SOUTHERN AFRICA GLOBAL COMPETITIVENESS HUB

INSIDE SOUTHERN AFRICAN TRADE

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Small and medium enterprises (SMEs) are the largest employers and largest contributors to gross domestic product (GDP) in developed and developing nations alike.

According to the UN Industrial Development Organization (UNIDO), "in overall economic development, a critically important role is played by micro, small and medium enterprises which, on average, make up for over 90 percent of enterprises in the world and account for 50-60 percent of employment – in particular in the developing world: SMEs are the emerging private sector in poor countries, and thus form the base for private sector-led growth."

Southern Africa has seen a number of efforts to promulgate broad and comprehensive policies to advance SMEs. These have had mixed success, and it may be more effective for governments to shift their focus towards creating a better overall business environment that would make it easier for everyone, and especially for SMEs, to flourish.

Despite the challenges, there are encouraging examples of how SMEs are making increasing contributions to economic development and growth. A number of private-sector led initiatives have had great success, and there have been examples of where the market has responded to the needs of SMEs – in particular in the banking sector.

In this issue we explore the challenges faced by SMEs, as well as some success stories, from a number of angles.

We also feature an article that notes the changes in the relationship between the public and private sectors in Tanzania; an article on the recent SADC Annual Summit; as well as our regular sections.

We hope that you will enjoy this issue of INSAT and invite you to share your opinions and suggestions with us by writing to *insat@satradehub.org*.

INSIDE THIS ISSUE

USAID | SOUTHERN AFRICA
FROM THE AMERICAN PEOPLE

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AROUND SOUTHERN AFRICA

DEBATE OVER TANZANIA'S COMESA MEMBERSHIP HIGHLIGHTS CHANGES IN PUBLIC-PRIVATE RELATIONSHIP

In 2000, Arnold Kilewo, then executive director of Tanzania Breweries Limited (TBL), struck a major deal to export beer to Mauritius. But by the time the company was ready to begin exporting, the Tanzanian government had decided to withdraw from the Common Market of Eastern and Southern Africa (COMESA) which meant that TBL could no longer benefit from the preferential tariffs that Mauritius offered to other members of COMESA. The company had to cancel the deal.

Since then, TBL and a group of Tanzanian companies have been trying, without success, to convince the government to reverse its decision and rejoin COMESA. They complained that the decision was taken by the government unilaterally without consulting the private sector and that leaving COMESA has cost industry tens of millions of dollars of lost exports to Kenya and Uganda.

But the government defended its decision saying that the country was a member of "too many regional blocks" with overlapping, and sometimes conflicting, objectives. It also argued that Tanzania's infant industry was not ready to compete with most of COMESA's industries which had been privately owned and exposed to regional and global competition for years.

Following years of unsuccessful lobbying, the Tanzanian private sector tried a new approach this year to influence the government: presenting policy makers with hard evidence. The industry, through Tanzania Private Sector Foundation (TPSF), commissioned a study to examine the impact of Tanzania's withdrawal from COMESA on the country's exports. Earlier this year, the Foundation published a report based on the study entitled 'A Study of the Effects of Tanzania's Withdrawal from COMESA on Business Developments with COMESA Member States'. According to the report, Tanzania's exports to COMESA members have dropped from US$266 million to less than US$100 million since the country pulled out of the regional bloc.

"Companies like Kyoo Limited and Aluminium Africa have lost business worth millions of dollars in exports to COMESA countries," says report's lead author Mr. Afwilile Mwakijungu. "Aluminium Africa alone has lost US$29 million in exports to COMESA countries such as Malawi, Zambia and Rwanda."

Responding to criticism that the research is aimed to defend the interests of big businesses at the expense of small and medium size enterprises, Mwakijungu pointed out that the report shows that SMEs have also incurred significant losses as a result of the country's withdrawal from COMESA.

"This research has established that even smallholder laundry soap producers who were earning US$2.7 million in export revenue before the withdrawal are now earning less than half [that] amount," Mwakijungu said.

Following the publication of the report, the government has indicated for the first time since it withdrew from COMESA that it will reconsider its decision based on available information.

"We welcome all suggestion[s] from the private sector and the government will make a decision based on researched evidence," Minister for Industry, Trade and Marketing Nazir Karamagi said in response to recent calls by the private sector to rejoin COMESA.

But regardless of the outcome of the debate over membership in COMESA, many observers say the private sector's lobbying efforts over the past few years and its sponsorship of the study revealed new capacities within Tanzania's business community to defend its interests and engage the government in a dialogue over important economic issues.

Arnold Kilewo, former chairman of the Tanzania Private Sector Foundation, stresses a point during a private sector conference on COMESA in Dar es Salaam in July. The meeting discussed the findings of an impact assessment of Tanzania's pull-out from the bloc undertaken by Mr. Afwilile Wakijungu, a former COMESA official (second from left)

The first ever Botswana Consumer Fair presented an opportunity for small and medium enterprises elsewhere in the SADC region to showcase their goods and share experiences with their Batswana counterparts

The debate also showed the government's willingness to lend its ear to the private sector and discuss critical economic decisions with the business community.

Both represent significant steps forward in a country where decades of socialism have sown deep suspicion of the private sector and where public-private dialogue was, until recently, non-existent.

SADC ANNUAL MEETINGS END ON A CAUTIOUSLY OPTIMISTIC NOTE

SADC ended its annual meetings in Maseru, Lesotho with a sense of urgency about the need to rationalize overlapping membership of regional economic groupings and wary of the fact that the implementation of the integration agenda, as well as trade liberalization, is behind schedule.

It also signed a new protocol to promote cooperation around Finance and Investment, recommitted itself to the creaton of a Free Trade Area in 2008 and a Customs Union in 2010, and in true SADC style, painted an outward picture of regional solidarity.

The latest SADC summit also represented the first instance in which SADC leaders took a firm public stance on the participation of several of its member states in more than one regional economic community (REC). A taskforce was established and an extradordinary summit has been scheduled for October to further discuss the issue.

Officials who were present at the meetings also acknowledged that leaders spoke frankly with Zimbabwean President Robert Mugabe about the political and economic impact of the collapse of his country on their own nations.

During a press briefing after the Summit, South African Deputy Foreign Affairs Minister, Aziz Pahad, revealed that heads of state and foreign ministers held a closed meeting over the economic troubles in Zimbabwe.

The enthusiasm with which the new Finance and Investment Protocol was greeted by business leaders and analysts has been tempered by the slow pace of implementation of existing agreements.

There is particular concern over the pace of implementation of the Trade Protocol, which came into effect in 2000. Despite much lip-service to the importance of trade liberalization as a cornerstone of regional integration, many SADC countries continue to implement tariffs and quotas in violation of their commitments to the regional grouping. The World Bank has also criticized the Trade Protocol's rules of origin as overly complex and a hindrance to trade.

Private sector representatives have been complaining that delayed tariff reductions and illegal tariffs and quota restrictions harm business and do not contribute in a sustainable manner to the revenue pools of defaulting states.

Zodwa Mabuza, CEO of the Swaziland Employers Federation and Chamber of Commerce, in an interview with *SABC News*, argued that government's overreliance on customs duties often stalls the process of regional trade liberalizaton and is not sustainable. Her views are echoed by other private sector representatives. Maxwell Sichula, Executive Secretary of the Zambia Chamber of Small and Medium Business Associations (ZASMBA), recently pointed out how tariffs and quotas remain a major trade barrier, and Zambian Association of Chambers of Commerce and Industry (ZACCI) CEO, Justin Chisulo, called for the removal of unnecessary tariffs and quotas to promote fair trade.

Commentators also expressed concern over SADC's ability to enforce agreements and push integration forward. In an interview with the *Mail and Guardian,* Ted Nandolo, chairperson of the Malawi NGO Council, said that "the SADC Secretariat does not have power to enforce agreements. It is not like the EU, which has power to enforce decisions. We want heads of state to look at this issue seriously."

BOTSWANA'S FIRST CONSUMER FAIR OFFERS NEW OPPORTUNITIES FOR REGIONAL SMEs

Last month, Botswana launched the country's first-ever consumer trade fair which aims to promote regional Small and Medium Enterprises (SMEs).

The Consumer Fair, held from August 24 to September 3, featured some 370 businesses from several Southern African countries including Lesotho, Swaziland, South Africa, Zimbabwe, Zambia, and Tanzania.

"[This] is a forum for small scale producers and service providers to gain the much needed recognition while at the same time generating sales revenue," said Joyce Thema, chief executive officer of Fairground Holdings, which organized and sponsored the fair.

Moiponi Ramahloko, owner of LZ Dressmaking from Lesotho, says the cost of renting a stall, which came to P2,259 (US$375), was insignificant compared to the benefits of participating in the fair.

"Different businesses all over the world face different challenges. And for them to be given an opportunity to share in their challenges while at the same time making some money through sales does a world of good for them," said Ramahloko, who started her business two years ago.

Hervet Magagula, owner of Siyabonga Handicraft Shop in Swaziland, used the fair to market his products to the regional market.

"As business operations, especially small ones, there is always that need for us to establish ourselves and market our products to a wider market. The Consumer Fair offer(ed) exactly that," said Ramahloko, whose exhibition stall showcased goods like indoor mats, clay pots, dried flowers and curtains.

The Consumer Fair is one of two trade events that are being launched this year to replace Botswana's International Trade Fair which was suspended last year.

Sources say there was a growing sense among organizers of the International Trade Fair that the event had slipped from being an investment promotion event to a shopping venue for consumers.

As a result, it was decided that two trade events will take place every year; The Consumer Fair which is dedicated to SMEs and is targeted at consumers, and The Global Expo which will take place in October and will primarily serve as an investment promotion event and a platform for networking among businesses.

INFLUX OF ZIMBABWEAN CROSS-BORDER TRADERS UNDERSCORES THE NEED FOR A REGIONAL POLICY ON MIGRATION

A growing number of Zimbabwean traders have been crossing the country's borders to neighboring countries, sparking tensions and drawing complaints from governments and traders around the region.

Sources say many countries around the region have implemented harsh measures including imprisonment to try to stop the influx of traders from Zimbabwe.

At the end of July, SADC Executive Secretary, Tomaz Salamão, urged member states to relax their measures on cross-border traders saying that SADC countries had "a moral obligation" to support the citizens of Zimbabwe given the gravity of their suffering. "[Zimbabwean cross-border] traders) deserve to be treated as human beings. They are citizens of the region and have a right as everyone else to dignity and survival," Salamão said.

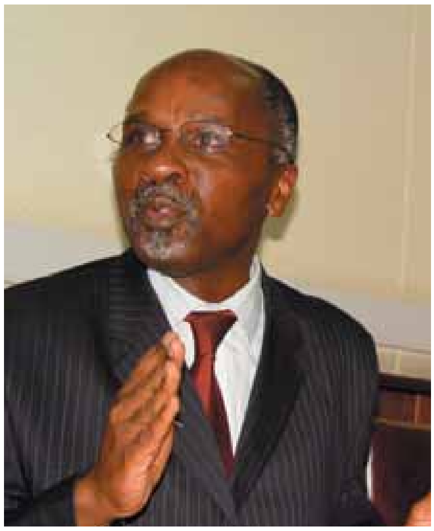
The collapse of Zimbabwe's economy, together with the government's crackdown on illegal settlements and informal trading last year, have forced thousands of Zimbabwean traders to cross borders with other countries in search of economic opportunities.

According to recent estimates by the UN Office for the Coordination of Humanitarian Affairs, the number of Zimbabwean traders crossing the border to neighboring countries has increased ten-fold over the past year from about 30-odd people a day to 300 people and 200 vehicles a day.

Formerly, it was mostly young single men who would migrate for economic reasons but, according to the Southern African Migration Project (SAMP), informal cross-border trade has become increasingly dominated by women seeking to supplement their family incomes. Many female Zimbabwean cross-border traders, SAMP says, have been going to Mozambique, Zambia, and even as far as Tanzania to purchase and bring home second-hand clothing and goods for resale.

The influx of Zimbabwean traders into neighboring countries has brought to the forefront an old and often controversial issue in the region; migration policies among SADC members.

The movement of people across political boundaries has been a source of considerable debate, and often tension, in Southern Africa. Despite the passage of a free trade protocol between SADC countries, there is still no framework in place for



SADC Executive Secretary, Tomaz Salamão, addresses the issue of a regional migration policy during a press conference on the last day of his Tanzanian trip at the end of July

movement of legal informal traders.

The large disparities in the levels of development and income among countries in the region have made it very difficult to reach an agreement on the issue. Countries like South Africa and Botswana are concerned that more flexible migration policies would flood them with migrants from less developed countries.

SAMP, in a recent paper on migration of Zimbabweans to other countries in the region, argues that the absence of an agreement on movement of legal informal traders not only discriminates unfairly against women migrants, it also obstructs the new emphasis on trade and regional cooperation in SADC. "The benefits of freer trade should not be confined to large companies, but to ordinary people as well," SAMP says.

Salamão agrees that SADC members have to reach an agreement on movement of goods and people urgently because, he says, a harmonized migration policy is an essential requirement of regional integration.

But so far, SADC members do not appear to be close to striking a deal on movement of people across the region, and it is likely that cross-border trading will continue to be a source of tension in the region for years to come.

NEWS BRIEFS

INDIA, BRAZIL, AND SA TO PRESS AHEAD WITH TRILATERAL FTA

The leaders of India, Brazil and South Africa agreed earlier this month to establish a working group that will focus on developing modalities for the envisaged India-Mercosur-SACU Trilateral Free Trade Area.

At the end of the first summit of the India-Brazil-South Africa Dialogue Forum (IBSA) which took place In Brazil on 13 September 2006, Brazilian President, Luiz Inácio Lula da Silva, his South African counterpart, Thabo Mbeki, and India's Prime Minister Manmohan Singh, also called for eliminating agriculture subsidies worldwide.

"Distortions affecting agricultural trade and production should be expeditiously eliminated and agriculture should be fully incorporated into the rules of the multilateral trading system," the three leaders said in a joint press communiqué.

Their first trilateral summit came three years after the trio created the India-Brazil-South Africa Dialogue Forum (IBSA) to promote the interests of their emerging markets.

The three countries signed agreements on agriculture, energy, rail and naval shipping, and information technology.

SA MOTOR PROGRAM EXPORT INCENTIVES TO BE SCRAPPED

In order to comply with World Trade Organization regulations, a production allowance is set to replace the export incentives available in South Africa's controversial motor industry development program (MIDP).

President of the National Association of Automobile Manufacturers of SA (Naamsa), Johan van Zyl, was quoted in South African newspaper, *Business Report* as saying that "[f]rom our side, we would like to see the [program] being WTO compliant as early as possible. You must remove any uncertainty from the program in regard to investment."

SINGLE CUSTOMS DOCUMENT SOON TO ENTER INTO FORCE

As of October 1st, South Africa will be using the Single Administrative Document (SAD) as the only cross-border transport document at all its borders.

Theo Ruiters of the South African Revenue Authority (SARS), told INSAT that "the introduction of the SAD is part of SARS's commitment to continually improve our service and efficiency to traders and taxpayers and the benefits of a single form for traders are fewer errors, less confusion, lower costs and improved trade efficiencies. Freight forwarders and carriers can look forward to reduced paperwork and quicker turnaround times."

GROWTH IN MOZAMBICAN AGRICULTURAL EXPORTS

Mozambique's official news agency, Agencia de Informacão de Mocambique (Maputo), earlier this month reported major increases in the exports of a number of agricultural products between the first half of 2005 and the first half of this year.

The largest increase was in sugar exports, which grew by 460 percent from US$7.1 million in the first half of 2005 to US$39.4 million in the same period this year.

Other products that saw dramatic increases are processed cashew nuts and tobacco.

Although just three products – aluminium, electricity and natural gas; and three companies, MOZAL, SASOL and Cahora Bassa – continue to account for 68 percent of Mozambique's exports, these recent figures signal a recovery by some of the country's traditional agricultural exports.

MAURITIUS SIGNS TRADE AGREEMENT WITH US

Earlier this month the US and Mauritius signed a trade and investment framework agreement (TIFA) intended to strengthen and expand trade ties between the two countries.

During the signing ceremony in Washington, Mauritian Foreign Affairs, International Trade and Cooperation Minister, Madan Murlidhar Dulloo said that, "The signature of the TIFA illustrates the fact that both our countries want to build upon our existing political and economic ties in order to increase trade and investment."

In 2005, total trade between the US and Mauritius was valued at US$252.7 million.

In Southern Africa, the US has also signed TIFAs with Mozambique, South Africa, and the Common Market for Eastern and Southern Africa (COMESA).

INTRA-COMESA TRADE EXCEEDS US$7.5 BILLION

Trade between the countries of the Common Market for Eastern and Southern Africa (COMESA) grew to a record high of US$7.5 billion in 2005 – a 103 percent increase since 2000.

This was revealed during a meeting of the COMESA Ministerial Task Force in Nairobi earlier this month.

The Ministers also discussed key issues with respect to the COMESA customs union, which is scheduled to be launched in 2008, including the creation of a COMESA fund to compensate member states for revenue losses due to the implementation of Common External Tariffs.

INSIDE THE PRIVATE SECTOR

IN THE SPOTLIGHT: IN TANZANIA, AMERICAN-STYLE ENTREPRENEURSHIP; LEAVING A SECURE JOB TO START UP A BUSINESS

Opposite the sprawling mass of land where the U.S. Embassy in Dar es Salaam is located, is the Drive In Workshop; a small workshop offering a wide selection of kitchenware items ranging from small frying pans and cooking pots to large industrial cooking and baking utensils.

The workshop belongs to Richard Mwombeki. Once an employee of the U.S. Embassy, Mwombeki left his job at the Embassy 14 years ago and used the 400,000 Tanzanian shillings he received as his end-of-service payment to start a business manufacturing kitchenware items.

Stories like Mwombeki's are very common in America where entrepreneurial spirit leads hundreds of thousands of Americans every year to leave their secure jobs to start up new businesses.

But it is rather unusual, if not rare, to encounter such entrepreneurship in a least developed country where steady and well paying jobs are hard to come by.

Richard Mwombeki with some of the wares he manufactures and sells in Tanzania and East Africa

"I didn't go to the bank to borrow money, I used my own money," Mwombeki says. "At that time [400,000 Shillings] was a lot of money."

Today, Mwombeki's workshop employs seven people and has a turnover of about 80,000 shillings (US$62) per day; a decent amount in a country where the annual GDP per capita is US$320.

Mwombeki's products are made from various materials ranging from scrap parts such as old tyre rims and unused oil drums to new iron and metal sheets and ocre which he buys from the Mbeya region in the south of Tanzania.

"I use ocre because it is heat resistant," he says pointing to his coal pots of various sizes.

Mwombeki says he markets most of his products in Tanzania's main cities; Dar es Salaam, Moshi, and Dodoma but, in recent years, he has begun to receive customers from neighboring countries.

"Some [customers] come from as far as Nairobi and Uganda."

Occasionally, he rents a 10-ton truck and travels to Nairobi (Kenya) and Kampala (Uganda) where he says his products usually sell out very quickly. On a good trip he sells TS2.2 million (US$1,700) worth of items.

Mwombeki, a father of two, says he would like to increase his sales around the region but he does not have the means to do so right now. Still, he says, he has no reason to complain as the business provides him and his family with a good income and allows him to pay for his younger brother's college education.

REGION BECOMING A BETTER PLACE TO DO BUSINESS?

It is the perception of business owners in the region that the business climate has improved since last year and their views are supported by empirical evidence from the World Bank.

This does not mean, however, that the region can rest on its laurels. The levels of intra-regional trade and investment, growth and employment outlooks and foreign direct investment into the region do not match regional business confidence.

In the third annual Southern African Regional Business Climate Survey (RBCS), released in South Africa in August, 541 respondents from the primary, manufacturing, and services sectors across the 14 SADC countries indicate that they perceive an improvement in most of the challenges measured by the survey.

"Fluctuations in the exchange rate remains the biggest challenge to trade and cross border investments in the SADC region," said the survey's spokesman Justin Chisulo, CEO of the Zambian Chamber of Commerce, at the launch.

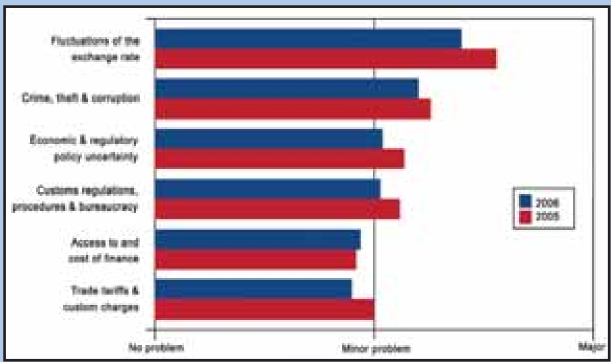
Crime, theft and corruption; economic and regulatory policy uncertainty; and customs regulations, procedures and bureaucracy, all remain problems for businesses.

Other potential challenges measured by the survey are seen as very minor hassles for the region's businesses, Chisulo reported.

Overall, the business confidence index (BCI) improved by

2.7 points compared to an increase of 9.8 points between 2004 and 2005.

Private Sector Assessment of Challenges



The most encouraging finding of the 2006 RBCS is the fact that an increasing number of companies recognize the potential effect of HIV/AIDS on their businesses and have put in place HIV/AIDS workplace programs.

The World Bank's Doing Business Survey 2007, released hot on the heels of the RBCS in September, also found that Africa is implementing a number of reforms to make the region a better place for doing business.

According to Doing Business 2007, Tanzania – the world's 10th best reformer – reduced the cost of registering a new business by 40 percent through a reduction in licensing requirements. The country also introduced a new electronic customs clearance system and risk-based inspections that cut customs clearance times from 51 to 39 days for imports and from 30 to 24 days for exports. It also cut property transfer fees and revised its company law to better protect small investors.

Mauritius launched a credit information bureau and made property transfers easier. Lesotho computerized its tax system and unified VAT and income registration forms to reduce the time for the tax registration for new companies to a day. Companies can now expect to spend 40 percent less time complying with tax regulations every year. Mozambique eased registration requirements for new companies and Botswana, South Africa and Swaziland strengthened property rights.

However, the RBCS found that, despite their optimistic outlook, the proportion of companies who view intra-SADC investment as an option has dropped by 44 percent from last year. Most of the companies interviewed also do not expect to create any new jobs in the coming year and growth expectations are modest.

Intra-SADC trade is growing slowly, and Sub-Saharan Africa (without Nigeria, South Africa and Angola) still attracts less than 0.5 percent of global foreign direct investment (FDI).

In comparison, FDI into Eastern Europe, the world's top reforming region, grew considerably with five Eastern European countries amongst the top ten in the 2005 Foreign Direct Investment Confidence rankings.

In becoming a better place to do business, Southern Africa is not only competing with itself, but also with other developing regions in the world. The region's governments should pay serious attention to both these studies, analyze the findings critically, and accelerate the pace of reforms.

AMID BIG HOPES FOR THE 2010 WORLD CUP, GROWING CONCERNS OVER SMALL PLAYERS

There is no doubt that the 2010 World Cup will give a tremendous boost to South Africa's economy. With the exceptional marketing and media attention that the event has so far attracted, many observers expect it to be the most commercially successful since the tournament was launched 76 years ago.

FIFA (Fédération Internationale de Football Association) President, Sepp Blatter, said in July that the contracts signed for 2010 are some 25 percent higher than the ones signed in Germany for the 2006 World Cup.

The Local Organizing Committee expects the tournament to create 160,000 jobs and contribute more than R20 billion (about US$3.6 billion) to the country's economy.

But despite the high hopes and expectations for the event, there are growing concerns that the economic benefits of the tournament may not reach the country's small businesses.

This is particularly true in the tourism sector where a large number of the country's tour operators and service providers are small or medium enterprises who already feel that they have been largely left out of the tourism boom that the country experienced over the past ten years.

South Africa's tourism industry experienced phenomenal growth over the past decade with the number of international visitors doubling from 3.6 million to 7.3 million between 1994 and 2005. But many believe that the bulk of profits that were generated by the tourism industry since the mid-1990s were captured by the industry's big players and did not filter down to the smaller businesses.

With preparations for the world's premier soccer tournament underway, the government has come under increased pressure to ensure that smaller businesses will have the opportunity to benefit from the surge in tourism activities during the event, which is taking place for the first time in an African country.

South Africa is expecting 3.5 million additional visitors during the World Cup and revenues from the tourism sector are expected to peak at R11 billion (US$1.8 billion) during that year.

Deputy Trade and Industry Minister, Elizabeth Thabethe, says the government is considering a number of measures to ensure that SMEs get a "fair deal" in providing tourism services and other services during the event.

Many say that the government will have to require companies in the tourism sector and other related services to change their procurement policies to ensure that SMEs will have the opportunity to benefit from the surge in economic activities before and during the tournament.

The government is reportedly developing new requirements for procurement policies in different sectors to ensure the empowerment of black businesses and entrepreneurs as part of its Black Economic Empowerment policy.

But so far it has not laid out a clear strategy to support SMEs in general and help them benefit from the largest international event to take place on South Africa's soil.

NEW INITIATIVE TO ENFRANCHISE ARTISANAL MINERS MAY SERVE AS A MODEL FOR THE REGION

The Tanzanian government has given the green light to a multi-million dollar joint venture between a South African mining giant, Precious Metals and Minerals (PMM), and the Tanzania's Miners Trust. The project could pave the way for the country's artisanal miners to be brought into the formal sector.

If successful, sources say, the pilot project would serve as a model for other countries in the region where artisanal mining activities have been causing significant health and environmental damage.

Artisanal mining is an important source of alternative livelihood in African countries that are endowed with precious minerals. It is estimated that about one million people are employed in artisanal mining on the continent. But there have been growing concerns among donors, NGOs and governments in the region about the adverse impact of artisanal mining activities on human health and the environment.

Artisanal miners use mercury to extract very small amounts of gold. Miners and workers directly inhale toxins while they heat the gold-mercury over open fires. A large amount of mercury is also released into the immediate environment where it is transformed into methyl mercury, one of the most toxic pollutants.

Under the deal between PMM and Miners Trust, twenty small-scale gold, diamond and gemstone miners will have access to new and safer mining technology and mining methods and, for the first time, will be able to sell gold and crude stones at market prices.

According to the deal, signed in May, PMM will disburse US$2.5 million during the first six months of the project. The money will be used over a ten-year period to finance modern mining equipment and train miners on environmentally-friendly mining methods. PMM will also finance marketing activities.

In return, miners, who will be selected and subcontracted by Miners Trust, will have to meet a production target of 50 kilograms per month. At the moment the average production level per miner is estimated at only one kilogram.

Sources say PMM will disburse the money once the miners have been identified and both PMM and the Miners Trust are satisfied with legal and institutional arrangements that are being developed by the government to facilitate the initiatives. The government is reportedly developing regulations relating to the provision of technical expertise, information dissemination and consultancy services.

Small-scale miners typically employ ancient, and potentially harmful, methods of mining to extract the precious metal

The government has also committed to "relaxing" its environmental requirements for the sub-contracted miners to help speed up implementation of the project.

Peter Kafunu, senior geologist and head of communications in the Ministry of Energy and Minerals says the mining licenses – which range from prospecting, primary mining, master dealers and brokers licenses – would be issued with a waiver on conventional environmental protection standards which micro-miners cannot meet. He said the government has decided to have "cheaper and less environmentally demanding licenses" just to help the small miners.

Martha Bitwale, the chairperson of the Miners Trust, says the Trust is currently looking for potential partners among non-governmental organizations, investment banks and local authorities to drive the pilot project which, she says, is likely to expand to the Great Lakes region.

"But, first, we have to create an enabling environment for the creation of a sustainable mining village. We want the central and local governments to be incorporated into the program so that they don't work in opposition to us," she says.

INSIDE THE DONOR COMMUNITY

AFRICAN DEVELOPMENT BANK APPROVES LOANS FOR SADC AND COMESA

In July, the African Development Bank (AFDB) approved a US$100 million regional infrastructure development facility to support development and rehabilitation of infrastructure in the SADC sub-region.

The funds will be channeled through the Development Bank of South Africa which, according to AFDB, will utilize up to 80 percent of the facility to support infrastructure projects in the sub-region. The major sectors will include energy, transport, information and communication technologies (ICTs), water and sanitation. The remaining 20 percent will be used to finance infrastructure-related projects in the manufacturing, mining, tourism and financial services sectors.

The Bank also approved a US$8.37 million grant to finance a project for procurement reforms and capacity building in the member states of the Common Market for Eastern and Southern Africa (COMESA).

The project aims to enhance the public procurement systems of COMESA member states by modernizing and harmonizing the laws, regulations, and procedures and by strengthening the capacity of the countries concerned to manage modern public procurement systems. According to AFDB, the project will "promote better governance and harmonize the public procurement systems in the member states, which will, in turn, enhance intra-regional trade in COMESA and trade between COMESA and the rest of the world."

ESIPP-SPONSORED TOURISM AND MINING FORUMS OFFER GRANT OPPORTUNITIES

Two major forums are slated for the sub-continent later this year. In October, Windhoek, Namibia, will host Tourism 2006, a forum focusing on investment opportunities in the Tourism and Hospitality industries. At the end of November, Lusaka, Zambia, will host Mines 2006, a forum that will take an intensive look at the mining sector.

The two 300-delegate meetings will be held under the auspices of the EU-SADC Investment Promotion Program (ESIPP).

Tourism 2006, third in a series of such high-powered get-togethers, will offer a forum where entrepreneurs from throughout the Southern African region will present a carefully selected variety of new, high-quality business development projects in related sectors that are likely to be of interest to the EU and other international investors.

Mines 2006, an event that follows three previous EU-Africa Mining Investment events, will offer delegates preferred access to major financial and development institutions such as the European Investment Bank, as well as facilitate contacts with high-ranking representatives of ministries and intermediary organizations relevant to the mining sector.

For the past four months, a team of European and SADC-based mining consultants has been working across the SADC region, from Angola, Democratic Republic of the Congo, and Tanzania in the north to South Africa in the south, to identify high-quality exploration and mining project opportunities and present them to potential investors at Mines 2006.

Promoters are submitting properties and projects across a range of commodities including gold, diamonds, base metals, bulk minerals, coal, and uranium.

Over 120 mining and mining finance companies have already expressed an interest in attending Mines 2006. Interested companies will have access to the 13 mining sector research reports for each SADC country that have been specially produced for the event.

The comprehensive website for Tourism 2006 can be found at *www.tourism2006.com*, and for Mines 2006 at *www.mines2006.com* – both sites have all the links needed for further information or registration.

SWAZILAND: USAID PROGRAM SPONSORS SME BUSINESS PLAN COMPETITION

The Swaziland National Business Plan Competition – Believe, Begin, Become – is off to a strong start with a total of 221 applications.

The competition will allow applicants with robust business ideas to turn their ideas into viable business plans through training and mentoring.

Successful applicants took part in a two-day entrepreneurship seminar on September 15-16 that focused on the structure of a business plan and key success factors in the entrepreneurial process.

The competition is part of a larger project, Swaziland Enterprise and Entrepreneurship Program (SWEEP), which aims to support individual entrepreneurs and businesses throughout various phases of business development.

SWEEP was launched in February 2006 and will continue over the next five years. It is funded by the U.S. Agency for International Development and designed, managed, and executed by the non-profit organization TechnoServe.

In a related development, the European Commission last month earmarked €44.8 million to enhance Swaziland's private sector. The EC's contribution is a part of its six-year Private Sector Support Program (EDFPSSP), which began in July 2000.

The EDFPSSP is aimed at supporting Small and Medium-sized Enterprises (SMEs), which the EC believes play a significant role in advancing the country's economy.

NEWS BRIEFS FROM AROUND THE WORLD

US BLOCKS BRAZIL REQUEST FOR COTTON COMPLIANCE PANEL

The US earlier this month blocked a request by Brazil for a WTO panel to investigate whether the US has complied with earlier rulings against its cotton subsidies.The move is mainly aimed at delaying the panel because Brazil can now make a second request that the US cannot block.

Brazil has asked for the right to retaliate against $3 billion of U.S. exports because of the latter's failure to eliminate subsidies that a WTO panel found to be prohibited.

It is also asking for the right to cross-retaliate by withholding commitments in services and intellectual property rights instead of merely increasing its tariffs on its imports from the US.

But the US said it had fully implemented the WTO's panel's decision by eliminating the Step 2 cotton subsidies. These subsidies paid producers the difference between the US and world market price of cotton and paid textile mills to use US rather than foreign cotton.

The Brazilian government did not say whether it had decided to make a second request.

UNCTAD DEPUTY SECRETARY GENERAL SAYS 'AID FOR TRADE' SHOULD PROCEED REGARDLESS OF DOHA ROUND

Deputy Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), Dirk Bruinsma, said earlier this month that Aid for Trade for developing countries should continue even though the Doha Round was suspended.

"Freezing of the Doha Round of trade negotiations should not stop discussions on Aid for Trade,"

Bruinsma said in his opening address to the session of the UNCTAD Working Party dealing with the technical cooperation activities of the Organization.

Bruinsma also reiterated UNCTAD´s willingness to take part in the implementation of the Aid for Trade initiative.

The Aid for Trade initiative was launched in February 2005, when G-7 Ministers called on the World Bank and the IMF to develop proposals for additional assistance to countries to facilitate adjustment to trade liberalization and enhance their capacity to take advantage of more open markets. In July 2005, Heads of State at the G8 Summit at Gleneagles agreed to increase aid to developing countries to build their physical, human, and institutional capacity to trade.

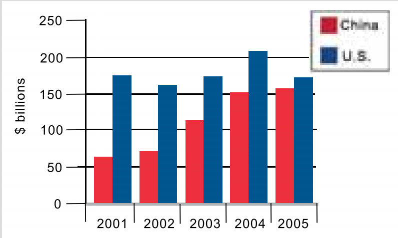
CHINA'S EXPORTS TO THE EU GROW RAPIDLY AT THE EXPENSE OF THE US

China's exports to the EU have grown dramatically between 2001 and 2005 at the expense of the US whose exports to the region have been stagnant during that period. Despite the weakening of the dollar, U.S. exports of goods to the Euro zone during the first five months of this year rose only 8 percent to reach US$68 billion. In comparison, China's exports were 26 percent higher during the same period in 2005 and were estimated at US$69 billion.

That raises doubts about the hope many economists had that the revival of the E.U.'s economy this year would prompt Europeans to buy more American goods and help the US reduce its current account deficit, which is expected to surpass last year's record deficit of nearly US$717 billion.

In the past, China specialized in simpler products, like apparel and low-tech assembly. But China's increasing ability to manufacture and export high-value goods is posing a growing threat to U.S. exporters. Even though China's exports of shoes and clothing have attracted headlines and lead to protectionist quotas in the EU, machinery and transport equipment account for the largest share of its exports to the Euro zone. According to the Financial Times, China's sales of machinery to the Union in May accounted for half of the US$14.5 billion of its goods sold in the region.

EU Imports from US and China



PERUVIAN PRESIDENT HIRES RENOWNED ECONOMIST TO LOBBY FOR FTA IN U.S. CONGRESS

The President of Peru has appointed economist Hernando de Soto as his personal representative to help the government get a free trade agreement it signed with the United States in April ratified by the U.S. Congress.

In an August 17 press release, the Peruvian Embassy said de Soto will also work with the Peruvian Government to make sure that the benefits of the free trade agreement with the US will reach "Peru's poorest and provide the ability and tools to enter a globalized market."

According to media reports, de Soto's lobbying efforts will mostly focus on Democrats in Congress.

Legislation implementing the agreement with Peru has not yet been submitted to Congress by the White House. But House Majority Leader John Boehner signaled earlier this month that the legislation could be submitted to Congress by mid-November.

House Agriculture Committee Ranking Member Collin Peterson (D-MN) said he did not expect discussions over the approval of the US-Peru Free Trade Agreement to generate the same controversy as the Central American Free Trade Agreement.

INSIDE THE WTO

SUSPENSION OF DOHA ROUND CAUSE FOR SERIOUS CONCERN

Earlier this month, officials from 20 key developing countries met with U.S., E.U., and Japanese trade negotiators in Rio de Janeiro in an attempt to revive Doha Round trade talks which were suspended indefinitely in July. The meeting's only achievement was an agreement to resume the talks in the future.

On September 20-22 Australia hosted another revival and re-launch meeting as part of an extended gathering of the Cairns Group.

All these high-powered gatherings amount to little more than keeping the Doha Round on life support until key WTO members are ready to show a serious commitment to trade liberalization.

The Doha Round, which was launched in Doha, Qatar, in 2001, was suspended indefinitely in Geneva at the end of July because of an impasse over cutting agriculture subsidies and tariffs. Both the collapse of the talks and the reasons behind it were quite expected. The negotiations have been effectively stalemated for at least a year and efforts to bridge differences among members in key areas have failed.

It has long been clear that agriculture would ultimately determine the fate of the talks. Right from the beginning of the negotiations, there were deep divisions between the five key members in agriculture negotiations: the US, the EU, India, Brazil, and Australia. Agricultural exporters such as the US and Australia argued that reducing tariff protection would deliver the biggest gains for the poor by reducing the cost of food and giving farmers from developing countries a chance to export. But for India, with its millions of small-scale farmers and rampant rural poverty, development meant maintaining protection of its farm sector while having developed countries reduce their subsidies.

Similarly, the EU, with its heavily protected agriculture sector, resisted tariff cuts on agriculture imports and demanded that the US make substantial cuts to its farm subsidies before the Union can open up its agriculture market.

The EU has reportedly offered, in recent months, to cut its farm tariffs by about 51 percent, but Washington asked for tariff cuts of close to 66 percent.

With the stalemate in agriculture, negotiations on Non-Agriculture Market Access (NAMA) and trade in services also came to a standstill, as developing countries made it clear that opening their markets for industrial goods and services would depend on liberalizing the agriculture sector in developed countries.

Firm commitments and agreements on less controversial but vitally important issues, especially for the world's poorest countries, such as trade facilitation and Aid for Trade may also be lost as a result of the negotiation stalemate in agriculture because WTO members initially agreed that almost all trade negotiations would be linked together in a single undertaking.

"If the wreck is terminal – and after a five-year stalemate, that seems likely – everyone will be the poorer, perhaps gravely so," the Economist said in an article last month.

Last year, the World Bank estimated that global gains from trade liberalization would equal to US$287 billion, of which US$86 billion would go to developing nations.

But, the impact of wrecking the Doha Round talks goes well beyond the world's poor.

Many fear that, in the long run, the failure of WTO talks will unleash protectionist sentiments around the world, thus undermining the global trading system as a whole.

"...this trade failure is helping to give cover to a protectionist backlash that is seeing the growth of populism in Latin America, a resort to "national champions" in Europe and protectionist calls in the U.S.," wrote Gordon Brown, U.K. chancellor of the Exchequer in an Op-ed earlier this month

Moreover, the collapse of the talks is likely to further corrode developing countries' confidence in the WTO system and give a boost to the drive towards regionalism as an alternative to multilateralism.

ROOM FOR OPTIMISM?

After five years of mostly fruitless negotiations, and so many missed deadlines it is indeed tempting to dismiss the Doha Round as a failure and move on.

But at times like these, it is good to remember that multilateral trade negotiations have historically been driven by crisis and tend to collapse before they succeed.

Members appear to be unwilling to give up entirely on the talks, as the endless re-launch efforts show. Most would prefer to resume the negotiations, as they pledged to do at Rio. But members also know that if and when they do return to the negotiating table, they will have to be ready to make the necessary compromises to strike a deal or risk a terminal suspension of multilateral trade negotiations – an outcome that no country seems to be interested in.

The U.S. Trade Representative, Susan Schwab, warned earlier this month that the talks could be suspended for several years if there was no breakthrough over the next six to eight months.

Still, the whole processes is running out of time and one only hopes that members will realize that the long–term benefits of success of multilateral trade talks are much higher than the short-term political price that governments may have to pay.

INSAT FOCUS

ADVANCING SADC SMEs REQUIRES GOING BACK TO THE BASICS

For years, policy makers in Southern Africa have been trying to develop policies that promote the development and growth of small and medium enterprises (SMEs) and facilitate their participation in the economy. Prompted by the failure of their foreign direct investment policies to lure investors and the realization that foreigners will not invest in the region if locals are not investing, most Southern African countries embarked in the late 1990s on developing policies aimed at supporting SMEs and providing them with a wide range of services.

For the most part, these policies tried to develop 'Grand Designs' for SME growth and development. They contained frameworks for incentives and capacity building programs for SMEs, and some even had recommendations for monitoring and evaluation of their programs. They assigned responsibilities and tasks to various ministries and departments and provided for increased government expenditure towards SMEs.

But ten years and tens of millions of dollars later, SMEs in the region are still struggling to grow. 'Grand Design' SME policies have had very little impact on businesses in Southern Africa and SMEs continue to face severe challenges.

A good example is South Africa where the government has put in place several policies and programs and implemented legislation over the past ten years to support SMEs. Despite these efforts, 86-92 percent of over 6,000 SMEs that took part in a 2006 SME Survey said that government support programs and business advice from government agencies have had 'low' or 'very low' impact on their competitiveness.

Similarly, seven years after Botswana implemented its SME policy, SMEs still face a host of regulatory and other challenges. Mr. Michael Tapela, the head of the Small Business Promotion Agency (SBPA), says SMEs in Botswana still suffer because of an unfriendly regulatory environment.

"[There are] too many laws and regulations that are very restrictive like for instance licenses… It takes too much time for SMEs to get hold of them and some don't even know where to get these things. The situation is not much different in other countries in the region," he says.

So what contributed to the limited success of SME policies in Southern Africa over the past decade?

THINKING BIG, BUT MISSING THE BASICS

Analyzing the reasons for the success or failure of government policy is never a straightforward process, especially when one is assessing policies of several countries over a ten year period. A wide range of political, economic, and social factors could have contributed to the limited success of SME policies in Southern Africa.

Among those, the failure of Southern African governments to tackle the basic conditions for business growth, analysts say, may have played a central role in undermining SME policies in the region.

By and large, SME policies in Southern Africa focused on the short-term goal of ensuring the survival of existing SMEs rather than creating the necessary conditions for them to grow and expand into larger and more sustainable businesses.

Most governments in the region rushed to create formal institutions to support SMEs and provide subsidies and capacity building to small firms, often with heavy support from donors.

At times, these efforts did little more than add layers of red tape and provide new ways for ineffective use of donor funds. Zimbabwe, for example, went as far as creating a new ministry which turned out to be nothing more than a duplication of an existing department in the country's Ministry of Trade and Industry.

But at worst, these policies created dependence among beneficiaries on donor funding and delayed, rather than stimulated, the correction of market inefficiencies.

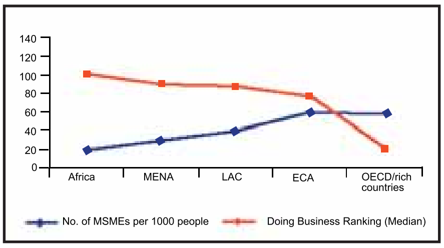
A 2006 study on SMEs in Botswana showed that 45 percent of the beneficiaries of Citizen Empowerment Development Agency (CEDA) grants were also beneficiaries of its predecessor, the Financial Assistance Policy (FAP) of 1982. It also found that businesses had a very low survival rate – between 80 and 85 percent of businesses did not make it beyond their 5th year because some 'would-be entrepreneurs' tended to exploit government schemes as a means of cheap funding which could then be diverted elsewhere.

'Many obstacles facing SMEs stem from the general business environment. Often, policies not even aimed at SMEs have a direct impact on them, sometimes putting them at a disadvantage and/or making it difficult to obtain human, technological, and financial resources needed to improve their quality and productivity," said the United Nations Industrial Development Organization in its 2004 report titled "SMEs in Africa Survive Against All Odds".

But throughout their efforts to help SMEs, governments in Southern Africa have overlooked the most important requirement for business success; an enabling business environment, for small, medium, and large enterprises alike.

The most widely cited measure of a country's business environment, the World Bank's Doing Business Survey, draws a direct correlation between a country's density of SMEs and its ranking in terms of the ease of doing business in that country. The higher its score, the more difficult it is to do business in that country.

MSME Density and Business Enabling Environment



A glance at the Doing Business Rankings for selected Southern African Countries over the past three years reveals that many countries have been slipping down the ranks.

Doing Business Rankings for Selected Southern African Countries 2004-2007

	2005	2006	2007
Botswana	40	44	48
Lesotho	97	116	114
Madagascar	131	148	149
Malawi	96	106	110
Mozambique	110	137	140
Namibia	33	39	42
South Africa	28	28	29
Swaziland	n/a	67	76
Tanzania	140	150	142
Zambia	67	92	102
Zimbabwe	126	145	153

All businesses in Southern African countries continue to suffer from an unfavorable business climate characterized by inappropriate regulatory frameworks, lack of access to markets and to finance, poor infrastructure, inadequate support institutions, and exceptionally high costs of doing business and trading across borders.

While improvements in the overall business environment can benefit all businesses, poor investment climate imposes disproportionately more costs on SMEs than on large firms.

For example, fixed costs such as regulatory compliance costs, registration costs, the costs of bad infrastructure, or the costs of corruption hit small firms harder.

Consider this: In Namibia in 2006 it still cost 892 percent of per capita income to deal with licensing requirements for opening a business. Despite recent reforms, in Tanzania this cost is still a whopping 3,796.6 percent of GDP per capita and it takes 313 days to get the required licenses. In Malawi, a business owner is better off keeping his/her business open, even if it is not profitable, because it would cost 30 percent of the business owner's estate and would take three years to close it.

In four Southern African countries, a business' profit would be eroded by more than 50 percent if it paid all the taxes that it was supposed to. Company taxes are below 40 percent of profits in only two countries in the region.

Even in the region's most advanced economy, South Africa, small businesses spend on average 8 percent of their turnover every year on regulatory compliance costs. KwaZulu-Natal finance and development Member of the Executive Committee (MEC) Zweli Mkhize cited these high compliance costs as a hindrance to the development of the small business sector in an address at the tri-nation SME Forum that took place in Durban in July.

As a result, many small and very small enterprises are opting to stay outside of the formal economy where they remain small, survivalist business units with short life-spans and little growth potential. Remaining in the informal sector also implies focusing on trading activities rather than production and manufacturing and providing low quality and insecure employment for workers.

GOING FORWARD

SME policies in Southern African have not achieved their intended goals and are unlikely to do so in the future. Unlocking the potential of SMEs in the region will necessarily require creating the basic conditions for an enabling business environment.

In a globally competitive environment, where SMEs from other developing countries are increasingly looking beyond the borders of their home countries (see the Guest Perspective by Fujita on pages 16-17), partial reforms are simply not enough to ensure that SMEs will grow and contribute effectively to the economy.

Going forward, governments need to spend less money and effort on "Grand Designs" and focus on appropriate reforms at the local, provincial, and national levels that create a more friendly business environment.

In doing so, it is essential that they are guided by the needs of the private sector – much of which is captured in efforts such as the Regional Business Climate Survey (see page 6), the World Bank Doing Business Report, the SME Survey in South Africa, the Namibian and Malawian Business Climate Surveys, and the Global Competitiveness Report, among others.

There is certainly a role for governments to play in enabling SMEs to build their capacity to compete locally and internationally. These may include special tax incentives for small businesses as well as the provision of targeted advice to demystify the tax system to small enterprises, the creation of sites for small business activities by municipalities, the computerization of registration and licensing procedures, and the organization of trade and consumer fairs with specific provisions for the participation of domestic and regional SMEs. It is also important for governments to focus resources on improving the skills and staffing of bureaucracies to ensure the effective implementation of necessary regulations and licensing requirements.

This will allow SMEs not only to survive, but to grow into larger, export oriented firms that can make significant contributions to economic development, growth and employment.

WE SPEAK TO...

DR. KEN KWAKU, SPECIAL ADVISOR TO EX-PRESIDENT BENJAMIN MKAPA AND TO THE INVESTMENT CLIMATE FACILITY

In your capacity as the Chief Representative of the Multilateral Investment Guarantee Agency (MIGA) in Africa over the past decade, you worked a lot with the private sector as a vehicle for development and growth. How important are SMEs as vehicles for growth and development?

The capacities of small and medium enterprises, when properly supported, have been known to truly be the engine of development.

Across the board, small and medium enterprises continue to be the primary generators of wealth in terms of employment and of exports. And, they can only do this when they have knowledge.

What is the role of governments in supporting and promoting SMEs?

In many African countries trade and industry are in the same ministry, but in most of these countries you don't have officials thinking that before you can trade something, you have to make something. I was recently at a UNIDO conference on industry where we were talking about production capacity for trade and half the ministers were lost. But you cannot trade what you haven't produced. So a clear understanding of these linkages through proper leadership and strategic thinking is critical. People think that SMEs are the poor, the unintelligent, and the powerless. Nothing could be further from the truth – IF they are organized. So we need to really let SMEs achieve a certain degree of organization. We have to create a business environment that provides them with security.

Currently many African leaders are influenced by the ideas of Hernando De Soto on formalizing the informal business. But you see, we can follow Hernando and register property, but still that does not provide automatic access to credit. Government support is key to accessing affordable credit by SMEs. So it is a whole mixture of leadership, reforms, knowledge and strategy. And this is where some African countries – still have a long way to go.

Which Southern African countries have implemented successful SME policies that could serve as examples for other countries?

Well, I think that during 1995-2003, Namibia embarked on one of the most systematic efforts to improve the contribution of SMEs to the economy. The strategy was partly to diversify economic activities, which were predominantly mining and tourism. It was also partly to empower Africans in the Namibian population. Through instruments like credit guarantee programs and training, cutting down the red tape that SMEs faced particularly in company registration they were able to bring a good number of SMEs into the tax network by just deregulating the incredible bureaucracy that SMEs faced.

Mauritius also developed excellent SME strategies. This allowed mixtures of business units (large and small) to respond to national competitiveness. So while you do have large textile firms, you have a subcontracting program that goes down the value chain and that empowers SMEs. And you have the same even in technology and services: that you use different sets of production techniques to link small business units to big business units. To me Mauritius is the most competition-sensitive African country – even more so than South Africa.

Which countries have had a less successful experience implementing SME policies?

South Africa had attempted, particular

PHOTO COURTESY OF *BUSINESSINAFRICA.NET*

during the time that Alistair Reuters and Alec Erwin were at the DTI, but SAs SMEs policy got caught up in greater BEE policy. Today specific SME support programs are again slowly evolving.

Tanzania must improve policies for supporting SMEs. Part of the problem in Tanzania is also that too many donor agencies confuse the agenda. You know, ILO has done this, World Bank has done this, UNDP has done that, DFID has done this, etc. If you were to put together all the reports done on SME development in Tanzania on a small boat it would probably sink! Nonetheless, the country struggles to put together a coherent and focused SME policy. It is not a question of not trying, but somebody has to take charge and this has been lacking for a while. But I think with the new government now – particularly with a businessman now as Minister of Industries – and also having a university that has a strong interest in SME performance, I am hopeful that it will go forward.

Elsewhere in Africa, consistent strategic support to SMEs is still lacking.

If you look at the regional economic communities (RECs), other than COMESA, none of them really pay any serious attention to SMEs – neither ECOWAS, nor SADC, nor EAC. The RECs, other than COMESA, have been very ineffective in really thinking through SME policies and SME development.

Are there other examples of good SME policies that could serve as an example to Southern African countries?

Ghana is another country that has done significantly well in integrating SMEs into their export development program. There is a program called the President's Initiative on Textiles and Cassava which has helped Ghana to move up, I would say 10-15 fold between 1995 and now with regards to the contribution of non-traditional exports. The traditional exports from Ghana have been gold, cocoa and timber. These three items, for a very long time dominated the export profile. But the President's Initiative on Textiles and Cassava and other achievements under Minister Alan Kyeremanten, which has put an emphasis on SMEs, have made real differences. Today you can see the results in the contribution to GDP and export earnings.

Singapore has been able to integrate knowledge into SME production. I mentioned an example – of a 17 person IT Company in a garage in Singapore producing 200-300 million dollars of value. Size is not everything.

What are the common characteristics of successful SME policies?

It has to be consultative. It has to grow from among the population and not from top-down. A successful SME policy must impart knowledge so that the people feel empowered. To know that, if I produce cashews, there is a marketing channel, and a national price for cashews. That knowledge is essential.

Access to credit is vital. I think that people need to know that if they have the knowledge and they are assisted to put together a business plan they can have access to credit.

I, however, would put knowledge before finance though, because, in my over 30 years in this business I am yet to see a good deal, a good program go begging for money for too long.

So, knowledge, realistic business planning, understanding what you want to do (strategy) and empowering people to be entrepreneurial are all essential ingredients in a successful SME policy.

Do you think that harmonization of SME policies in the Southern African region is desirable and/or possible?

Absolutely. Absolutely. Knowledge is the key and best practice is vital. African countries tend to keep on wanting to reinvent the wheel and want to produce one report after another. Now we need to learn to focus on best practice and to move forward and implement.

When I was working on the Namibia SME policy in the mid-1990s, what DTI was doing in South Africa was inspirational. We can always learn – we had the same big issues and the same problems. For example regarding access to credit, through some of the lessons and the failures in the original models of Khula in South Africa and elsewhere, we learned to avoid those pitfalls in Namibia. So clearly harmonization is important, as is learning lessons from each other. Because generally the problems are the same, we don't need to go out to Malaysia. Every African country is running up to Malaysia, but they don't understand that, when Malaysia established an entrepreneurship ministry and SME Bank there were fundamental mind-set changes that supported these efforts.

Finally it also boils down to leadership. Very few leaders are championing SMEs beyond political rhetoric. My hope is in Nepad or the SADC Secretariat – both of them have good thinkers – but are yet to really make their mark. But, are we getting the best people out there; challenging them to think critically and strategically? This is the problem of most of Africa's development challenge.

You also act as an advisor to the newly created Investment Climate Facility (ICF) - Are there opportunities for SMEs to benefit from large continental initiatives such as the ICF?

Any time the business environment is improved, particularly when red tape is cut, property rights established and ENFORCED among other reforms, SMEs are the biggest beneficiaries. This is because they suffer the most. The big guys mostly find their way around difficult obstacles, mostly by paying bribes!

How important are skills and knowledge and a culture of entrepreneurship to SME development and sustainability?

Again, one of the things that we have found out, and this is really from the work of the World Bank, is that, the better educated the SME operator is, the more efficient and effective they are in dealing with business. So capacity building and empowering the SME through knowledge became a very important aspect of my work then, and my work today. I am a true believer that even the simplest SME operator requires knowledge. Knowledge – even if it is double entry bookkeeping, how to do business with partners, managing inventory – there are so many ways that simple skills can make a difference. Examples across the world prove this.

I tell my African colleagues: the same entrepreneurial spirit that made Africans catch their brothers and sisters and sold them into slavery, could be transformed and applied positively into making and selling widgets today! We are by no means poor people of poor mind; we are just not putting our thinking in the right direction. Leadership is key. I have seen the work of Alan Kyeremanteng (Ghana) and Hidipo Hamutenya (Namibia) make real differences in their countries.

The problem in Southern Africa is that we are not focusing enough on imparting knowledge. South Africa is making some progress. There is considerable best practice in many countries and agencies like UNIDO, the ILO and many NGOs do better work here than the World Bank.

GUEST PERSPECTIVE

INVESTMENT TRENDS AMONG SMEs IN DEVELOPING COUNTRIES

Masataka Fujita is Chief of the Investment Trends Section, Division on Investment, Technology and Enterprise Development, at the United Nations Conference on Trade and Development (UNCTAD). Mr Fujita is responsible for the UNCTAD databases on Foreign Direct Investment and Transnational Corporations

One thing is clear: sustainable economic development requires a robust indigenous small and medium-sized enterprise (SME) sector. In any country SMEs are the backbone of the economy.

But if SMEs are to survive and, indeed, grow in an increasingly competitive global economy, they will need to consider the option of going abroad. Although this poses challenges, it also presents significant opportunities to developing countries, in particular those that seek to attract foreign direct investment (FDI).

Recent evidence suggests that, even though most employment and output continue to come from the largest enterprises, the organization of industries in general has increasingly encompassed SMEs. In virtually every country, SMEs have accounted for a significant, and indeed growing, share of the increase in employment and output over the past decades.

One of the ways through which SMEs have contributed to the global economy over the past decade is FDI. Foreign Investments by SMEs have grown dramatically since the mid-1980s driven by, among others, the need to be present abroad to access markets and resources in order to maintain their competitiveness in a rapidly liberalizing and globalizing world economy. Small and medium-sized transnational corporations (TNCs) complement large TNCs in the transfer of productive resources and technology that can enhance the growth and competitiveness of host developing countries.

Because small and medium-sized TNCs can contribute significantly to development, the positive role they can play should be facilitated by national economic policies of both host and home countries.

For several reasons, developing Asia has more potential to mobilize FDI by SMEs than any other developing region. First, a number of countries in the region have considerable experience with respect to SME-generated FDI flows from SMEs and ways to expand and strengthen their role in development. Second, a very high proportion of enterprises in Asian economies such as the Republic of Korea, Singapore, and Taiwan are SMEs, and they account for 40 to 60 percent of output. This implies an important reservoir of productive resources and knowledge that could benefit developing countries that are trying to promote local SMEs.

SME Outward FDI Flows from the Republic of Korea Between 2001 and 2004 (Millions of US$)

Outward FDI flows	2001	2002	2003	2004
Total	6,353	6,332	5,906	8,053
SMEs	1,339	2,220	2,557	3,074
% Share of SMEs	21.1	35.1	43.3	38.2

In many developing countries, in particular in Africa, local SMEs play a less important role than in Asian economies. Therefore, Asian SMEs, through FDI, can play a dynamic role in stimulating African economies, the way they did in their home countries. For example, an UNCTAD survey that compared FDI by SMEs in other SMEs and FDI by large firms in local SMEs in developing Asia, showed that the former was three times more likely to regard training of unskilled staff as very important to their strategic success, was more than twice as likely to regard the introduction or improvement of products or services as very important, and more than 50 percent more likely to regard training of local managers and the increasing of foreign earnings as very important (UNCTAD, 1998).

Overall, the share of total FDI accounted for by SMEs remains small in value but large in terms of number of affiliates. There is at least some evidence that not only has the absolute value of FDI by SMEs been increasing over time, but so has their share in total FDI. FDI by SMEs headquartered in Japan has generally followed the trend of their larger counterparts, but their speed of investing abroad is faster than larger counterparts: the proportion of SMEs with FDI in 2002 was 9.3 percent as compared with 6 percent in 1992, while in the case of large firms these figures were 28.5 percent and 26.6 percent, respectively (JSBRI, 2004). In Italy, SMEs account for around one-third of all Italian FDI. In the case of Sweden, small and medium-sized TNCs account for four-fifths of the total number of Swedish TNCs. Similarly, in developing Asia, for example, one third of the value and two thirds of number of cases of outward FDI from the Republic of Korea are undertaken now by SMEs, compared with

19 percent and 60 percent, respectively in 1993. Many high-technology SMEs start to produce abroad without necessarily first having other international experience. This could mean that developing countries will be able to reap the benefits from pioneering technologies of foreign SMEs within a relatively shorter time frame.

There is a large population of SMEs that have not invested abroad yet, but might wish to do so – or, driven by competitive pressures, may eventually have to invest abroad. The potential in this regard is high, as more than 95 per cent of all firms are of small and medium-size. Currently there are more than 60,000 small TNCs in the world. Increasing the awareness of developing countries of this insufficiently tapped source of investment can no doubt contribute to their development, including the development of their own SMEs. Suppose that your country wants to attract $100 million in FDI (to supplement domestic investment). Just ask yourself: which option is more favorable to development of your economy: one large investment of $100 million in capital, or 100 small investments by 100 entrepreneurs of $1 million in capital each?

Carefully designed policies are, however, essential to encourage FDI by SMEs.

Africa stands to benefit from the rapid expansion of a dynamic, internationally competitive SME sector. FDI in Africa by SMEs provides an attractive opportunity in this respect. To understand its potential and develop appropriate policies, it is necessary to understand the processes underlying the behavior and strategies of SMEs with respect to FDI. At the same time, in order to realize the potential of SMEs and SME FDI, both host and home governments as well as the international community should put in place appropriate policies as SMEs face many more specific impediments and difficulties than large counterparts that inhibit their growth and potential to contribute to development.

Important contributions that these firms make include the generation of new jobs, innovation and technological change and, then, FDI.

FDI by SMEs account for a small fraction of total FDI in many host countries. Nevertheless the potential is high to increase it significantly. For both home and host developing countries, including Africa, the following are possible best-practice policies:

• Providing accurate information. For SMEs, the costs of obtaining accurate and useful information are high in relation to the size of their investment. There is no difference in paying for information between large and small firms.

• Encouraging linkages between local SMEs and SME investors. It reduces the risks and costs associated with investment in a foreign country by complementing each other through exploiting their own comparative advantages.

• Providing appropriate incentives to SME investors. This should be done carefully to bring a net gain to the country, perhaps as a part of broader strategy of promoting FDI and tailored to the development of specific industries.

• Providing access to specific support services and infrastructure. It is important to develop a mechanism that accommodates the needs of the investors but it should be done in priority order and in accordance with the overall strategy of promoting FDI.

• Addressing specific impediments and barriers to FDI by SMEs. Compared to large investors, SMEs have different and deeper problems in going abroad. Removing unnecessary problems facilitates their investment. Host and home countries need to develop a mechanism to monitor their problems and needs.

If these policies are shared and can be implemented together by both host and home countries, it would cost less and be done more efficiently and effectively.

SWAZILAND SME DIRECTORY

Swaziland expects to publish the country's first ever Directory of SMEs later this month. The directory is aimed at promoting the country's SMEs all over the world via the internet and helping them market their products and services both domestically and internationally.

Although the directory has not been officially launched, it has been available at local libraries since May and is currently accessible on-line. It has also been distributed to local federations such as the Federation of Swazi Business Community and the Federation of Swaziland Employers.

The SME Directory 2006 is available at: *http://www.sme.org.sz/smedir/index.html.*

SME TOOLKIT

Reaching out to SMEs: An electronic toolkit for employers' organizations. This CD-ROM from the International Labor Organization (ILO) provides employer organizations with a variety of data that covers the interests and concerns of SMEs and highlights what employer organizations can do to meet their needs.

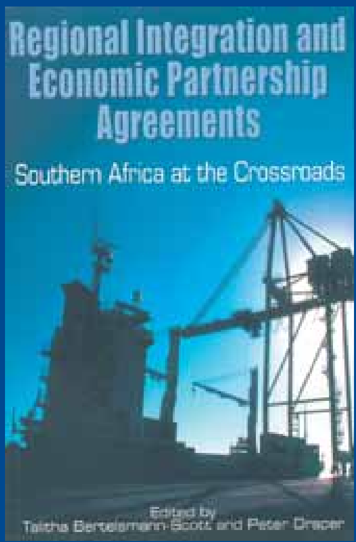
The toolkit also includes case studies to demonstrate ways in which employers' organizations can reach out to SMEs. Providing services to SMEs poses certain challenges for organizations, and this CD-ROM covers many of the key issues and proposes practical strategies.

The CD-ROM can be purchased on-line at *http://www.ilo.org/public/english/support/publ/xtextman.htm#b0978*

TRADE RESOURCES

NEW RESEARCH

Regional Integration and Economic Partnership Agreements. Resulting from the deliberations of a Regional Integration and Economic Partnership Agreements Conference held at the end of 2005 in Johannesburg, this book examines the dynamics of European Union trade policy and its manifestations in Southern Africa. It also looks at the political and economic geography of the region as well as its associated institutions and regional configuration options. It is divided into four sections that look at: Trade Policy Developments in the EU; SADC/EAC/COMESA and EPA Negotiations; Regional Economic Integration; and Alternatives to EPAs.



To order a copy of the publication, visit the web page of the South African Institute of International Affairs (SAIIA), *www.saiia.org.za* or contact *stanleye@saiia.wits.ac.za.*

The Southern African Development Community - The organization, its policies and prospects. The Institute for Global Dialogue (IGD) recently published this book on the Southern African Development Community (SADC) by Gabriël H. Oosthuizen. It comprehensively deals with the organization's history; institutions; socio-economic, trade, political and security policies and activities; and legal underpinnings. It covers SADC's evolving position in the continental and global institutional architecture, including vis-à-vis the WTO, UN, SACU, COMESA and AU. The book offers a frank analysis of SADC's shortcomings, achievements and prospects, and raises critical questions about its trade cooperation and integration agenda which is imperiled by the divisions among the member states in the economic partnership agreement talks with the EU. The most detailed and up-to-date guide to SADC in the public domain, it is aimed at policy-makers, analysts, students and citizens in the region and elsewhere. The book can be ordered from the IGD (*www.igd.org.za*).

The African Union (AU) and the United Nations Economic Commission for Africa (UNECA) released their second report on regional integration in July. The report, entitled **Assessing Regional Integration in Africa II: Rationalizing Regional Economic Communities (ARIA II)**, assesses the current institutional setting for regional integration in Africa and offers recommendations for rationalization of the continent's economic communities. While acknowledging the achievements of economic communities in Africa, the report argues that overlapping regional agreements are slowing integration on the continent and that strengthening economic integration on the continent will require "rationalization" of the numerous regional agreements. The report, which was presented at the African Union Summit of Heads of States in Banjul, Gambia, offers five recommendations for rationalizing regional economic agreements: (1) sharing a vision that aligns the regional economic communities with the African Union and the New Partnership for Africa's Development, (2) strengthening the performance of the regional economic communities, (3) protecting the geographical viability of the regional economic communities, (4) expanding Africa's economic and market space for production and investment, and (5) developing transitional measures to gradually replace the current institutional arrangements. ARIA II can be downloaded at *www.uneca.org/aria2*.

NEW PUBLICATIONS FROM THE TRADE LAW CENTER FOR SOUTHERN AFRICA (tralac)

In **A possible SACU-China Free Trade Agreement (FTA): Implications for the South African Manufacturing Sector** Ron Sandrey, a tralac senior research fellow, together with Hans Grinsted Jensen, examines the potential impacts of an FTA between SACU and China *http://www.tralac.org/scripts/content.php?id=5209*

Trade Creation and Trade Diversion resulting from SACU trading agreements. In this paper Ron Sandrey, a tralac senior research fellow, examines in detail both actual costs to SACU tariff revenues from the EU Trade, Development, and Cooperation Agreement (TDCA) and SADC preferences and other potential FTAs being contemplated. *http://www.tralac.org/scripts/content.php?id=5211*

INSIDE THE TRADE HUB

HUB ASSISTS IN DRIVE TO INCREASE MEMBERSHIP OF WOMEN'S PRIVATE SECTOR ASSOCIATION

Until a few years ago, a woman operating a business in Botswana needed the signature of her husband to take out a business loan and was constantly faced with obstacles to independent action. Yet, according to some statistics, up to 75 percent of small and micro businesses in Botswana are owned by women.

The Botswana Women in Business Association (WIBA) aspires to provide a much-needed forum for women to address the problems inhibiting the growth of their businesses and to share ideas. It also strives to give women a voice in the policy processes in the country.

However, WIBA's efforts to achieve its goals have been hampered by a lack of resources, low membership, the inability to offer its members access to finance, and the absence of a permanent secretariat.

Today, the USAID Trade Hub is assisting WIBA to overcome these challenges

One of the most-often quoted constraints to small businesses is the lack of access to finance. "I have been in this business since 1979. I have raised my children with the little money I make, but I do not have enough money to make my business grow and now I am too old", laments Mosarwana Letamola, who is a fast foods vendor at the Gaborone Bus Terminus. When quizzed why she does not apply for micro-finance from existing micro-finance institutions, she replies, "They ask for many things and I am not very educated. The forms are difficult to fill".

During July, the Trade Hub engaged a micro-finance expert with extensive experience with women's organizations similar to WIBA throughout Africa to produce a study of the micro-finance options in Botswana. WIBA is currently reviewing her recommendations on implementing a micro-finance service for WIBA members.

To triple WIBA's membership by the end of the year, the Trade Hub has also contracted a membership campaign coordinator who is currently coordinating a four-month membership drive throughout the country.

Once these basics are in place, and the businesswomen of Botswana can speak with one voice, WIBA will be able to engage government to push for policy changes that will ensure that they are fully integrated into the entrepreneurial activities of the country and able to expand their businesses to also take part in cross-border economic activities.

TRADE ISSUES FILM SERIES

Since its launch in May, the USAID Trade Hub's Trade Issues Film Series has continued to stimulate discussion on issues affecting trade at events around the region, as well as showcase the work of the Hub. Over 1,000 people have viewed one or more of the films. DVDs of the films have also been distributed to stakeholders in the region and beyond.

The series consists of five 15 minute educational films looking at trade-related issues such as trade preferences, trade facilitation, private sector advocacy, HIV/AIDS and the private sector, and the business environment.

AGOA RESOURCE CD

At the end of July, the USAID Trade Hub finalized an AGOA resource CD. This resource was prepared to assist the private and public sectors understand, implement, and maximize the benefits of AGOA exports from Southern Africa to the United States. This DVD contains seven sections from "Getting Started: Exporting to the United States" to "Policy and Research on AGOA". Each section is designed to give the user a comprehensive understanding of the procedures and requirements to export products to the United States. For a copy, contact *AGOA@satradehub.org*

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INSIDE THE TRADE HUB

REGIONAL WORKSHOP AIMS TO EXPAND EXPORTS UNDER AGOA

In October, the U.S. Agency for International Development (USAID) and the Office of the United States Trade Representative (USTR) will host a Southern African Regional AGOA Workshop – the third in a series of regional workshops around the African continent – that will focus on expanding processed food exports under AGOA. The USAID Trade Hub is facilitating the workshop.

Uptake of duty-free export opportunities under the African Growth and Opportunity Act (AGOA) has been slow and largely concentrated in the energy and apparel sectors.

Yet there are great opportunities in the multi-billion dollar specialty processed food products sector just waiting to be exploited by Southern African producers.

The specialty food market in the United States is valued at nearly US$30 billion and is rapidly growing.

Food buyers in the United States recognize the unique flavors and products that Africa has to offer. Products from Southern Africa are finding their way onto the shelves of popular U.S. chain stores such as Whole Foods, Costco, Trader Joe's and specialty delis throughout the United States.

South Africa is already exporting a wide range of teas, wines, sauces, jams, juices, spices and nuts to the US and other international markets. Other countries in Southern Africa are taking advantage of this new trend as well.

International food buyers are increasingly looking to Africa for new, exciting and exotic products to satisfy consumer demands in the US; whether it is vanilla from Madagascar; the deep flavors of Malawian coffee; or a tangy ginger jam from Swaziland.

To capitalize on this growing trend, food producers in Africa need to understand the American marketplace, including procurement practices, labeling requirements, targeting appropriate markets and product positioning, branding and design.

The Southern Africa AGOA Workshop, entitled 'Expanding Processed Food Exports Under AGOA', which will take place in Cape Town, South Africa, aims to assist Southern African processed food producers to expand exports to the United States.

A delegation of experts from the United States, including American food distributors, brokers, and marketing experts will travel to the workshop in Cape Town to share their expertise with participants from Southern African countries.

The workshop will include sessions on retailing, distribution, marketing, financing, and important trends in the U.S. food market for African processed food products.

Participants will learn about U.S. regulatory requirements and techniques to increase exports and distribution to the United States in processed foods, including specialty foods and ingredients.

Not every company can say it both thrills the taste buds while changing the lives of orphaned children. But that is exactly what jam and chutney producer Eswatini Swazi Kitchen does in its home city of Manzini, Swaziland.

Founded by a Catholic priest and an Anglican nun in 1991, its mission is to provide funding for Manzini Youth Care, which helps the city's orphans by giving them a home and an education. It provides direct and indirect employment to hundreds of workers and farmers in the region.

Today, the company produces fine lime and kumquat marmalades, guava jelly, chili sauces and mixed fruit or mango hot chutneys. Hand-crafted by Eswatini's 20 full-time workers, these delicious Fair Trade items also come in gift baskets that are hand-woven by Swazi artisans.