

## Concept Note

### “SMME Development and inclusive Business in the Region of SADC – Enabling Environment for successful entrepreneurship”

Small, medium and micro enterprises (SMMEs) are universally acknowledged as effective instruments for employment generation and economic growth. However, their high failure rate in Africa is indicative of the many challenges small businesses face. Policy frameworks and supporting agencies are requested to improve the enabling environment for SMME development in the SADC region and beyond.

Currently, the SADC Industrial Development Policy Framework (IDPF) includes a Key Intervention Area “**Enhancing support to small and medium-sized enterprises**”. SADC regards the regional approach to SME support and development as important and therefore emphasizes the necessity of “efforts to facilitate SME access to market and industrial information; participation in joint investment and export promotion initiatives; improved access to SQAM services, improvements in the quality and meeting conformity requirements”. This will enable SMEs to participate in regional trade and global supply chains. Specific actions under this key intervention area will include:

- (i) Developing a portal for SMEs as a tool to provide access to trade and industrial information and for use as a marketing tool;
- (ii) Facilitating joint investment and export promotion initiatives for SMEs;
- (iii) Finalising development of an SME component in the IUMP pilot program to improve industrial competitiveness of SMEs in agro-food processing, mineral beneficiation and pharmaceutical sectors; and
- (iv) Organising a series of buyer-sellers meets to facilitate supply chain linkages between SMEs and large enterprises.

The question arose whether this framework is sufficient and sufficiently implemented to foster SMMEs being part of local, national, regional and global value chains. In particular, at the international level “production has undergone significant shifts with an increase in the scope and scale of fragmentation, characterised by distinct stages of production occurring in different locations (KDI & OECD, 2013), leading to complex and interconnected production processes that are often referred to a Global Value Chain. These Global Value Chains can have important implications for developing countries, e.g. in form of greater opportunities for firms and SMMEs to enter into certain segments in the value chain. However, according to KDI & OECD (2013) regional integration and value chain activity remain relatively limited in Africa, concentrated mainly in the export of natural resources and agricultural products, limiting their opportunities for value chain insertion, instead of possible rapid growth and development.

In this context, the Southern Africa Trust, commissioned by the Trust Africa’s Investment Climate and Business Environment (ICBE) Research Fund, undertook a research study with local partners to analyse SMME development and possible options in five countries of the SADC region (Malawi, Mauritius, Maputo, Mozambique, South Africa and Zambia). The research focussed on the enabling environment for SMME development on the one hand, particularly analyzing the existing regulatory frameworks and

support structures for SMMEs. On the other hand, it was also examined in how far SMMEs are linked and integrated into the value chain of national and international companies. This concept is known as inclusive business and can be defined as the *profitable* integration of the poor into the value chain of a company.

Apart from the common knowledge about hindering factors for the integration of entrepreneurs into value chains, such as the lack of access to finance, market information, skills and infrastructure (UNDP 2008) the studies also revealing in-depth knowledge on obstacles caused by the current regulatory frameworks and support structures for SMME development. For example, currently, support structures often lack a coordinated approach to assist SMMEs in their growth and sustainability. There is an overlap of service offers and a focus on the initiation of start-ups rather than a structured collective concept that addresses the life cycle of SMMEs and supports them when they face the major challenges. In addition, regulatory frameworks often are complex and not known or understood by SMMEs – just to mention two challenges that more or less occurred in every target country. In all these countries recommendations were discussed in the form of National Policy Dialogues.

As one of the solutions Supplier development Programmes and the alignment of SMME support were and will be discussed. Supplier development programmes can be regarded as a broad concept aiming at strengthening the performance of subcontracting firms not only by enabling them to acquire the skills and capacities required of them by the main contracting enterprise but also by raising their awareness and assisting them in reducing their costs. A supplier development programme such as suggested by UNIDO can, for example cover the factors of cost control, pricing policy, technological improvements, quality management, certification, internal enterprise organization, logistics and the environment (UNIDO 2003).<sup>1</sup>

On June 28, 2013, a Regional Policy Dialogue now will be held to analyse the communalities and significant differences of hindering factors and recommendations that were revealed and discussed in the five countries, also with regard to the above described SADC Protocol of Industry. The regional Policy Dialogue will go beyond a pure discussion of hindering factors for SMME development but will also focus inclusive business activities and the relevant enabling environment to implement this concept as part of national, regional and global value chains. Challenges, success stories and recommendations will be discussed with representatives from SADC, governments, SMME-supporting agencies, larger firms, SMMEs, regional and national business associations, civil society organisations, academia and other players.

The Dialogue shall result in a joint Action Plan at SADC level, in particular with regard to possible amendments for the SADC Protocol on Industry and the relevant instruments for implementation, in particular with view to SMME development and/through inclusive business. The Regional Policy Dialogue shall also be seen as starting points for more inclusive growth and the discussion to improve value chain insertion in SADC countries. The resulting recommendations will be used to formulating a best practice framework for SMME development with a long-term vision.

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<sup>1</sup> UNIDO therefore works with so called Industrial Subcontracting and Partnership Exchanges (SPXs) that facilitate “contacts between subcontractors and main contractors”, and also offer “services for ensuring the effective operation and continuity of partnerships, such as solving enterprises’ problems regarding quality, delivery times, etc. or providing investment advice”. Furthermore, “an SPX possesses databases on enquirers for and suppliers of work and has a good knowledge of the members” (UNIDO 2003).

## Agenda

### Regional Policy Dialogue “SMME Development and inclusive Business – Enabling Environment for successful entrepreneurship”

**June 14, 2013, 8:30 am, Park Inn Hotel, 118 Katherine Street , Sandton, South Africa**

08:30 – 09:00	Registration
09:00 – 09:10	Welcome and Introduction <i>(Facilitator)</i>
09:10 – 09:45	SMME Development and inclusive business in the context of the Global Value Chain <i>(Dr Thembinkosi Mhlongo)</i>
09:45 – 10:30	The SADC Protocol on Industry and relevant SADC Policy Instruments - Presentation and Discussion <i>(SADC Representative, tbd)</i>
10:30 – 10:50	Tea Break
10:50 – 12:10	Lessons from the Country Studies and National Policy Dialogues – Presentation and Discussion <i>(Southern Africa Trust and 5 Local partners)</i>
12:10 – 13:00	Break away sessions: How to match the SADC Protocol on Industry and Global Value Chain requirements: The creation of an adequate enabling environment for SMME development in the region
13:00 – 14:00	Lunch
14:00 – 15:00	Key findings from break away sessions and way forward <i>(Facilitator)</i>
15:00 – 15:15	Closing <i>(Southern Africa Trust)</i>