularly in the smaller firms category. It is noted that the contribution of SMEs is comparatively very low because, for example, among the 'Asian Tigers', SMEs constitute about 95 percent of all registered enterprises and account for about 35 percent of export earnings. From these figures, it can be conjectured that the SME share in total exports in Swaziland can be increased up to a dozen-fold if effective strategies and policies are put in place.

The findings with respect to the limited proportion of export-oriented firms and the limited export involvement of SMEs in the case of Swaziland are similar to evidence reported by Bigsten *et al.* (2001) wherein, using data from four Sub-Saharan African countries (Cameron, Ghana, Kenya, and Zimbabwe), they found that across all four countries the percentage of firms which were exporters was around 31 percent. They also reported that in these countries large firms did most of the exporting, and, because large firms had higher levels of output and export intensities, they concluded that large firms were more important in total than small firms. In contrast to the reported low export involvement in these African countries, in Asia SMEs are reported to be actively involved in export activities and contributing up to 35 percent to total export earnings (APEC, 1998; UNCTAD, 1998a). Part of the economic success of the 'Asian Tigers' has been attributed to the active involvement of SMEs which was supported by their respective governments. Therefore support service providers in Swaziland, and other developing countries can learn something from the promotion strategies adopted in these countries and use them to propel their SMEs to greater achievements, particularly in the area of export activity.

The analysis of the role of the external trade sector revealed that there is a high level of concentration in the country's exports, both in terms of products and markets. This, coupled with the fact that a few large firms were found to be commanding a lion's share of

Swaziland's total exports, exposed the extent of the vulnerability of the country's export earnings. In fact, more than 50 percent of the country's total export earnings come from less than five firms, exposing the country's high degree of dependence on just a handful of firms. The high dependency on a few exporting firms and the high degree of concentration in the country's exports is not desirable because a failure in one exporter, product, or export destination can result in significant negative impacts on the economy. Given this scenario (of limited numbers of exporting firms and the high degree of concentration in both product and destination of exports), it seems that the only opening for the country to achieve major gains in the export business, will be through encouraging more firms to get involved in the export business. Furthermore, since large firms already have a dominant role in the country's exports, it is more likely that further diversification of the export base (in terms of exporting firms and products) and further export growth can be achieved if more small and medium-sized firms become more involved (and successful) in exporting, hence the importance of strategic export promotion and support services targeting SMEs. The lack of a significant increase in exporting firms could be a sign of SMEs struggling to enter the export arena.

To investigate the effectiveness of assistance programmes this study adopted a methodology suggested by Naidu and Rao (1993), which takes into account both the awareness and use of assistance programmes. Owing to the limited availability of SME-specific assistance programmes and the lack of diversity in the country's export promotion activities this study incorporated various assistance programmes in the area of finance, information, business development, and international trade. The assistance programmes that were included in the investigation were the Small Enterprise Development Company (SEDCO); the Ministry of Enterprise and Employment's education and information programmes; the Enterprise Trust Fund; the Small-scale Loan Credit Guarantee Scheme; the Export Credit Guarantee Scheme, domestic trade fairs; overseas trade fairs; and trade attachés.

The results of this investigation showed that awareness levels differ among assistance programmes and by the firms' market orientation. Generally, managers of SMEs are more aware of domestically oriented programmes than export oriented ones, which to some extent explains SMEs' poor export involvement. The SMEs in the sample were most aware of the services offered by SEDCO and least aware of services offered by trade attaches. Awareness about the various assistance programmes was generally higher among exporters than non-exporting firms. In contrast to the relatively high awareness levels, the usage rates for the

various assistance programmes were very low, a pointer to possible problems relating to access to the various assistance programmes. Of the various assistance programmes, the least effective were those relating to international trade, a finding that was not surprising given that many firms had an export orientation of zero. Moreover, the only institution responsible for export promotion in the country, the Trade Promotion Unit (TPU), has been marred by problems of limited financial and human resources, rendering the institution ineffective and unable to achieve the objectives for which it was established.

This study's results on varied levels of awareness for various assistance programmes are consistent with the findings reported by Ali (2000) in the case of Australia, Moini (1998), and Keddar and Chokkar (1986b) in the case of Wisconsin and Louisiana states in the USA, respectively. In all these studies the lack of awareness was found to be comparatively more acute among non-exporting SMEs. Therefore as Moini (1998:8) stated "it is obvious that promoting awareness of these programs is essential to the success of the programs" and "in increasing these firms' export involvement". A slight divergence provided by this study's findings is in the aggregate mean levels of awareness. Moini (1998) and Ali (2000) reported comparatively lower aggregate levels of awareness for the various assistance programmes, whilst in this study the awareness about the various assistance programmes was slightly higher. This slight contrast in the aggregate awareness levels could be attributed to the fact in Swaziland the number of assistance programmes is much lower than in developed countries (for instance Moini (1998) and Ali (2000) investigated awareness levels for 16 and 15 assistance programmes, respectively). Generally it would be expected that the higher the number of assistance programmes the lower would be aggregate awareness levels because the options available might be too many to remember and/or SMEs are likely to concentrate on those assistance programmes which are of major relevance to them and might not bother gathering information about other services.

With respect to the usage of assistance programmes, this study found that the usage rates were generally low - a possible explanation for the low export involvement among SMEs. Ali (2000) and Naidu and Rao (1993) also reported low usage rates for the assistance programmes considered in their studies. The explanation proffered for the low usage rates of assistance programmes in this study is that there could be problems with access and/or appropriateness of the support services. These problems are more highlighted in the case of financial assistance programmes, whereby the utilisation rates for the existing financial

assistance programmes (e.g. ECGS and SSELGS) are very low, yet SMEs still list credit as one of the major constraints to smooth running and development of their businesses. The low usage of assistance programmes in Swaziland is not surprising because, for most of the assistance programmes, there is no record of a proper needs assessment that was carried out prior to the programme's operation. Instead, the programmes seem to have been introduced on the basis of the service providers' imagination of what they envisage to be SMEs' needs. In the literature it has been suggested (and emphasised) that the single most important variable in creating an effective and successful assistance programme is an understanding of the firms' needs (Serinhaus and Rosson, 1990). It is therefore necessary that a proper needs assessment is carried out, highlighting the needs of SMEs at different levels of export involvement. This is the only plausible way to enable support service providers to focus on improving the competence of SMEs and to enable them to compete effectively in international markets (Serinhaus and Rosson, 1991).

In an attempt to contribute to the process of identifying firms with an export potential and hence improved targeting of export assistance programmes, this study investigated the determinants of export propensity and tested whether there were any significant differences between exporting and non-exporting firms. Based on several firm and managerial characteristics this study found that there were systematic differences between exporting and non-exporting SMEs in Swaziland. Compared to domestically oriented firms, exporting firms tend to be larger in terms of employment size and sales; have more experience (higher firm-age), have managers who have higher levels of education, are more proficient in foreign languages, and engage in more business related international travel. Overall, export orientation seems to have provided firms with better chances of growth and expansion. Exporting firms have also benefited the country more than non-exporting firms by offering increased employment opportunities.

The superior firm-size characteristics (i.e., higher employment and sales) of exporting compared to non-exporting SMEs as reported in this study provide support to similar findings of past studies (see for example, Westhead (1995); Yaprak (1995); Moini (1992)). In addition, the firm and managerial characteristics of exporting SMEs reported in this study are consistent with those reported by Cavusgul and Naor (1987), Kaynak (1985), and Keng and Juan (1989). Of major significance is the fact that exporters tend to be slightly more educated, more proficient in foreign languages and engage in more international business

travel. These factors have, in the literature, been associated with improved management capability and ability to communicate with external markets (Cavusgul and Naor, 1987), culminating to a reduction of export barriers (Kaynak, 1985). These results are significant in that, in addition to highlighting the importance of encouraging and supporting export orientation among SMEs, they give pointers of the areas of support that could be targeted by assistance initiatives in the quest for SME promotion, growth, and development.

Evidence from this study revealed that SMEs in Swaziland face various obstacles to firm growth and development emanating from a non-conducive business environment. These obstacles are mainly infrastructural, financial, administrative, and bureaucratic. Among the various business environment factors, those that were reported to be causing serious obstacles to SMEs were the inefficient telecommunications system, lack of appropriate information sources, inappropriate government rules and regulations, and unreliable power supply. Although the lack of information was reported to be a problem to both non-exporting and exporting enterprises, the latter group is likely to be more disadvantaged because information is crucial for the success of firms in international markets. Other internal obstacles faced by exporting SMEs were limited knowledge of international transactions and resource constraints, which hindered meaningful market research. Of all the problems facing exporting SMEs, access to relevant information and advice seem to be of critical importance. Improved information sources can benefit potential, new and experienced exporters, and therefore, should be given a priority status as a support service to SMEs.

Given the reported obstacles to smooth business operations SMEs will not be able to maximise their contribution to the national economy unless they overcome their problems. In the literature it is suggested that the success of an export-led development strategy requires SMEs to develop a high quality of innovative and new products specifically designed to meet the needs of overseas markets (Abdullah, 2000; UNCTAD, 1998a). Although this aspect was not specifically highlighted by the SMEs in the sample, it will be necessary for SMEs to pay special attention to issues of product improvement and new product development if they are to improve their competitiveness in international markets.

Swazi SMEs lack institutional support in areas such as lobbying, networking, and organisational development. The few business associations that are available (like ASBC and BWAS) have, in recent years, tried to put SMEs in the forefront by engaging government on

various business aspects relating to the development of Swazi-owned businesses. However, the activities of these associations have been limited by the lack of fulltime professional and experienced staff. As such they have not been able to effectively lobby for support services for small enterprises. It is widely accepted that proactive business associations and federations are key in developing small business support and small business self-help programmes. These bodies, because they comprise owners of businesses (or former businessmen) who have practical business experience, are likely to be more knowledgeable about the problems and needs of small businesses and most importantly they can be instrumental in the delivery of support services. Owing to the nature of their relationship with owners of SMEs, associations are likely to be the most effective vehicle in communicating with their membership.

Effective associations can help in improving the flow of information between service providers and SMEs. They can help with lobbying government and to articulate the needs of their members and improving SME representation in policy making. Increased representation of SMEs would improve awareness about SME issues subsequently contributing towards the design of business policies that are sensitive to the 'real' needs and problems of SMEs and so contribute towards creating an enabling business environment. Therefore, there is a need to support capacity building in business associations.

Overall, this study has revealed that although there are some similarities in some of the obstacles and barriers faced by SMEs in Swaziland, when compared with those reported in developed countries (see for example, OECD, 2000; Bagchi-Sen, 1999; Kathawala *et al.*, 1989), these problems are more aggravated in Swaziland, given the limited role of support institutions (e.g. associations), the lack of a clear SME policy, and the general lack of (or state of) business support services. For example, whilst the lack of access to credit is generally a common problem in most countries, this problem is more aggravated in the case of Swaziland (and possibly other developing countries), given the limited finance options available to SMEs and the relatively underdeveloped state of financial markets. On the other hand, the lack of appropriate infrastructure in terms of telecommunications and power supply is a major problem for SMEs in Swaziland but seems to be less of an issue in developed countries. The differences in these problems seem to be largely due to the differences in the stages of development of these countries which impacts on the options and quality of support services available to SMEs.

8.3 Implications for Public Policy

In Swaziland most small enterprises can be described as 'too small' and 'too weak,' thus translating to a weak SME sector overall. A weak SME sector, characterised by the 'too small', a copycat syndrome, and an uncoordinated trajectory, is unlikely to generate the expected positive externalities to the economy, which normally derive from a dynamic SME sector. Neither is it likely to lead to increased manufacturing and exporting activity, meaningful subcontracting, technology transfer, R&D, product innovation, and meaningful inter-enterprise networks and clustering. One factor behind the poor performance of SMEs and the shallow nature of the progress made in as far as SME development is concerned, is the lack of a clear SME policy and a well-defined role of SMEs in the economic and development strategy of the country. For a long time, efforts at promoting SMEs have been fragmented and uncoordinated. Whilst the recent efforts (mainly the SME Unit) aimed at addressing this problem are in the right direction, the starting point in promoting the growth and development of SMEs, however, is for the Government to clearly spell out its policy with respect to SMEs, create an enabling business environment, and engage in meaningful support and promotion activities.

This thesis advocates for a 'strategic role' of the state in the promotion of SMEs. Research evidence suggests that in terms of the desirable role of the state, neither 'the liberal approach' nor 'the interventionist approach' is appropriate for the growth and development of SMEs (UNCTAD, 1998a). SMEs in developing countries require more than just a stable macroeconomic environment. Hence, this study argues that government should play a facilitatory role and put in place institutions that will address the various issues pertaining to SME growth and development. These institutions are important for improving efficiency in operations and gaining the necessary confidence of SMEs, given the reported inefficiencies in government services. A crucial element for the success of the SME promotion strategy is the involvement of SMEs when planning/designing business support services because such cooperation will help to ensure effectiveness of these services in addressing the real problems and needs of SMEs.

8.3.1 Creating an Enabling Business Environment

SMEs face various obstacles that emanate from inappropriate rules and regulations, corruption among Government officials, and other disobliging business environment factors. These obstacles need to be addressed in order to create a more conducive and enabling business environment. In this regard, some specific actions are suggested. Government needs to:

(a) **Improve the regulatory procedures and the legal framework** by for example:

- Streamlining laws and regulations and removing excessive rules and requirements on businesses; improve efficiency of the judicial system;
- Making business start-ups and other compliance requirements much easier and less costly by, for example, reducing paper work required for business start-ups, exporting and importing, establishing a one-stop applications office for business registrations and licensing (unlike the present system where an entrepreneur has to go through several government departments - Justice, MEE, Income Tax, Labour Department, City Council, etc);
- Removing political interference in business activities and other market operations;
- Limiting government regulations and rationalise requirements on business related health standards; and
- Reducing bureaucratic procedures and eliminating corruption amongst government officials.

(b) **Reduce market distortions and improve competitive conditions** by discontinuing incentives which are biased in favour of large-scale enterprises and foreign direct investment, reduce burdensome and counterproductive labour regulations; eliminate unnecessary price controls. Overall, the Government needs to make genuine reforms to regulatory and licensing procedures that will reduce unnecessary delays in business transactions hence translating to lower costs of these activities and impacting positively on the competitiveness of businesses.

In an increasingly globalised environment SMEs will be forced to upgrade their management and technical skills and operations and improve profitability of their businesses if they are to survive. Economic globalisation affects the development of SMEs in ways that produce both

positive and negative outcomes.⁶⁰ For instance, it may open up new opportunities for their growth and outward expansion and in some instances it may drive some local firms to improve the quality of their products and become more competitive in pricing their products. Alternatively, from inward direct investment by foreign MNCs, it may pose competitive challenges to local firms in their home country. With the latter effect, in the absence of meaningful partnerships, the foreign firms crowd-out local SMEs that are unable to keep up with the stiff competition. The role of government in this regard is to ensure that local firms, particularly SMEs, are able to take advantage of business opportunities and compete fairly with foreign firms, hence the need to address the investment incentive structure to cater for SMEs. Over the years research has indicated that large infusions of FDI, without appropriate local participation tends, in the long run, to make very little contribution to the economic and social development of the host developing country (Bornschieer, Chase-Dunn and Robinson, 1978; UNCTAD, 1995). The presence of locally owned small businesses and strategic partnerships between foreign and local investors are therefore essential for achieving balanced development and economic growth.

Under the prevailing scenario of a borderless world of increased competition **all** enterprises, especially SMEs, have to strengthen their productive capabilities, improve productivity to overcome acute competition and avoid crowding out. Naturally private sector development strategies include components of encouraging FDI. However care should be taken because some of the FDI incentives can disadvantage domestically owned SMEs if, for example, they are not able to benefit to the same extent as their foreign competitors. It is the responsibility of all the stakeholders (i.e., SMEs, Government, large-scale enterprises, and SME support service providers) to ensure that crowding out does not occur. Therefore the various stakeholders need to work together, with government taking the lead, to improve various aspects pertaining to SME growth and development. Among the key aspects to be addressed are education and training, information services, strategic partnerships (subcontracting, inter-firm cooperation, networking, and clustering).

⁶⁰ Economic globalisation is defined as an evolving pattern of cross-border enterprise activities that include international trade, international investment, and strategic alliances for product development, production, sourcing and marketing (Dunning, 1993; Dicken, 1998).

8.3.2 Education and Training

Education and training are important elements in the promotion and development of SMEs. Evidence from this study, supported by research evidence from other countries (see for example Lautenen (2000); Carrier (1999); Kathawala *et al.* (1989)) show that language skills are crucial for the export involvement of SMEs, and that some of the problems associated with exporting stem from a lack of appropriate managerial skills and knowledge of international trade transactions. Therefore it will be necessary to incorporate, at appropriate levels of the school education and training levels, foreign languages education, entrepreneurial training, and courses/topics in international trade transactions.

The education system is an important potential agent in the growth and development of SMEs. Whilst it might be impossible to drag SME managers back into the classroom it is possible to design specific programmes that will address their deficiencies. Examples of these include seminars in export trade to upgrade the skills of SMEs, case studies of successful SMEs and language training programmes. In addition to the usual educational and training programmes the use of role models is another way of supporting SMEs. Howard and Herremans (1988) argued that firms that have achieved some degree of success in exporting presumably know what it takes to succeed and therefore should be tapped as a source of information and advice for non-exporting firms and used as a source of encouragement for unsuccessful firms.

8.3.3 Marketing and Information Services

The findings from this research lend support to the argument that the major hurdles facing SMEs pertain to a lack of appropriate information, inability to engage in meaningful marketing and advertising. The high fixed costs associated with the move into exporting stem from market search, promotion, and advertising abroad. Since SMEs lack the resources and expertise to identify new markets and/or opportunities, this is an area that requires public intervention. Therefore it might be advisable for the Government to assist in market research and feasibility studies for purposes of diversifying into new markets and new products.

Whilst large firms have in the past contributed disproportionately to total exports it may be argued that in the future the greatest marginal contributions to employment, skills

improvement, indigenous participation, tax revenue may be realised through a grassroots stimulation of smaller (and often new-to-export) firms. There is a need to adopt a diagnostic approach to find out the kind of information required by smaller non-exporting firms to stimulate export activity and also the kind of information required by current small exporters to help expand their export activity. To help with the diversification of the export products' base there is critical need for further research to identify potential new products and markets.

The need to strengthen the TPU and SEDCO cannot be overemphasised. It is clear that both institutions have fallen short of their objectives, partly due to financial and human resource constraints. These resource constraints need to be addressed to facilitate improved delivery of export support services to SMEs. However, there is also a need to revisit the export promotion strategies. Passive export promotion (like reacting to enquiries or orders alone) is not likely to produce the required results. There is a need to adopt a more aggressive export promotion strategy that will recognise the differences among firms and address their needs at different levels of the development process. This 'new' strategy should give priority to market research.

8.3.4 Support Services and Policies

8.3.4.1 Definition of SMEs

There is a need for a consensus on a national definition of SMEs. Despite the increasing attention on SMEs by policy makers, the term SMEs still appears to have been variously defined by different government departments, agencies or supporting bodies. Part of the difficulties of obtaining accurate data and the inaccuracy of estimates on SMEs' total numbers stem from the variations in definitions within government. 'Small business' is perceived and defined differently by different people/groups. However, for an effective discussion of SMEs to occur at the policy level, it is first necessary to understand what the term means to the general public and then use these views to formulate an official national definition of SMEs.

8.3.4.2 Development of a Database on SMEs

There is no denying that the current information and knowledge base on the SME sector in the country is very poor, partly as a result of the lack of continuous research on SME issues.

The absence of an official, reliable, and up-to-date database on SMEs contributes to the poor information and knowledge base on SMEs issues because, without a reliable database, it becomes very expensive and almost impossible to conduct any meaningful research. Therefore it is necessary that an official and reliable database on SMEs be created. This database would then be made available to academic and other qualified business researchers to conduct relevant research. The database would need to be updated periodically, to make it more reliable and comprehensive.

8.3.4.3 Other Support Services and Policies

Some progress has been made in some areas of SME support, especially in terms of finance, with such schemes as the ECGS, SSLGS and ETF which were introduced, with the aim of facilitating international trade and access to credit. However, if SMEs are to grow and prosper and benefit the country in the different ways as they have in other countries, then the Swaziland Government needs to place SMEs at the centre of its economic strategy. In particular, there is a need to improve the coherence and quality of all government support for SMEs.

With respect to SME policies and assistance programmes, the Government needs to focus on developing functional and integration policies, designed to accelerate the process of small business development. In this regard, the aim of these policies and support services should be to encourage/promote business startups, maintenance, and growth of viable enterprises. Functional policies would be those that attempt to compensate for the weaknesses of SMEs and ensure that their strengths are fully exploited, whilst integration policies would aim at creating a favourable business climate (Koning and Snijders, 1992). The various areas to be addressed by these policies include: education and training, business registration and licensing, financing, information and business counselling, markets, technology and R&D.

For the successful promotion and development of the SME sector, the support service providers (i.e., government, donor agencies, NGOs, associations, financial and vocational institutions, etc.) need to work together, but the Government should take the lead. Whilst it can be argued that institutions, associations and organizations are responsible for initiating and executing activities to promote small business development, based on evidence from various Asian countries that have had success with SMEs it is conceded that it is government

that should be responsible for developing integrated programmes to promote the growth of the small business sector. In the past, unfortunately, while the Swaziland Government did put in place 'some' elements of development programmes, no accompanying strategic management programmes were prepared, hence the lack of success of SME promotion and development efforts.

To address the issue of diversification of SME activities, imitative entrepreneurship, and advising and guiding SMEs to activities that have opportunities for higher incomes, it is necessary to conduct market research into specific commodities and sectors that have higher growth opportunities. It is only on the basis of proper market research that appropriate/relevant guidance and counselling can be provided to entrepreneurs. With respect to exporting, there needs to be more systematic research into small firms and how they move into exporting in order to draw lessons from those that have succeeded, appropriately stimulate and guide non-exporters into exporting, and assist current small exporters to expand their export activity. Such information would, overall, be useful towards the design of effective export promotion activities.

8.4 Contributions to Research

This study has investigated the participation of SMEs in the export sector in Swaziland and has produced evidence to introduce another dimension in the campaign for the promotion and development of SMEs in a small developing country. Despite the plethora of studies on SMEs' export behaviour in developed countries, the number of similar studies on developing countries is yet only limited. Most research relating to developing countries has concentrated on smaller/micro enterprises, the informal sector, and or family owned businesses. This study has added to the literature on SMEs and their export behaviour by providing evidence from a small developing country in southern Africa. Moreover, to our knowledge there has been no previous study that has tackled the issue of SME promotion and development by jointly addressing aspects of SMEs' export propensity and the effectiveness of assistance programmes. This research, although exploratory in nature, has produced some significant findings in that it highlights the importance of encouraging and supporting export orientation among SMEs in a small developing country as a way of overcoming limited demand and market-size constraints and for purposes of encouraging the general growth and development

of SMEs. In addition, it has provided some pointers to the areas of support that could be targeted in order to enhance SME growth and development.

Previous studies on SMEs' export behaviour have highlighted the importance of internal and external factors as determinants of export propensity and export intensity. Making use of selected factors as indicated in the literature, this study investigated their relevance in the case of SMEs located in a small developing country. Consequently, it was possible to provide evidence to support the importance of firm and managerial characteristics in distinguishing between exporting and non-exporting SMEs. In particular the results from this research have endorsed the importance of education, international business travel and proficiency in foreign languages as important factors in understanding the export propensity of SMEs.

For developing countries operating on a tight public budget these results are very significant in that they provide an alternative to improving the use of public funds by giving an indicator of how to identify/select firms with an export potential and the kinds of support services likely to be required by exporting SMEs. For example, if the objective of policy is to widen the pool of export capable firms then support services should be targeted at improving those firm and managerial characteristics that are critical to a firm's export involvement. Alternatively, if the objective of policy is to improve targeting of assistance programmes by focusing only on those firms that have a higher chance of succeeding, then certain firm and managerial characteristics can be used to pick the likely 'winners' and focus attention on improving their competitiveness in international markets. In the event that the latter approach is adopted, it would be in line with suggestions by Storey (1993, 1994) who argued that policy makers and practitioners need to make use of available information relating to organisational characteristics to target resources to firms that have a higher probability of reporting superior performance.

A significant dimension in the promotion of SMEs, emanating from this research, is the importance of encouraging export orientation amongst SMEs in developing countries as a way of accelerating the growth and development of SMEs, given that exporting SMEs tend to have higher levels of employment and higher sales. Such an approach is very important in the case of a small developing country where the SME sector is characterised by low survival rates and the domestic market offers limited opportunities for growth. It is hoped

that the findings from this study will assist policy makers and practitioners in Swaziland and other small developing countries to conceptualise, implement and evaluate their support efforts towards the promotion and development of their SME sectors.

8.5 Suggestions for Future Research

Despite the importance of exports on one hand and SMEs on the other, to the knowledge of this researcher there has been no study on Swaziland that has attempted to link the two together. This study was mainly exploratory in nature and therefore produced some indicative results, which are useful only in laying a foundation for more detailed investigations on issues pertaining to SMEs. Assuming an SME database is created, a study contrasting the performances, needs and constraints of Swazi-owned versus foreign-owned enterprises would provide useful information on the issues pertaining to indigenous entrepreneurship and therefore contribute towards the design of more targeted and effective assistance programmes. Likewise, it would be helpful to investigate if there are any gender differences in the performance, constraints, and needs of male-owned and female-owned SMEs.

In addition, it would be useful if future research can adopt a subsectoral approach and study in more detail the specific issues pertaining to a particular sector, commodity, or group of SMEs. In the context of the subsectoral approach, there is a need to disaggregate SMEs (i.e., micro, small, and medium) and conduct research on the specific needs and issues relevant to each subgroup. This is necessary because, whilst SMEs may have similarities that make them belong to the same group/category, they are certainly not homogeneous. The industries they operate in pose different sets of problems, which may need to be addressed in different ways from other sectors. The support mechanisms need to respond to the diversity of firms involved and the type of problems faced by the different categories of SMEs. Therefore, a subsectoral research approach would help the Government and other donor agencies to know who are the SMEs in need of assistance and what are their real needs and problems, consequently contributing towards the successful design of well-targeted and effective assistance programmes.

Other areas that require further research include: subcontracting possibilities, existing relationships (if any) between MNCs and SMEs, and the role (present and potential future role) of MNCs in promoting SME growth and development in the country. Lastly, financial assistance is one area that has received increased government attention in recent years. However, despite the increased efforts both by government and donor agencies, access to credit and loan guarantee facilities remains one of the problems facing SMEs in the country. Therefore, more research is needed on the nature of difficulties faced by SMEs in accessing finance and credit facilities with a special focus on why the financial assistance schemes, introduced by the Government in the 1990s, have low utilization rates.

8.6 Final Comment

SMEs have a lot to offer in the fight against the increasing unemployment and poverty levels in the country. With appropriate and strategic support and guidance SMEs can increase their export involvement and thus contribute to the export-led recovery of the economy. Export orientation amongst SMEs should be encouraged because it offers superior benefits both to the entrepreneur and the economy at large. In conclusion, the notion that the continued creation of efficient new and small enterprises, in all sectors of the economy, is a crucial barometer of the economic and social well being of the economy. This requires a well-conceived and strategic approach to the promotion and development of SMEs in the country.

REFERENCES

- Aaby, N. and S. Slater (1989). Managerial Influences on Export Performance: A Review of the Empirical Literature, 1978-88. *International Marketing Review*, 6(4), 7-26.
- Abdullah, M.A. (2001). SMEs in the 21st Century: Some Emerging Issues in Asia. In Abdullah, M.A. (Ed.), *Asian Small and Medium Enterprises: Challenges in the 21st Century*. (Wisdom House, England), 3-25.
- Abdullah, M.A. (2000). Small and Medium Enterprises (SMEs), Some Pertinent Issues. In Abdullah, M.A. and M. I. B. Baker (Eds.), *Small and Medium Enterprises in Asian Pacific Countries*. (Nova Science Publishers, Inc., New York), 3-13.
- Abdullah, M.A. (1999). *Small and Medium Enterprises: Policy Issues and Challenges*. (Ashgate Publications, London).
- Abernathy, William J., Kim B. Clark, and Alan M. Kantrow (1983). *Industrial Renaissance*. (Basic Books Inc., USA).
- Acs, Z. J. (1999) *Are Small Firms Important: Their Role and Impact*. (Kluwer Academic Publishers, Boston, MA, USA).
- Acs, Z. and B. Yeung (1999). *Small and Medium-sized Enterprises in the Global Economy*. (The University of Michigan Press, USA).
- Acs, Z. (Ed.) (1996a). *Small Firms and Economic Growth*. Vol. I. (Edward Elgar Publishing Company, USA).
- Acs, Z. (Ed.) (1996b). *Small Firms and Economic Growth*. Vol. II. (Edward Elgar Publishing Company, USA).
- Acs, Z. and D. Audretsch (1993). *Small Firms and Entrepreneurship*. (Kluwer Academic Publishers, Boston, MA, USA).
- Acs, Z. and D. Audretsch (Eds.) (1991). *Innovation and Technological Change: An International Comparison*. (University of Michigan Press, Ann Arbor, USA).
- Acs, Z. and D. Audretsch (1990). *Innovation and Small Firms*. (MIT Press, MA, USA).
- Acs, Z. J. and D. Audretsch (1990). *The Economics of Small Firms: A European Challenge*. (Kluwer Academic Publishers, Boston, MA, USA).
- Acs Z. and D. Audretsch (1989). Job Creation and Firm Size in the US and West Germany. *International Small Business*, 7(4), 9-22.
- Acs, Z. J, and D. B. Audretsch (1988). Innovation in Large and Small Firms: An Empirical Analysis. *American Economic Review*, 78, 678-690.
- Acs Z., B. Carlsson and R. Thurik (1996). *Small Business in the Modern Economy*. (Blackwell Publishers, USA).

- Adelman, M.A (1969). Comment on the "H" Concentration Measure as a Numbers-Equivalent. *Review of Economics and Statistics*, 51(4): 99-101.
- Agar, Jason (1999). Marketing for the Local Market – What Does it Mean in Practice? *Small Enterprise Development*, 10(4), 4-15.
- Agnihotri, V. (1986). Country Report – India. In Chen, Edward K.Y. (Ed.), *Small Industry in Asia's Export Oriented Growth*. (Asia Productivity Organization, Tokyo Japan), 69-86.
- Aharoni, Y. (1994). How Small Firms Can Achieve Competitive Advantages in an Interdependent World. In Agmon, T. and R. Drobnick, *Small Firms in Global Competition*, (Oxford University Press, New York).
- Aharoni, Y. (1966). *The Foreign Investment Decision*. (Harvard University, Cambridge).
- Ahwireng, Obeng and O.O. Egunjobi (2001). Performance Determinants of Large-Small Strategic Alliances in South Africa. *South African Journal of Business Management*, 32(3), 41-50.
- Albaum, G. (1983). Effectiveness of Government Export Assistance for U.S. Smaller – sized Manufacturers: Some Further Evidence. *International Marketing Review*, 1(1), 68-75.
- Albers, N. and V. Kumar (1991). International Direct Marketing Efforts: Are They Useful to Small Businesses in Establishing Consistent Patterns of Exporting. *Journal of Direct Marketing*, 5(4), 29-38.
- Ali, A. and P.M. Swiercz (1991). Firm Size and Export Behaviour: Lessons from the Midwest. *Journal of Small Business Management*, 29(2), 71-78.
- Almeida, P. and B. Kogut (1997). The Exploration of Technological Diversity and Geographic Localization in Innovation: Start-up Firms in the Semiconductor Industry. *Small Business Economics*, 9(1), 21-31.
- Amin, A and D. Thomas (1996). The Negotiated Economy: State and Civic Institutions in Denmark. *Economy and Society*, 25(2), 255-280.
- Anderson, D. (1982). Small Industry in Developing Countries: A Discussion of Issues. *World Development*, 10(11), 913-948.
- Andreasen, A. R. (1970). Personalizing Mail Questionnaire Correspondence. *Public Opinion Quarterly*, (Summer 1970), 273-277.
- Antoine, G. (1988). IFC's Initiatives in Sub-Saharan Africa. *Finance and Development*, 25(December), 37-38.

- Aryeetey, E., A. Baaah-Nuakoh, T. Duggleby, H. Hettige and W.F. Steel (1994). Supply and Demand for Finance of Small Scale Enterprises in Ghana. World Bank Discussion Paper No.251, Washington, D.C.
- Aryeetey, E., (1993). Sectoral Credit Allocations Policy and Credit Flow to Small Enterprise in Ghana. In Helmsing, A.H.J. and Theo Kolstee (Eds.), *Small Enterprises and Changing Policies: Structural Adjustment, Financial Policy and Assistance Programmes in Africa*. (IT Publications, London), 187-203.
- Arzeni, S. and J. Pellegrin (1997). Entrepreneurship and Local Development. *The OECD Observer*, (February-March), 27-29.
- Asian Development Bank (AsDB) (1997). *Microenterprise Development: Not by Credit alone* (Asian Development Bank, Manila).
- AsDB (1990). *The Role of Small and Medium-Scale Manufacturing Industries in Industrial Development: The Experience of East Asian Countries*. (Asian Development Bank, Manila).
- APEC (1998). *Profile of SMEs in APEC Economies*. (Small and Medium Industries Development Corporation in Malaysia (SMIDEC), Kuala Lumpur, Malaysia).
- APEC (1994). *The APEC Survey on Small and Medium Enterprises 1994*. (APEC, Secretariat, Singapore).
- Austin, T., M. Fox and R. Hamilton (1996). A Study of Small and Medium-sized Businesses Financing in New Zealand. (Ministry of Commerce, New Zealand).
- Australian Bureau of Statistics (2000). *Small Business in Australia 1999*. (The Australian Government Publishing Service, Canberra, Australia).
- Aw, Bee-Yan, Sukkyun Chung and Mark J. Roberts (1999). Productivity and Turnover in the Export Market: Micro Evidence from Taiwan and South Korea. *Mimeo*.
- Axinn, N.C. (1988). Export Performance: Do Managerial Perceptions Make a Difference? *Journal of International Marketing Review*, 5 (2), 61-71.
- Bagachawa, M.S.D. (1993). Impact of Adjustment Policies on the Small-Scale Enterprise Sector Tanzania. In Helmsing, A.H.J. and Theo Kolstee (Eds.), *Small Enterprises and Changing Policies: Structural Adjustment, Financial Policy and Assistance Programmes in Africa*. (IT Publications, London), 91-113.
- Bagachawa, M.S.D. (1992). Choice of Technology in Small and Large Firms: Grain Milling in Tanzania. *World Development*, 20(1), 97-107.
- Bagchi-Sen, Sharmistha (1999). The Small and Medium-sized Exporters' Problems: An Empirical Analysis of Canadian Manufacturers. *Regional Studies*, 34(9), 797-812.
- Baron, C. and W. van Ginneken (1982). Appropriate Products and Egalitarian Development. *International Labour Review*, 121(6), 671-687.

- Barwa, D.S. and P.L. Magagula (2000). *The Swazi Informal Sector: National Strategy Framework Paper*. (ILO/UNDP, Mbabane, Swaziland).
- Becker, Thomas H. and James L. Porter (1983). *Journal of Small Business Management*, 21(4), 8-16.
- Bednarzik, Robert (2000). The Role of Entrepreneurship in the U.S. and European Job Growth. *Monthly Labour Review*, 123(7), 3-16.
- Bell, M. and K. Pavtt (1993). Technological Accumulation and Industrial Growth: Constraints Between Developed and Developing Countries. *Industrial and corporate Change*, 2(2), 157-210.
- Bernard, Andrew B. and Bradford J. Jensen (1997). Exceptional Exporter Performance: Cause, Effect, or Both? *Journal of International Economics*, 47, 1-25.
- Berry, A. and J.F. Escandóm (1999). Colombia's Small and Medium Enterprises and their Support System. In Levy, B., A. Berry, and J.B. Nugent (Eds.), *Fulfilling the Export Potential of Small and Medium Firms*. (Kluwer Academic Publishers, Boston, Massachusetts), 169-220.
- Berry, Albert, Edgard Rodriguez and Henry Sandee (2002). Firm and Group Dynamics in the Small and Medium Enterprise Sector in Indonesia. *Small Business Economics*, 18(1-3), 141-161.
- Berry, Albert, Edgard Rodriguez and Henry Sandee (2001). Small and Medium Enterprise Dynamics in Indonesia. *Bulletin of Indonesian Studies*, 37(3), 363-84.
- Berry, Albert and Brian Levy (1999). Technical, Marketing and Financial Support for Indonesia's Small and Medium Industrial Exporters. In Levy, B., A. Berry, and J.B. Nugent (Eds.), *Fulfilling the Export Potential of Small and Medium Firms*. (Kluwer Academic Publishers, Boston, Massachusetts), 31-72.
- Bigsten, A., P. Collier, S. Dercon, M. Fafchamps, B. Gauthier, J.W. Gunning, J. Habarurema, A. Isaksson, A. Oduro, R. Oostendorp, C. Pattillo, M. Soderbom, F. Teal and A. Zeufack (1999). Exports of African Manufactures: Macro Policy and Firm Behaviour. *Journal of International Trade & Economic Development*, 8(1), 53-71.
- Bijmolt, T. and P. Zwart (1994). The Impact of Internal Factors on the Export Success of Dutch Small and Medium-sized Firms. *Journal of Small Business Management*, 32(2), 69-83.
- Bilkey, W. (1978). An Attempted Integration of the Literature on Export Behaviour of Firms. *Journal of International Business Studies*, 9(Spring/Summer), 33-46.
- Bilkey, W. and G. Tesar (1977). The Export Behaviour of Small-sized Wisconsin Manufacturing Firms. *Journal of International Business Studies*, 8(1), 93-98.

- Birch, David L. (1987). *Job Creation in America – How Our Smallest Companies Put the Most People into Work*. (Free Press, New York).
- Birks, S. (1981). Economies of Scale and Concentration of New Zealand Manufacturing. *New Zealand Economic Papers*, 86-110.
- Birch, David (1981). Who creates Jobs? *The Public Interest*, 65, 3-14.
- Bolton, J. E. (1971). *Report of the Committee of Enquiry on Small Firms*. (HMSO, London).
- Bonaccorsi, A. (1992). On the Relationship Between Firm Size and Export Intensity. *Journal of International Business Studies*, 23(4), 605-635.
- Bonk, Eugene (1996). The Information Revolution and its Impact on SME Strategy: the Asia Pacific Economic Cooperative Forum as a Model. *Journal of Small Business Management*, 34(1), 71-78.
- Bonoma, Thomas V. (1983). Get More Out of Your Trade Shows. *Harvard Business Review*, 61(January-February), 75-83.
- Boomgard, James J., Stephen P. Davies, Steven J. Haggblade and Donald Mead (1992). A Subsector Approach to Small Enterprise Promotion Research. *World Development*, 20(2), 199-212.
- Bordens, K. and B. Abbott (1991). *Research Design and Methods: A Process Approach*. (2nd ed.), (Mayfield Publishing Company, California).
- Bornschieer, V., C. Chase-Dunn, and R. Robinson (1978). Cross-National Evidence of the Effect of Foreign Direct Investment and Aid on Economic Growth and Inequality: A Survey of Findings and a Re-analysis. *American Journal of Sociology*, 84 (3), 651-683.
- Bowles, Erskine (1994). Training Ground. *Entrepreneur*, 22(3), 168.
- Briguglio, L. P. (1998). Small Country Size and Returns to Scale in Manufacturing. *World Development*, 26(3), 507-515.
- Briguglio, L. P. (1995). Small Island Developing States and their Vulnerabilities. *World Development*, 23(10), 1615-1632.
- Briscoe, R., G. S. Nair, and A. Sibbald (1990). *Enterprise Support Organizations For the South Pacific: Problems and Proposals*. (Hawaii Press, Honolulu).
- Briton, J.N.H. (1989a). Innovation Among Small Firms. *Regional Studies*, 23,167-72.
- Briton, J.N.H. (1989b). A Policy Perspective on Incremental Innovation in Small and Medium-sized Enterprises. *Entrepreneurship & Regional Development*, 1, 179-90.

- Brooks, M. and R. Rosson (1982). A Study of Export Behaviour of Small and Medium-sized Manufacturing Firms in Three Canadian Provinces. In Czinkota M. and G. Tesar (Eds.), *Export Management: An International Context*. (Praeger, New York), 39-54.
- Brown, C.; J. Hamilton; and J. Medoff (1990). *Employers Large and Small*. (Harvard University Press, Cambridge, Massachusetts).
- Brugger, E. and S. Rajapatimarana (1995). *New Perspectives on Financing Small Business in Developing Countries*. (Institute for Contemporary Press, San Francisco).
- Brunetti, Aymo, Gregory Kisunko, and Beatrice Weder (1999). A Note on Institutional Bias Against Small, Local Firms, in Less Developed Countries. Available on-line at:
http://www.unibas.ch/wwz/wifor/staff/bw/survey/new/working_papers.htm.
- Bruton, Henry J. (1997). *On the Search for Well-being*. (University of Michigan Press, Ann Arbor).
- Bruton, Henry J. (1985). The Search for a Development Economics. *World Development*, 13(10/11), 1099-1124.
- Buckley, Peter (1983). Government Industry Relations in Exporting: Lessons from the United Kingdom. In Czinkota, M. R. (Ed.), *Export Promotion: The Public and Private Sector Interaction*. (Praeger Publishers, New York), 89-109.
- Burton, F.N. and B. Schlegelmilch (1987). Profile Analysis of Non-Exporters versus Exporters Grouped by Export Involvement. *Management International Review*, 27(1), 38-49.
- Byrne, John A. (1993). Enterprise. *Business Week*, 3344 (October), 10-15.
- Cafferata, Roberto and Riccardo Mensi (1995). The Role of Information in the Internationalisation of SMEs: A Typological Approach. *International Small Business Journal*, 13(3), 35-46.
- Calof, Jonathan (1994a). The Relationship Between Firm Size and Export Behaviour Revisited. *Journal of International Business Studies*, 25 (2), 367-388.
- Calof, Jonathan (1994b). Creating and Export Based Society: The Role of Government. *Optimum*, (January), 60-72.
- Calof, Jonathan (1993). The Impact of Size on Internationalisation. *Journal of Small Business Management*, 31(4), 50-56.
- Calof, Jonathan L. and Wilma, Viviers, (1995). Internationalisation of Small and Medium-sized South African Enterprises. *Journal of Small Business Management*, 33(4), 71-79.

- Cameron A. F. and C. Massey (1999). *Small and Medium-sized Enterprises: A New Zealand Perspective*. (Longman, New Zealand).
- Carr, Marilyn, Martha Chen and Renama Jhabvala (1996). *Speaking Out: Women's Economic Empowerment in South Asia*. (Intermediate Technology Publications, London).
- Carrier, Camille (1999). The Training and Development Needs of Owner- Managers of Small Businesses. *Journal of Small Business Management*, 37(4), 30-41.
- Carroll, John L. (1988). Obstacles to Success: Entrepreneurship in the Marshall Islands. In Fairbairn, Te'o IJ (Ed.), *Island Entrepreneurs: Problems and Performance in the Pacific*. (University of Hawaii Press, Honolulu, Hawaii), 111-136.
- Carter, N.M. and L. Kolvereid (1998). Women Starting their New Businesses: The Experience in Norway and the US. In OECD, *Women Entrepreneurs in Small and Medium Enterprises*, (OECD, Paris).
- Castellis, Manuel and Alejandro Portes (1991). World Underneath: The Origins, Dynamics and Effects of the Informal Economy. In Portes, A., M. Castells and L. A. Benton (Eds.), *The Informal Economy: Studies in Advanced and Less Developed Countries*. (The John Hopkins University Press, Baltimore), 11-37.
- Caughey, M. and S. Chetty (1994). Pre-export Behaviour of Small Manufacturing Firms in New Zealand. *International Small Business Journal*, 12(3), 62-68.
- Cavusgil, T. (1984). Organisational Characteristics Associated with Export Activity. *Journal of Management Studies*, 21(1), 3-22.
- Cavusgil, Tamer S. and Jacob Naor (1987). Firm Management Characteristics as Discriminators of Export Marketing Activity. *Journal of Business Research*, 15(3), 221-235.
- Cavusgil, Tamer S. and John R. Nevin (1981). Internal Determinants of Export Marketing Behaviour: An Empirical Investigation. *Journal of Marketing Research*, 18(February), 114-119.
- Cavusgil, Tamer S. and Shaoming Zou (1994). Marketing Strategy Performance Relationship: An Investigation of the Empirical Link in Export Market Ventures. *Journal of Marketing*, 50(1), 1-21.
- Central Bank of Swaziland (2002). *Annual Report 2001/2002*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (2001). *Annual Report 2000/2001*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (2000a). *Annual Report 1999/2000*. (Central Bank of Swaziland, Mbabane, Swaziland).

- Central Bank of Swaziland (2000b). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1999a). *Annual Report 1998/99*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1999b). *Central Bank of Swaziland - In Commemoration of 25 Years Service to the Swazi Nation 1974-1999*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1999c). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1998). *Annual Report 1997/98*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1998b). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1997). *Annual Report 1996/97*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1996). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1995). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1994). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1993). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1992). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1991). *Export Financing Scheme: Operational Guidelines*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1990). *Small Scale Enterprise Loan Guarantee Scheme*. Document No.1, July 1990, Mbabane, Swaziland.
- Central Bank of Swaziland (1986). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).
- Central Bank of Swaziland (1974). *Quarterly Review, December*. (Central Bank of Swaziland, Mbabane, Swaziland).

- Central Statistical Office (CSO) (1997a). *Annual Statistical Bulletin 1997*. (Government of Swaziland, Mbabane, Swaziland).
- Central Statistical Office (1997b). *Swaziland Census Report, 1997*. Government of Swaziland, Mbabane, Swaziland).
- Central Statistical Office (1995). *Annual Statistical Bulletin 1995*. (Government of Swaziland, Mbabane, Swaziland).
- Central Statistical Office (1994). *Annual Statistical Bulletin 1994*. (Government of Swaziland, Mbabane, Swaziland).
- Central Statistical Office (1986). *1986 Census Report*. Government of Swaziland, Mbabane, Swaziland).
- Chandran, Rajan, Don DeSalvia and Allan Young (1977). *Journal of Small Business Management*, 15(1), 30-36.
- Charmes, Jacques (1990). A Critical Review of Concepts, Definition and Studies in the Informal Sector. In Turnburn, D., B. Salome, and A. Schwarz (Eds.), *The Informal Sector Revisited*. (OECD, Paris, France), 10-48.
- Chatterjee, S. (1995). The Growth Pains of Smallness: The Restructuring Experience of the Cook Islands, Kiribati, and Marshall Islands 1979-91. A Paper Presented at the Third International Conference of Development and Future Studies, Heleriski, 31 July-2 August, 1995.
- Chen, Edward K.Y. (Ed.) (1986). *Small Industry in Asia's Export Oriented Growth*. (Asia Productivity Organization, Tokyo Japan).
- Chenier, J.A. and J.P. Prince (1990). *Aid for Small Business Exporting Firms: The Role of Governments and Information Networks*. (Institute of Research on Public Policy, Halifax - Canada).
- Chirathivat, S. and N. Chantrasawang (2000). Experience of SMEs in the Financial Crisis in Thailand. In Abdullah, M. A. and M.I.B. Baker (Eds.), *Small and Medium Enterprises in Asian Pacific Countries*, (Nova Science Publishers, Inc., New York), 85-99.
- Chou, Tein-Chen (1992). The Experience of SMEs' Development in Taiwan: High Export-Contribution and Export Intensity. *Rivista Internazionale di Scienze Economiche e Commerciali*, 39(12), 1067-1084.
- Choy, Chong Li and Mark Goh (1994). Small Enterprise in Singapore's Economic Development. *Small Enterprise Development*, 5(4), 47-51.
- Chrisman, J. and W. McMullan (1996). Static Economic Theory, Empirical Evidence, and the Evaluation of Small Business Assistance Programs. *Journal of Small Business Management*, 34(2), 56-66.

- Colclough, Christopher and Stephen McCarthy (1986). *The Political Economy of Botswana: a Study of Growth and Distribution*. (Oxford, London).
- Colclough, Christopher and Peter Fallon (1983). Rural Poverty in Botswana: Dimensions, Causes and Constraints. In Ghai Dharama and Samir Radwan (Eds.), *Agrarian Policies and Rural Poverty in Africa*, United Nations, Geneva).
- Cole R.V. (1993). Economic Development in the South Pacific Promoting the Private Sector. *World Development*, 21(2), 233-245.
- Comanor W.S. (1967). Market Structure, Product Differentiation and Industrial Research. *Quarterly Journal of Economics*, 81(November), 639-57.
- Conant, J.S, D.T. Smart and B.J. Walker (1990). Mail Survey Facilitation Techniques: An Assessment and Proposal Regarding Reporting Practises. *Journal of Market Research Society* (UK), 32 (October), 569-80.
- Crick, Dave (1995). An Investigation into the Targeting of UK Export Assistance. *European Journal of Marketing*, 29 (8), 76-94.
- Cromie, Stanley (1991). The Problems Experienced by Young Firms. *International Small Business Journal*, 9(3), 43-61.
- Croulet, Ross C. (1988). Indigenous Entrepreneurship in Western Samoa. In Fairbairn, Te'o I.J. (Ed.), *Island Entrepreneurs: Problems and Performance in the Pacific*. (University of Hawaii Press, Honolulu, Hawaii), 77-102.
- Curran, J. and R. Burrows (1993). Shifting the Focus: the Problems and Approaches in Studying Small Enterprise in the Services Sector. In Atkin, R. E. Chell, and C. Mason (Eds.), *New Directions in Small Business Research*. (Avebury, Sydney Australia), 177-191.
- Curran, J. and R. Blackburn (1994). *Small Firms and Local Networks: The Death of the Local Economy*. (Kingston University, UK).
- Czinkota, M. and W.J. Johnston (1983). Exporting: Does Sales Volume Make a Difference? *Journal of International Business Studies*, 14 (Spring/Summer), 147-53.
- Czinkota, M. and W.J. Johnston (1981). Segmenting U.S. Firms for Export Development. *Journal of Business Research*, 9(December), 353-365.
- Czinkota M. and D. Ricks (1981). Export Assistance: Are We Supporting the Best Programs? *Columbia Journal of World Business Research*, 16(Summer), 73-78.
- Czinkota M., P. Rivoli, and I.A. Ronkainen (1992). *International Business*. (The Dryden Press, USA).

- Czinkota, M. R and M. L. Ursic (1991). Classification of Exporting Firms According to Sales and Growth into a Share Matrix. *Journal of Business Research*, 22, 241-253.
- Czinkota, M. R and M. L. Ursic (1983). Impact of Growth Expectations on Smaller Firms, *International Marketing Review*, 1 (2), 26-33.
- Daley, Bill (1997). Letter from Secretary Daley. *Business America*, 118(11), 6-23.
- Dallago, Bruno (2000). The Organisational and Productive Impact of the Economic System: the Case of SMEs. *Small Business Economics*, 15(4), 303-319.
- Dana, Leo P. (1996a). Global Perspectives: Small Business in Mozambique After War. *Journal of Small Business Management*, 34(4), 67-71.
- Dana, Leo P. (1996b). Boomerang Entrepreneurs: Hong Kong to Canada and Back. *Journal of Small Business Management*, 34(2), 79-83.
- Daniels, Lisa (1999). The Role of Small Enterprises in the Household and National Economy in Kenya: A Significant Contribution or a Last Resort? *World Development*, 27(1), 55-65.
- Daniels, Lisa and A. Ngwira (1993). Results of a Nationwide Survey on Micro and Small, and Medium Enterprises in Malawi. GEMINI Technical Report No. 53, January.
- Daniels, Lisa and Y. Fisseha (1992). Micro and Small-Scale Enterprises in Botswana: The Results of a Nationwide Survey. GEMINI Technical Report No. 46 August.
- Darling, J.R. and J. F. Postnikoff (1985). Strategic Export Information for Small Business. *Journal of Small Business Management*, 23(3), 28-36.
- Das, Sanghamitra, Mark Roberts and James Tybout (2000). Micro Foundations of Export Dynamics. *Mimeo*.
- Davis, Steven and Magnus Henrekson (1999). Explaining National Differences in the Size and Industry Distribution of Employment. *Small Business Economics*, 12, 59-83.
- Dawson, Jonathan (1994). Responses to Adjustment – the Marginalization of Small Enterprises in Nigeria. *Small Enterprise Development*, 5(2), 18-24.
- Dawson, J. and Andy Jeans (1997). *Looking Beyond Credit: Business Development Services and the Promotion of Innovation Among Small Producers*. (Intermediate Technology, Rugby, UK).
- Demick, D.H. and A. J. O'Reilly (2000). Supporting SME Internationalisation: A Collaborative Project for Accelerated Export Development. *Irish Marketing Review*, 13(1) 34-45.
- Deng, S., L. Hassan and S. Jivan (1995). Female Entrepreneurs Doing Business in Asia; A Special Investigation. *Journal of Small Business and Entrepreneurship*, 12, 60-80.

- de Vries, Barend A. (1984). Industrial Policy in Small Developing Countries. *Finance and Development*, 21(2), 39 - 40.
- Dhungana, B.P. (1993). Promoting Effective Linkages Between Small, Medium and Large Industries in Asia and the Pacific. *Small Enterprise Development*, 4(3), 14-25.
- Diamantopoulos, A. and K. Inglis (1988). Identifying Differences Between High- and Low-Involvement Exporters. *International Marketing Review*, 5(2), 52-60.
- Diaz-Alejandro, C. (1985) Goodbye Financial Repression, Hello Financial Crash. *Journal of Development Economics*, 19(1/2), 1-24.
- Dichtl, Erwin, Hans-Georg Koeglmayr, and Stefan Mueller (1990). International Orientation as a Precondition for Export Success. *Journal of International Business Studies*, 21(1), 23-40.
- Dichtl, Erwin, Hans-Georg Koeglmayr, and Stefan Mueller (1984). The Export-Decision of Small and Medium-sized Firms: A Review. *Management International Review*, 24(2), 49-59.
- Dicken, P. (1998). *Global Shift*. (Paul Chapman, London).
- Dillman, Don A. (1978). *Mail and Telephone Surveys: The Total Design Method*. (John Wiley & Sons, New York).
- Dobbin, Murray (1998). *The Myth of Good Corporate Citizen: Democracy Under the Rule of Big Business*. (Stoddart, Toronto).
- Dogan, Ergun and Russell Smyth (2002). The Capabilities, Problems and Strategies of Exporters in Emerging Markets – An Empirical Analysis of Malaysian Manufacturers. Paper Presented at the International Conference on SMEs in a Global Economy, July 12-13, Wollongong, Australia.
- Dosi, G. (1988). Sources and Procedures and Micro Economic Effects of Innovation. *World Development*, 20(2), 165-186.
- DTI/Jaro (1994). Report on Industrial Survey Mission to Swaziland. Unpublished Report. UNDP, Mbabane, Swaziland.
- Duncombe, Richard and Richard Heeks (2002). Information, ICT and Small Enterprise: Findings from Botswana. In Katrak, Homi and Roger Strange (Eds.), *Small-scale Enterprises in Developing Countries and Transition Economies*. (Palgrave, New York), 284-303.
- Dunning, J. (1993). *Multinational Enterprises and the Global Economy*. (Addison Wesley, Reading, MA).
- Ebony Consulting International Pty Ltd (ECI) (2000). Strategy for Supporting the Micro and Small Enterprise Sector. A Report Prepared for the UNDP, Mbabane, Swaziland.

- Economist* (2002). Roots of Development. 10/5/2002, Vol. 365 Issue 8293.
- Economist* (1998). International - Down with the Rand. *Economist*, 348(8075), 39-40.
- Economist* (1990). Rediscovering the Middle of Africa. *Economist*, 317(7684), 71.
- Economist Intelligence Unit (2002). *World Investment Prospects*. (2002 edition). (Economist Intelligence Unit, London, New York, Hong Kong).
- Edmunds, S. and S. Khoury (1996). Exports: A Necessary Ingredient in the Growth of Small Business Firms. *Journal of Small Business Management*, 26(4), 54-65.
- Employment Statistics Unit (1999). *Employment Statistics Report 1999*. (Department of Labour, Ministry of Enterprise and Employment, Mbabane, Swaziland).
- Employment Statistics Unit (1998). *Employment Statistics Report 1998*. (Department of Labour, Ministry of Enterprise and Employment, Mbabane, Swaziland).
- Employment Statistics Unit (1997). *Employment Statistics Report 1997*. (Department of Labour, Ministry of Enterprise and Employment, Mbabane, Swaziland).
- Employment Statistics Unit (1996). *Employment Statistics Report 1996*. (Department of Labour, Ministry of Enterprise and Employment, Mbabane, Swaziland).
- Employment Statistics Unit (1995). *Employment Statistics Report 1995*. (Department of Labour, Ministry of Enterprise and Employment, Mbabane, Swaziland).
- Enterprise Trust Fund (2001). *Annual Report, 31 March 2001*. (Mbabane Swaziland).
- Erramilli, K. M. and C. P. Rao (1993). Service Firms' International Entry-Mode Choice: A modified Transaction-Cost Analysis Approach. *Journal of Marketing*. 57(July), 19-38.
- Fairbairn, Te'o I.J. (1992). *The Role of Small-Scale Industry in Pacific Island Countries with Observations on Papua New Guinea's Recent Experience in Industrial promotion*. (The Centre for Pacific Studies, University of New South Wales, Kensington, Australia).
- Fairbairn, Te'o I.J. (Ed.), (1988). *Island Entrepreneurs: Problems and Performance in the Pacific*. (University of Hawaii Press, Honolulu, Hawaii).
- Fei, John C.H., Gunav Ranis and Shirley W.Y. Kuo (1979). *Growth with Equity: The Taiwan Case*. (Oxford University Press, New York).
- Firm Capability Team (1999). *SMEs in New Zealand: Structures and Dynamics*. Ministry of Commerce, Wellington, New Zealand.
- Fischer, E. (1992). Sex Differences and Small-Business Performance Among Canadian Retailers and Service Providers. *Journal of Small Business and Entrepreneurship*, 9(4), 2-13.

- Fisseha, Yahob (1991). Small-Scale Enterprises in Lesotho: Summary of a Country-wide Survey. GEMINI Technical Report No. 14, March.
- Fisseha, Y. and M.A. McPherson (1991). A Countrywide Study of Small-Scale Enterprises in Swaziland. GEMINI Technical Report No. 24, December.
- Flannery, R. and D. Shapiro (1992). Taiwan: Taipei's Brave New World. *Asian Business*, 28(12), 34-48.
- Foley, Anthony and Brenda Griffith (1992). Indigenous Manufacturing Enterprises in a Peripheral Economy and the Single Market: The Case of the Republic of Ireland. *Regional Studies*, 26(4), 375-386.
- Foroutan, F. and L. Pritchett (1993). Intra Sub-Saharan African Trade: Is it too Little? *Journal of African Economies*, 2, 74-105.
- Freeman, Christopher (1974). *Technology Policy and Economic Performance - Lessons from Japan*. (Pinter Publisher Ltd., London, UK).
- Frese, M. and S. Krauss and C. Friedrich (2000). Microenterprises in Zimbabwe: The Function of Socio demographic Factors, Psychological Strategies, Personal initiative, and Goal Setting for Entrepreneurial Success. In Frese, Michael (ed.). *Success and Failures of Microbusiness Owners in Africa: A Psychological Approach*. (Quorum Books, London): 103-130.
- Friedrich, Christian (2000). Development and Growth of Small-Sale Business in Zimbabwe: a practical View. In Frese, Michael (ed.). *Success and Failures of Microbusiness Owners in Africa: A Psychological Approach*. (Quorum Books, London):131-137
- Galbraith, J. K. (1956). *American Capitalism: The Concept of Countervailing Power*. Revised edition. (Houghton Mifflin, Boston, MA).
- Gallardo, Joselito (1997). Leasing to Support Small Businesses and Microenterprise. World Bank Working Paper No.1857, Washington, D.C.
- Gauthier, Bernard (1996). Small-scale Enterprise Development During Structural Adjustment in Cameroon. *Small Enterprise Development*, 7(2), 42-48.
- Gemunden, H. G. (1991). Success Factors of Export Marketing: A Meta-Physical Critique of the Empirical Studies, in Paliwoda, S. J. (Ed.), *New Perspectives on International Marketing*, (Routledge, London), 33-62.
- Gibbon, Peter (1992). The World Bank and African Poverty, 1973-91. *Journal of Modern African Studies*, 30(2), 193-220.
- Giddens, Anthony (1999). *Runaway World: How Globalisation is Reshaping Our Lives*. (Profile Books, London).

- Good, Kenneth (1992). Interpreting the Exceptionality of Botswana. *Journal of Modern African Studies*, 30(1), 69-95.
- Gray, John (1998). *False Dawn: The Delusions of Global Capitalism*. (Granta Books, London).
- Gray, K., W. Cooley and J. Lutabingwa (1997). Small-scale Manufacturing Firms in Kenya. *Journal of Small Business Management*, 35(1), 66-72.
- Greenwald, Bruce C. and Joseph E. Stiglitz (1986). Externalities in Economies with Imperfect Information and Incomplete Markets. *Quarterly Journal of Economics*, 101 (May), 229-264.
- Grunberg, Isabelle (1998). Double Jeopardy: Globalisation, Liberalisation and the Fiscal Squeeze. *World Development*, 26(4), 591-605.
- Guisnier, Bernard (1994). Regional Variations in New Firm Formation in France. *Regional Studies*, 28(4), 347-358.
- Gujarati, Damodar N. (1995). *Basic Econometrics*. (McGraw-Hill Inc., New York).
- Hagen, E. (1975). *The Economics of Development*. (Richard D. Irwin, New York).
- Haggblade, Steve and Peer Hazell (1989). Agricultural Technology and Farm-Nonfarm Growth Linkages. *Agricultural Economics*, 3(4), 345-364.
- Hailey, John, M. (1988). Fijian Entrepreneurs: Indigenous Business in Fiji. In Fairbairn, Te'o I.J. (Ed.), *Island Entrepreneurs: Problems and Performance in the Pacific*. (University of Hawaii Press, Honolulu, Hawaii), 35-53.
- Hailey, John, M. (1986). *Indigenous Business Development in the Pacific*. Final Report of Regional Workshop, Pacific Island Development Program, East West Center, Honolulu.
- Haines, Lesley (1991). *Small Business is Big Business: A Review of Trends and Policies*. (New Zealand Planning Council, Wellington, New Zealand).
- Hall, C. (1995) APEC and SME Policy – Suggestions for an Action Agenda. Australian APEC Studies Centre Issues Paper, No. 1, Canberra, Australia.
- Hansen, N., K. Gillespie and E. Gencturk (1994). SMEs and Export Involvement: Market Responsiveness, Technology and Alliances. *Journal of Global Marketing*, 7(4) 7-24.
- Haron, Sudin (1996). Lending to Small Business in Australia. *Small Enterprise Research*, 4(1 & 2), 17-26.
- Harper, M. (1985). *Small Business in the Third World*. (John Wiley & Sons, Chichester).

- Hart, Keith (1973). Informal Income Opportunities and Urban Employment in Ghana. *Journal of Modern African Studies*, 11(1), 61-89.
- Harvard, Dani Rodrik (2001). The Scoreboard on Globalisation 1980-2000: Twenty Years of Diminished Progress. Center for Policy Research, Washington, D.C.
- Hester, Susan (1985). Export Trading Companies. A Marketing Vehicle for Small Textile and Apparel Firms. *Journal of Small Business Management*, 23(4), 20-27.
- Hirschman, Albert O. (1958). *The Strategy of Economic Development*. (Yale University Press, New Haven-Connecticut).
- Hirsch, S. and Z. Adar (1974). Firm Size and Export Performance. *World Development*, 2(7), 41-46.
- Holtz-Eakin Douglas (2000). Public Policy Toward Entrepreneurship. *Small Business Economics*, 15(4), 283-291.
- Howard, D. G. and I.M. Herremans (1988). Sources of Assistance for Small Business Exporters: Advice from Successful Firms. *Journal of Small Business Management*, 26(3), 48-54.
- Ibielski, D. (1997). So What About Small Business Productivity? *National Productivity Review*, 17(1), 1-4.
- International Finance Corporation (IFC) (2002). *Review of Small Business Activities*. (World Bank Group, Small and Medium Enterprises Department, Washington, D.C).
- IFC (2000). *Paths out of Poverty: The Role of Private Enterprise in Developing Countries*. (IFC-World Bank Group, Washington, D.C).
- IFC (1998a). Message from the President. (IFC-World Bank Group, Washington, D.C).
- IFC (1998b). *Building The Private Sector in Africa*. IFC-World Bank Group, Washington, D.C).
- IFC (1998c). Improving Lives by Creating Opportunities in Small Business. Available online at: <http://www.ifc.org/sme>.
- IFC (1997). *Annual Report 1997*. (IFC-World Bank Group, Washington, D.C).
- IFC (1992). The Potential for Private Sector Development in Africa: Address by Sir William Ryre at the "Conference on Africa 2000: The road to Recovery", held in London, January 13, 1992. (IFC-World Bank Group, Washington, D.C).
- IFC (1990). *Exporting to Industrial Countries*. Discussion Paper Number 8, Economics Department. (IFC-World Bank Group, Washington, D.C).

- International Fund for Agricultural Development (IFAD)(2001). *Rural Poverty Report 2001. The Challenge of Ending Rural Poverty- Summary*. (Oxford University Press, London, New York).
- ILO (2002). *Documentation of Small Enterprise Policies in Various Countries*. (ILO, Geneva).
- ILO (1999). *Gender Issues in the World of Work: Gender Issues in Microenterprise Development*. (ILO, Geneva).
- ILO (1998). *World Employment Report 1998-9: Employability in the Global Economy: How Training Matters*. (ILO, Geneva).
- ILO (1986). *Promotion of Small and Medium Enterprises*. Report VI of the 72nd Session of the International Labour Conference. (ILO, Geneva).
- ILO (1972). *Employment, Incomes and Equality. A Study for Increasing Productive Employment in Kenya*. Report of an Inter-Agency Team financed by UNDP and organised by the International Labour Conference. (ILO, Geneva).
- International Monetary Fund (IMF) (2001). *International Financial Statistics 2001* (IMF, Washington, D.C).
- International Trade Centre (ITC) (2001). *Trade Secrets series: International Trade Rules - An Answer Book on WTO Agreements for Small and Medium-sized exporters*. (UNCTAD/WTO, Geneva).
- ITC (1994). *Constraint Analysis of Exporting SMEs. The Experience of Selected Countries of the Asia-Pacific region*. (ITC, Geneva).
- Isaac, S. (1982). *Handbook in Research and Evaluation*. (2nd edition). (Edits Publishers, San Diego).
- James, Harold (2001). *The End of Globalisation: Lessons from the Great Depression*. (Harvard University Press, Cambridge, London).
- Johanson, J. and J.E. Vahle (1977). The Internationalisation Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitment. *Journal of International Business Studies*, 8(1), 23-32.
- Johns, B. L., W. C. Dunlop and W. J. Sheehan (1989). *Small Business in Australia: Problems and Prospects*. (Allen & Unwin, Sydney, Australia).
- Journard, Isabelle, C. Liedholm and D.C. Mead (1992). The Impact of Laws and Regulations on Micro and Small Enterprises in Niger and Swaziland. OECD Development Centre Technical Paper No. 77, OECD, Paris.
- JTK Associates (1996). "Review of the Small Scale Enterprise Loan Guarantee Scheme". An unpublished Report submitted to the Ministry of Commerce & Industry, Mbabane Swaziland.

- Kariuki, N. (1995). The Effects of Liberalisation on Access to Bank Credit in Kenya. *Small Enterprise Development*, 6(1): 15-23.
- Kathawala, Y., R. Judd, M. Minipallil, and M. Weinrich (1989). Exporting Practices and Problems of Illinois Firms. *Journal of Small Business Management*, 27(1), 53-59.
- Katsikeas, C. and N. Piercy (1993) Long -Term Export Stimuli and Characteristics in a European LDC. *Journal of International Marketing*, 1 (3), 23-47.
- Katsikeas, Constantine S., Nigel F. Piercy and Chris Ioannidis (1996). Determinants of Export Performance in a European Context. *European Journal of Marketing*, 30(6), 6-35.
- Kaunda M. and K. Miti. (1995) Promotion of Private Enterprise and Citizen Entrepreneurship in Botswana. *Development Southern Africa*, 12(3), 367-377.
- Kaynak, E. (1985). Correlates of Export Performance in Resource-based Industries. In Kaynak, E. (Ed.), *Global Perspectives in Marketing*, (Praeger Publishers, New York), 197-210.
- Kaynak, E. and V. Kothari (1984). Export Behaviour of Small and Medium-sized Manufacturers: Some Policy Guidelines for International Marketers. *Management International Review*, 24 (2), 61-69.
- Kaynak, E. and K.W. Kuan (1993). Environment Strategy, Structure, and Performance in the Context of Export Activity: An Empirical Study of Taiwanese Manufacturers: *Journal of Business Research*, 27 (1), 33-49.
- Keddie, J. and M. Ziyane (1996). Small and Medium Enterprise (SME) Strategy Project. Diagnostic Paper. Unpublished Report, Ministry of Commerce and Industry, Mbabane, Swaziland.
- Kedia, B. and J. Chokkar (1986a). Factors Inhibiting Export Performance of Firms: An Empirical Investigation. *Management International Review*, 26(4), 33-43.
- Kedia, B. and J. Chokkar (1986b). An Empirical Investigation of Export Promotion Programs. *Columbian Journal of World Business*, 21(4), 13-20.
- Keller, Gerald and Brian Warrack (2000). *Statistics for Management and Economics*. (Duxbury Thomson Learning, Boston Johannesburg, London, Melbourne, Singapore, Tokyo, Toronto).
- Keng, Kau Ah and Tan Soo Juan (1989). Differences Between Small and Medium-sized Exporting and Non- Exporting Firms: Nature or Nurture. *International Marketing Review*, 6 (4), 27-40.
- Keyfitz, Nathan and Robert Dorfman (1991). The Market Economy is the Best but Not the Easiest. *Mimeo*.

- Keyser, M., M. de Kruijff, and M. Frese (2000). The Psychological Strategy Process and Socio Demographic Variables and Predictors of Success Factors for Micro – Small Business Owners in Zambia. In Frese, M. (Ed.), *Success and Failures of Micro-business Owners in Africa: A Psychological Approach*. (Quorum Books, London), 31-54.
- Khandker, Shahidur R., Baqui Khalily and Zahed Khan (1995). *Grameen Bank: Performance and Sustainability*. (World Bank, Washington, D.C).
- Kim, Linsu and Jeffrey B. Nugent (1994). The Republic of Korea's Small and Medium Enterprises and Their Support Systems. Policy Research Working Paper, WPS 1404, (World Bank, Washington D.C).
- Kirpalani, V. H. and N. B. MacIntosh (1980). Internal Marketing Effectiveness of Technology-Oriented Small Firms. *Journal of International Business Studies*, 11(Winter), 81-90.
- Klitgaard, Robert (1991). *Adjusting to Reality: Beyond "State versus Market" in Economic Development*. (ICS Press, San Francisco).
- Koh, Anthony C. (1991). Relationships Among Organisational Characteristics, Marketing, Strategy and Export Performance. *International Marketing Review*, 8(3), 46-60.
- Koning, de A. and Jacqueline Snidjers (1992). Policy on Small- and Medium-sized Enterprises in Countries of the European Community. *International Small Business Journal*, 10(3), 25-39.
- Kotabe, M. (1993). The Promotional Roles of the State Government and Japanese Manufacturing Direct Investment in the United States. *Journal of Business Research*, 27, 131-146.
- Kotabe, M. and M. Czinkota (1992). State Government Promotion of Manufacturing Exports: A Gap Analysis. *Journal of Small Business Management*, 23(4), 637-659.
- Kumcu, E., T. Harcar and M. E. Kumcu (1995). Managerial Perceptions of the Adequacy of Export Incentive Programs: Implications for Export-Led Economic Development Policy. *Journal of Business Research*, 32(2), 163-74.
- Kwoka, John E. (Jr) and Lawrence J. White (2001). The New Industrial Organisation and Small Business. *Small Business Economics*, 16, 21-30.
- Lachaud, J.P. (1990). The Urban Informal Sector and the Labour Market in Sub-Saharan Africa. In Tumburn, D., B. Salome, and A. Schwarz (Eds.), *The Informal Sector Revisited*. (OECD, Paris, France), 111-130.
- LaFalce, J. (1990). The Driving Force. *The Entrepreneur*, 18(2), 161-166.
- Lall, S. (1991). Marketing Barriers Facing Developing Country Manufactured Exporters: A Conceptual Note. *Journal of Development Studies*, 27(4), 137-150.

- Lall, S. (1992). Technological Capabilities in Industrialisation. *World Development*, 20(2), 165-86.
- Lall S., and S. Ghosh (1982). The Role of Foreign Investment and Exports in Industrialization. In Jalan, B. (Ed.) *Problems and Policies in Small Economies*. (St Martins Press, NY. USA), 143-163.
- Lang, Eugene (1977). Its the Little Guys Who Need Export Aid. *Journal of Small Business Management*, 15(1), 7-9.
- Lautanen, T. (2000). Modelling Small Firms' Decisions to Export – Evidence from Manufacturing Firms in Finland. *Small Business Economics*, 14(2), 107-124.
- Lee, D. and J. Jang (1998). The Role of Relational Exchange Between Exporters and Importers Evidence from Small and Medium-sized Australian Exporters. *Journal of Small Business Management*, 36(4), 12-23.
- Leonidou, Leonidas (1998). Factors Stimulating Export Business: An Empirical Investigation. *Journal of Applied Business Research*, 14(2), 43-69.
- Levitsky, J. (1997). Credit Guarantee Schemes for SMEs – An International Review. *Small Enterprise Development*, 8(2), 4-14.
- Levitsky, J. (1996). *Support Systems for SMEs in Developing Countries: A Review*. (UNIDO. 2. Vienna, Austria).
- Levitsky, J. (1994). Business Associations in Countries in Transition to Market Economies. *Small Enterprise Development*, 5(3), 24-34.
- Levitsky, J. (1993). *Private Sector Organisations and Support for Micro-enterprises*. In Helmsing, A.H.J. and Theo Kolstee (Eds.), *Small Enterprises and Changing Policies: Structural Adjustment, Financial Policy and Assistance Programmes in Africa*. (IT Publications, London), 318-340.
- Levy, Brian (1996). The Business Environment for Industrial Small and Medium Enterprises, World Bank Discussion Paper No.11, World Bank, (Washington, D.C).
- Levy, Brian (1994). Successful Small and Medium Enterprises and their Support Systems: A Comparative Analysis of Four Country Studies. (World Bank, Washington, D.C).
- Levy, Brian (1993). Obstacles to Developing Indigenous Small and Medium Enterprises: An Empirical Assessment. *The World Bank Economic Review*, 7(1), 65-83.
- Levy, Brian (1991). Obstacles to Developing Small and Medium Enterprises: An Empirical Assessment. World Bank Working Paper No.588, World Bank.
- Levy, Brian, Albert Berry, and Jeffrey B. Nugent (1999). Supporting the Export Activities of Small and Medium Enterprise. In Levy, B., A. Berry, and J.B. Nugent (Eds.),

- Fulfilling the Export Potential of Small and Medium Firms.* (Kluwer Academic Publishers, Boston Massachusetts), 1-30.
- Levy, Brian, A. Berry, M. Itoh, L. Kim, J. Nugent, and S. Urata (1994). Technical and Marketing Systems for Successful Small and Medium-Size Enterprises in Four Countries. Policy Research Working Paper, WPS 1400, World Bank, (Washington, D.C).
- Liedholm, C (2002). Small Firm Dynamics: Evidence from Africa and Latin America. *Small Business Economics*, 18(1-3), 227-242.
- Liedholm, C (1993). Small- and Microenterprise Dynamics and the Evolving Role of Finance. In Helmsing, A.H.J. and Theo Kolstee (Eds.), *Small Enterprises and Changing Policies: Structural Adjustment, Financial Policy and Assistance Programmes in Africa.* (IT Publications, London), 261-273.
- Liedholm, C. and D.C. Mead (1999). *Small Enterprises and Economic Development: The Dynamics of Micro and Small Enterprises.* (Routledge, London and New York).
- Lin, C. Y. (1998). Success Factors of Small- and Medium-sized Enterprises in Taiwan: An Analysis of Cases. *Journal of Small Business Management*, 36(4), 43-56.
- Link, A. N. and B. Bozeman (1991). Innovative Behaviour in Small-sized Firms. *Small Business Economics*, 3(3), 179-84.
- Little, I.M.D. (1987). Small Manufacturing Enterprises in Developing Countries. *The World Bank Economic Review*, 1(2), 203-235.
- Little, Ian M.D., Dipak Mazumdar, and John M. Page (1987). *Small Manufacturing Enterprises in Developing Countries. A Comparative Study of India and Other Countries.* (World Bank, Washington, D.C).
- Litvak, I. A. (1988). Small Business, Competition and Freer Trade: The Canadian-US. Case. *Journal of World Trade*, 22(1), 33-46.
- Lloyd-Reason, L. and T. Mughan (2000). Competing Effectively in International Markets: SMEs and the 'International Web'. In Lloyd-Reason, L. and S. Wall (Eds.), *Dimensions of Competitiveness: Issues and Policies.* (Edward Elgar, Cheltenham, UK), 76-90.
- Louter, P.K., C. Ouwerkerk, and B.A. Bakker (1991). An Inquiry into Successful Exporting. *European Journal of Marketing*, 25(6), 7-23.
- Lulote (1996). *Annual Report.* (Manzini, Swaziland).
- Maarsdorp, G., P. Robson and D. Hudson (1995). "Swaziland in the Southern African Customs Union." A study Commissioned by the Government of Swaziland and financed by the European Development Fund, Capricorn Africa Economic Associates, Mbabane, Swaziland.

- Magagula, P.L. and J. Obben (2001). Distinguishing Between Exporting and Non-Exporting Small and Medium-Sized Enterprises in Swaziland. *Discussion Paper No. 01.12*, Department of Applied and International Economics, Massey University. (Palmerston North, New Zealand).
- Maggina, A.G. (1992). SMEs in Greece: Toward 1992 and Beyond. *Journal of Small Business Management*, 30(3), 87-90.
- Maholtra, K. Naresh (1999). *Marketing Research: An Applied Orientation*. (Prentice Hall International, New Jersey, USA).
- Maleksadeh, Ali R. and Afsaneh Nahavandi (1985). Small Business Exporting: Misconceptions Are Abundant. *American Journal of Small Business*, 9(4), 7-14.
- Mambula, Charles (2002). Perceptions of SME Growth in Nigeria. *Journal of Small Business Management*, 40(1), 58-65.
- Masden, Tage Koed (1987). Empirical Export Performance Studies: A Review of Conceptualisation. *Advances in International Marketing*, 2, 177-198.
- Matsebula, J.S.M (1976). *A History of Swaziland*. (Longman, Cape Town, South Africa).
- Matsebula, M.S. (1996). *The Urban Informal Sector; A Historical and Structural Analysis with Special Reference to Swaziland*. (SAPES Books - Harare, Zimbabwe)
- Matsebula, M.S. (1988). Swaziland's Urban Informal Sector: Its Characteristics, Constraints and Production from an Aggregative Viewpoint. In Tieleman, H.J. (Ed.), *Scenes of Change: Visions on Development in Swaziland*. (African Studies Centre, Leiden The Netherlands), 137-149.
- Matsebula, M.S. (1986). "Characteristics of Swaziland's Urban Informal Sector: Size Proprietors' Profiles and Production Environment". Project Paper No.6, (Department of Economics, University of Swaziland, Kwaluseni, Swaziland).
- Maysami, Ramin C. and Valeri P. Goby (1999). Female Business Owners in Singapore and Elsewhere: A Review of Studies. *Journal of Small Business Management*, 37(2), 97-105.
- McCormick, D. (1998). Enterprise Clusters in Africa: On the Way to Industrialization? Discussion Paper No.366, IDS, Sussex London.
- McGregory, J. and G. Christina Gomes (1999). Technology uptake in Small and Medium-sized Enterprises: Some evidence from New Zealand. *Journal of Small Business Management*, 37(3), 94-102.
- McPherson, M. (1996). Growth of micro and Small Enterprises in southern Africa. *Journal of Development Economics*, 48, 253-77.
- McPherson, M. (1995). The Hazards of Small Firms in Southern Africa. *Journal of Development Studies*, 32(1), 31-54.

- McPherson, M. and C. Liedholm (1996). Determinants of Small and Medium Enterprise Registration: Results from Surveys in Niger and Swaziland. *World Development*, 24 (3), 481-487.
- Mead, D.C. (1994a). The Legal, Regulatory and Tax Framework and Small Enterprises. *Small Enterprise Development*, 5(2), 10-17.
- Mead, D. C. (1994b). The Contribution of Small Enterprises to Employment Growth in Southern and Eastern Africa. *World Development*, 22 (12), 1881-1894.
- Mead, D. and Liedholm C. (1998). The Dynamics of Micro and Small Enterprises in Developing Countries. *World Development*, 26(1), 61-74.
- Meier, R. and M. Pilgrim (1994). Policy Induced Constraints on Small Enterprise Development in Asian Developing Countries. *Small Enterprise Development*, 5(2), 32-38.
- Miesenbock, K.J. (1988). Small Businesses and Exporting: A Literature Review. *International Small Business Journal*, 6(2), 42-61.
- Mikkelsen, Lena (1999). Marketing MSE products – cases from Latin America. *Small Enterprise Development*, 10,(4), 16-26.
- Miller, H. and D. Levin (1993). Microenterprise Development: An Analysis of Kabwe and Lusaka Enterprises in Zambia. *Journal of Small Business Management*, 31(1), 99-104.
- Miller, R.E. and P.E. Blair (1985). *Input-Output Analysis: Foundations and Extensions*, (Prentice Hall, New Jersey).
- Minguzzi Antonio and Renato Passaro (2001). The Network of Relationships Between the Economic Environment and the Entrepreneurial Culture in Small Firms. *Journal of Business Venturing*, 16(2), 181-207.
- Mkhonta, Faith and M. D. Barwa (1999). *The Swazi Informal Sector: A Diagnostic Report*. (ILO/UNDP, Mbabane, Swaziland).
- Mohdi, Salleh (1991). *Promotion of Small-Scale Industries for Rural Industrialisation: the Malaysian Experience*. (Sun U Book Publishers, Kuala Lumpur).
- Moini, A.H. (1998). Small Firms Exporting: How Effective Are Government Export Assistance Programs? *Journal of Small Business Management*, 36(1), 1-15.
- Moini, A.H. (1995). An inquiry into Successful Exporting: An Empirical Investigation Using a Three-Stage Model. *Journal of Small Business Management*, 33(3), 9-25.
- Moini, A.H. (1992a). A Study of Exporting and Non-Exporting Small Manufacturing Firms. *Journal of Business and Entrepreneurship*, 4(3), 77-88.

- Moini, A.H. (1992b). Europe 1992: A Challenge to Small Exporters. *Journal of Small Business Management*, 30(1), 11-20.
- Morales, R. (1994). *Flexible Production*. (Polity Press, Cambridge).
- Mulhern, A. (1995). The SME sector in Europe: A broad perspective. *Journal of Small Business Management*, 33(3), 83-87.
- Mumbengegwi, C. (1993). Structural Adjustment and Small-scale Enterprise Development in Zimbabwe. In Helmsing, A.H.J. and Theo Kolstee (eds.). *Small Enterprises and Changing Policies: Structural Adjustment, Financial Policy and Assistance Programmes in Africa*. (IT Publications, London), 144-158.
- Mwarania, K.M. (1993). Financing Small-scale and Microenterprises in Kenya under conditions of Liberalised Financial Markets. In Helmsing, A.H.J. and Theo Kolstee (eds.). *Small Enterprises and Changing Policies: Structural Adjustment, Financial Policy and Assistance Programmes in Africa*. (IT Publications, London), 214-229.
- Mwase, Ngila (1994). The Southern African Customs Union in a Post-apartheid Southern Africa. *Journal of World Trade*, 28(5), 119-130.
- Nadvi, K. (1997). The Cutting Edge: Collective Efficiency and International Competitiveness in Pakistan. *IDS Discussion Paper No 360*, Sussex, London.
- Nadvi, K. and H. Schmitz (1994). Industrial Clusters in Less Developed Countries: Review of Experiences and Research Agenda. *IDS Discussion Paper No 339*, Sussex, London.
- Nafukho, F. (1998). Entrepreneurial Skills' Development Programs for Unemployed Youth in Africa: A Second Look. *Journal of Small Business Management*, 36(1), 100-103.
- Naidu, G.M. and V.K Prasad (1994). Predictors of Export Strategy and Performance of Small- and Medium-sized Firms. *Journal of Business Research*, 31(2-3), 107-115.
- Naidu, G.M. and T.R. Rao (1993). Public Sector Promotion of Exports: A Needs Based Approach. *Journal of Business Research*, 27(1), 85-101.
- Nasar, S. (1994). Myth: Small Business as Job Engine. *The New York Times*, March 25, C1-C2.
- Ndlovu, Lindani (1996). Constraints to Manufacturing Production. In Ellis, S. (Ed.), *Africa Now: People, Policies and Institutions*. (Ministry of Foreign Affairs, The Hague, The Netherlands), 155-174.
- Nelson, R. R. (1981) Research on Productivity Growth and Productivity Differences: Dead ends or new departures. *Journal of Economic Literature*, 19(3), 1029-1064.

- Netherlands Ministry of Foreign Affairs (Ministerie Van Buitenlandse Zaken Voorlichtingsdienst Onfwikkel (1991). *Small-scale Enterprise*. (Development Cooperation, Ministry of Foreign Affairs, The Netherlands).
- Nicholson, W. (1999). *Microeconomics*. (Dryden Press, Forth Worth, USA).
- North, D., D. Smallbone and I. Vickers (2001). Public Sector Support for Innovating SMEs. *Small Business Economics*, 16, 303-317.
- Ntsika Enterprise Promotion Agency (2000). *The State of Small Business in South Africa*. (Department of Trade and Industry, Pretoria, South Africa).
- Nugent, Jeffrey B. and Mustapha K. Nabli (1992). Development of Financial Markets and the Size Distribution of Manufacturing Establishments: International Comparisons. *World Development*, 20(10), 1489-1499.
- Nugent, Jeffrey B. and Seung-Jae Yhee (2002). Small and Medium Enterprises in Korea: Achievements, Constraints and Policy Issues. *Small Business Economics*, 18(1-3), 85-119.
- Nyiri, I. (1993). An Innovative Approach to Export Financing. *International Trade Forum*, 4, 4-7.
- Ogram, E.W. (1982). Exporters and Non-exporters A Profile of Small Manufacturing Firms in Georgia. In Czinkota, M.K.G. and G. Tesar (Eds.), *Export Management: An International Context*. (Praeger, New York), 70-84.
- Ohmae, Kenechi (1996). *The End of the Nation State: The Rise of the Regional Economies*. (Free Press/Simon and Schuster, New York).
- Ohmae, K. (1995). *The End of the Nation State: The Rise of Regional Economies*. (The Free Press, New York).
- Ohmae, K. (1990). *The Borderless World*. (Harper Business, New York).
- Olson, H.W. and E. Wiedersheim-Paul (1978). "Factors Affecting the Pre-export Behaviour of Non-Exporting Firms." In Ghertman, M.N. and J. Leontiades (Eds.), *European Research in International Business*. (North Holland Publishing Company, New York), 283-305.
- Onkvisit, S. and J.J. Shaw (1993). *International Marketing: Analysis and Strategy*. (McMillan Publishing Company, USA).
- OECD (2000). *OECD Small and Medium Enterprise Outlook*. (OECD, Paris, France).
- OECD (1998a). *Fostering Entrepreneurship*. (OECD, Paris, France).
- OECD (1998b). *Women Entrepreneurs in Small and Medium Enterprises*. (OECD, Paris, France).

- OECD (1998c). *Best Practise Policies for Small and Medium Enterprise*. (OECD, Paris, France).
- OECD (1997a). *Globalisation and Small and Medium Enterprises (SMEs), Synthesis Report*. (OECD, Paris, France).
- OECD (1997b). *Entrepreneurship and SMEs in Transition Economies* (OECD, Paris, France).
- OECD (1993). *New Directions in Donor Assistance to Microenterprises*. OECD, Paris, France).
- O'Rourke, A.D. (1985). Differences in Exporting Practices, Attitudes and Problems by Size of Firm. *American Journal of Small Business*, 9(3), 25-29.
- Paige, K. (1997). Appraisal of the Small Enterprises Development Corporation. Terminal Report, Project US/SWA/95/164, Volume IIb, Mbabane Swaziland.
- Peterson, Rein and Joel Shulman (1987). Entrepreneurs and Bank Lending in Canada. *Journal of Small Business Entrepreneurship*, 5(Fall), 41-45.
- Philp, N.E. (1998). The Export Propensity of the Very Small Enterprise (VSE). *International Small Business Journal*, 16(4), 79-93.
- Pointon, T. (1978). Measuring the Gains from Government Export Promotion. *European Journal of Marketing*, 12(6), 451-462.
- Porter, Michael (1998). *Competitive Advantage: Creating & Sustaining Superior Performance*. (The Free Press, NY, USA).
- Porter, Michael (1996). What is Strategy? *Harvard Business Review*, 74(Nov-Dec), 61-78.
- Porter, Michael (1990). *The Competitive Advantage of Nations*. The Free Press, New York.
- Powers, G. (1999). Wanted: More Small, Fast Growing Firms. *Business and Economic Review*, 45(3), 1-22.
- Prakash, Aseem and Jeffrey Hart (2000). *Coping With Globalisation*. (Routledge, London).
- Prattern, C. (1991). *The Competitiveness of Small Firms*. (Cambridge University Press, Cambridge, UK).
- Pscharopolous, Goerge and Nguyen Xuan Nguyen (1997). The Role of Government and the Private Sector in Fighting Poverty. World Bank Technical Paper No.346. (World Bank, Washington, D.C).

- Public Policy Coordination Unit (PPCU). (1998). *Synopsis of the Task Force Report on Economic Empowerment of Small, Medium and Micro Enterprises*. (Public Policy Coordination Unit, Mbabane, Swaziland).
- Pyke, F. (1992). *Industrial Development Through Small Firm Cooperation - Theory and Practice*. (International Labour Office, Geneva).
- Rabellotti, R. (1995). Is There an "Industrial District Model"? Footwear District in Italy and Mexico Compared. *World Development*, 23(1), 29-41.
- Rabino, Samuel (1980). An Examination of Barriers to Exporting Encountered by Small Manufacturing Companies. *Management International Review*, 20(1), 67-73.
- Ramachandran, K (1993). Promoting Small Enterprises an Interventionist Mechanism. *Small Enterprise Development*, 4(4), 34-41.
- Ramaseshan, B. and G. N. Soutar (1996). Combined Effects of Incentives and Barriers on Firms' Export Decisions. *International Business Review*, 5, 53-65.
- Ramaswami, S. N. and Yoo Yang (1990). Perceived Barriers to Exporting and Export Assistance Requirements. In Cavusgil S. T and M. R Czinkota, *International Perspectives on Trade Promotion and Assistance*. (Quorum Books, Newport), 187-206.
- Rasmussen, J., H. Schmitz and M.P. van Dijk (1992). Introduction: Exploring a New Approach to Small Scale Industry. *IDS Bulletin*, 23(3), 2-7.
- Reid, S. D. (1987). Export Strategies, Structure, and Performance: An Empirical Study of Small Italian Manufacturing Firms. In Rosson, P. J. and S.D. Reid (Eds.), *Managing Export Entry and Expansion: Concepts and Practice*, (Praeger Publishers, New York).
- Reid, S. D. (1986). Is Technology Linked with Export Performance in Small Firms? In Huber, R. (Ed.), *The Art and Science of Innovation Management*, (Elsevier Science Publishers, Amsterdam), 273-283.
- Reid, S.D. (1985). Exporting: Does Sales Volume Make a Difference – Comment. *Journal of International Business Research*, 12(2), 141-158.
- Reid, S.D. (1984). The Information Acquisition and Export Entry Decisions in Small Firms. *Journal of International Business Studies*, 15(1), 153-155.
- Reid, S. D. (1984). Market Expansion and Firm Internationalisation. In Kaynak, E., (Ed.), *International Marketing Management* (Praeger Publishers, New York).
- Reid, S. D. (1983). Firm Internationalisation, Transaction Costs, and Strategic Choice, *International Marketing Review*, 1 (Winter), 44-56.

- Reid, S.D. (1982). The Impact of Size on Export Behaviour in Smaller Firms. In Czinkota M. and G. Tesar, *Export Management: An International Context*. (Praeger, New York), 18-38.
- Reid, S.D. (1981). The Decision Maker and Export Entry and Expansion. *Journal of International Business Studies*, 12(2), 101-112.
- Reinke, J. (1998). How to Lend Like Mad and Make Profit: A Micro-credit Paradigm Versus the Start-Up Fund in South Africa. *Journal of Development Studies*, 34(3), 44-61.
- Robbins, Keith D., Lous J. Pantuosco, Darrel F. Parker, and Barbara K. Fuller (2000). An Empirical Assessment of the Contribution of Small Business Employment to U.S. State Economic Performance. *Small Business Economics*, 15(4), 293-302.
- Robinson, E.A.G. (1960). *The Economic Consequences of the Size of Nations*. (Macmillan, London).
- Rodder, Laetitia (1995). The Marketing Practices of Independent Fashion Retailers: Evidence from South Africa. *Journal of Small Business Management*, 34(1), 78-84.
- Rogers, Everett M. (1962). *Diffusion of Innovations*. (The Free Press, New York).
- Rogerson, Christian M. (2000). Successful SMEs in South Africa: the case of clothing producers in the Witwatersrand. *Development Southern Africa*, 17(5), 687-717.
- Rondinelli, D. A and J. Karsada (1992). Foreign Trade Potential, Small Enterprise Development and Job Creation in Developing Countries. *Small Business Economics*, 4(4), 253 -265.
- Root, F. R. (1971). The Elements of Export Promotion. *International Trade Forum*, 3(3), 1114.
- Rothwell, R. (1989). Small Firms, Innovation and Industrial Change. *Small Business Economics*, 1(1), 51-64.
- Rugman, Alan M. (2001). *The End of Globalisation*. (AMACOM, New York).
- Sagari, S. and G. Guidotti (1992). Venture Capital: Lessons from the Developed World for the Developing Markets. Discussion Paper No.13. (IFC, Washington, D.C).
- Samiee, Saeed., and Peter G. Walters (1991). Segmenting Corporate Export Activity: Sporadic Versus Regular Exporters. *Journal of Academy of Marketing Science*, 19(2), 93-104.
- Samiee, S. and P.G.P. Walters (1990). Influence of Firm size on export planning and performance. *Journal of Business Research*, 20, 235-248.

- Samuelson, Paul A., and William D. Nordhaus (2001). *Economics*, (17th ed.), (McGraw-Hill, Boston).
- Scherer F.M (1991). Changing Perspectives on the Firm Size Problem. In Acs, Z. and D. Audretsch (Eds.), *Innovation and Technological Change: An International Comparison*. (University of Michigan Press, Ann Arbor USA), 24-38.
- Schiffer, Mirjam and Beatrice Weder (2001). *Firm Size and the Business Environment: World Wide survey Results*. IFC Discussion Paper 43, (World Bank, Washington, D.C).
- Schmitz, H. (1995). Collective Efficiency: Growth Path for Small-Scale Industry. *Journal of Development Studies*, 31(4), 529-566.
- Schmitz, H. and B. Musyck. (1993). Industrial Districts in Europe: Policy Lessons for Developing Countries? IDS, Discussion paper No. 324, Sussex, London.
- Scholtens, Bert (1999). Analytical Issues in External Financing for SBEs. *Small Business Economics*, 12(2), 137-148.
- Schumacher, Ernst Friedrich (1999). *Small is Beautiful. Economics as if People Mattered. 25 years later with commentaries*. (Hartley and Marks, Vancouver).
- Schumacher, Ernst Friedrich (1973). *Small is Beautiful*. (Harper and Row, New York).
- Schumpeter, Joseph A. (1950). *Capitalism, Socialism, and Democracy*. (Allen & Unwin, London).
- Schumpeter, Joseph A. (1934). *The Theory of Economic Development*. Harvard University Press, Massachusetts.
- Scott, M.G., A.A. Gibb, T. Faulkener, and J. Lewis (Eds.), *Small Firms Growth and Development*. (Gower, Aldershot).
- Sengupta, J. K. and J. Espana (1994). Exports and Economic Growth in Asian NICs: An Econometric Analysis for Korea. *Applied Economics*, 26(1), 41-51.
- Seringhaus, Rolf F. H. (1993). Comparative Marketing Behaviour of Canadian and Austrian High-Tech Exporters. *Management International Review*, 33(3), 247-269.
- Seringhaus, Rolf F. H. (1991). Export Knowledge and its Role in Strategy and Performance. *The Finnish Journal of Business Economics*, 40 (1), 3-21.
- Seringhaus, Rolf F. H (1988a). Export Knowledge, Strategy and Performance. In: Bahn, Kenneth D. (Ed.), *Developments in Marketing Science*, Vol. XI. (The Academy of Marketing Science, Montreal), 97-101.

- Seringhaus, Rolf F. H (1988b). The Relationship of Knowledge and Firm Behaviour in Exporting: Test of a Conceptual Model. Working Paper Series No. 588, School of Business and Economics, Wilfred Laurier University, Waterloo.
- Seringhaus, Rolf F. H (1987). The Use of Trade Missions in Foreign Market Entry on Industrial Firms. *Industrial Marketing & Purchasing*, 2(1), 43-60.
- Seringhaus, Rolf H. (1986). The Role of Information Assistance in Small Firms' Export Involvement. *International Small Business Journal*, 5(2), 26-36.
- Seringhaus, Rolf F. H and Charles Mayer (1988). Different Approaches to Foreign Market Entry Between Users and Non-Users of Trade Missions. *European Journal of Marketing*, 22(10), 7-18.
- Seringhaus, Rolf F. H and Guenther Botschen (1991). Cross-National Comparison of Export Promotion Services: The Views of Canadian and Austrian Companies. *Journal of International Business Studies*, 22(1), 115-133.
- Seringhaus, Rolf H. and Philip Rossson (1991). *Export Development and Promotion: The Role of Public Organizations*. Kluwer Academic Publishers, Massachusetts, USA.
- Seringhaus, Rolf H. and Philip Rossson (1990). *Government Export Promotion: A Global Perspective*. (Routledge, London).
- Sharkey, T.W., J.S. Lim, and K.I. Kim (1989). Export Development and Perceived Export Barriers: An Empirical Analysis of Small Firms. *Management International Review*, 9(2), 33-40.
- Shinohara, Miyohei (1968). A Survey of the Japanese Literature on Small Industry. In Bert F. Hoselitz (Ed.), *The Role of Small Industry in the Process of Economic Growth*. (The Hague, Mouton), 1-113.
- Simpson, Claude L. and Duane Kujawa (1974). The Export Decision Process: An Empirical Enquiry. *Journal of International Business Studies*, 5(1), 107-117.
- Singh, S.P., R.G. Reynolds, and S. Muhammed (2001). A Gender-Based Performance of Micro and Small Enterprises in Java, Indonesia. *Journal of Small Business Management*, 39(2), 174-182.
- Singh, A. and B. Weisse (1998). Emerging Stock Markets, Portfolio Capital Flows and Long Term Economic Growth: Micro and Macroeconomic Perspectives. *World Development*, 26(4), 1607-622.
- Small Enterprise Development Company (SEDCO) (2001). *Annual Report 2000-2001*. (SEDCO, Mbabane Swaziland).
- SEDCO (2000). *Sidwashini Estate - 2000 Product Catalogue*. (SEDCO, Mbabane Swaziland).
- SEDCO (1981). *Annual Report*. (SEDCO, Mbabane Swaziland).

- Smith, A. L. (1997). Competing in the US. *Business Quarterly*, 61(4), 13-14.
- Smith, A. L. (1976)[1776]. "Of the Division of Labour". In Acs, Z. B. (Ed.), *Small Firms and Economic Growth*. Vol. I. (Edward Elgar Publishing Company, USA), 3-14.
- Solomon, S. (1986). *Small Business U.S.A.: The Role of Small Companies in Sparking America's Economic Transformation*. (Crown Publishers Inc., New York).
- South African Government (1996). National Small Business Act No. 102 of 1996. (President's Office, Cape Town, South Africa).
- South African Government (1995). White Paper on National Strategy for the Development and Promotion of Small Business in South Africa. (Department of Trade and Industry, Cape Town, South Africa).
- Späth, Brigitte (1993). Small Firms and Development in Latin America: Prospects for Economic and Socially Viable Development? In Späth, Brigitte (Ed.), *Small Firms and Development in Latin America: The Role of Institutional Environment, Human Resources and industrial relations*. (International Institute for Labour Studies - ILO, Geneva), 1-38.
- Sreenivisan, P.B. (1987). The Need for Development of New Strategies in Marketing Bank Services in India. *International Journal of Marketing*, 5(2), 47-53.
- Srinivisan, T.N. (1986). The Costs and Benefits of Being a Small, Remote, Island, Landlocked or Ministate Economy. *World Bank Research Observer*, 1(2), 205-218.
- Steel, William F. (1994). Changing the Institutional and Policy Environment for Small Enterprise Development in Africa. *Small Enterprise Development*, 5(2), 4-9.
- Stiglitz, Joseph (2002). *Globalisation and its Discontents*. (Norton, New York).
- Stiglitz, Joseph (1989). Markets, Market Failures and Development. *American Economic Review*, 79(2), 197-203.
- Stiglitz, J. and A. Weiss (1981). Credit Rationing in markets with imperfect information. *American Economic Review*, 71(3), 393-410.
- Storey, David (1997). The Role of Micro Credit in Economies in Transition. In OECD, *Entrepreneurship and SMEs in Transition Economies* (OECD, Paris, France), 175-181.
- Storey, D. J. (1994). *Understanding the Small Business Sector*. (Routledge, London).
- Storey, D. J. (1993). Should We Abandon Support to Start-Up Businesses? In Chittenden, Francis, Martyn Robertson and David Watkins (Eds.), *Small Firms: Recession and Recovery*. (Paul Chapman Publishing Ltd., London), 15-26.

- Strange, Susan (1998). *Mad Money*. (Manchester University Press, Manchester).
- Strange, Susan (1996). *The Retreat of the State*. (Cambridge University Press, Cambridge).
- Streeten, Paul (1993). The Special problems of Small Countries. *World Development*, 21(2), 197-202.
- Swazi Bank (1999). *Annual Report and Audited Financial Statements*. (Mbabane, Swaziland).
- Swazi Bank (1998). *Annual Report and Audited Financial Statements*. (Mbabane, Swaziland).
- Swazi Bank (1996). *Annual Report and Audited Financial Statements*. (Mbabane, Swaziland).
- Swaziland College of Technology (SCOT) (2000). *Annual Report*. (SCOT, Mbabane, Swaziland).
- Swaziland Government (2002). *Budget Speech 2002*. (Ministry of Finance, Mbabane, Swaziland).
- Swaziland Government (2001). *Budget Speech 2001*. (Ministry of Finance, Mbabane, Swaziland).
- Swaziland Government (2000a). *Development Plan 2000/01 – 2002/03*. (Economic Planning Office, Ministry of Economic Planning and Development, Mbabane, Swaziland).
- Swaziland Government (2000b). *Swaziland: A Review of Industry, Commerce, and Tourism*. (Swaziland Review of Commerce and Industry (PTY) LTD, Mbabane, Swaziland).
- Swaziland Government (1999a). The ESRA II Policy Statement by The Right Honourable Prime Minister, Dr. B. Sibusiso Dlamini. (Government of The Kingdom of Swaziland, Mbabane, Swaziland).
- Swaziland Government (1998). *Development Plan 1998/99 – 2000/01*. (Economic Planning Office, Ministry of Economic Planning and Development, Mbabane, Swaziland).
- Swaziland Government (1997a). *National Development Strategy – Background Document*. (Ministry of Economic Planning and Development, Mbabane, Swaziland).
- Swaziland Government (1997b). *Swaziland: Poverty Assessment by the Poor. A Report on Participatory Poverty Assessment*. (Ministry of Economic Planning and Development, Mbabane, Swaziland).

- Swaziland Government (1996). *Development Plan 1996/97 – 1998/99*. (Economic Planning Office, Ministry of Economic Planning and Development, Mbabane, Swaziland).
- Swaziland Government (1990). *Development Plan 1990/91 – 1992/93*. (Economic Planning Office, Ministry of Economic Planning and Development, Mbabane, Swaziland).
- Swaziland Investment Authority (SIPA) (2000). *Swaziland: The Right Choice - A Guide to Investing in Swaziland* (Swaziland Investment Authority, Mbabane, Swaziland).
- Swaziland National Aids Programme (SNAP) (2000). *The 7th HIV Sentinel Serosurveillance Report*. (SNAP, Mbabane Swaziland).
- Swazi MTN (2002). *June News Letter*. (MTN, Mbabane, Swaziland).
- Swaziland National Aids Programme (SNAP) (1998). *HIV Prevalence Among Inpatients Report*. (SNAP, Mbabane Swaziland).
- Tabachnick, Barbara and Linda Fidell (1989). *Using Multivariate Statistics*. (Harper Collins Publishers Inc., New York, USA).
- Tambunan, Tulus (2000). The Performance of Small Enterprises during Economic Crisis: Evidence From Indonesia. *Journal of Small Business Management*, 38(4), 93-101.
- Tendler J. (1988). Providing Credit to Small Firms Through Private Voluntary Organizations: UNO in Recife, Brazil. In Rondinelli, D.A and G.S. Cheema (Eds.), *Urban Services in Developing Countries: Public and Private Roles in Urban Development*. (Macmillan, London), 195-242.
- Theocharides, S. and Tolentino, A. (1998). Strengthening Existing Small Enterprises. ILO, Small Enterprise Development Working Paper - SED 21/E.
- Thurik, R. (1994). Small Firms, Entrepreneurship and Economic Growth. In Acs, Z., B. Carlsson and R. Thurik. *Small Business in the Modern Economy*. (Blackwell Publishers, USA), 126-150.
- Tomesen, Leon and Alan Gibson (1999). AMKA, Tanzania – Export Market Development Services for MSEs. *Small Enterprise Development*, 10(4), 46-55.
- Tomlinson, John (1999). *Globalisation and Culture*. (Polity Press, Cambridge).
- Tookey, D. A. (1964). Factors Associated with Success in Exporting. *Journal of Management Studies*, 1(March), 48-66.
- Trade Promotion Unit (TPU) (1999). *Swaziland Directory of Exports and Exporters 1998/9*. (Ministry of Foreign Affairs and Trade, Mbabane Swaziland).

- Trade Promotion Unit (TPU) (1990). *Made in Swaziland: A Directory of Swaziland Exports and Exporters*. (Ministry of Commerce, Industry and Tourism, Mbabane Swaziland).
- Turnbull, P. W. and M. L. Gibbs (1987). Marketing Bank Services to Corporate Customers: The Importance of Relationships. *International Journal of Bank Marketing*, 5(1), 19-26.
- United Nations (1993). *Small and Medium-sized Transnational Corporations*. (United Nations, New York).
- UNCTAD (2000a). *Development Strategies and Support Services for SMEs: Proceedings of Four Governmental Expert Meetings. Volume I*. (United Nations, Geneva).
- UNCTAD (2000b). *Development Strategies and Support Services for SMEs: Proceedings of Four Governmental Expert Meetings. Volume II*. (United Nations, Geneva).
- UNCTAD (2000c). *TNC-SME Linkages for Development: Issues-experiences-best practises*. (United Nations, Geneva).
- UNCTAD (1998a). *Handbook on Foreign Direct Investment by Small and Medium-sized Enterprises, Lessons from Asia*. (United Nations, Geneva).
- UNCTAD (1998b). *The Implications of the Post Uruguay Round Economic Environment for Enterprise Development, Including Policy Issues Relevant to Inter-Firm Cooperation, Clustering and Networking*. GE.98-52750. (United Nations, Geneva).
- UNCTAD (1997a). *Report of the Expert Meeting on Government and Private Sector Roles and Interactions in SME Development held in Palais des Nations, Geneva, 23-25 1997*. GE.97-51652. (United Nations, Geneva).
- UNCTAD (1997b). *Enterprise: Issues Relating to an Enterprise Development Strategy* (United Nations, Geneva). Available on-line at: <http://www.unctad.org>.
- UNCTAD (1996a). *The Changing Nature of Enterprises and Competition and the Implications for the Formulation of an Enterprises Development Strategy*. Issues Paper TB/B/Com.3/2.
- UNCTAD (1996b). *Foreign Direct Investment, Trade, and Migration*. (United Nations, Geneva).
- UNCTAD (1995a). *The Role of Small- and Medium-sized Enterprises in Export Development*. (United Nations, Geneva).
- UNCTAD (1995b). *Expansion of Trading Opportunities to the Year 2000 for Asia-Pacific Developing Countries: National Strategies and Institutional Frameworks for Export Expansion*. (United Nations, Geneva).

- UNCTAD(1995c). *Creating and Enabling Environment for the Development of Enterprises, Particularly Small and Medium Enterprises.* (United Nations, Geneva).
- UNCTAD (1994a). *Technological Dynamism in Industrial Districts: An Alternative Approach to Industrialization in Developing Countries?* (United Nations, Geneva).
- UNCTAD (1994b). *Securing Growth and Development.* (United Nations, Geneva).
- UNDP (2000). *Human Development Report, 2000.* (New York, USA).
- UNDP (1997). *Human Development Report, 1997.* (New York, USA).
- UNDP (1991). *Human Development Report, 1991.* (Oxford University Press, New York).
- UNDP (1990). *Human Development Report, 1990.* (Oxford University Press, New York).
- UNDP (1988). *Development of rural Small industrial Development Enterprises. Lessons from experience.* Joint Study by UNDP Government of Netherlands/ILO, UNIDO, Vienna.
- UNIFEM (2000). *Eradicating Feminised Poverty.* Available on-line at: <http://www.unifem.org>.
- Ursic, Michael L. and Michael R. Czinkota (1981). An Experience Curve Explanation of Export Expansion. *Journal of Business Research*, 12(2), 159-168.
- van Dijk, M. P. (1992). How Relevant is Flexible Specialization in Burkina Faso's Informal Sector and Formal Manufacturing Sector? *IDS Bulletin*, 23(3), 45-50.
- van Steekelenburg G., A. M. Lauw, M. Frese, and K. Visser (2000). Problems and Coping, Strategies and Initiative in Micro-business Owners in South Africa. In Frese, Michael (Ed.), *Success and Failures of Micro-business Owners in Africa: A Psychological Approach.* (Quorum Books, London), 77-100.
- van Diermen, Peter (1997). *Small Business in Indonesia.* (Ashgate, Sydney, Australia).
- Wagner, Joachim (2001). A note on the Firm Size – Export Relationship. *Small Business Economics*, 17, (4), 229-237.
- Walters, P.G.P (1983). Export Information Sources – A Study of their Usage and Utility. *International Marketing Review*, 1(2), 34-43.
- Weaver, James, Michael Rock, and Kenneth Kusterer (1997). *Achieving Broad Based Sustainable Development.* (Kumarian Press, Inc., Connecticut).
- Weaver, K. Mark; David Berkowitz and Les Davies. (1998). Increasing the efficiency of national export programs: The Case of Norwegian Exporters. *Journal of Small Business Management*, 36(4), 1-11.

- Weaver, K. Mark and Jongmoo Pak (1990). Export Behaviour and Attitudes of Small-and Medium-sized Korean Manufacturing Firms. *International Small Business Journal*, (8)4, 59-70.
- Webster, Leila and Joshua Charap (1994). Private Small Manufacturers in St. Petersburg. *Small Enterprise Development*, 5(3), 4-12.
- Webster, Leila, Randall Riopelle and Anne-Marie Chidzero (1996). *World Bank Lending for Small Enterprises 1989-1993*. World Bank Technical Paper No.311. (World Bank, Washington, D.C).
- Welch, Lawrence S., and Finn Wiedersheim-Paul (1978). Domestic Expansion and the Internationalisation Process. Working Paper No.2, Uppsala, Sweden Center for International Business Studies, University of Uppsala).
- Westhead, Paul (1995). Exporting and Non-Exporting Small Firms in Great Britain. *International Journal of Entrepreneurial Behaviour and Research*, 1(2), 6-36.
- Wiboonchutikula, Paitoon (2002). Small and Medium Enterprises in Thailand: Recent Trends. *Small Business Economics*, 18(1-3), 213-226.
- Wiedersheim-Paul, Finn, Hans C. Olson, and Lawrence S. Welch (1978). Pre-Export Activity: The First step in Internationalisation. *Journal of International Business Studies*, 9(Spring/Summer), 47-58.
- Wijewardena, H. and S. Cooray (1995). Determinants of Growth in Small Japanese Manufacturing Firms: Survey Evidence from Kobe. *Journal of Small Business Management*, 33(4): 87-92.
- Wignaraja, Ganeshan (2002). Firm Size, Technological Capabilities and Market Oriented Policies in Mauritius. In Katrak, Homi and Roger Strange (Eds.), *Small-scale Enterprises in Developing Countries and transition economies*. (Palgrave, New York), 255-284.
- Wilson, Steven R., Robert Balance and János Póány (1995). *Beyond Quality: An Agenda for Improving Manufacturing Capabilities in Developing Countries*. (UNIDO/Edward Elgar, England).
- Wood, W. C. (1999). Benefit Measurement for Small Business Assistance: A Further Note on Research and Data Collection. *Journal of Small Business Management*, 37(1), 75-78.
- Wood, W. C. (1994). Primary Benefits Secondary Benefits and the Evaluation of Small Business Assistance Programs. *Journal of Small Business Management*, 32(3), 65-75.
- World Bank (2002a). Small and Medium-scale Enterprise Department. Available on-line at: <http://www.ifc.org/sme>.

- World Bank (2002b). Global Development Network Growth Database. Available on-line at: <http://www.worldbank.org/research/growth/GDNdata.htm>.
- World Bank (2000). *Swaziland: Reducing Poverty Through Shared Growth-Poverty Policy Study Overview Report*. (Human Development Group, Eastern and Southern Africa Department, Washington, D.C).
- World Bank (1999a). *Private Sector Development: Overview*. (World Bank, Washington, D.C).
- World Bank (1999b). *Small and Medium-scale Enterprise Development*. Available on-line at: <http://www.ifc.org/sme>.
- World Bank (1998). *World Development Report 1998/99: Knowledge for Development*. (Washington, D.C).
- World Bank (1996). *Swaziland: Financial Sector Study*. (Southern Africa Department-World Bank, Washington, D.C).
- World Bank (1994). *Industrial Structures and the Development of Small and Medium Enterprise Linkages: Examples from East Asia*. (World Bank, EDI Series, Washington, D.C).
- World Bank (1993). *Sustaining Development in East Asia and the Pacific*. (The World Bank, Washington, D.C).
- World Bank (1992a). *Trade Policy Reforms Under Adjustment Programs*. (The World Bank, Washington, D.C).
- World Bank (1992b). *World Development Report 1992*. (Oxford University Press, New York).
- World Bank (1991). *World Development Report 1991: The Challenge of Development*. (The World Bank, Washington, D.C).
- World Bank (1989a). *Sub-Saharan Africa: From Crisis to Sustainable Growth. A Long - Term Perspectives Study*. (The World Bank, Washington, D.C).
- World Bank (1989b). *Women in Development: Issues for Economic and Sector Analysis*, World Bank Paper, No.269, (The World Bank, Washington, D.C).
- World Bank (1989c). *Developing the Private Sector: A Challenge for the World Bank Group*. (The World Bank, Washington, D.C).
- World Bank (1988). *Education in Sub-Saharan Africa: Policies for Adjustment, Revitalisation and Expansion*. (The World Bank, Washington, D.C).
- World Bank (1987). *Sub-Saharan Africa Long-Term Perspectives Study: An Issues Paper*. (The World Bank, Washington, D.C).

- Wynarczyk, P., R. Watson, D. J. Storey, H. Short, and K. Keasey (1993). *The Managerial Labour Market in Small and Medium-sized Enterprises*. (Routledge, London).
- Yang, Yoo S., Robert P. Leon and Dana L. Alden (1992). A Market Expansion Ability Approach to Identify Potential Exporters. *Journal of Marketing*, 56(January), 84-96.
- Yaprak, Attila (1985) An Empirical Study of the Differences Between Small Exporting and Non-Exporting U.S. Firms. *International Marketing Review*, 2(2), 72-83.
- Yildirim, Sule (2000). Export Promotion Policies in Turkey. In UNCTAD, *Development Strategies and Support Services for SMEs: Proceedings of Four Governmental Expert Meetings. Volume II*. (United Nations, Geneva), 69-74.
- Young, R. C. (1993). Policy Biases, Small Enterprise and Development. *Small Enterprise Development*, 4(1), 4-15.
- Yu, J. and H. Cooper (1983). A Quantitative Review of Research Design Effects on Response Rates to Questionnaires. *Journal of Marketing*, 39(February), 36-44.
- Yunus, Muhammad (2002). Grameen Bank at a Glance. *Grameen Dialogue*, 51(July). Available on-line at: <http://www.grameen-info.org>.
- Yusuf, A. (1995). Critical Success Factors for Small Business: Perceptions of South Pacific Entrepreneurs. *Journal of Small Business Management*, 33(2), 68-73.

APPENDIX 4.1
EXPORT PROMOTION AND THE PARTICIPATION OF SMEs IN THE
EXPORT SECTOR IN SWAZILAND

Dear Executive:

The Economics Department at the University of Swaziland is conducting a survey on export promotion activities in Swaziland. This study is aimed at, amongst other things, understanding the extent of the participation of small and medium-sized enterprises (SMEs) in the export sector and how export promotion activities in Swaziland can be enhanced, in order to help all (small and large) firms improve their exports. The objectives of the research are:

- ❖ To establish the degree of participation of SMEs in the export sector and to generate an understanding of the dynamics of exporting among small, medium, and large firms;
- ❖ To identify the strengths and weaknesses of SMEs and areas of potential export growth of SMEs;
- ❖ To develop a systematic approach to the promotion of exports by SMEs;
- ❖ To develop guidelines that will enable the Trade Promotion Unit of the Ministry of Foreign Affairs and Trade to select appropriate promotion measures for companies at different levels of export involvement.

Your participation in this survey is greatly appreciated and it will go a long way towards informing government on how to establish an effective, consistent, coherent and clearly enunciated export policy. **WE NEED YOUR INPUT WHETHER OR NOT YOU ARE CURRENTLY EXPORTING.** Upon request, our survey results will be made available to your company. Please note that the questionnaire does not require disclosure of any proprietary information concerning the product or your company. Nevertheless, you have our assurance that your responses will be kept strictly confidential and that your firm's name will **NOT** appear in any tabulation of results of this research project.

With your help we will be able to develop a sound export promotion policy for Swaziland. It will help to improve the nation's trade balance and of course, consequently, the Swazi economy.

After completing the questionnaire, please return it to the address below in the attached envelope. It would be greatly appreciated if you could return it as soon as possible. If you have any questions about the survey or problems interpreting the questionnaire, please call Ms. Phumzile Magagula at the numbers listed below.

Thank you very much, in advance, for your help in this important survey.

Ms. Phumzile Magagula (Research Co-coordinator)
Department of Economics
University of Swaziland
KWALUSENI
SWAZILAND
Tel: 51-84011/84545 Fax: 51-85276
Email: plmagagu@yahoo.com

Survey on Export Promotion and the Participation of SMEs in the Export sector in Swaziland.

(Please tell us about the history of your company...)

1. Please list your company's major products and/or services and the year in which they were introduced.

Product(s) name	Year introduced
(a)	
(b)	
(c)	
(d)	
(e)	
(f) Other(s)	

2. Please specify the current ownership structure of your firm. *(please tick as many as appropriate)*

- Independently owned and operated/Family Business
 Division of a larger firm
 Wholly owned subsidiary of a local parent firm
 Wholly owned subsidiary of a parent firm abroad
 Partly owned subsidiary of a local parent firm
 Member of a joint venture with local firm
 Member of a joint venture with a firm abroad

3. In which year was your firm established (e.g., 1990)? _____

4. Including yourself, what was the number of employees when the firm was established?

_____ Total _____ Females

5. Approximately what were your total sales in your first year of establishment?

- Less than E100 thousand E 100 – E499 thousand
 E500 thousand to less than E1 million E 1 m to less than E 10million
 E10m to less than E50 million E50m to less than 100million
 E100m to less than E200million Over E200 million

6. In which year did you first commence international activity (Importing, Exporting, etc)?

_____ Exporting _____ Importing

7. Has your firm ever systematically explored the possibility of exporting any of your products?

No Yes

8. Has your firm ever been actively involved in exporting in the past?

No Yes

9. Does your firm presently export any of its products? Yes No

10. Please indicate the highest level of education of the owner (or most senior person) in the firm?

- Less than high school High school certificate
 Some post-school certificate College certificate
 University first degree Post graduate degree

11. Please indicate the age group of the owner of the firm?

- Under 24 years old 25 – 34 years
 35 – 44 years 45 – 54 years
 55 – 64 years 65 and over

12. Please indicate the degree of knowledge of the following languages by the person responsible for export decisions in your firm. (If not exporting, indicate the degree of knowledge by you or someone in your firm).

	Not at all	Poor	Fair	Good	Excellent
Siswati	[]	[]	[]	[]	[]
English	[]	[]	[]	[]	[]
Afrikaans	[]	[]	[]	[]	[]
Portuguese	[]	[]	[]	[]	[]
French	[]	[]	[]	[]	[]
Other (please specify)	[]	[]	[]	[]	[] _____

13. Compared to domestic sales, do you feel profits, risks, and costs of exporting are (or you would expect to be if you were to get into exporting):

	Much less	Less	About the same	More	Much more
Profits	[]	[]	[]	[]	[]
Risks	[]	[]	[]	[]	[]
Costs	[]	[]	[]	[]	[]

14. If you are exporting, what was your view of the profits, risks, and costs of selling your product overseas as opposed to selling your product in the Swazi market, before you began exporting?

	Much less	Less	About the same	More	Much more
Profits	[]	[]	[]	[]	[]
Risks	[]	[]	[]	[]	[]
Costs	[]	[]	[]	[]	[]

15. Please list three factors that are crucial for your success in the export market? (If not exporting please list three factors that you think are crucial for your firm to enter and succeed in the export business).

16. Please indicate the approximate values of the following in the last three years:

Year	Number of Employees		Sales turnover		Inputs	
	Total	% Females	Total Value (E)	Exports %	Total Value (E)	Imports %
1999						
1998						
1997						

17. Please indicate the extent to which you agree or disagree with the following statement:

	Not Applicable	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
(a) The Swaziland government has been very helpful to all firms	0	1	2	3	4	5
(b) The Trade Promotion Unit has been helpful to all firms involved in exporting	0	1	2	3	4	5

18. What percentage of the invested capital in your enterprise comes from:

(a) Your own funds?	_____ %
(b) loans?	_____ %
(c) equity share)	_____ %

19. Of your current loans, what percentage comes from:
- | | | | |
|---------------------------------------|---------|-----------------------------|---------|
| (a) Private banks | _____ % | (b) Development bank | _____ % |
| (c) Enterprise Trust Fund | _____ % | (d) Informal money lenders? | _____ % |
| (e) Loans from friends and relatives? | _____ % | | |
| (f) Other sources (specify) | _____ % | | |

20. Have you ever failed to obtain credit? Yes No (if no go to question 23).

21. If yes, what was it required for?

- | | |
|--|---|
| <input type="checkbox"/> Working capital | <input type="checkbox"/> Investment |
| <input type="checkbox"/> Export finance | <input type="checkbox"/> Other(specify) _____ |

22. Whom did you approach for the loan? _____

23(a). Have you used any of the government business assistance programs (e.g., finance, TPU, etc)?

Yes - (specify which ones) _____

No - (specify why not) _____

23(b). Please indicate whether you have used any of the following assistance programs related to SMEs development:

<i>Service or Assistance Program</i>	Aware	Aware & Used	Not Aware
SEDCO Business Advisory/Counselling Programs			
MEE Business Information Radio Programs			
Enterprise Trust fund			
Small Credit Loan Guarantee Scheme			
Export Credit Guarantee Scheme			
Annual Domestic Trade Fair Show			
Overseas Trade Fairs			
Trade Attaches			
Other			

23(c). Please indicate how much benefit you received if you used any of the listed assistance Programs:

	No Benefit					Extremely Beneficial
	1	2	3	4	5	
SEDCO Business Advisory/Counselling Programs	1	2	3	4	5	
MEE Business Information Radio Programs	1	2	3	4	5	
Enterprise Trust fund	1	2	3	4	5	
Small Credit Loan Guarantee Scheme	1	2	3	4	5	
Export Credit Guarantee Scheme	1	2	3	4	5	
Annual Domestic Trade Fair Show	1	2	3	4	5	
Overseas Trade Fairs	1	2	3	4	5	
Trade Attaches	1	2	3	4	5	
Other (Specify)	1	2	3	4	5	

24. Does your firm belong to any Association (e.g., chamber of commerce, ASBC, FSE, SEDCO etc).

No (please specify the reason) _____

Yes (which one and what are the benefits)? _____

25. What are your major sources of information?

- | | |
|--|--|
| <input type="checkbox"/> social occasions | <input type="checkbox"/> export agents |
| <input type="checkbox"/> exhibition fairs | <input type="checkbox"/> specialized publication(s) |
| <input type="checkbox"/> visits to other enterprises | <input type="checkbox"/> consultants from Swaziland |
| <input type="checkbox"/> consultants from South Africa | <input type="checkbox"/> consultants from outside the region |
| <input type="checkbox"/> government officials and publications | <input type="checkbox"/> other specify _____ |

26. How often does your firm send someone outside Swaziland on business related activities?

- | | |
|--|---|
| <input type="checkbox"/> Never | <input type="checkbox"/> About 1 to 2 times a year |
| <input type="checkbox"/> About 3 to 5 times a year | <input type="checkbox"/> About 6 to 10 times a year |
| <input type="checkbox"/> More than 10 times a year | <input type="checkbox"/> Other (please specify) _____ |

27. If you (or someone in your firm) have travelled outside Swaziland, where have you (they) been most frequently and why? _____

28. Is knowledge of a foreign language good for your business? Yes No

29. Which language(s) do you need/use for your business? _____

30. How knowledgeable do you feel about each of the following factors?

	Not at all knowledgeable			Extremely knowledgeable	
Overseas shipping and transportation arrangements for products such as yours.....	1	2	3	4	5
How to structure transactions to ensure payment from abroad...	1	2	3	4	5
Foreign demand for products that your firm offers....	1	2	3	4	5
Regulations and paperwork involved in foreign marketing..	1	2	3	4	5
Private Institutions.....	1	2	3	4	5
International marketing services available from public & private institutions	1	2	3	4	5
Tax implications of export marketing.....	1	2	3	4	5
Antitrust regulations.....	1	2	3	4	5

Have you experienced any special difficulties, or found anything especially helpful, in developing your business?

31. Please indicate the importance of the following as problems or as being of assistance to your business development	Not Applicable	Very major Problem	problem	neither a help or a Problem	helpful	very helpful
Availability of skilled staff locally	[]	[]	[]	[]	[]	[]
Availability of skilled staff abroad	[]	[]	[]	[]	[]	[]
Access to Technology	[]	[]	[]	[]	[]	[]
Finding suitable distributors	[]	[]	[]	[]	[]	[]
Availability of reasonably priced finance	[]	[]	[]	[]	[]	[]
Access to markets	[]	[]	[]	[]	[]	[]
Tariffs/quotas	[]	[]	[]	[]	[]	[]
Unfair competition	[]	[]	[]	[]	[]	[]
General business regulations	[]	[]	[]	[]	[]	[]
Approval procedures for investment	[]	[]	[]	[]	[]	[]
Approval procedures for construction	[]	[]	[]	[]	[]	[]
Local content requirements	[]	[]	[]	[]	[]	[]
Minimum export requirements	[]	[]	[]	[]	[]	[]
Export obligations	[]	[]	[]	[]	[]	[]
Import restrictions	[]	[]	[]	[]	[]	[]
Cost of imports	[]	[]	[]	[]	[]	[]
Foreign currency restrictions	[]	[]	[]	[]	[]	[]
Remittance limits	[]	[]	[]	[]	[]	[]
Tax concessions, incentives	[]	[]	[]	[]	[]	[]
Corruption in minor officials	[]	[]	[]	[]	[]	[]
Corruption at senior official levels	[]	[]	[]	[]	[]	[]
Reporting requirements	[]	[]	[]	[]	[]	[]
Infrastructure – telecommunications	[]	[]	[]	[]	[]	[]
Infrastructure – roads/transport	[]	[]	[]	[]	[]	[]
Infrastructure – water and sewerage	[]	[]	[]	[]	[]	[]
Dispute settlement mechanisms	[]	[]	[]	[]	[]	[]
Local Legal system	[]	[]	[]	[]	[]	[]
Labour restrictions	[]	[]	[]	[]	[]	[]
Attitude of workers	[]	[]	[]	[]	[]	[]
Trade Unions	[]	[]	[]	[]	[]	[]
General moves to market liberalisation (e.g., EU-SAFTA, SADC, SACU, etc.)	[]	[]	[]	[]	[]	[]
Industrial Parks	[]	[]	[]	[]	[]	[]
Access to low cost labour	[]	[]	[]	[]	[]	[]
Access to low cost capital	[]	[]	[]	[]	[]	[]
Information services	[]	[]	[]	[]	[]	[]
Market intelligence	[]	[]	[]	[]	[]	[]
Government business advisory services	[]	[]	[]	[]	[]	[]
Government sponsored trade missions	[]	[]	[]	[]	[]	[]
Services from Chambers of Commerce	[]	[]	[]	[]	[]	[]
Affiliation with a transnational corporation	[]	[]	[]	[]	[]	[]
Other specify _____	[]	[]	[]	[]	[]	[]
_____	[]	[]	[]	[]	[]	[]

32. If anything has been a major problem in developing your business, could you briefly indicate what if anything you think might be done to reduce the problem? If necessary, please make further comments on the back page. _____

33. If any factors have been very helpful in developing your business, could you please briefly indicate why they have been helpful? If necessary, please make further comments on the back page. _____

Please tell us about your firm's strategy, and plans for the future.....

34. How important are the following to your strategic business development?	Not Applicable	not important	some importance	important	very important
Linkages with overseas firms	[]	[]	[]	[]	[]
Increasing exports or foreign earnings	[]	[]	[]	[]	[]
Increased use of local suppliers	[]	[]	[]	[]	[]
Training of local unskilled staff	[]	[]	[]	[]	[]
Training of local managers	[]	[]	[]	[]	[]
Adapting products to meet local markets	[]	[]	[]	[]	[]
Adapting products to meet export markets	[]	[]	[]	[]	[]
Providing new products/services	[]	[]	[]	[]	[]
Adapting technology to local needs	[]	[]	[]	[]	[]
Good relations with government	[]	[]	[]	[]	[]

35. Please write the approximate percentage change you expect under <i>realistic</i> conditions over the next 3 years, 2000-2003 (e.g., +25%, or -10%, or 0% for no change) in the following ...	Not Applicable	Percentage Change	36. Under <i>ideal</i> conditions (i.e., all impediments were removed) please write the percentage change (eg +25%, or -10%, or 0% for no change)
Sales turnover	[]	----- % per annum	----- % per annum
Exports	[]	----- % per annum	----- % per annum
Employment	[]	----- % per annum	----- % per annum
Imports	[]	----- % per annum	----- % per annum
Investment in plant equipment	[]	----- % per annum	----- % per annum
Research and development	[]	----- % per annum	----- % per annum
Training activity	[]	----- % per annum	----- % per annum

If you have not exported, you have finished the questionnaire. Thank you for your assistance. If you are currently selling any of your goods outside Swaziland please continue.

37. What motivated your firm into exporting? _____

38. To what extent has exporting helped you in each of the following areas?

	No Help	Slight help	Some help	Great help	Extensive help
Increased Sales	1	2	3	4	5
Growth opportunities	1	2	3	4	5
Profitability	1	2	3	4	5
Firm's competitiveness	1	2	3	4	5

39. How many products/services did your firm export in 1999? _____

40. How many products/services is your firm planning to export within the next two years? _____

41. How many products/services was your firm exporting when it first started exporting? _____

42. To how many countries is your firm currently exporting? _____

43. To approximately how many countries is your firm planning to export within the next two years? _____

44. To how many countries was your firm exporting when it first started exporting? _____

45. In 1999, approximately what percentage of your firm's sales was derived from the following markets:

Swaziland	_____ %	South Africa	_____ %
Mozambique	_____ %	North America	_____ %
Africa	_____ %	European Union	_____ %
COMESA	_____ %	Asia	_____ %
Australia & New Zealand	_____ %		
Other (specify) _____			_____ %

46. Which of the export channels describes the method used by your firm? (tick (√) all that apply)

- [] Export directly to foreign final buyers
 [] Export directly to our sales branch/subsidiary in a foreign country
 [] Export directly to foreign distributors
 [] Export through domestic export agent/distributor
 [] Export via our export trading company

47. Please rate the difficulty of the following export related activities

	much less of a problem	less of a problem	just a problem	more of a problem	much more problematic
Logistics:	1	2	3	4	5
(a) Arranging transportation;	1	2	3	4	5
(b) Transport rate determination	1	2	3	4	5
(c) Handling of documentation	1	2	3	4	5
(d) Obtaining financial information	1	2	3	4	5
(e) Distribution co-ordination	1	2	3	4	5
(f) Packaging	1	2	3	4	5
(g) Obtaining insurance	1	2	3	4	5
Legal procedure					
(h) Government red tape	1	2	3	4	5
(i) Product liability	1	2	3	4	5
(j) Export licensing	1	2	3	4	5
(k) Customs/Duty	1	2	3	4	5
Servicing Exports					
(l) Providing parts availability	1	2	3	4	5
(m) Providing repair service	1	2	3	4	5
(n) Providing technical advise	1	2	3	4	5
(o) Providing warehousing	1	2	3	4	5
Sales promotion					
(p) Advertising	1	2	3	4	5
(q) Sales effort	1	2	3	4	5
(r) Marketing information	1	2	3	4	5
Foreign Market intelligence					
(s) Locating markets	1	2	3	4	5
(t) Trade restrictions	1	2	3	4	5
(u) Competition overseas	1	2	3	4	5

48. How can trade promotion activities be enhanced to meet the needs of exporters? _____

THANK YOU FOR YOUR TIME AND COOPERATION IN COMPLETING THE QUESTIONNAIRE. AGAIN WE ASSURE YOU THAT YOUR RESPONSES WILL REMAIN ANONYMOUS IN OUR ANALYSIS. YOUR COOPERATION WILL PROVE VERY FRUITFUL TO THIS SURVEY. IF YOU WOULD LIKE A COPY OF THE RESULTS PLEASE SEND YOUR BUSINESS CARD TO THE ADDRESS ON THE COVERING LETTER.

THANK YOU VERY MUCH FOR YOUR PARTICIPATION

APPENDIX 4.2
EXPORT PROMOTION AND THE PARTICIPATION OF SMEs IN THE
EXPORT SECTOR IN SWAZILAND

(Outline of Discussions with SME' Service Providers)

1. 0 General Information

1.1 Name

1.2 Organisation/Institution

1.3 Contact Details (Address, Telephone, Fax, email)

1.4 Other information (position in institution, education, experience).

2.0 Information About Service(s) Provided by the Organisation/Institution

2.1 When was your institution established and what are its objectives?

2.2 Please indicate the kinds of service(s) provided by your institution to SMEs.

2.3 How do you communicate (advertise/inform) with SMEs about your services?

2.4 What has been the response by SMEs to your service(s)? Size of clientele? Sectors serviced?

2.5 Please comment on the appropriateness of your service(s) and how it can be enhanced if necessary.

2.6 What are some of the challenges/ problems faced by your institution?

3. 0 General Views About the SME Sector in Swaziland

3.1 In your opinion what is the status of the SME sector in Swaziland (comment on numbers, activities, services, etc.).

3.2 What other services and assistance programmes are available to SMEs?

3.3 Do you think that the current services and assistance programmes are sufficient for the promotion and development of SMEs?

3.3 Which services are lacking and who should provide them (or how they be provided)?

3.4 In your opinion what are the major challenges/problems faced by SMEs in Swaziland?

3.5 What in your opinion should be done to solve these problems?

3.6 How can export activity/intensity be promoted amongst SMEs?

4.0 Other Issues

4.1 Does your institution collaborate with other SME service providers – elaborate.

4.2 In your opinion what needs to be done to accelerate the development on the SME sector in the country? Be specific about roles for the various stakeholders – SMEs, service providers and government.

Appendix 5.1

Export Credit Guarantee Scheme: Lending Activity by Industry*

SECTOR	LOAN ACTIVITY							
	DISBURSED		REPAID		DEFAULTED		RECOVERED	
	Value (E)	%	Value (E)	% of total disbursed	Value (E)	%	Value (E)	% of default
Handicrafts	402,565	0.24%	389,608	96.78%	12,9578	3.22%	1,329	0.02%
Timber and Wood Products	37,070,980	22.41%	33,834,509	91.27%	60,000	0.16%	45,000	0.68%
Textiles and Garments	19,257,742	11.64%	18,116,095	94.07%				
Plastics and Chemicals Products	33,607,844	20.32%	31,098,040	92.53%	2,509,804	7.47%		0.00%
Manufactured and Industrial Products	45,375,058	27.43%	40,046,209	88.26%	4,012,571	8.84%	491,340	7.45%
Mining and Related Products	26,830,389	16.22%	24,830,389	92.55%				
Agricultural and Related Products	2,865,029	1.73%	365,029	12.74%	n/a			
Total	165,409,607	100.0%	148,679,879	89.89%	6,595,333	3.99%	537,669	8.15%

Source: Central Bank of Swaziland

Table Notes:

*Covers period from inception up to 1999.

n/a implies data not available.

Appendix 5.2

Main Functions of the Small and Medium Enterprise Unit

- a) SME policy development, liaison with stakeholders, and advocacy and cooperation with public policy/regulatory authorities i.e., line ministries financial regulators, city councils, etc., on a wide range covering laws, regulations and public policy programmes substantially affecting (although not necessarily centred upon) SMEs and their development;
- b) Serving as a public sector focal point of the National SME Forum, acting in close cooperation with public and private sector in that forum. It will also coordinate SME stakeholders to stimulate inter-stakeholder cooperation on programmes and projects strengthening SME finance, marketing, training, etc., and
- c) In cooperation with various private and public sector stakeholders on certain specific SME promotional activities including:
 - Support for SME diversification, through exposure of Swazi SMEs to more developed Southern African markets and SME sectors, and transfer of technology and expertise from these sectors to Swaziland;
 - Support for short upgrading, of training courses (primarily technical) for proprietors and other key staff in existing SMEs;
 - Support for actions promoting SMEs as sub-contractors (a sub-contractor's directory, marketing courses, etc.);
 - Support SME trade fairs/exhibitions in key sectors such as manufacturing, commercial agriculture services, etc;
 - Promoting mass media programmes about SMEs, including profiles of model SMEs, information on new SME opportunities, etc;
 - Facilitating a regular annual SME of the year award to be made by the National SME Forum.

Source: Extracted from Swaziland Government (1999:158).