MSMEs, value chains and trade development in Southern Africa: case studies from selected countries
## Contents

ACKNOWLEDGEMENTS ................................................................................................. V

EXECUTIVE SUMMARY ............................................................................................... VI

1. INTRODUCTION ...................................................................................................... 1

1.1 Purpose ......................................................................................................................... 1

1.2 Context .......................................................................................................................... 1

1.3 Situation after the coronavirus disease (COVID-19) pandemic ...................................... 2

1.4 Approach and methodology ........................................................................................ 2

1.4.1 Approach .................................................................................................................. 2

1.4.2 Methodology ............................................................................................................. 6

1.5 Structure of the present report .................................................................................... 7

2. MAIN TRENDS AFFECTING MSMES’ DEVELOPMENT ........................................... 8

2.1 Trade agreements, trade facilitation and industrial policy ............................................. 8

2.1.1 Trade agreements and trade facilitation .................................................................... 8

2.1.2 Support for subregional value chains ...................................................................... 10

2.1.3 Support for MSMEs in Southern Africa .................................................................. 14

2.2 Emergence of value chains that can incorporate MSMEs ............................................. 15

2.2.1 Examples of value chains creating new opportunities for MSMEs in Southern Africa .......................................................... 16

2.3 Digital marketplace ................................................................................................... 17

2.3.1 MSMEs’ ability to conduct business-to-business and business-to-consumer trade has been radically transformed .......................................................... 17

2.4 Role of innovative approaches in increasing the utilization of trade agreements by MSMEs .......................................................... 18

3. OVERVIEW OF MSMES IN SOUTHERN AFRICA .............................................. 20

3.1 Characteristics of MSMEs in the subregion .................................................................. 20

3.1.1 Innovation and access to technology ..................................................................... 21

3.2 Specific constraints faced by MSMEs ......................................................................... 22

3.3 Opportunities for upgrading: quality, absorption of production techniques and technology .......................................................... 23

3.4 Selected priority value chains for MSMEs in SADC ..................................................... 25

3.4.1 Introduction ............................................................................................................. 25

3.4.2 Textiles ................................................................................................................... 25

3.4.3 Leather and leather products ................................................................................. 26

3.4.4 Agroprocessing ...................................................................................................... 28

3.4.5 Minerals beneficiation: fertilizers ......................................................................... 29

3.4.6 Pharmaceuticals ..................................................................................................... 31

4. COUNTRY CASE STUDIES ........................................................................................ 33

4.1 Selection of case studies ............................................................................................. 33

4.2 Malawi ......................................................................................................................... 34

4.2.1 Country profile ....................................................................................................... 34

4.2.2 Case study 1, Global Seeds: managing the lack of trust in the value chain and counterfeit seeds .......................................................... 39
4.2.3 Case study 2, iMoSyS and Kombeza Foods Limited: challenges along the value chain, including the quality of inputs, market access and market entry ................................................................. 41

4.3 Mauritius ........................................................................................................................................... 42
4.3.1 Country profile .................................................................................................................................. 42
4.3.2 Case study 1, BEM Recycling: challenges of being at the cutting edge .................................................. 48
4.3.3 Case study 2, Eclosia and the Mauritius Sugar Syndicate: integrating MSMEs into the value chain ....... 51

4.4 Mozambique ......................................................................................................................................... 54
4.4.1 Country profile .................................................................................................................................. 54
4.4.2 Case study 1, EcoEnergy: certification constraints for new or emerging products in insecure areas ...... 58
4.4.3 Case study 2, Moazal and the Mozambique Economic Linkages for Diversification Project: integration of MSMEs into the export value chain ................................................................. 60

4.5 Namibia ............................................................................................................................................... 64
4.5.1 Country profile .................................................................................................................................. 64
4.5.2 Case study 1, Omulamba Plantations, Miombo Forestry Products and Ilotu Cosmetics: challenges facing MSME exporters in Namibia ................................................................. 67

4.6 South Africa ......................................................................................................................................... 71
4.6.1 Country profile .................................................................................................................................. 71
4.6.2 Case study 1, Finvex.tech: working capital and trade finance ................................................................. 78
4.6.3 Case study 2, the Wesgro Cape Trade Portal, the Standard Bank Trade Club and TradeBRICS: linkages and trust in export and domestic markets ................................................................. 81

4.7 Zambia ............................................................................................................................................... 86
4.7.1 Country profile .................................................................................................................................. 86
4.7.2 Case study 1, Alliance Ginneries: overcoming weak contract enforcement in agricultural and agroprocessing inclusive supply chains ........................................................................ 89
4.7.3 Case study 2, Good Nature Agro and Farm Depot: digital information-sharing platforms to unlock value in inclusive supply chains ........................................................................ 91
4.7.4 Case study 3, ENTERPRISE Zambia Challenge Fund: providing access to financing for catalytic initiatives that integrate MSMEs into value chains and improve their market access ........................................................................ 95
4.7.5 Case study 4, Proudly Zambian Campaign: quality upgrading and signalling to counter the foreign brand bias ........................................................................................................................................ 99

4.8 Cross-cutting issues not captured in the case studies ......................................................................... 103
4.8.1 The value of digital information to financial services providers .......................................................... 103
4.8.2 Adoption of technology by MSMEs ................................................................................................... 104
4.8.3 Role of the macroeconomic environment in reducing opportunities for MSMEs to integrate into value chains .......................................................................................................................... 105

5. DISCUSSION AND INITIAL RECOMMENDATIONS .................................................................... 106
5.1 Introduction ....................................................................................................................................... 106
5.2 Nature of constraints .......................................................................................................................... 106
5.2.1 Insights from the case studies regarding constraints internal to the firm ........................................ 106
5.2.2 Insights from the case studies regarding constraints on the functioning of the market .................. 107

5.3 Insights into challenges identified in the case studies .................................................................... 107
5.4 Insights into solutions from the case studies .................................................................................... 108
5.4.1 Externalities of low trust and lack of contract enforcement .............................................................. 108
5.4.2 Economies of scale, networking and access to information ........................................................... 109
5.4.3 Access to finance ............................................................................................................................. 111
5.4.4 Quality signalling and the consumer’s perception of “Made in Africa” ......................................................... 111

5.5 Conclusions and initial recommendations ........................................................................................................ 112

5.5.1 Establish a knowledge-sharing hub to share the lessons learned and solutions that are already in operation, so as to prevent unnecessary duplication ...................................................................... 113

5.5.2 Develop a technology absorption module for MSMEs .............................................................................. 113

5.5.3 Conduct a scoping study for enhanced inspection methods ........................................................................ 113

5.5.4 Assess the impact of big data on financial inclusion for MSMEs ............................................................... 113

5.5.5 Provide targeted bilateral support for the implementation of a non-tariff barrier monitoring mechanism 113
### Abbreviations and acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>ITC</td>
<td>International Trade Centre</td>
</tr>
<tr>
<td>MSMEs</td>
<td>micro-, small and medium-sized enterprises</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises</td>
</tr>
<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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</table>
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The present study was presented and discussed by the consultants at the subregional meeting on technology and innovation for micro, small and medium-sized enterprises in Southern Africa, held in Cape Town, South Africa from 21 to 23 June 2023. The draft was circulated for comments to the ministries and agencies of the six targeted countries in charge of micro, small and medium-sized enterprise development and those in charge of science, technology and innovation. The following institutions sent comments or shared information on government strategies and policies: in Malawi, the Small and Medium Enterprises Development Institute, the Malawi Investment and Trade Centre and the Malawi Confederation of Chambers of Commerce and Industry; in Mauritius, the Ministry of Industrial Development, Small and Medium-Sized Enterprises (SMEs) and Cooperatives, SME Mauritius, the Mauritius Research and Innovation Council, the University of Technology, Mauritius and the University of Mauritius; in Mozambique, the Ministry of Industry and Commerce, the National Institute for SMEs, the delegation of the European Union to Mozambique and the Mozambique Chamber of Commerce; in Namibia, the Ministry of Industrialization, Trade and SME Development, the Namibia Investment Centre and the Namibia Investment Promotion and Development Board; in South Africa, the Department of Small Business Development, the Department of Trade, Industry and Competition, the Department of Science and Innovation, the South Africa Chamber of Commerce and the Industrial Development Cooperation; and in Zambia, the Ministry of Commerce, Trade and Industry, the Zambian Development Agency and the Zambia Information and Communication Technology Authority.

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Executive summary

In the present study, the authors analyse how Southern African micro-, small and medium-sized enterprises (MSMEs) are using innovations and technologies to integrate themselves into value chains and better utilize trade agreements. The countries analysed and visited were Malawi, Mauritius, Mozambique, Namibia, South Africa and Zambia. The research methodology included desk research and data analysis, as well as the gathering of evidence through country missions for the purpose of holding discussions and interviews with important stakeholders (from both the public and private sectors) in each of these countries.

Divided into five sections, the present report contains a comprehensive review of the MSME landscape in Southern Africa and numerous examples of MSMEs in the six targeted countries, each of which illustrate how innovations and technologies are being used by firms to participate in subregional and global value chains and to utilize the trade agreements to which these countries are parties, such as the agreements establishing the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the African Continental Free Trade Area.

Following an introduction in section 1, in section 2 the authors delve into the current trends shaping MSMEs’ development and the use of innovations and technologies to integrate these MSMEs into value chains and utilize trade agreements, setting the tone for the subsequent sections. MSME integration into value chains can be assisted through trade agreements, such as the Agreement Establishing the African Continental Free Trade Area, and trade facilitation measures. These agreements are aimed at opening up new markets and creating opportunities for new types of products. To support subregional value chains, SADC has established policies and strategies to enhance subregional integration and industrialization, aiming to drive subregional value chain development. Priority sectors for the value chain development include agroprocessing, minerals beneficiation, pharmaceuticals, consumer goods, capital goods and services. Both the private sector and the public sector provide support for MSMEs, including through corporate supplier development programmes and initiatives run by the SADC secretariat. Such programmes as the SADC Development Finance Resource Centre are focused on providing financial support, capacity-building and policy research tailored to MSMEs’ needs. The emergence of the global fragmentation of production creates opportunities for MSMEs to participate in value chains as providers of components or services. Digital technologies have transformed MSMEs’ ability to conduct business-to-business and business-to-consumer trade, thereby increasing access to international markets. However, challenges relating to digital infrastructure, cybersecurity, regulatory hurdles and access to capital still hinder MSME participation.

In section 3, the authors offer a thorough overview of MSMEs, their characteristics and the opportunities and constraints they face across the countries included in the present study. They also lay bare the distinct yet interconnected challenges presented by these environments by detailing the specific constraints facing the MSMEs, the opportunities available to them for upgrading, and which value chains hold the most potential for MSMEs in Southern Africa. MSMEs in the subregion face constraints that include a lack of technical and business knowledge, a lack of financial and digital literacy, and a lack of credit histories recognized by financial institutions. There is also a lack of knowledge of foreign market linkages, market requirements, customs procedures, market access and market entry. These internal constraints are compounded by the MSMEs’ limited productive capacity in relation to economies of scale and quality. The macroeconomic environment is also not favourable for MSMEs. It is estimated that the MSME financing gap for Africa stands at $331 billion. The region is also characterized by poor digital and physical infrastructure, non-tariff barriers and market dominance. Poor contract enforcement and business practices limit efforts to operationalize the
market. Other factors include negative consumer perception about “Made in Africa”, the challenges of market entry and a limited regulatory and commercial framework for innovative products or services.

In section 4, country-specific profiles and insights are detailed, which are sourced directly from reputable databases and interviews conducted during field visits to the six specified countries. While the interviews form the backbone of individual case studies, they also shed light on cross-cutting issues that transcend country borders. The case studies highlight solutions to the use of counterfeit seed in Malawi and how technology has provided solutions through the use of unique scratch codes, addressing side-selling in Zambia through the adoption of organic cotton to attract premium prices. Good Nature Agro in Zambia has developed a digital platform that reduces the cost of delivering extension services from $11 to $6 per farmer. Three case studies highlight how platforms have been developed to digitally link MSMEs to customers. The Standard Bank Trade Club, which is available in Botswana, Kenya, Lesotho and Uganda, brings together clients of 15 banks to create an online platform of 17,000 vetted companies in 60 countries with a matching algorithm for businesses. The Wesgro Cape Trade Portal in South Africa provides access to training and market information through a virtual marketplace. It includes 4,160 products, 676 verified exporters and 144 foreign buyers. There is also TradeBRICS in South Africa, which is an online digital marketplace of vetted sellers. In the case of frontier products, which are essentially innovative and emerging products, insights show how research and certification are critical for viability. The Feeling Good Company in Cabo Delgado, Mozambique has leveraged organic certification to attain premium prices, which compensate for the high costs of remoteness. In order to address constraints regarding access to finance for MSMEs, Finvex.tech in South Africa has combined factoring with science, technology and innovation to develop a platform that manages all factoring through the supply chain, partnering with financial service providers and donors to make rates sustainable. With such a platform, MSMEs can sell their invoices so that they can afford working capital and manage financial constraints. Despite the fact that the technology has been piloted and is working in the European market, it has yet to make inroads in the region, owing to regulatory requirements with regard to invoicing and scepticism by financial service providers.

The present report culminates in section 5 with a reflective summary of the learnings from the case studies and the desk research. These findings lead to initial recommendations that could be instrumental in shaping future policies and strategic moves for players within the MSME sphere, with a view to creating a more enabling environment for MSMEs in Southern Africa in which they can more easily and more readily integrate into subregional and global value chains and utilize trade agreements and the preferences granted to them therein. The recommendations are as follows:

1. **Establish a knowledge-sharing hub to share the lessons learned and solutions that are already in operation, so as to prevent unnecessary duplication.**

This involves taking the following measures:

(a) Developing and disseminating comprehensive market entry strategies, with a special focus on the services sector, to assist businesses in navigating the complexities of entering new markets;

(b) Creating a repository of best practices and case studies pertaining to “buy local” campaigns, analysing which strategies have proven to be successful and which ones have not;

(c) Providing information on available commercial solutions for digital linkage platforms that facilitate connections among various players in the market;
(d) Developing resources on digital cross-border payments and factoring models, outlining the necessary components for creating a robust framework that supports commercially viable solutions;

(e) Launching initiatives to address the issue of counterfeit seeds through awareness-raising campaigns and collaboration with relevant authorities;

(f) Introducing digital platforms aimed at supply chain management, incorporating features that help to mitigate side-selling practices.

2. **Develop a technology absorption module for MSMEs**

   Develop a specialized module to facilitate the absorption of technology by MSMEs, with an emphasis on capacity-building and technology integration in Mozambique. The module should address the challenges faced by MSMEs in adopting and utilizing technology effectively.

3. **Conduct a scoping study for enhanced inspection methods**

   Conduct a comprehensive scoping study to evaluate the potential and feasibility of integrating blended virtual and physical inspection methods for certification processes. The study should include an assessment of the benefits and limitations of such an approach and recommendations for implementation.

4. **Assess the impact of big data on financial inclusion for MSMEs**

   Undertake an assessment to evaluate the uptake and value of leveraging digital big data from donor programmes to enhance financial inclusion for MSMEs. The assessment should include an analysis of how data can be utilized to provide insights, streamline processes and foster greater financial inclusion for MSMEs.

5. **Provide targeted bilateral support for the implementation of a non-tariff barrier monitoring mechanism**

   Offer selected bilateral support for the implementation of the non-tariff barrier monitoring mechanism, aiding in the identification and resolution of trade barriers. The support should be tailored to the specific needs and challenges of the involved parties and should be aimed at enhancing the effectiveness of the monitoring mechanism.
1. Introduction

1.1 Purpose

The present study involved country visits to Malawi, Mauritius, Mozambique, Namibia, South Africa and Zambia, conducted for the purpose of:

- Understanding the challenges and opportunities that MSMEs face in growing their participation in national, subregional and global value chains and in exporting
- Prioritizing cases in which innovation has facilitated and increased this participation and the utilization of preferential and global trade agreements by MSMEs
- Identifying which subregional and global value chains have high and growing levels of participation by MSMEs

1.2 Context

There is a significant body of work that has been focused for the most part on identifying and mapping important subregional and global value chains for Southern Africa that will drive its structural transformation.1 This literature has also offered policy recommendations on how to enable the development of subregional and global value chains in the subregion and ensure that the economic gains are distributed equitably among the subregion’s economies.2 Within this literature, there is a focus on special economic zones, export processing zones, economic corridors, growth poles and local and regional content provisions. There is less literature on the participation levels of MSMEs in these value chains and on whether the nature of their participation is backward, forward3 or importing for the purpose of exporting to other countries, and on how they have or have not used technology or innovations to participate in these value chains successfully and competitively.4 Furthermore, the focus of the literature has been on which subregional and global value chains will contribute the most to structural transformation in Southern Africa rather than on which ones have the highest actual and potential MSME participation rates and growth potential.

There is literature emerging that contains analyses of how the use of technology and innovation can be and is being used in Africa to increase the competitiveness of MSMEs and, by extension, their integration into national, subregional and global value chains.5 However, the studies do not include any identification or measurement of which subregional and global value chains have high levels of MSME participation.

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2 Through the “Capturing the Gains” initiative, Stephanie Barrientos identified useful linkages in this regard, with national global value chain exporters finding favourable markets supplying subregional (South African) supermarkets. See the Capturing the Gains research network at the Brooks World Poverty Institute, University of Manchester (accessed 14 October 2022).
3 Backward value chain participation measures the share of a country’s exports that include value added previously imported from abroad. For example, if South Africa imports maize from Zambia for the production of fortified foods for export, then South Africa is said to be engaging in backward global value chain participation.
4 Forward value chain participation measures the share of a country’s exports that are used by an importing country to produce for export. In the example of fortified foods exports, Zambia is engaging in forward or downward global value chain participation because its exports are used as intermediates by South Africa for the production of its fortified food exports.
1.3 Situation after the coronavirus disease (COVID-19) pandemic

Although the coronavirus disease (COVID-19) pandemic had a negative economic effect on the subregion, and the economic fallout is still unfolding, it has also aligned the private sector, donors and Governments in their efforts to encourage local and subregional manufacturers to decrease the import dependencies exposed during the pandemic. This alignment is good news for industrialization in the subregion and for digitally enabled MSMEs, because the pandemic also accelerated the digitalization of businesses in the subregion, which has resulted in opportunities for MSMEs to integrate into subregional and global value chains they perhaps would not have had otherwise. Overall, the four global megatrends affecting Southern African industrialization, and subregional and global value chains, are:

Reshoring. This comprises shorter, less fragmented value chains and higher concentrations of gross value added in single jurisdictions.

Regionalization. This is a shift away from global efficiency-seeking foreign direct investment, which drove industrialization and subregional value chain development in China and the Association of Southeast Asian Nations, to subregional market-seeking foreign direct investment.

Replication. This comprises a shift away from large-scale industrial activity to distributed and additive manufacturing.

Resilience. There is an increased number of opportunities for new entrants to integrate into global value chains, as lead global value chain firms look to decrease supply chain vulnerabilities by building in redundancies and increasing the number of certified potential suppliers.

These trends existed before the COVID-19 pandemic for the most part. However, they were further accelerated during and after the pandemic, and thus MSMEs in SADC seeking to integrate into subregional and global value chains are strongly affected by them. The trends also affect large subregional and international firms and the way in which they will be changing how they do business and integrate MSMEs into their industries’ subregional and global value chains.

1.4 Approach and methodology

1.4.1 Approach

From the analysis of the available data and literature, it is clear that most MSMEs in SADC fall into the category of independent enterprises, meaning that they have no employees.7

This means it is unlikely that they are able to export or import, and at best they can participate only indirectly in the priority subregional value chains or can participate in traditional trade only by means of cross-border trade, but not in subregional or global value chain trade. Therefore, the focus of the present study is on MSMEs that have five or more employees, are on the small to medium-sized end of the spectrum, are technology oriented or growth oriented or have the potential to create jobs and have nascent subregional linkages already. In addition, three different types of opportunities

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available to such candidates with regard to subregional and global value chain integration are analysed:

- Cases in which MSMEs are already participating in a value chain and their participation can be increased (participation opportunities).
- Cases in which MSMEs are participating in certain lower value added segments of a value chain and there are opportunities to upgrade them into higher value addition segments (vertical opportunities).
- Cases in which MSMEs are in one segment of a value chain, such as branding or marketing, and could move into the same segment of a different value chain (horizontal opportunities).

Furthermore, given the innovation aspect of the present study, it is also important to clearly and specifically state how the concept of innovation will be treated in the present report. The approach to innovation will be broad and will capture everything from new technology to new ideas and methods or approaches. Importantly, the approach will be to identify where and how MSMEs in Southern Africa are using innovations or recent technologies to participate in subregional and global value chains and utilize trade agreements. This makes it possible to capture a wider array of innovations that make MSMEs more competitive. In the present report, the authors are also responsive to the context of Southern Africa, wherein many MSMEs are only now gaining access to certain innovations and technologies that were available in other parts of the world 5 to 10 years ago. The authors are therefore able to take a broad look at the issues MSMEs are struggling with and the different actions that they can take and are taking to overcome these that would fall within the ambit of using innovations and technologies to overcome constraints.

With these two components of this approach and methodology in mind, the third component will involve the authors addressing why the usual databases used for capturing subregional and global value chain participation are not well suited to the present study, as well as discussing a potential alternative.

1.4.1.1 Different ways of capturing value chain participation

As will be explained below, the databases normally used for subregional and global value chain analysis are not relevant to the present study, owing to the poor representation of SADC countries in those databases or the fact that they do not address MSMEs’ participation in subregional and global value chains. Rather, two of them provide information at the country and sectoral levels.

There are three useful databases for capturing a country’s participation in both subregional and global value chains.

The first ordinarily useful database is the Trade in Value Added Database, a joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO), which is more commonly used to assess an economy’s participation in global value chains. The Trade in Value Added Database is the outcome of an ongoing international effort to measure trade in value added. Its indicators are published by OECD and are based on the 2018 release of the OECD annual inter-country input-output tables, which cover the period from 2005 to 2015. There are some limitations in the data sets of the database. As Silvia Nenci points out, owing to the high level of sector aggregation, the results may be interpreted incorrectly if not complemented
by additional evidence.\textsuperscript{8} However, it contains the best available data at the current time, and this is why many researchers and analysts use it.\textsuperscript{9} Unfortunately, and as is the case with the World Bank Enterprise Surveys, SADC countries in general, and the focus countries of the present study in particular (Malawi, Mauritius, Mozambique, Namibia, South Africa and Zambia), are not well represented in the database at all. In fact, South Africa is the only SADC country represented in the Trade in Value Added Database.\textsuperscript{10}

The second ordinarily useful database is the United Nations Conference on Trade and Development (UNCTAD)-Eora Global Value Database. The database covers the period 1990–2018 for 189 countries and 26 sectors. This database has the largest country coverage available and produces estimates that are globally comparable with those derived from more reliable input-output databases for a smaller sample of countries. Many researchers involved in the production of subregional and global value chain literature use the UNCTAD-Eora Global Value Database to estimate the value added embedded in a country’s exports, owing to its larger country and sector coverage than, for example, the Trade in Value Added Database. This database allows for the measurement of the following:

- Foreign value added that is embodied in a country’s exports. This corresponds to the backward global value chain participation component of the global value chain participation index.
- Domestic value added that is embodied in a country’s exports.
- Domestic value added of a country that is embodied in the exports of other countries. This corresponds to the forward global value chain participation component of the participation index.
- Total value added embodied in a country’s exports. This is equal to the domestic value added plus foreign value added.
- Global value chain participation index for a country. This is equal to the country’s foreign value added plus its domestic value added that is embodied in the exports of other countries.

This database does cover most of the countries in SADC, and, as stated, its latest data are from 2018. The data are accessible and can be downloaded freely. However, for the purpose of the present study, knowing the foreign value added, the domestic value added, the domestic value added that is embodied in the exports of other countries, the total value added embodied in a country’s exports and the global value chain participation rates of each of the six targeted countries in SADC will not help us understand the nature and extent of MSMEs’ participation in subregional and global value chains or how this participation can be increased through the use of technology and innovation and by increasing the utilization of trade preferences in trade agreements.

\textsuperscript{8} Silvia Nenci, “From perception to research and decision making: trade in value-added and GVC indicators”, Presentation given at the workshop entitled, “Global value chains: perception, reality and measurement”, University of Roma Tre, Rome, 21 October 2014; and Timothy Sturgeon, “Trade in value added indicators: what they are, what they aren’t, and where they’re headed”, Centre for Economic Policy Research, 20 May 2015.


The third database, and the most relevant one for the present study, is the World Bank Enterprise Surveys, which are a business-level survey of a representative sample of the private sector of a country’s economy. Through the surveys, information is collected about a country’s business environment, covering various issues identified as the major business constraints by each of the businesses participating in the survey. For some countries, businesses that also participated in the preceding survey are included in the updated survey. Thus, the database also allows for panel analysis when the country has participated in more than one survey. Not all the businesses will be the same, however, which means that, if one is to conduct a panel analysis, it will be necessary to separate out the new additional businesses from the data and perhaps clean them in other ways as well. One can capture value chain participation through this survey by analysing firms’ answers to the trade section questions, which provide information on whether the firms surveyed are direct or indirect exporters (supplying goods and services to domestic firms that produce for exporting) and also on the percentage of firms using material inputs or supplies of foreign origin and the percentage of total inputs that are of foreign origin. These surveys were used extensively by various researchers in the recent 2021 publication of the Asian Development Bank entitled Enhancing SME Participation in Global Value Chains: Determinants, Challenges, and Policy Recommendations.

Although this database is useful, it is difficult to use it in the SADC context, because many of the SADC countries have outdated surveys, such as Angola (2010), Botswana (2010), the Democratic Republic of the Congo (2013), Madagascar (2013), Malawi (2014) and Mauritius (2009). Of the countries targeted in the present study, the only ones that have relatively recent surveys are Mozambique (2018), South Africa (2020) and Zambia (2019).

Table 1
Analysis of World Bank Enterprise Surveys data for targeted countries with recent data (from five years ago or less) (Percentage)

<table>
<thead>
<tr>
<th>Country</th>
<th>Female participation in ownership</th>
<th>Access to a bank account</th>
<th>Engaged in exports</th>
<th>Introduced process innovation</th>
<th>Top listed constraints</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>14</td>
<td>95</td>
<td>5</td>
<td>2</td>
<td>Electricity (48), access to finance (20)</td>
</tr>
<tr>
<td>Zambia</td>
<td>38</td>
<td>94</td>
<td>5</td>
<td>7</td>
<td>Access to finance (36), electricity (20)</td>
</tr>
<tr>
<td>Mozambique</td>
<td>28</td>
<td>81</td>
<td>12</td>
<td>..</td>
<td>Corruption (14), access to finance (14)</td>
</tr>
</tbody>
</table>


1.4.1.2 Issue of the status of data in Southern Africa

Given the issues and limitations of the databases mentioned in section 1.4.1.1, the authors opted to take a pragmatic approach. The three sufficiently recent World Bank Enterprise Surveys were used in conjunction with FinMark Trust’s FinScope surveys of Malawi, South Africa and Zambia as the “database” to help approximate MSME participation in subregional and global value chains. In conjunction with this, stakeholders involved in subregional and global value chains were interviewed, including stakeholders such as MSMEs, subregional or global lead firms, apex and industry bodies, donor organizations, national Governments and SADC secretariat stakeholders.
In addition, mindful that the Trade in Value Added Database and the UNCTAD-Eora Global Value Database are normally used to determine which sectors or value chains are most viable, feasible use is made of the significant amount of work that has already been carried out to map subregional and global value chains in Southern Africa and identify those with the greatest potential to drive industrialization and create backward linkages for MSMEs. This work has been carried out by the World Bank, the African Development Bank, COMESA, SADC, the Southern African Customs Union, the United Nations Industrial Development Organization and the Economic Commission for Africa. In addition, each of the identified countries has its own national development plan, in which specific sectors and national value chains are prioritized. Accordingly, this material was reviewed in order to both maximize efficiency and ensure that the chosen subregional value chains were commensurate with those already prioritized by national Governments and regional economic communities.

1.4.2 Methodology

The methodology for the study was implemented in three steps, illustrated in figure I below.

The first step involved conducting an in-depth literature review to determine potential priority value chains in the six targeted countries. The authors also researched the types of constraints faced by MSMEs, both at a general global or subregional level and in each of the six countries. Lastly, an analysis was conducted of some of the innovative solutions currently being implemented in the six targeted countries to assist MSMEs in integrating into value chains.

The next step was to use key informant interviews to validate potential case studies. This involved holding discussions with stakeholders from both the public and private sectors in each of the six targeted countries to discuss sectors of interest, major constraints, potential solutions providers and MSMEs operating in identified areas. On the basis of these engagements, a list of potential stakeholders with whom to conduct interviews was created.

The final step was conducting the field visits, which involved travelling to each of the six targeted countries to conduct interviews. These interviews would then serve as the basis for the case studies.

Figure I
Study methodology

Source: The authors.
1.5 **Structure of the present report**

Section 1 serves as the introduction to the present report.

In section 2, the authors discuss the main trends affecting MSMEs’ development.

In section 3, the authors provide an overview of MSMEs in Southern Africa, their characteristics and the constraints and opportunities facing them.

In section 4, the authors present their insights gained through the field visits conducted, together with country profiles and a limited number of cross-cutting issues that were not captured in individual country case studies.

In section 5, the authors then conclude the present report with a discussion based on the findings from the case studies and some initial recommendations.
2. Main trends affecting MSMEs’ development

In the present section, the policy framework for MSME integration into value chains and participation in export markets is analysed, along with subregional support for the development of subregional value chains and MSMEs, and the role of digitalization and innovative business approaches in creating new opportunities for MSMEs.

2.1 Trade agreements, trade facilitation and industrial policy

In the literature on MSME integration into value chains, it is underlined that there are many impediments or constraints that prevent these firms from participating in value chains. Many of these fall into the two categories of competitiveness and connectivity, which are areas that can be targeted in national and subregional policies.

Trade agreements (such as the Agreement Establishing the African Continental Free Trade Area) and the trade facilitation measures that accompany them and subregional industrial policy are two mechanisms through which MSME integration into value chains can be assisted. These are also two areas in which sustained developments can be seen in Southern Africa through participation in African free trade agreements, as well as SADC sustained industrialization activities.

In a recent study conducted by the International Trade Centre (ITC), which involved extensive value chain analysis and input and output analysis of value chains across the African continent, as well as interviews with over 10,000 firms and business support organizations, industry experts and other stakeholders in Africa, the opinions of businesses were revealed regarding trade agreements in general, with a particular focus on the Agreement Establishing the African Continental Free Trade Area. The results of the survey included the following:

- Firms were dissatisfied with the pace of implementation of trade agreements. Cross-border business operations were low, at 28 per cent.

- Fewer than 10 per cent of the interviewed companies had participated in public–private consultations on trade agreements prior to the adoption of the Agreement Establishing the African Continental Free Trade Area, and awareness of the Agreement was modest.

Nonetheless, the African business community still widely welcomes efforts to develop sustainable regional value chains, and this sentiment is shared by the private sector in SADC.

2.1.1 Trade agreements and trade facilitation

One of the major new developments in African trade over the past few years has been the negotiation of the Agreement Establishing the African Continental Free Trade Area, which is the cornerstone of the African trade framework. The negotiation of this agreement will have two major effects on producers in general, including MSMEs. First, it will open up new markets, and second, it will create opportunities regarding new types of products.

New markets. Intra-African trade has traditionally been limited, and the levels of trade lag behind what is seen in other regions. Often, when companies do participate in intra-African trade, it is limited to their regional economic community. In SADC, this would be governed by the SADC free trade agreements, through which phased tariff reductions began in 2001. The Agreement

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11 International Trade Centre (ITC), Made by Africa: Creating Value through Integration (Geneva, ITC, 2022).
Establishing the African Continental Free Trade Area is a continental-wide agreement that binds together 54 signatories, making it one of the most ambitious trade agreements in the world. This represents the opening up of new markets outside of SADC for the first time. The agreement provides tariff free entry for a wide range of goods, as well as avenues for standards harmonization that will make trade easier for MSMEs. As a result, over the next decade MSMEs in Southern Africa will have access to new opportunities outside the subregion.

**New products.** The low levels of trade within Africa represent a missed opportunity for producers, as the product breakdown of intra-African trade is more weighted towards value added goods (26 per cent in 2017) compared with that of extra-African trade (15 per cent), which is often dominated by extractive primary goods. As can be seen in figure I, African exports of goods to other African countries show a considerably higher percentage of medium-technology and high-technology goods compared with exports to the rest of the world. Opportunities to trade in Africa will provide an opportunity for MSMEs to trade in products that are further up the value chain. MSME participation in global value chains is extremely limited, and, in the cases in which it does occur, it is usually at the start of the chain in primary goods (such as cocoa and coffee). This is a by-product of the dependence of African countries on commodities with regard to export-ready products and is exacerbated by the lack of economic diversification, which is itself partially caused by this dependence. As regional value chains are more likely to include manufactured goods, there is greater scope for MSMEs to participate in value chains that are more complex and that have a greater number of intermediary products compared with global value chains, which tend to be focused more on simple primary products, leaving MSMEs able to contribute only the primary product. This is seen in many agricultural-based commodity value chains, such as the cocoa value chain. As intra-African trade grows, provided it retains its characteristic of involving a higher percentage of value added goods, there will be an opportunity for MSMEs to feed into the growing value added production chains. While they are not equipped to develop the final product in these value chains, they can produce specific parts that can form part of the greater regional value chain. An example is moving from simple copper exports (which have little prospect of MSME contribution) to the production of copper wiring that then forms part of a regional value chain producing white goods for regional consumption (such as televisions, refrigerators and microwaves).
2.1.2 Support for subregional value chains

Subregional cooperation with regard to development and industrialization has a strong foundation in Southern Africa. In the SADC Treaty, industrialization of the subregion is cited as an objective, and member States are called upon to cooperate in the area of industry. In the SADC Protocol on Trade (1996), a call is made for an industrialization strategy to accompany implementation of the SADC Free Trade Area, while under the SADC Regional Indicative Strategic Development Plan, adopted in 2003, SADC member States are called upon to develop a subregional industrial development policy and strategy framework.

SADC has developed subregional policies and strategies to enhance subregional integration and industrialization and, in so doing, drive subregional value chain development. The development of value chains has been supported by the Community’s robust selection process of high potential priority sectors for subregional value chain development in its Action Plan for SADC Industrialization Strategy and Roadmap of 2017 and subsequent strategy documents, such as the SADC Industrialization Strategy and Roadmap 2015–2063, the Regional Indicative Strategic Development Plan 2020–2030 and the SADC Protocol on Industry.

In the SADC Industrialization Strategy and Roadmap, a path is laid out for countries in the subregion to move up the value chain together, through coordinated interventions and joint priorities. Implementation of the Strategy and Roadmap is intended to advance intraregional trade in goods and services and deliver jobs and higher growth rates across the 16 member States. One central dimension of the Strategy and Roadmap is the development of viable subregional value chains and integration into global value chains. Two categories of subregional value chains with the potential to drive structural transformation and upgrading are identified, namely, agroprocessing (category A) and minerals beneficiation and downstream processing (category B). In the Action Plan, this was taken a step further, adding a further four categories (or “main value chain clusters”), namely,
pharmaceuticals, consumer goods, capital goods and services. In the Action Plan, specific sectors were also identified within these six categories or clusters, along with the countries best placed to develop them. The lists of sectors within these categories and the corresponding countries can be seen below:

Table 2
Agroprocessing in SADC member States

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soya</td>
<td>The Democratic Republic of the Congo, Madagascar, Malawi, South Africa,</td>
</tr>
<tr>
<td></td>
<td>Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Sugar</td>
<td>Botswana, the Democratic Republic of the Congo, Eswatini, Malawi, Mauritius,</td>
</tr>
<tr>
<td></td>
<td>Mozambique, South Africa, the United Republic of Tanzania, Zambia and</td>
</tr>
<tr>
<td></td>
<td>Zimbabwe</td>
</tr>
<tr>
<td>Meat products (poultry and beef)</td>
<td>Botswana, the Democratic Republic of the Congo, Eswatini, Madagascar, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Cassava</td>
<td>Angola, the Democratic Republic of the Congo, Madagascar, Malawi, Mozambique, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Dairy products</td>
<td>Botswana, the Democratic Republic of the Congo, Eswatini, Madagascar, Malawi, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Other food and drinks</td>
<td>Angola, the Democratic Republic of the Congo, Eswatini, Lesotho (maize), Malawi (oil seeds), Madagascar, Mauritius (sea food), Namibia, South Africa, the United Republic of Tanzania (maize, rice and oil seeds), Zambia (oil seeds and livestock products) and Zimbabwe (rice, maize, black eyed beans and peas)</td>
</tr>
<tr>
<td>Fish and fish products</td>
<td>Angola, the Democratic Republic of the Congo, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Horticulture (fruits, vegetables and flowers)</td>
<td>The Democratic Republic of the Congo, Eswatini, Lesotho, Madagascar, Malawi, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Wildlife (game meat and hide processing)</td>
<td>Botswana, the Democratic Republic of the Congo, Namibia, South Africa, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Forestry (timber and non-timber forest products)</td>
<td>Angola, the Democratic Republic of the Congo, Eswatini, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
</tbody>
</table>


Table 3
Mineral and extractives beneficiation in SADC member States

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy minerals (including polymers)</td>
<td>Angola (oil), Botswana (coal), the Democratic Republic of the Congo (oil, gas, coal and uranium), Eswatini (coal), Madagascar, Malawi, Mozambique (gas and coal), Namibia (uranium, coal and gas), South Africa (coal), the United Republic of Tanzania (gas and coal) and Zimbabwe</td>
</tr>
<tr>
<td>Ferrous minerals (iron and steel)</td>
<td>Angola, the Democratic Republic of the Congo, Eswatini, Mozambique, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Base metals (copper, aluminium, nickel and)</td>
<td>The Democratic Republic of the Congo, Madagascar, Mozambique, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Sectors</td>
<td>Countries</td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>cobalt)</td>
<td></td>
</tr>
<tr>
<td>Fertilizer</td>
<td>Angola, the Democratic Republic of the Congo, Malawi, Mozambique, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Cement</td>
<td>The Democratic Republic of the Congo, Malawi, Mozambique, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Soda ash</td>
<td>Botswana, South Africa, the United Republic of Tanzania and Zambia</td>
</tr>
<tr>
<td>Mining machinery</td>
<td>South Africa and Zambia</td>
</tr>
<tr>
<td>Small-scale mining</td>
<td>The Democratic Republic of the Congo, Malawi and the United Republic of Tanzania</td>
</tr>
</tbody>
</table>

**Table 4**

**Pharmaceuticals in SADC member States**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antiretroviral drugs</td>
<td>The Democratic Republic of the Congo, Malawi, Namibia, South Africa, the United Republic of Tanzania, Zimbabwe</td>
</tr>
<tr>
<td>Anti-tuberculosis drugs</td>
<td>The Democratic Republic of the Congo, Namibia, South Africa, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Anti-malarial drugs (artemisinin)</td>
<td>The Democratic Republic of the Congo, Madagascar, Namibia, South Africa and the United Republic of Tanzania (artemisinin and biolarvicides)</td>
</tr>
<tr>
<td>Condoms</td>
<td>Botswana, the Democratic Republic of the Congo, Malawi, Namibia and South Africa</td>
</tr>
<tr>
<td>Bed nets</td>
<td>Malawi and the United Republic of Tanzania</td>
</tr>
<tr>
<td>Health commodities</td>
<td>Malawi and Namibia</td>
</tr>
</tbody>
</table>

**Table 5**

**Consumer goods in SADC member States**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leather goods</td>
<td>Botswana, the Democratic Republic of the Congo, Eswatini, Lesotho, Madagascar, Malawi, Mozambique, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Clothing and textiles</td>
<td>Botswana, the Democratic Republic of the Congo, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, the United Republic of Tanzania and Zimbabwe</td>
</tr>
</tbody>
</table>

**Table 6**

**Capital goods in SADC member States**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobiles</td>
<td>Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa and Zimbabwe</td>
</tr>
</tbody>
</table>
Table 7
Services in SADC member States

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tourism</td>
<td>Angola, Botswana, the Democratic Republic of the Congo, Eswatini, Lesotho,</td>
</tr>
<tr>
<td></td>
<td>Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South</td>
</tr>
<tr>
<td></td>
<td>Africa, the United Republic of Tanzania, Zambia and Zimbabwe</td>
</tr>
<tr>
<td>Financial services</td>
<td>Botswana, Eswatini, Malawi, Mauritius, Namibia, Seychelles, South Africa</td>
</tr>
<tr>
<td></td>
<td>and Zimbabwe</td>
</tr>
<tr>
<td>Information and communications technology (ICT)</td>
<td>All member States</td>
</tr>
</tbody>
</table>

These policies by SADC indicate a willingness to embrace subregional value chains in order to promote subregional integration and economic growth. This is beneficial for MSMEs, as it provides them with chains to link into without having to produce a finished product. This is especially important for MSMEs that are not located in subregional manufacturing hubs, such as South Africa, as it creates the potential for them to feed into the supply chains of manufacturers located in these hubs and capture some of the value added production that would otherwise not be available in their country.

In order for MSMEs to do this, however, they need to be aware of the rules of origin that determine whether their inputs into the value chains can be classified as originating from the subregion, in the case of the SADC Protocol on Trade, or from the continent, in the case of the Agreement Establishing the African Continental Free Trade Area, and whether they qualify for the trade preferences these free trade agreements facilitate.12

Rules of origin are a critical component of trade agreements and are designed to determine the country of origin of a product. They serve as gatekeepers in free trade agreements and regional economic communities, ensuring that only goods originating from member States benefit from preferential trade terms. However, the complexity and diversity of rules of origin can have a significant impact on MSMEs and their ability to participate in value chains. Accordingly, it is important to discuss rules of origin and the innovations that exist and that are being used to ensure that they are not an impediment to MSMEs’ participation in subregional and global value chains.

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Rules of origin: facilitation vs. impediment

Facilitation. Rules of origin can facilitate MSMEs’ participation in value chains by providing a framework that ensures fair competition and protects against trade deflection. When well designed, rules of origin can help MSMEs to integrate into subregional and global value chains by offering preferential market access.

Impediment. Conversely, rules of origin can be a barrier for MSMEs, owing to their complexity and the costs associated with compliance. MSMEs often lack the resources to navigate these complex rules, making it difficult for them to take advantage of such free trade agreements as the SADC Protocol on Trade and the Agreement Establishing the African Continental Free Trade Area.

Overlapping memberships in African regional economic communities. African countries often have overlapping memberships in multiple regional economic communities, each with its own set of rules of origin. This creates a labyrinthine trade environment that can be particularly challenging for MSMEs. The need to comply with different rules of origin for different markets increases the cost of doing business and can make it prohibitively expensive for MSMEs to participate in value chains. This fragmentation hampers regional integration efforts and hinders the achievement of objectives set out in the Agreement Establishing the African Continental Free Trade Area related to increasing MSMEs’ participation in regional and global value chains.

While rules of origin have the potential to facilitate MSMEs’ participation in value chains by ensuring fair competition and market access, their complexity and the overlapping memberships in African regional economic communities often serve as significant barriers. Innovative technologies, such as electronic certificates of origin and blockchain, offer promising solutions to these challenges by simplifying verification processes and reducing administrative costs. Policymakers must consider these factors carefully when designing rules of origin, so as to ensure that they serve as facilitators of, rather than impediments to, trade and economic development.

2.1.3 Support for MSMEs in Southern Africa

Support for MSMEs comes from both the private sector and the public sector in most subregions, and SADC is no different in this regard. There are numerous corporate supplier development programmes through which MSMEs in SADC are targeted and supported. These are aimed at integrating more MSMEs into the corporation’s supply chain, which often results in the MSMEs’ integration into subregional value chains. One example is Pick n Pay’s supplier development programme, through which MSMEs are supported in linking into the retailer’s value chain. A second example is the support initiatives run by the SADC secretariat, such as the Cooperation for the Enhancement of SADC Regional Economic Integration programme, which is a cooperation programme that is aimed at supporting the development of MSMEs in SADC in building their competitiveness and their ability to operate within subregional value chains, with the overall target outcome of increasing the industrialization of SADC while ensuring that it is inclusive of MSMEs. SADC also has the Support towards Industrialization and the Productive Sectors programme, through which SADC and the German Agency for International Cooperation are currently conducting a study to identify bottlenecks regarding MSME participation in two important SADC value chains – the pharmaceutical and leather and leather products value chains – with a particular focus on the antiretroviral drug value chain in pharmaceuticals.

In addition to these initiatives, the SADC Industrialization Week held every year is aimed at convening multinational corporations, regional conglomerates and SADC MSMEs from across all sectors for one week to facilitate market linkages, relationships, knowledge production and knowledge-sharing, with a view to the development of MSMEs and their integration into the subregional and global value chains in SADC that are driving industrialization within the subregion.

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13 The programme consists of four measures: trade facilitation to support regional integration and industrialization, support for industrial and productive sectors, engagement relating to peace, security and good governance, and industrialization and women’s economic empowerment. More information can be found at www.sadc.int/project-portfolio/cooperation-enhancement-sadc-regional-economic-integration-cesare.
There is one SADC programme that is particularly focused on supporting MSMEs in the subregion and is worth describing in more detail, namely, the SADC Development Finance Resource Centre. The Centre provides support to development finance institutions in the development of appropriate financial instruments for MSME financing and the mobilization of requisite resources. It is a subsidiary institution of SADC established under the SADC Protocol on Finance and Investment. It is collectively “owned” by the SADC Development Finance Institutions Network, which is an organization that is also associated with the Protocol, and has a current membership of 40 national development finance institutions. Through technical and capacity-building support, as well as policy research, advocacy and advisory services, the mandate of the Development Finance Resource Centre is to promote the effective mobilization of resources by the financial sector, in particular the development finance institutions, for investment in crucial areas with the potential to stimulate sustainable and MSME-inclusive growth, generate employment and alleviate poverty, in line with the objectives of SADC set out in the Regional Indicative Strategic Development Plan 2020–2030. It has a strategic focus on capacity-building and policy research and advisory services.

Table 8
Services provided by the SADC Development Finance Resource Centre

<table>
<thead>
<tr>
<th>Capacity-building</th>
<th>Policy services</th>
<th>Priority sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training and skills development</td>
<td>Policy, regulatory and supervisory environment for</td>
<td>Small and medium-sized enterprise</td>
</tr>
<tr>
<td></td>
<td>development finance institutions</td>
<td>development</td>
</tr>
<tr>
<td>Support for MSME programmes</td>
<td>Support for financial inclusion</td>
<td>Industrial and infrastructure development</td>
</tr>
<tr>
<td>Support for public-private</td>
<td>Enabling environment for SME, industrial and infrastructure</td>
<td>Public-private partnerships</td>
</tr>
<tr>
<td>partnerships and infrastructure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>programmes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other human resource development</td>
<td>Advisory services, research and advocacy on development</td>
<td>Agricultural sector</td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SADC Development Finance Resource Centre.

2.2 Emergence of value chains that can incorporate MSMEs

The fragmentation of production has created opportunities for MSMEs in developing countries to access global markets as providers of components or services, without having to build the entire value chain of a product. Even if they cannot participate directly in global value chains, they can benefit from subcontracting to larger firms or foreign companies. Most MSMEs, especially in developing countries, are plugged into subregional and global value chains in this way. Although this is a trend and has been for some time, there are also movements in the other direction, back towards integrated production, because of how replication and reshoring are affecting production structures.


Reshoring is a more immediate risk to the continued fragmentation of production, as it has been accelerated by the supply chain disruptions caused by the COVID-19 pandemic, and an increasing number of companies that have global production networks are reconsidering these networks and reshoring more of the value chain segments locally or, in some cases, subregionally. In the case of Southern Africa, reshoring presents more of an opportunity than a risk, as global production network companies look to invest in countries in the subregion to ensure a subregionally manufactured supply of their various products. Replication is more of a medium-term to long-term risk, given the need for the technology to further decrease in cost and increase in scale. It is, however, still a risk to fragmented production, as technologies like additive manufacturing, three-dimensional printing and other innovations make manufacturing in “home” jurisdictions with high average wages far more tenable for multinational corporations, and this reduces the risks of supply chain disruptions delaying production cycles.

2.2.1 Examples of value chains creating new opportunities for MSMEs in Southern Africa

Example 1: producing ignition wiring for the subregional and global automotive value chain

The automotive value chain is highly fragmented across the globe, enabling small businesses to integrate as manufacturers of specialized parts. With automotive manufacturing and assembly being carried out in South Africa, Pasdec Botswana is taking advantage of subregionally available raw materials to manufacture ignition wiring for sale to multinational car manufacturing companies, such as Nissan, Volkswagen and Renault. Forty per cent of Pasdec Botswana is owned by Pasdec South Africa, which is in turn wholly owned by Pahang Off-Shore (Sdn) Bhd, a Malaysian registered company. This is an example of a Southern African company manufacturing automotive inputs in Botswana and exporting them to South Africa for further value addition, which is being overseen by a Malaysian firm. This relationship exemplifies how MSMEs in Southern Africa have taken the opportunity to participate in subregional and global value chains.

Example 2: producing minerals and vitamins for the fortification of food

An important input for the agroprocessing regional value chain in Africa is vitamin and micronutrient blends to fortify foods – especially for babies and children. While there is African demand for baby foods made with African fruit and vegetable ingredients, vitamins and minerals are currently largely imported from outside of Africa to manufacture these products. South African based Millhouse has taken this opportunity to produce vitamin and mineral blends and has certified its products as inputs for the fortification of staple foods across Africa. Its products meet regulatory compliance in five SADC countries, including Malawi, Mozambique and South Africa. While it would be too costly to ship fortified foods from South Africa across the continent, Millhouse is able to participate in the subregional value chain by exporting this lightweight, valuable component to food processing companies in other parts of the region. For example, it supplies the Illovo Sugar mill in Malawi with vitamin blends to fortify sugar with critically important vitamin A. Not only does it supply the vitamin blends, but it also provides consultation on fortification – equipping other African MSMEs further up the supply chain to produce high-quality fortified food.

\[\text{ITC, Made by Africa.}\]
2.3 Digital marketplace

2.3.1 MSMEs’ ability to conduct business-to-business and business-to-consumer trade has been radically transformed

Digital technologies continue to make substantial changes to the economy, with cascading implications for international trade, in particular subregional and global value chain trade. For small firms, the Internet has increased access to international markets, with WTO finding that, on average, 97 per cent of Internet-enabled small businesses engage in exporting.\(^{17}\) Access to online sales platforms has been a very important development for MSMEs, especially as it relates to subregional and global value chains and international supply. An estimated 90 per cent of e-commerce transactions are business-to-business, thereby implying underlying value chain transactions.\(^{18}\) Although the majority of these business-to-business e-commerce transactions are domestic and within national value chains, cross-border retail e-commerce is expected to grow at twice the rate of domestic e-commerce, potentially boosting international trade and increasing MSMEs’ participation in subregional and global value chains.\(^{19}\) In a study involving a sample of 18 countries, it was shown that between 88 per cent and 100 per cent of eBay sellers were merchandise exporters, compared with only 10 per cent of small firms operating through traditional non-platform methods.\(^{20}\) Furthermore, MSMEs participating in e-commerce tend to remain exporters for longer than those in purely traditional markets, and the growth of e-commerce yields productivity gains of from 6 per cent to 15 per cent for MSMEs.\(^{21}\) Although MSMEs with access to e-commerce may not immediately participate in global value chains, MSMEs often enter international trade and supply chains as e-commerce importers before becoming exporters and suppliers themselves.\(^{22}\)

Although the digital marketplace has radically transformed the MSME landscape and MSMEs’ ability to make contact across borders and to buy and sell goods to both businesses and customers, there remain factors that constrain MSMEs in SADC from benefiting from the services digital marketplace innovations have made available to them for integrating into subregional and global value chains. Digital service providers in the subregion face the following range of growth challenges that block their ability to scale:

- Technology and digital infrastructure, including Internet connectivity and the costs of mobile data connections, is patchy, thereby slowing scalability.
- MSMEs have limited access to trade payment services.
- Businesses’ reliance on traditional security and lack of understanding of cybersecurity puts both the businesses and their clients at risk of fraud or theft.
- Digital access and digital literacy are often limited.

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\(^{19}\) Ibid.


\(^{21}\) Asia-Pacific Economic Cooperation Business Advisory Council, *Realizing the Untapped Potential of MSMEs in APEC: Practical Recommendations for Enhancing Cross-Border Trade* (Los Angeles, University of Southern California, 2018).

\(^{22}\) Ibid.
- Regulation is impeding business models, as approvals and licences are slow and costly for smaller players.

- Access to capital is growing but remains small, and thin portfolios limit the amount of lesson learning and peer support available compared with that available in more developed systems.

- Access to and use of data across the digital trade and client system is crucial for financial technology (fintech) business models.

- The war for talent is intensifying. As fintech startups become scale-ups, demand is increasing for competencies in such areas as data science, business development and growth strategy, and the homegrown talent pool is being pushed to its limits.

- MSMEs lack the necessary skills and internal digital processes to use digital trade solutions.

- E-commerce platforms selling goods must still rely on traditional logistics operations (delivery and courier services), which are often expensive or inconsistent, in part owing to a lack of reliable government-run postal services, poor transport infrastructure and high costs of moving goods across borders (especially in small parcels rather than bulk consignments).23

- Regulatory harmonization is lacking in crucial areas, such as cross-border data flows and the protection of personal information.24

### 2.4 Role of innovative approaches in increasing the utilization of trade agreements by MSMEs

There are two major innovative initiatives that are increasing the utilization of trade preferences and agreements by MSMEs and, as a result, their integration into subregional and global value chains.

The first initiative, and the most applicable to global value chains, is the Global Trade Helpdesk. The Helpdesk is a joint initiative undertaken by ITC, UNCTAD and WTO that is aimed at improving the quality, transparency and accessibility of trade-related information by providing a unique entry point to existing trade-related information. The Helpdesk is specifically targeted at MSMEs, who often do not have the resources to access fee-based information. The beta version of the Helpdesk was launched at the eleventh WTO Ministerial Conference in 2017. It integrates comprehensive information from various sources on market requirements, including customs tariffs, taxes, rules of origin, non-tariff measures, notifications of WTO members, export and import procedures (e.g. pre-shipment formalities, certification and inspection processes and transport documents), business opportunities (market prices, company directory and upcoming events) and policy outlook (trade statistics, export potential analysis and trade agreements). In the coming years, the Helpdesk will be translated to all six official United Nations languages, so as to make it accessible to people around the world.

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23 This issue is known as “the tsunami of parcels” and has led to a rethinking of how customs authorities handle these types of consignments in several countries. See Information Economy Report: Digitalization, Trade and Development (United Nations publication, 2017), p. 86.

The second initiative, and the most applicable to subregional value chains, is the African Trade Observatory. The Observatory is one of the five operational instruments of the African Continental Free Trade Area; it serves as a repository of trade information and allows users to monitor, in real time, the pace of trade and economic integration in Africa. The Observatory will also synthesize and make available relevant trade data and information to support the formulation of evidenced-based trade policies and provide the private sector with information on trade and on the regulatory framework applicable in various member States to support them in making business decisions and to support the development of subregional value chains.

In addition to this, there are an increasing number of national single windows throughout SADC, which allow businesses to more easily gain access to all the regulations, standards, rules of origin and laws they need to comply with in order to operate in and export to a certain country. In addition, these single windows often decrease the costs for MSMEs considerably, as the latter no longer need to pay for a dedicated consultant or law firm to file and submit compliance documents, since single windows make it possible for MSMEs to do this themselves online. These single windows are particularly helpful for MSMEs in Africa. A recent survey by ITC revealed that 62 per cent of companies surveyed in Africa handled their own export process, with only 24 using specialized forwarding companies, 8 per cent using other means and 4 per cent relying on their partner company abroad to handle the process.25

At a more specific level, certificates of origin are required for MSMEs to utilize trade agreements, as without them the MSMEs cannot access the trade preferences granted under the agreement. In this regard, the innovation of electronic certificates of origin has been significant and has increased MSMEs’ utilization of trade agreements significantly. Electronic certificates of origin are digital versions of traditional paper-based certificates. They are quicker to process, easier to store and gain access to as an MSME and more difficult to forge. By digitizing the certification process, electronic certificates of origin can significantly reduce the time and cost associated with proving origin, thereby making it easier for MSMEs to comply with rules of origin, qualify for trade preferences and supply their inputs to subregional and global value chains. In addition, with regard to rules of origin, blockchain can be used to create a transparent and unchangeable ledger of a product’s journey, from raw material to finished good. This technology can simplify the verification process for rules of origin by providing a transparent record, thereby reducing the administrative burden on MSMEs, which is one of the features of rules of origin that most stifles MSME participation in subregional and global value chains.26 Currently, intra-African agreements appear to favour the certification of origin by competent authorities, which would limit the technology to proving that the certificate is authentic – that is, that it has been delivered by the competent authority – and has not been tampered with.27 However, if it becomes more widely used by parties to a transaction to exchange data from the moment that the goods are produced or harvested through all subsequent stages of the process of treatment until the arrival at the final consumer, blockchain data could be relied upon to carry out the certification of origin directly at the border, without the need for a certifying authority. This would constitute tremendous progress towards increasing MSMEs’ utilization of trade agreements and the preferences embedded therein.

25 ITC, Made by Africa.
3. Overview of MSMEs in Southern Africa

3.1 Characteristics of MSMEs in the subregion

In SADC, MSMEs are dominated by microenterprises, with more than 95 per cent of MSMEs in Lesotho, Mozambique, Zambia and Zimbabwe being microenterprises. In South Africa, 84 per cent of MSMEs are microenterprises. In Eswatini, 75 per cent of businesses are owned by independent entrepreneurs. Given their size, MSMEs largely operate from the entrepreneur’s home or through door-to-door or roadside sales.

Figure III
Proportion of MSMEs that are microenterprises (those employing at most five employees) (Percentage)

They are also largely informal, without registration or a licence. A total of 89 per cent of MSMEs in Malawi and 84 per cent in Zimbabwe trade informally. This figure is lower in South Africa, standing at 58 per cent.28

MSMEs are generally concentrated in the agriculture, wholesale and retail sectors in SADC.29,30 However, most MSMEs in South Africa operate in the services sector.

Of those surveyed in the several FinScope studies conducted in SADC countries, nearly half of owners had founded a business to boost their income, and one third had started a business because they wanted to use their skills or take advantage of a business opportunity. The failure rate of MSMEs is high in sub-Saharan Africa. External drivers of failure include limited access to financing, poor

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28 Fanta and others, “Small business performance”.
market conditions, a lack of institutional support and a lack of information. Internal factors include a lack of strategy and vision, low educational levels and inadequate social capital. One of the most significant impediments to MSMEs’ development is what is known as the “missing middle” phenomenon. There are 44 million SMEs in sub-Saharan Africa, which play a vital role in the economic recovery and development of sub-Saharan African countries, where they often comprise 90 per cent of all enterprises and more than 60 per cent of jobs, as well as contributing to inclusive growth and the achievement of the Sustainable Development Goals. However, their contribution is significantly constrained by a lack of access to finance, with an estimated SME funding gap of between $331 billion and $421 billion, which has grown during the COVID-19 pandemic.  

This lack of access to sufficient capital is caused by several factors, involving information, design, cost, access and capacity. There are, however, certain innovations and technologies that are helping to service these MSMEs’ financial needs and enabling them to grow:

- Centralization of know your customer databases
- E-documentation in trading, which is increasingly facilitating the digitalization of trade finance
- Online platforms that connect SMEs with finance providers

The collection of receivables data from MSMEs’ enterprise resource planning systems and their integration into risk profiles by microfinance organizations and SME banks is increasing financing to MSMEs and providing them with a credit score and lower interest rates.

3.1.1 Innovation and access to technology

According to the authors of African Innovation Outlook 2019, the percentage of innovative firms is quite high in a number of SADC countries: 52 per cent in Namibia, 59 per cent in Eswatini, 73 per cent in Seychelles, 75 per cent in Lesotho and 85 per cent in Angola. This comes with a caveat; most countries are still developing their capacity to gather accurate innovation data, and some have fairly small sample sizes. Given the focus of the present study, it is important to highlight how large and small firms differ not only in terms of research and development, productivity and investments, but also in how they manage innovation. Large firms have been thought of as the main contributors to technological change processes. However, MSMEs are viewed as agents of change, creating diversity that stimulates productivity and innovation.

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31 Dalberg Global Development Advisors, “Closing the gaps: finance pathways for serving the missing middles” (Geneva, Dalberg Global Development Advisors, 2020).
32 Ibid.
34 In the report, innovation is defined as “the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisational method in business practices, workplace organisation or external relations”.
3.2 Specific constraints faced by MSMEs

MSMEs situated in developing countries face several barriers to their integration into global value chains. These include access to finance, limited knowledge, a lack of necessary skills and poor ICT and physical infrastructure. As well as being direct barriers to integration into subregional and global value chains, these factors also limit MSMEs’ ability to grow to a size that enables international trade. Specific size-related constraints include production quantity and the achievement of economies of scale to absorb additional costs, and the ability to employ in-house expertise and administration staff.37

Poor access to finance is found to be the primary obstacle to the prerequisite startup and growth in MSMEs in SADC that would enable subregional and global value chain integration.38 The formal MSME finance gap is estimated to be $331 billion for Africa.39 On the demand side, MSMEs in Africa struggle to find investors offering appropriate investments with regard to the design and the size of the loan. On the supply side, financial institutions and investors perceive MSMEs as high risk and have little understanding of, or trust in, the way insurance services work to mitigate this risk.

MSMEs’ risk and the related limits on their access to finance are determined by a lack of technical and business knowledge, financial and digital literacy, credit history that is recognized by financial institutions and immovable collateral. Furthermore, MSMEs often do not know where to find finance – especially green finance. This means that small business owners finance startup using their own savings.

Innovations in finance through mobile money are changing this situation, however. Nearly half of worldwide registered mobile money accounts (496 million out of just over 1 billion) and two thirds of all transactions by value ($456 billion out of $690 billion) are in Africa. In Malawi, formal access to finance increased from 13 per cent (2012) to 47 per cent (2019), largely driven by increased access to mobile money.

Informality is another major barrier to doing business that was identified in a 2016 World Bank study. It inhibits access to finance, and it is also a binding constraint on direct participation in subregional and global value chains. Often, the marginal costs of formalizing outweigh the marginal benefits.40

Furthermore, it is well documented that many MSMEs lack important skills for growing and stabilizing revenue. These critical skills include financial and digital literacy (while digital skills are becoming increasingly important for business growth and for gaining access to foreign markets, MSMEs in SADC countries are not making use of basic tools such as the Internet),41 technical skills, managerial skills and marketing skills.42,43

In addition, MSMEs often lack knowledge of foreign markets, making it difficult for them to find foreign buyers and to meet international product and quality standards.44 Poor knowledge also

37 Ganne and Lundquist, “The digital economy, GVCs and SMEs”.
40 Cusolito, Safadi and Taglioni, Inclusive Global Value Chains.
41 Fanta and others, “Small business performance”.
42 Cusolito, Safadi and Taglioni, Inclusive Global Value Chains.
44 Ganne and Lundquist, “The digital economy, GVCs and SMEs”.

22
means that navigating border procedures – which are often overly complex, owing to a lack of uniform customs documentation in SADC – is a barrier for MSMEs. The latter also lack knowledge about trade agreements and their implications with regard to possible preferential treatment, mutual recognition of certification or other concrete advantages, or about how to practically benefit from these.\textsuperscript{45}

Lastly, poor infrastructure – both digital and physical – is an important constraint for MSMEs. A lack of digital infrastructure makes connecting to subregional suppliers and buyers difficult, as well as inhibiting easy and affordable cross-border payments. Inadequate transport infrastructure is considered to be a major constraint to businesses in Africa (which are largely MSMEs),\textsuperscript{46} as is access to cheap and reliable energy.

Enhancing productivity through capacity-building, increasing access to finance,\textsuperscript{47} removing barriers to formalization, such as the cost of compliance and taxes, improving infrastructure\textsuperscript{48} and achieving economies of scale through aggregation (through both collective marketing and the collective purchasing of inputs) are essential to overcoming the above barriers for MSMEs in subregional and global value chains.

### 3.3 Opportunities for upgrading: quality, absorption of production techniques and technology

To provide an overview of the situation in Southern Africa with regard to upgrading either MSMEs’ product quality, their technology absorption or their production techniques, the change in each Southern African country’s high-technology exports between 2015 and 2018 is shown in Table 9.

<table>
<thead>
<tr>
<th>Country</th>
<th>2015</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>12.60</td>
<td>23.31</td>
</tr>
<tr>
<td>Botswana</td>
<td>0.69</td>
<td>0.61</td>
</tr>
<tr>
<td>Comoros</td>
<td>3.22</td>
<td>0.17</td>
</tr>
<tr>
<td>Eswatini</td>
<td>0.23</td>
<td>0.92</td>
</tr>
<tr>
<td>Lesotho</td>
<td>0.14</td>
<td>0.06</td>
</tr>
<tr>
<td>Madagascar</td>
<td>0.26</td>
<td>0.42</td>
</tr>
<tr>
<td>Malawi</td>
<td>1.29</td>
<td>2.15</td>
</tr>
<tr>
<td>Mauritius</td>
<td>0.11</td>
<td>2.60</td>
</tr>
<tr>
<td>Mozambique</td>
<td>11.67</td>
<td>5.65</td>
</tr>
<tr>
<td>Namibia</td>
<td>0.44</td>
<td>0.22</td>
</tr>
<tr>
<td>Seychelles</td>
<td>8.03</td>
<td>5.22</td>
</tr>
<tr>
<td>South Africa</td>
<td>7.41</td>
<td>5.27</td>
</tr>
<tr>
<td>United Republic of Tanzania</td>
<td>0.82</td>
<td>6.89</td>
</tr>
<tr>
<td>Zambia</td>
<td>4.25</td>
<td>2.14</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>3.28</td>
<td>2.06</td>
</tr>
</tbody>
</table>


\textsuperscript{45} ITC, \textit{Made by Africa}.
\textsuperscript{46} Ibid.
\textsuperscript{47} Cusolito, Safadi and Taglioni, \textit{Inclusive Global Value Chains}
\textsuperscript{48} ITC, \textit{Made by Africa}.
These data are a proxy for the industrialization process and for countries’ participation in high-
technology subregional or global value chains. They reveal a decline in both of these for Angola, 
Seychelles, South Africa and Zambia. Significant increases are observed in Malawi, Mauritius, 
Mozambique and the United Republic of Tanzania. The rest of the countries remain mostly static 
during this period.

Encouragingly, research carried out by the Global System for Mobile Communications shows 
that, between 2016 and 2020, the number of active technology hubs across Africa surged from 314 
to 744. In Southern Africa, the majority are located in South Africa (93), the United Republic of 
Tanzania (31), the Democratic Republic of the Congo (22), Angola (17) and Zimbabwe (15), but 
most countries can count several hubs. Increasingly, incubators and accelerators are targeting 
technology and digital entrepreneurs. About one quarter of these hubs are classified as co-working 
spaces, or “maker spaces”, where the use of three-dimensional printers, drones and other Industry 4.0 
technologies is commonplace. Financial sustainability is a challenge for many of these hubs, which 
often rely on grants from development partners and international donors to survive.

One specific opportunity through which Southern African firms have upgraded by enhancing 
both the quality of their products and their absorption of production techniques and technology is the 
development and construction of the Square Kilometre Array Observatory and the MeerKAT radio 
telescope. The core stations of the Square Kilometre Array Observatory are already under 
construction in South Africa. Remote outer stations are spread across the following eight African 
Meanwhile, the MeerKAT will retain the title of the world’s most powerful radio telescope until the 
Square Kilometre Array Observatory is completed. The MeerKAT’s first 64 dishes were inaugurated 
in July 2018, and an additional 133 dishes are being added from 2020 onwards. Most importantly, 
about 75 per cent of the components used in the construction of the MeerKAT have been sourced 
subregionally from Southern Africa or locally. Several inventions are being commercialized, and 
more than 110 million South African rand (about $6.5 million) have been awarded to 16 domestic 
small and medium-sized enterprises through a financial assistance programme. This is an example 
of a subregional project that has led to significant product innovation and the absorption of production 
techniques and technology across Southern Africa, and that has directly involved MSMEs and relied 
on subregional value chains and will continue to do so.

Returning to a broader perspective, it was found that foreign value added in gross exports 
correlated negatively with MSMEs’ decisions to introduce new products but was positively 
associated with their decisions to improve existing products. These relationships are more profound 
for firms in industrial zones and non-exporting firms. This implies that the production linkages with 
lead or foreign firms could be more important to the domestic MSMEs’ innovation than their direct 
trading activities.

In line with this finding and the importance of production linkages with lead or foreign firms 
for MSMEs, there are an increasing number of opportunities being made available to MSMEs in 
SADC through the supplier development programmes of large corporations. Take, for example, Pick 
Pay’s supplier development programme, through which the retailer provides MSMEs with market 
access but also transfers certain technologies to these supplying MSMEs and increases their


51 Ibid.


absorptive capacity. Pick n Pay spent 4.3 billion South African rand on developing MSMEs in 2021 and has embraced local sourcing, to the extent that 95 per cent of its own brand food and groceries are produced locally. The retailer currently supports 2,178 MSMEs – up from 2,123 in 2021.\textsuperscript{54}

In addition, Shoprite, one of the Pick n Pay’s main competitors, launched its own version of the programme, called Shoprite Next Capital. This is a division of the broader business and is devoted to building the capacity of and growing commercially viable MSMEs in all of Shoprite’s active jurisdictions. This new programme will operate as a one-stop shop for MSME partners by providing marketing opportunities, working capital assistance, packaging and labelling support, data-sharing and product range and geographic expansion, as well as possible private label partnerships.\textsuperscript{55}

\ \section*{3.4 Selected priority value chains for MSMEs in SADC}

\subsection*{3.4.1 Introduction}

The present section is focused on five priority value chains for SADC, namely, textiles, leather and leather products, agroprocessing, mineral beneficiation and pharmaceuticals. The authors provide an overview of each of the value chains in the subregion and a snapshot of the current level of involvement of MSMEs – as far as the available data and literature allow. There is a role for MSMEs in all of these value chains at various stages, although some, such as agroprocessing, leather and textiles, offer more opportunities than others. Examples of MSMEs in Southern Africa using technology and innovation to increase their competitiveness and levels of subregional and global value chain integration are also highlighted for each subregional value chain covered.

\subsection*{3.4.2 Textiles}

In recent years, many opportunities have arisen in East and Southern Africa that have shown strong potential in the textile sector. The establishment of the African Growth and Opportunity Act in 2000 and the subsequent implementation of additional provisions have created more favourable rules of origin, and the Southern African textile industry has become more attractive to investors. Furthermore, the implementation of the Agreement Establishing the African Continental Free Trade Area will bring a host of benefits to textile producers and manufactures in the subregion. According to speakers at the Origin Africa trade show, held in the United Republic of Tanzania in 2019, the Agreement will boost subregional cooperation among East and Southern African cotton growers, ginners and textile companies. It will assist in enabling African companies to take advantage of the expected 84 per cent increase in the import value of cotton apparel to Africa between 2022 and 2026.\textsuperscript{56}

Within Southern Africa, Mauritius and South Africa are major markets for the exportation of textiles. The industry in South Africa currently contributes 8 per cent of the country’s manufacturing gross domestic product (GDP), and South Africa is the top exporting country in Africa for textile articles. Much of the textiles that are being exported from the subregion are still in their raw form, as infrastructure is lacking in many communities. South Africa, however, has moved into more technical textile production, such as providing textile products to aeronautic companies.
MSMEs play an important role in the textiles value chain, especially in the production of cotton. This can be further improved through investment in skills and equipment. For example, through a project it has funded in Mozambique, the Trade Related Facility has equipped small-scale cotton producers with the skills and equipment to process cotton into textiles and seeds into oil. MSMEs in Mauritius and South Africa have shown dynamism through growth and upgrading in the textile and clothing sector.

South African retail chains that export in the subregion can play an important role in integrating MSMEs from the subregion into the value chain. For example, a small cluster of apparel firms in Madagascar owned by a large Mauritian lead firm work in coordination with that firm to supply South African buyers in the upper market segment.57

The growth of subregional value chains and the expansion of apparel exports from Eswatini, Lesotho and Madagascar to the South African market is a good example of the positive role such economic hubs can play in expanding subregional markets and production opportunities in smaller subregional economies.

3.4.3 Leather and leather products

The situation regarding the leather value chain in South Africa and the United Republic of Tanzania is unique in the subregion, as all the stages of the value chain are actively operating within both those countries, unlike in other member States, where only one or a few stages of the value chain, such as livestock farming or manufacturing, are found. Furthermore, all countries in the subregion except South Africa, the United Republic of Tanzania and Zimbabwe have little to no tanning activities. South Africa is the largest leather producer and supplier in the subregion and exports most of its products to other member States. However, it does not feature as a main global player in any of the stages of the value chain. Countries such as Italy, Spain, the United States of America and Viet Nam are leaders in various stages of the value chain, such as the trade in raw hides and skins, the processing of hides and the manufacturing of leather products. China is the largest supplier of leather products to SADC member States.

Table 10
Overview of the level of valorization and integration into the leather value chain for each SADC member State

<table>
<thead>
<tr>
<th>Country</th>
<th>Livestock breeding/slaughtering</th>
<th>Tanning</th>
<th>Manufacturing</th>
</tr>
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<tbody>
<tr>
<td>South Africa</td>
<td></td>
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<tr>
<td>United Republic of Tanzania</td>
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<td>Zambia</td>
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<td>Zimbabwe</td>
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<td>Namibia</td>
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<td>Botswana</td>
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<td>Angola</td>
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<td>Eswatini</td>
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<td>Malawi</td>
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<td>Lesotho</td>
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<tr>
<td>Democratic Republic of the Congo</td>
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<tr>
<td>Comoros</td>
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<td>Seychelles</td>
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<tr>
<td>Mauritius</td>
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<td></td>
<td></td>
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<tr>
<td>Mozambique</td>
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</tbody>
</table>

Source: German Agency for International Cooperation, Support towards Industrialization and the Productive Sectors (SIPS) in the SADC Region: Leather and Value Chain Inception Report.

Note: Green, large cattle stocks with at least 1 million head and three or more operational and registered companies for tanning or manufacturing; Orange, only minor activities (fewer than 1 million head of cattle, one or two operational and registered tanneries and one or two operational and registered manufacturing companies); Red, non-existent or insignificant.

Considering the global value chain, China and the United States offer the largest potential for Southern African exports of skins, leather, leather products and footwear. The United States has the largest untapped potential, worth $41 million. Exporting globally may become increasingly difficult as more countries and regions introduce such measures as the European Green Deal and the associated Carbon Adjustment Border Mechanism, which puts a carbon price on imports of certain goods from outside the European Union. If leather products being exported to the European Union undergo emission-intensive production and manufacturing processes, then there would be an import duty (carbon price) imposed on that product to disincentivize the continuance of such production and manufacturing processes. With the right technology and innovation, however, it is possible to sequestrate carbon in the leather value chain by adopting regenerative farming practices that capture carbon in the soil. Innovation itself, and the use of existing innovations by MSMEs, is required to enable adoption of these practices at the smallholder farm level and to develop cost-effective ways of measuring carbon capture on smallholder farms, as well as ensuring that the leather is traceable to the farm.

South Africa has the highest demand for leather and leather products in the subregion, while Botswana provides the largest untapped potential subregionally. Market access for leather products within SADC is fairly easy to attain, given the SADC Protocol on Trade and the rules of origin pertaining to leather and leather products. However, environmental standards are becoming more and more important for market access as consumer preferences shift towards ethical and sustainably sourced and manufactured leather products.

The leather and leather products value chain in Southern Africa is dominated by smallholder farmers, such as livestock producers and MSMEs who are largely in the informal sector.
The MSMEs in the leather and leather products value chain face two major constraints: the poor quality of hides, which are often scratched, scuffed or punctured owing to weak animal husbandry practices, and non-compliance with or a lack of awareness of industry and market entry standards and requirements, such as the European Union standards on the registration, evaluation, authorization and restriction of chemicals.

Accordingly, to enable and grow the leather and leather products value chain in Africa, beyond tariff liberalization there is a need for complementary action on services that enable the trade of animal husbandry extension services, which in turn would decrease the amount of poor-quality primary inputs. Distribution and logistics services will also support more effective performance of the sector. In addition, building capacity for quality and standards compliance services would improve the quality of the treating, tanning and semi-processing of leather in Africa and would thus increase the number of intermediate inputs sourced from within Africa. Linked to this is the need to increase environmental and social certifications.

### Positive dynamics: indigenous technology for leather tanning

With increasing environmental standards that SMEs must meet to be included in global and subregional value chains, the risk of environmental contamination from leather tanning chemicals is an important consideration for SMEs involved in the value chain. Effective and environmentally safe tanning technologies using indigenous vegetables have been used in Southern Africa since ancient times. This knowledge remains in such countries as Botswana and Namibia, and interviews indicate that it is being brought back into use to decrease the environmental harm associated with leather tanning. Vegetable-tanned leather is resurfacing in popularity internationally, owing to its low environmental impact, and such companies as Vegtan Leather in Botswana are producing high-quality leather using this method. Indigenous roots, such as Elephantorrhiza elephantina, are still used in rural areas surrounding the Kgalagadi Transfrontier Park and provide an opportunity to include individuals with knowledge of this ancient technology in the value chain. Such plants as Mesembryanthemum crystallinum, which can easily be farmed without irrigation in arid and salty soils, can be used effectively to soften hides in preparation for tanning. It is important that Indigenous peoples with this knowledge gain equitably from the commercialization of these methods and useful plants.

### 3.4.4 Agroprocessing

Agriculture and agroprocessing are of central importance for economic development in SADC. Agroprocessors and agribusiness purchasers are critical not only for adding value but also for determining the shape of economies and their distribution models and, in turn, economic corridors. The multiplier effect is also likely high, given the high number of agricultural workers – 60 per cent of all persons employed in SADC are in the agricultural sector. Agriculture contributes about 10 per cent of the total SADC GDP.\(^58\)

Furthermore, the agroprocessing sector has strong upstream and downstream linkages. The upstream link with primary agriculture is important for employment creation and poverty alleviation. Downstream, agroprocessing outputs enable economic diversification.

Agroprocessing in SADC plays an important role in trade. A high proportion of agricultural trade in SADC comprises agroprocessed goods. For example, for half the countries in the subregion, the value of processed agricultural exports exceeds the value of raw agricultural exports. Much of this trade is destined for markets outside of Africa, with intraregional trade flows generally low. Nonetheless, the opportunity for expanding agroprocessing exports within the region through the Agreement Establishing the African Continental Free Trade Area is significant, increasing intra-African trade in this sector by 49 per cent.\(^59\)


It is estimated that 75 per cent to 90 per cent of all agricultural commodities produced in sub-Saharan Africa are produced on small or medium-sized farms (of less than 20 ha). Primary processing is also largely carried out by MSMEs in Africa, and recently there has been significant investment in this area, as the agroprocessing industry has rapidly expanded. It is estimated that MSMEs comprise about 80 per cent of the total number of enterprises involved in the midstream food value chain in sub-Saharan Africa. However, this varies greatly by the type of commodity and level of processing. More than 70 per cent of food retailing in sub-Saharan Africa is carried out by MSMEs. In the fruits and vegetables sector, it is clear that MSMEs play a significant role in the agroprocessing value chain in Africa.\(^60\)

Barriers to entry as a micro-entrepreneur or subsistence entrepreneur in the agroprocessing value chain are not as significant compared with those for other value chains. This is especially true for production, primary processing (manufacturing) and informal marketing or retail. Instead, the barrier tends to be more to growth (to medium or large size), which requires higher levels of education, skills, land, finance, inputs, information and technology.\(^61\) Without mechanization, production and processing are time-consuming activities that involve considerable physical labour, which limits the efficiency of MSMEs. Using technology and mechanization to reduce the amount of time spent on these activities would be an important step towards increasing the competitiveness of MSMEs in this sector.

Value addition remains one of the largest opportunities in the African agricultural sector, with high margins achievable. However, as with any business, without adequate skills, access to finance, inputs, infrastructure and equipment, it is hard to grow microenterprises into businesses that can provide a sufficient and stable income. Owing to a shortage of these in the subregion, agribusinesses tend to remain small, fragmented and informal in nature. Sustaining and scaling up agribusinesses into well-organized, profitable enterprises is a challenge.

### Positive dynamics: agroprocessing waste into fertilizer and energy in Malawi

A Malawian ethanol distiller has announced the construction of a plant that will convert waste from its production into fertilizer and electricity from biofuel. The plant was supposed to be ready for production in December 2022. There have been delays, however, and it is now expected to be commissioned by the end of 2024. This will mean diversion of 218 million litres of wastewater into biogas for electricity and potassium rich organic fertilizer. Given that the price of potassium chloride in Southern Africa is double the price in international markets, this innovation is important for the competitiveness of the Southern African agricultural subregional value chain.

#### 3.4.5 Minerals beneficiation: fertilizers

Currently, nearly all raw materials are imported extraregionally (from Canada, China, Morocco, the Russian Federation and the United States). This meant that, with the global value chain disruptions caused by the measures taken during the COVID-19 pandemic and economic sanctions against the Russian Federation owing to the conflict in Ukraine, fertilizer prices in South Africa rose dramatically. The price of diammonium phosphate more than doubled from prior to the pandemic to 2022, urea prices tripled, and muriate of potash prices nearly tripled.\(^52\) The high prices and local

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shortages provide an opportunity for increased investment in the local manufacturing of certain fertilizers. The United Republic of Tanzania, for example, has included fertilizer manufacturing as part of its industrial strategy, and four new plants had been opened by the end of 2020, which means that the country has a head start on potentially filling some of the supply gap that has opened as a result of the conflict.

South Africa is the subregion’s largest fertilizer manufacturer and exporter, followed by Mozambique. The reserves of natural gas (which can be used to manufacture nitrogen fertilizer) and phosphate rock in Mozambique make the country well positioned to produce fertilizer to fill the gap in supply. A Norwegian fertilizer company, Yara, was awarded a project to make ammonia and urea from the country’s natural gas output. In 2021, however, Yara dropped these plans. The Government of Mozambique is seeking alternative investment so that the project can go ahead.63

Positive dynamics: fertilizers designed for smallholder farmers in Southern Africa

Through collaboration with the Technical Assistance Facility in Malawi and Phatisa Limited, fertilizer company, Meridian has developed specialized fertilizer blends suitable for the context of Malawian smallholder farmers. The blend is expected to increase smallholder farmers’ productivity, ultimately putting them in a better position to enter subregional value chains, rather than depleting the nutrients of the soil as outdated fertilizer formulations do.

Another important innovation for smallholder farmers is effervescent fertilizer tablets that can be dissolved in water. The invention is both easy to use and cost effective. It is gaining good traction in Zambia but is yet to be registered in South Africa, where the producer is eager to expand the market.

While there are opportunities in the value chains for import substitution, especially in urea and phosphate raw materials, manufacturing and blending, the largest opportunities are downstream in local blending and packaging, wholesale, retail, distribution, marketing and related extension services. These opportunities have already been acted upon by such companies as Yara, ETG and Meridian. While these are all large, multinational companies, Meridian is an example of a successful MSME that was able to grow through innovation to operate across the subregion, employing 3,000 workers. MSMEs such as Afriseed also operate in the space. These companies have seen innovations of value to solve the last mile distribution issues related to the fragmented market of smallholder farmers.

Zambia and Zimbabwe are the largest subregional markets and are serviced by the Beira Corridor. Transport is predominantly by road from Beira, Mozambique, while the ports in Dar es Salaam, United Republic of Tanzania and Walvis Bay, Namibia also play a role. These countries also engage in the blending of fertilizers.

MSMEs play a particularly important role in the retail sale and distribution of fertilizers to farmers. Many smallholder farmers must travel long distances to purchase fertilizers, which are often available only in large bags. Smaller rural agrodealers are well positioned to serve these farmers. The African Fertilizer and Agribusiness Partnership works to link these small rural agrodealers to larger urban agrodealers.64

There are further support services that could be offered by MSMEs, such as fertilizer and biostimulant product design, land and environmental management, engineering, quality control and chemical logistics services.

Constraints limiting smaller suppliers that operate in the subregion include: old and aging manufacturing plants, with only one new plant under construction in Mozambique, for example; the high costs of transport and the lack of rail freight to carry raw material inputs; and the reliability of power for fertilizer manufacturing and blending. Challenges also stem from currency devaluations and currency volatility, as well as difficulty in gaining access to foreign exchange for the purchase of inputs.

3.4.6 Pharmaceuticals

In sub-Saharan Africa, where overall the pharmaceutical market is worth $20 billion annually, the production of life-saving medicines is concentrated in very few countries, with 50 per cent of pharmaceutical manufacturing being carried out in South Africa. Furthermore, local producers take part in a limited range of the value chain. Almost all of them are drug product manufacturers – that is, they purchase active pharmaceutical ingredients from other manufacturers and formulate them into finished pills, syrups, creams, capsules and other finished drugs. Up to 100 manufacturers in sub-Saharan Africa are limited to packaging, that is, purchasing pills and other finished drugs in bulk and repackaging them into consumer-facing packs.

In its Made by Africa study, ITC found that 65 per cent of the $1 billion pharmaceutical export potential remained untapped in Africa. It also found that South Africa could competitively export inputs for pharmaceutical products to the African market. African businesses interviewed saw great potential for the development of herbal and traditional medicine, as well as local active pharmaceutical ingredients, if major challenges such as skilled labour, the presence of counterfeit products and access to finance could be addressed.

Demand for pharmaceutical products in Southern Africa is increasing. The country with the best-established pharmaceutical sector in SADC is South Africa. It has an established supply chain, with local production meeting almost 70 per cent of the demand in the sector. The bulk of its local pharmaceutical output comprises generic medicines, representing 50 per cent of the overall market, and it is the only country in Africa that meets World Health Organization standards to manufacture pharmaceutical products. The South African pharmaceutical market was forecast to grow by about 7 per cent annually and to reach $3.6 billion (54 billion South African rand) in value by 2021. This forecast was achieved, as the size of the pharmaceutical market in South Africa was valued at $4.6 billion in 2021 and was projected to continue growing at a compound annual rate of more than 4 per cent from 2022 to 2026.65

The development of the pharmaceutical sector has become a priority for Southern Africa, owing to the high cost of imports, and countries are making efforts to attract global manufacturers. According to a recent study by McKinsey and Company, drug imports into sub-Saharan Africa, including both over the counter and prescription drugs, considerably exceed those into China and India – where comparable populations import around 5 per cent and 20 per cent, respectively.66

The pharmaceutical industry is dominated by large firms, as MSMEs face significant barriers to entry, with high investment requirements for research and development and therefore for scaling and gaining access to technology and technical know-how. Their ability to attract the necessary financing is also limited by weak regulation and enforcement in many African countries. The barriers are evidenced by the fact that Africa has very few drug manufacturing companies and that most are concentrated in North Africa.\footnote{Alison Buckholtz, “Africa’s shot at local pharma production”, International Finance Corporation, June 2022.}

Many traditional medicine manufacturers in Africa are MSMEs with fairly uncomplicated manufacturing facilities.\footnote{African Organization for Standardization, “African traditional medicine – good manufacturing practices (GMP) for herbal medicines”, DARS 951 First edition, 2015} Given the potential variability in these natural products, standards and regulations are critical for safety. The standard on African traditional medicine of the African Organization for Standardization is important in this regard.

According to information available from SADC, subregional pharmaceutical use is estimated at more than $3 billion annually. More than 50 per cent of the essential pharmaceutical medicines used in the subregion are imported from outside Africa.\footnote{Gertrude Mothibe, “Inside the African pharma market”, presentation at the United Nations Industrial Development Organization International Business and Investment Forum, held in Bonn, Germany on 1 and 2 March 2018.}

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Positive dynamics: innovating to produce active pharmaceutical ingredients locally

CPT Pharma is a company based in South Africa with 21 years of experience in chemical manufacturing and synthesis, including in the production of active pharmaceutical ingredients for use in animal medicines – a crucial area of the pharmaceutical subregional value chain in Southern Africa, given its importance for the livestock sector and for food security.

CPT Pharma has recently opened a state-of-the-art plant to produce human active pharmaceutical ingredients locally. With many African pharmaceutical companies unable to source active pharmaceutical ingredients in Africa, this is an important development. The ability to source such ingredients from within Southern Africa will further develop the pharmaceutical subregional value chain and allow for countries outside of Southern Africa to import these ingredients and add value to them locally. The company developed its own manufacturing processes for active pharmaceutical ingredients for the treatment of tuberculosis, epilepsy and worms. It will also produce active pharmaceutical ingredients for antiretroviral drugs. The production of such ingredients for antiretroviral drugs makes up approximately 70 per cent to 80 per cent of the cost of the antiretroviral drug finished products, and the establishment of subregional active pharmaceutical ingredient production will capture a significant portion of the antiretroviral drug value chain.

In addition to its own pipeline of active pharmaceutical ingredients, CPT Pharma will host an active pharmaceutical ingredients technology innovation cluster, which will give select research projects under way at universities across the country the opportunity to utilize its facilities to develop novel manufacturing processes.
4. Country case studies

4.1 Selection of case studies

Case studies were chosen by means of a multiphase selection process in which several factors were taken into consideration. The results of the first phase, which are set out in section 3 above, comprised a review of subregional value chain development policies. During this phase, major value chains targeted by SADC were identified, which are important in most Southern African countries. These include agriculture and agroprocessing, textiles, pharmaceuticals, fertilizer and leather.

Subsequently, a literature review was conducted to determine the main industries for trade in each of the targeted countries, along with the main industries for MSMEs. The results of this literature review can be seen in each country profile below. All trade information is taken from the ITC Trade Map database unless otherwise specified.

Lastly, key informant interviews were conducted with government officials, donor agencies present in the countries and other stakeholders outside of the private sector with information on major areas of interest that might be useful for the case studies. These interviews were conducted both before and during the field visits.

This process enabled the team to identify specific interviewees for each country. These interviewees can be divided into three categories, each with their own story to tell regarding the MSME system. The first of these categories was MSMEs, and their inclusion was self-explanatory, given the scope of the study. The second category was lead firms, which were selected for interviews and case studies on the basis of their programmes to integrate MSMEs into their supply chains. Lastly, the third category was solutions providers, and these included organizations in both the public and private sector that aimed to improve the ability of MSMEs to integrate into value chains by offering a solution to a persistent problem they faced. In some cases, however, identified stakeholders were unavailable or unwilling to engage in interviews.

Upon return from the field visits, case studies were identified, selected and developed on the basis of the results of the interviews conducted in each country. While an attempt was made to adhere to the selection process discussed above, in some cases the realities of field visits made it impossible to do so, with attendees being unable to attend meetings or failing to provide important follow-up information. The process is illustrated in figure IV.
Figure IV
Case study selection process

Source: The authors.

4.2 Malawi

4.2.1 Country profile

Table 11
Economy, trade and investment profile of Malawi

<table>
<thead>
<tr>
<th>Economy, trade and investment profile</th>
<th>Most recent GDP</th>
<th>GDP growth rate (2022)</th>
<th>GDP by sector:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$12.63 billion</td>
<td>2.8 per cent</td>
<td>Agriculture: 22.73 per cent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Industry: 18.38 per cent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Services: 52.44 per cent</td>
</tr>
<tr>
<td>Top five export partners</td>
<td>Belgium, the United Republic of Tanzania, Kenya, South Africa and Zimbabwe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top five import partners</td>
<td>China, the United Arab Emirates, South Africa Kuwait and India</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top five exports (HS-4)</td>
<td>Tobacco, groundnuts, tea, dried leguminous vegetables, oilcake and other solid residues</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top five imports (HS-4)</td>
<td>Petroleum oils, mineral and chemical nitrogenous fertilizers, mineral and chemical nitrogenous fertilizers (containing nitrogen), palm oil and motor cars</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: HS-4 refers to the first four digits of the Harmonized Commodity Description and Coding System codes for each product or article.

Export opportunities and dynamics

According to the ITC trade potential tool, the following products show the largest potential for export growth (see Table).

Table 12
Products with the largest potential for export growth in Malawi

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Raw cane sugar</td>
<td>$52 million</td>
</tr>
<tr>
<td>2</td>
<td>Legumes</td>
<td>$44 million</td>
</tr>
<tr>
<td>3</td>
<td>Soya bean oilcake</td>
<td>$34 million</td>
</tr>
<tr>
<td>4</td>
<td>Groundnuts</td>
<td>$27 million</td>
</tr>
<tr>
<td>5</td>
<td>Nuts not elsewhere specified</td>
<td>$20 million</td>
</tr>
<tr>
<td>6</td>
<td>Soya beans</td>
<td>$22 million</td>
</tr>
<tr>
<td>7</td>
<td>Black tea</td>
<td>$13 million</td>
</tr>
<tr>
<td>8</td>
<td>Polyethylene bags</td>
<td>$13 million</td>
</tr>
<tr>
<td>9</td>
<td>Cane sugar and beet sugar</td>
<td>$11 million</td>
</tr>
<tr>
<td>10</td>
<td>Wood fibreboard</td>
<td>$8 million</td>
</tr>
</tbody>
</table>


MSMEs by sector

A total of 69 per cent of MSMEs are in the trade sector, and 17 per cent are in the agricultural sector. The industrial sectors (which comprise manufacturing, natural resources and mining, agroprocessing and construction) account for 8.3 per cent. The industrial sector mainly comprises large enterprises.

MSME business size

MSMEs in Malawi are dominated by microenterprises, which make up 74 per cent of the total, while 23 per cent are small enterprises and 3 per cent are medium-sized enterprises. The microenterprises are female dominated, while small and medium-sized enterprises are male dominated.

MSME business size in Malawi
(Percentage)


In the agricultural sector, tobacco, edible nuts and corn or maize represent the highest percentages of MSMEs.

Concentration of MSMEs within the agricultural sector in Malawi
(Percentage)


In the agroprocessing sector, fruit and vegetables, other food products, and nuts, animal oils and fats represent the highest percentages of MSMEs.
Figure VII
Concentration of MSMEs within the agroprocessing sector in Malawi (Percentage)

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruits and vegetables</td>
<td>34</td>
</tr>
<tr>
<td>Other food products</td>
<td>28</td>
</tr>
<tr>
<td>Nuts, animal oils and fats</td>
<td>25</td>
</tr>
<tr>
<td>Grain mill products and starch products</td>
<td>9</td>
</tr>
<tr>
<td>Foods and beverages</td>
<td>1</td>
</tr>
<tr>
<td>Meat processing</td>
<td>1</td>
</tr>
<tr>
<td>Dairy products</td>
<td>1</td>
</tr>
<tr>
<td>Bakery products</td>
<td>1.0</td>
</tr>
<tr>
<td>Prepared animal feeds</td>
<td>0.2</td>
</tr>
<tr>
<td>Fish processing and crustaceans</td>
<td>0.2</td>
</tr>
<tr>
<td>Sugar and confectionary</td>
<td>0.1</td>
</tr>
</tbody>
</table>


Trade
On average, about 75 per cent of firms in Malawi use material inputs supplied by foreign countries. This is much higher than the industry average for low-income countries and sub-Saharan African countries. However, the average for exporting firms is similar, standing at 14 per cent for Malawi and 15 per cent for low-income countries and for sub-Saharan Africa.

Figure VIII
Malawian firms using foreign inputs or supplies (Percentage)

<table>
<thead>
<tr>
<th>Percentage of Exporter Firms</th>
<th>Percentage of Firms that Use Material Inputs or Supplies of Foreign Origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>75</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>60</td>
</tr>
<tr>
<td>Low-income countries</td>
<td>55</td>
</tr>
</tbody>
</table>


MSMEs’ access to finance
There has been a shift away from internal financing and towards non-bank financing options, such as equity schemes. This may be a reaction to stringent conditions imposed by banks for the granting of loans, such as higher collateral requirements.
## Biggest challenges faced by MSMEs

Access to finance is one of the primary obstacles for MSMEs in Malawi. This is followed by power outages, corruption and high tax rates.

## MSME institutional framework

There are three primary institutions that are responsible for the MSME institutional framework in Malawi:

- Small and Medium Enterprises Development Institute
- Malawi Investment and Trade Centre
- Malawi Confederation of Chambers of Commerce and Industry

## National and regional policy measures to facilitate the development and integration of MSMEs

### Government

The Government of Malawi has recognized the importance of MSMEs in spurring economic growth. Its micro-, small and medium-sized enterprise policy of 2019, along with the Malawi 2063 Vision, guides the creation of a more productive business environment for MSMEs.

The Malawi 2063 Vision is an official document and road map issued by the Government of Malawi in which it is detailed exactly how Malawi will become a self-reliant nation with a minimum per capita income of $4,000 by 2063. According to the document, the Government aims to transform Malawi into a wealthy and self-reliant industrialized “upper-middle-income country” by the year 2063.74

In the vision are outlined several goals to be achieved by 2063, including becoming an inclusively wealthy and self-reliant industrialized upper-middle-income country, having a vibrant knowledge-based economy with a strong and competitive manufacturing industry that is driven by a productive and commercially vibrant agriculture and mining sector, having world-class urban centres and tourism hubs across the country with requisite socioeconomic amenities for a high-quality life, and having a united, peaceful, patriotic and proud population of people who believe in their own abilities and are active participants in building their nation.75

Malawi has taken steps to attract foreign investment, including the establishment of the Malawi Investment and Trade Centre to promote and facilitate investment in the country. The Government has also implemented policies to improve the business environment, such as reducing the time and cost involved in starting a business and streamlining procedures.76 The Centre also organizes events, such as the Malawi Investment Forum and the Malawi-Tanzania Investment and Trade Forum, to promote trade and investment opportunities in Malawi.77

### Development partners

The Financial Inclusion and Entrepreneurship Scaling Project involves an $86 million credit from the International Development Association. Through this project, the Reserve Bank of Malawi is partnering with commercial banks, microfinance institutions and development finance institutions to provide low-cost loans to innovative enterprises, including those hit by the COVID-19 pandemic, to support innovative startups and to establish capable and well-supervised

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75 Ibid.

76 Lloyds Bank, “Foreign direct investment (FDI) in Malawi”, November 2023.

investments while enabling the assisted enterprises to adopt digital financial services.\textsuperscript{78,79}

The German Agency for International Cooperation has programmes through which it works with developing Malawian MSMEs. One such programme is the MSME Business Training and Coaching Loop, which is part of the KULIMA More Income and Employment in Rural Areas of Malawi and the Green Innovation Centres for the Agriculture and Food Sector programmes. The MSME Business Training and Coaching Loop is aimed at enhancing the entrepreneurial competencies of owners of existing MSMEs to increase employment and income opportunities for poor people in rural and peri-urban areas. It is also aimed at facilitating business linkages, as well as access to services, including finance.\textsuperscript{80,81}

The African Development Bank conducts a programme called the Africa SME Programme, through which it supports African local financial institutions with long-term liquidity (lines of credit) and with technical assistance to be able to successfully provide relevant financing to local SMEs and to build larger and higher quality SME loan portfolios.\textsuperscript{82}

### 4.2.2 Case study 1, Global Seeds: managing the lack of trust in the value chain and counterfeit seeds

#### 4.2.2.1 Summary

In the present case study, the widespread issue of counterfeit seeds compromising agricultural productivity in Malawi, in particular in the production of maize, was tackled by adopting packaging technology and strong regulatory measures. To counter the counterfeit seeds, which reportedly caused significant crop yield reduction and economic loss, an innovative e-tag system was used. This system, made mandatory by the Government’s Affordable Inputs Programme, improved seed quality control and boosted sales for such companies as Global Seeds. Simultaneously, the 2022 Seed Act of Malawi introduced hefty fines or prison sentences for trading in uncertified or fake seeds. This technologically simple yet effective solution, backed by strong regulations, resulted in unlocking an estimated value of about £7.2 million for approximately 500,000 smallholder farmers.

#### Description

In the present case study, the authors consider how the adoption of packaging technology can mitigate the severe challenge of counterfeit seeds, and the regulatory framework that supports such adoption.

#### Reason for inclusion of the case study

In the present case study, an example is provided of innovation being used to counteract a significant problem facing MSMEs trying to integrate into national, subregional and global value chains.

The present case study is also focused on the agricultural and agroprocessing sector, which is a crucial economic driver in Southern Africa.

\textsuperscript{78} Efrem Chilima, “Supporting Malawi’s small enterprises to spur economic growth and create more job opportunities”, World Bank Blogs, 30 May 2022.


\textsuperscript{80} German Agency for International Cooperation, “MSME business training and coaching loop (MSME Loop)” (Lilongwe, German Agency for International Cooperation, 2018).

\textsuperscript{81} German Agency for International Cooperation, “Energising development partnership – EnDev country project Malawi” (Bonn and Eschborn, Germany, German Agency for International Cooperation, 2015).

\textsuperscript{82} African Development Bank, “Access to finance for SMEs through FIs”, available at \url{www.afdb.org/en/topics-and-sectors/initiatives-partnerships/access-to-finance-for-smes-through-fis}. 
<table>
<thead>
<tr>
<th>Sector</th>
<th>Agriculture and agroprocessing: maize.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Links to other case studies</td>
<td>Not applicable</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Seed Trade Association of Malawi. The Seed Trade Association of Malawi is an apex body of seed companies established to promote the use of improved seeds. Of the 24 seed companies that are members of the Association, 20 are national seed companies, while 4 are multinational. Five of the seed companies are owned by women. Global Seeds Ltd. Global Seeds is a 100 per cent Malawian-owned indigenous seed company that produces seeds of improved varieties of drought-tolerant hybrid maize and legumes. All seeds stocked are produced through contracted growers across central and southern Malawi and partner associations and cooperatives. All seeds are produced under certification and meet the seed standards set out in Malawian law.</td>
</tr>
<tr>
<td>Problem statement</td>
<td>Counterfeit seeds pose a challenge that is severely constraining the development of the maize sector and its value chain.</td>
</tr>
<tr>
<td>Narrative of the case study</td>
<td>Counterfeit seeds have become a large problem for food security, as they can cost farmers up to two thirds of their harvests, thereby endangering the world’s food supply. According to the World Bank, the reason that crop production in Africa falls below its potential is largely because, depending on the country, an estimated 15 per cent to 50 per cent of the seeds sold in some African nations are counterfeit. The Uganda National Bureau of Standards estimates that 30 per cent of the seeds sold in Uganda are counterfeit. The impact of this situation can be illustrated by the fact that, in sub-Saharan Africa, rice yields are less than one third of their potential and maize yields less than one fifth of their potential. One strategy to address counterfeit seeds is through improved seed packages. For example, many companies use an e-tag system, Kakasa, which relies on a unique scratch code to which the customer can gain access after purchasing the product. The customer receives a message verifying the authenticity of the shipment after entering the code by means of a text message. Another option is the use of tamper-proof packaging and shiny, hard-to-fake stickers or labels. In parallel, there have been policy measures put in place by Governments that take a zero-tolerance position towards counterfeit activities. In Malawi, there has been a substantive effort to address the issue of counterfeit seeds. Scratch cards became mandatory under the Government’s Affordable Inputs Programme, and the scratch card technology has been rolled out for the pivotal crops of maize and legumes. Under this system, a sticker is placed on a seed packet label to indicate the seed quality, seed company, date of manufacture, type of seed, weight, testing date and lot number. After scratching the label, the secret code is revealed, and the digits are punched into a user’s cell phone through a text message sent to the toll-free number 3015.</td>
</tr>
</tbody>
</table>

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87 Chandler, “Tackling counterfeit seeds with ‘unclonable’ labels”.
89 AGRA, “Radio show enlightens Malawi’s farmers on seed authentication to save them from fake seed”, 8 December 2021.
The system was demonstrated to the consultants during the field visit to Global Seeds. It has helped to boost sales, and its adoption among the company’s suppliers should also boost supply.

In addition, Malawi has implemented the 2022 Seed Act, which introduces a $30,000 fine or 20 years’ imprisonment as the punishment for trading in uncertified or fake seeds in Malawi.90 In a recent study, it was estimated that the scratch card system had unlocked some £7.2 million in value for around 500,000 smallholder farmers.91

### Solution provided

A simple scratch card system backed up by a text-message-based verification mechanism was implemented by Global Seeds. This allowed farmers to quickly, easily and cheaply confirm that they were not buying counterfeit seeds.

Furthermore, the Government imposed harsh penalties under the new Act for those selling counterfeit seeds.

### Lessons learned

**The role of technology.** Through this case study, the authors underscore the crucial role that technology, even as simple as text-message-based systems, can play in mitigating such widespread issues as counterfeit seeds. In combination with other features, such as tamper-proof packaging and unique identifiers, it was possible to significantly reduce the circulation of fake seeds.

**Regulatory support.** Alongside technology, strong regulatory support proved to be a significant factor in success. The implementation of strict penalties deters malpractice and enhances trust in the seed supply chain, as evidenced by the 2022 Seed Act in Malawi.

**Standardization.** Having in place a mandatory and standardized system facilitates traceability, which is critical in maintaining quality control in the seed industry. It ensures that every stakeholder, from growers to sellers, is adhering to the same stringent guidelines, ultimately ensuring that only certified seeds make it to the market.

**Stakeholder engagement.** The active involvement of seed growers and associations was essential in realizing a functional solution. Their participation helped to streamline the process and ensured that certified seeds were produced and distributed.

**Consumer education.** Raising awareness of the scheme among smallholder farmers was an important aspect. The success of the strategy relied not only on the technology and regulations in place but also on making farmers aware of the system and how to use it to protect themselves from counterfeit seeds.

**Transferability.** It can be seen from the case study that solutions to complex problems can be replicable. Similar approaches are already in use in several African countries, demonstrating that strategic and collaborative efforts, coupled with appropriate technology and a regulatory framework, can be adopted in different contexts to address shared challenges.

### Transferability

Similar approaches are already in place in several countries in Africa. The technology is not complex, and it would therefore be possible to roll out the programme in rural areas in any of the targeted countries where counterfeit seeds are an issue.

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**4.2.3 Case study 2, iMoSyS and Kombeza Foods Limited: challenges along the value chain, including the quality of inputs, market access and market entry**

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90 Evans, “Stakeholders fear regulation of seed markets will destroy continent’s food diversity”, Agri Malawi, 17 May 2022.

91 Tim Kelsall and Ed Laws, “‘Fake seeds cost us money’: learning from Traction’s adaptive approach to changing the stakes for farmers in Malawi”, Overseas Development Institute, October 2022.
4.3 Mauritius

4.3.1 Country profile

Economy, trade and investment profile

Table 13
Economy, trade and investment profile of Mauritius

<table>
<thead>
<tr>
<th>Most recent GDP</th>
<th>$11.53 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate</td>
<td>3.7 per cent</td>
</tr>
</tbody>
</table>

GDP by sector:
| Agriculture | 3.27 per cent |
| Industry    | 18.29 per cent|
| Services    | 66.87 per cent|

Top five export partners: South Africa, France, the United Kingdom, the United States and Madagascar

Top five import partners: China, India, South Africa, the United Arab Emirates and Oman

Top five exports (HS-4): Fish (prepared or preserved), cane sugar or beet sugar, men’s clothing, T-shirts (knitted or crocheted) and fabrics (knitted or crocheted)

Top five imports (HS-4): Petroleum oils, motor cars, frozen fish, coal and telephone sets

Note: HS-4 refers to the first four digits of the Harmonized Commodity Description and Coding System codes for each product or article.

Export opportunities and dynamics

According to the ITC trade potential tool, the following products show the largest potential for export growth.

Table 14
Products with the largest potential for export growth in Mauritius

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Tuna (prepared or preserved)</td>
<td>$289 million</td>
</tr>
<tr>
<td>2</td>
<td>Men’s cotton trousers and shorts</td>
<td>$107 million</td>
</tr>
<tr>
<td>3</td>
<td>T-shirts and vests (cotton, knitted and crocheted)</td>
<td>$71 million</td>
</tr>
<tr>
<td>4</td>
<td>Cane sugar or beet sugar and pure sucrose</td>
<td>$79 million</td>
</tr>
<tr>
<td>5</td>
<td>Men’s cotton shirts</td>
<td>$74 million</td>
</tr>
<tr>
<td>6</td>
<td>Raw cane sugar</td>
<td>$63 million</td>
</tr>
<tr>
<td>7</td>
<td>Diamonds (worked)</td>
<td>$67 million</td>
</tr>
<tr>
<td>8</td>
<td>Knitted or crocheted dyed cotton fabrics</td>
<td>$61 million</td>
</tr>
<tr>
<td>9</td>
<td>Women’s cotton trousers and shorts</td>
<td>$58 million</td>
</tr>
<tr>
<td>10</td>
<td>Live primates</td>
<td>$27 million</td>
</tr>
</tbody>
</table>


Importance of MSMEs

As of 2013, MSMEs accounted for around 99 per cent of all enterprises in the economy. They contribute about 48 per cent of total employment (264,900 out of 552,000 employed persons) and about 35 per cent of gross value added. In 2013, the economy was estimated to comprise 172,000 MSMEs.95

MSMEs by sector

The sector is dominated by two primary areas: wholesale and retail trade and the repair of motor vehicles and motorcycles, standing at 27 per cent, and agriculture, forestry and fishing, standing at 27 per cent of MSMEs.96

Figure IX
MSMEs in Mauritius by sector
(Percentage)

Figure X
Value added in the economy of Mauritius, by sector
(Millions of Mauritian rupees)


MSME business size
Of the 172,200 MSMEs in the country, 81 per cent are microenterprises, 18 per cent are small enterprises and 1 per cent are medium-sized enterprises.97

Trade
As of 2015, MSMEs exported goods with a total value of about 6.6 million Mauritian rupees, representing 11 per cent of total domestic exports of goods. This was an increase from 7 per cent in 2013.98 However, there has been an alarming decrease in the number of export-oriented enterprises, dropping from 518 in 2000 to 311 in 2014. By March 2015, the number had decreased further to 304. This trend has been attributed to the end of the Multi Fibre Agreement. Articles of apparel and clothing are by far the most exported commodities, accounting for 49.1 per cent of export-oriented enterprises’ total exports in 2015, followed by fish and fish products at 19.6 per cent.99

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97 Ibid.
98 Ibid.
Biggest challenges faced by MSMEs during the COVID-19 pandemic

In a survey it conducted, the German Agency for International Cooperation highlighted the following as major challenges anticipated by MSMEs during the COVID-19 pandemic. These challenges are distributed differently across firms.  

Figure XI
Key challenges anticipated by MSMEs in Mauritius during the COVID-19 pandemic
(Percentage)

![Challenges Graph]


Figure XII
Significant differences noted in challenges anticipated by MSMEs in Mauritius during the COVID-19 pandemic

**SIGNIFICANT DIFFERENCES NOTED:**

**SMALL SMEs**

- Lack of cash flow: 69%

**MEDIUM-SIZED**

- Foreign exchange rates affecting prices of imports: 45%

**LARGE**

- Foreign exchange rates affecting prices of imports: 49%

**MEDIUM SMEs**

- Lack of cash flow: 67%

- Fall in demand for goods and services: 57%

- Foreign supplier delays: 32%


*a Mauritian rupees.

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**MSME institutional framework**

The primary institutions that are responsible for the MSME institutional framework in Mauritius are:

- Ministry of Industrial Development, SMEs and Cooperatives
- SME Mauritius
- Small and Medium Enterprises Development Authority
- Ministry of Commerce and Consumer Protection
- Mauritius Chamber of Commerce and Industry
- Association of Mauritian Entrepreneurs
- Association of Mauritian Manufacturers
- Mauritius Export Association
- Enterprise Mauritius
- Business Mauritius (coordinating body of the private sector)
- National Women Entrepreneur Council

**National and regional policy measures to facilitate the development and integration of MSMEs**

**Government**

The Government of Mauritius has several policies and strategies aimed at developing MSMEs. The Ministry of Industrial Development, SMEs and Cooperatives of Mauritius, in collaboration with UNCTAD, developed an industrial policy and strategic plan for the country for the period 2020–2025. In that plan, the Ministry sets out the imperatives for a globally competitive and sustainable industrial base and makes 22 recommendations focused on five pillars: strengthening industrial foundations; upgrading value chains; supporting local production; promoting subregional and global exports; and fostering the adoption of smart and advanced technologies related to Industry 4.0. In addition, the Ministry of Finance, Economic Planning and Development has published a handbook on schemes and incentives for MSMEs and entrepreneurs, in which it provides information on relevant schemes and measures being provided by the Government of Mauritius for the benefit of the manufacturing sector.\(^\text{101}\)

Furthermore, the former Ministry of Business, Enterprise and Cooperatives commissioned the 10-year master plan for the SME sector in Mauritius. The master plan is a comprehensive strategy aimed at promoting the growth and development of SMEs in Mauritius. It is focused on various aspects, such as entrepreneurship, innovation, access to finance and digital transformation, with the goal of creating a vibrant and competitive SME sector that contributes to the country’s economic growth and development. It includes six performance drivers: regulatory and institutional framework; national entrepreneurship strategy; human capital and skills development; innovation, technology transfer and green SMEs; access to finance and equity participation; and marketing and regional exports capacity-building. Objectives 2 and 5 of the master plan are particularly relevant to MSME innovation and trade agreement utilization:

(a) Objective 2: foster high growth potential SMEs by nurturing startups, fostering entrepreneurship and supporting knowledge-based activities and disruptive SMEs (innovators);

(b) Objective 5: increase market access and exports by providing SMEs with intelligence, market development supports and logistics to integrate into the global supply chain.

Additional programmes, institutions and policies of support include the following:

**SME Equity Fund.** Through this fund, financial support is provided to SMEs to enhance their competitiveness.

**Enterprise Mauritius.** This is a collaborative partnership between industry and the Government to help businesses in Mauritius expand into international markets.

**National SME Incubator Scheme.** This is designed to provide comprehensive support to startups and existing incubators.

**Mauritius Research and Innovation Council.** The Council provides grants and other forms of support for technological innovation.

**Mauritius 2030 Vision.** This overarching strategy has a focus on technological innovation and is aimed at positioning Mauritius as a high-income economy.

**Initiatives for exporting to Africa:**

**Africa Strategy.** This government strategy is aimed at making Mauritius a regional hub and gateway to Africa.

**Mauritius Freeport.** This is a duty-free logistics, distribution and marketing hub for the region.

**Investment promotion agencies.** These often facilitate business-to-business meetings between Mauritian companies and companies in other African countries.

**Development partners**

The United Nations Development Programme (UNDP), through its Global Environment Facility Small Grants Programme, supports 10 NGOs involved in sustainable development projects in Mauritius. A grant in the amount of $515,947 was formalized through the signature of a memorandum of agreement with beneficiaries. The maximum grant amount for each project is $50,000, but the average amount is about $25,000.

Other notable development partners include the International Finance Corporation (IFC) and the African Development Bank. With respect to the former, in 2020 IFC contributed to bolstering the financial support for MSMEs through its provision of a $37.5 million loan to Bank One Mauritius. Through this loan, Bank One aims to expand lending to small businesses in Mauritius, especially those in sectors such as tourism and agriculture that have been particularly negatively affected by the COVID-19 pandemic. As for the African Development Bank, in 2017 it provided a $100 million loan through the Mauritian public sector window to MauBank Holdings Ltd. to expand its MSME businesses and bolster private sector investments across a variety of sectors, including manufacturing, trade, agriculture, ICT and transport. Given the high potential for female employment in MauBank’s other priority sectors (including food processing, textiles, handcrafts and services), this loan is designed to offer substantial benefits to women, thus fostering social inclusion and promoting gender equity.

Another example of development partnership is the European Union Enhancing Entrepreneurship and Business Cooperation project, through which 8 million euros were contributed between 2020 and 2015 to member States of the Indian Ocean Commission (of which Mauritius is a member) to boost the competitiveness and trade

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103 Bank One, “MUR 1.4 billion for SMEs in Mauritius”, 29 July 2020.

readiness of MSMEs, with particular emphasis on those headed by women and young people, while promoting a transition to a green economy.  

4.3.2 Case study 1, BEM Recycling: challenges of being at the cutting edge

4.3.2.1 Summary

BEM Recycling, an electronic waste (e-waste) recycling company in Mauritius, faces challenges in a new and evolving sector lacking adequate regulation and market development. Despite initial success, BEM Recycling faces issues that include labour constraints, inconsistent availability of raw materials, difficulties in commercializing recycled products and international trade restrictions. The company plays a crucial role in the circular economy in Mauritius and benefits from the government mandate on e-waste recycling. Solutions for sustained growth include both domestic strategies – such as enhanced export promotion and sector regulation – and international advocacy for faster regulation negotiation and globally recognized industry standards. From the present case study, important insights can be gained into the intersection of innovation, regulatory support, resource management and public awareness in emerging green industries.

<table>
<thead>
<tr>
<th>Description</th>
<th>In the present case study, the authors consider the challenges facing BEM Recycling, an MSME involved in recycling electronic waste, which is a relatively new industry with an incomplete regulatory framework.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reason for inclusion of the case study</td>
<td>From the present case, potential policy learnings can be gleaned that can be highlighted for the attention of authorities in an area where policies and regulations have often yet to be finalized, meaning that the experience of MSMEs in the field thus far can be brought to the centre of policymaking.</td>
</tr>
<tr>
<td>Sector</td>
<td>The sector involved in the present case is e-waste, with the Standard Industrial Classification code 737808. This falls under the umbrella of computer maintenance and repair – a services sector with Standard Industrial Classification code 7378.</td>
</tr>
<tr>
<td>Links to other case studies</td>
<td>Working capital and trade finance (South Africa)</td>
</tr>
<tr>
<td>Links to other case studies</td>
<td>The examples of Finvex.tech and BEM Recycling show the range of issues that small startups operating in new industries can face. The Finvex.tech example showed how low uptake from the private sector hampered the company. While BEM Recycling did not face this issue, owing to the law mandating electronic recycling by large corporations, it did face the issue of incomplete or inadequate policy and regulatory frameworks – another issue faced by companies at the cutting edge.</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>BEM Recycling is a Mauritian company that specializes in the recycling of e-waste.</td>
</tr>
<tr>
<td>Problem statement</td>
<td>New, cutting-edge industries are going to be vital for the global economy in the coming decades, especially in cases in which they intersect with the green economy and climate change initiatives. However, in part owing to their recent emergence, many of these new cutting-edge industries lack proper regulation, government support or established global markets. They are also often negatively affected by sudden detrimental policy changes as Governments implement new laws to regulate the industry, which result in unintended consequences.</td>
</tr>
</tbody>
</table>

Narrative of the case study

BEM Recycling is a pioneering entity within the Mauritian circular economy, specializing in the recycling of e-waste. Established three decades ago, the company sprouted from humble beginnings in a garage. With an initial investment of approximately 55 million Mauritian rupees, BEM Recycling originally focused its operations on plastic recycling but has now branched out to e-waste. As its business flourished, the company graduated from the Mauritius MSME park. At its peak, BEM Recycling employed between 17 and 20 individuals, but, owing to recent labour constraints, only 4 employees are currently on board.

Electronics that have outlived their utility or have depreciated in value are commonly referred to as “e-waste”. The improper disposal or recycling of e-waste releases harmful toxins, leading to significant environmental challenges. In a survey sponsored by the United Nations, it was reported that 53.6 million tons of e-waste had been discarded globally in 2019 – a figure predicted to escalate to 74.7 million tons by 2030. Furthermore, in 2019, only 17.4 per cent of e-waste was collected and recycled, leaving approximately 44 million tons uncollected and unhandled, resulting in detrimental environmental pollution. Apart from its severe environmental consequences, e-waste can also have a negative impact on human health, owing to the emission of such pollutants as lead, mercury and cadmium. These pollutants can induce health complications, including iatī-īatī disease, cancer, skin irritation, flu-like symptoms, lung damage, reproductive organ issues, heart disease risk and organ damage.¹⁰⁶

Several proposals have emerged to combat the growing e-waste problem. Stopping the shipment of e-waste to overseas landfills and initiating in-house recycling programmes is one effective approach. Manufacturers could manage their e-waste more responsibly, retrieving reusable or recyclable elements and ensuring proper disposal of the rest. Companies could encourage e-waste recycling by establishing company-wide recycling programmes and offering designated drop-off bins for consumers. One of the most progressive solutions involves implementing a circular economy – a closed-loop system that minimizes waste by reusing, sharing, repairing, refurbishing, remanufacturing and recycling resources. Such recycling companies as BEM Recycling are integral to the establishment of a circular economy, turning waste into reusable materials. Countries worldwide are also setting benchmarks to reduce e-waste through policies, regulations and legislation. As trade policy significantly influences production and consumption patterns, however, managing e-waste remains a daunting task.

BEM Recycling formerly exported three to four containers annually to Belgium, China, Indonesia and Malaysia. However, exports to China have been restricted owing to Operation Green Fence, whereby the importation of items classified as waste is prohibited. Furthermore, the company incurred a substantial loss when a Canadian importer failed to pay a transaction that was uninsured.

The company faces challenges in establishing fair pricing for some of its products, in particular recycled metals. The commercialization of innovative recycled products also presents challenges for the company. BEM Recycling has developed innovative building blocks from recycled plastic, which required further research and certification. Despite receiving certification from the Mauritian Standards Bureau, the blocks require additional accreditation to ensure proper usage. Presently, the blocks are only certified for use on pavements. Although BEM Recycling maintains a connection with the Mauritius Research and Innovation Council, the need to forge a structured collaboration to foster MSME innovation is apparent. Consultations with the Mauritius Research and Innovation Council suggest a shift in focus towards innovation from university graduates and startups. Though product development is crucial, the commercialization of these products often necessitates substantial support from the Government or development partners – an area in which BEM Recycling has yet to achieve success.

The company’s production process often lacks consistency, owing to the limited availability of raw materials. For instance, BEM Recycling must recycle around 50 refrigerators daily to maintain a stable production rate. Therefore, 20 per cent of the company’s revenue is derived from exporting plastic pellets, while the remaining 80 per cent originates from recycling fees. To enhance productivity in metal recycling, BEM Recycling is contemplating procuring a furnace.

Secondary material poses another challenge, owing to the lack of a Harmonized Commodity Description and Coding System code for the types of materials the company trades in, therefore

limiting trade, as such material is categorized as waste. Resolving this issue would facilitate BEM Recycling’s export operations, in particular to China and other countries that do not permit waste importation. The company is currently collaborating with the Government and the International Organization for Standardization to develop Harmonized System codes for the circular economy.

BEM Recycling benefits from regulations that prohibit the disposal of e-waste, driving companies and individuals to pay recycling fees for their e-waste disposal. This practice not only bolsters BEM Recycling’s operations but also serves as part of the company’s corporate social responsibility. As the sole e-waste recycler in Mauritius, BEM Recycling plays a crucial role in the country’s waste management.

The Government recognizes e-waste as one of the fastest-growing categories of solid waste in Mauritius. As such, a national plan and policy have been instituted to tackle the issue responsibly, in collaboration with the Mauritius Chamber of Commerce and Industry.

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**Potential solution**

Recycled products, especially those from e-waste, lack well-developed markets, with many importers having little knowledge of the products offered. The export strategy of Mauritius should include an aspect of promotion and information-sharing regarding the benefits of these products, so that exporters of the products can enter new markets. Furthermore, BEM Recycling indicated that there were still areas that the Government needed to develop with regard to regulation and certification of the sector. Standards agencies should work with producers to ensure that regulation supports and promotes the circular economy rather than hampering it.

Regulation of these areas at the international level, through WTO, the World Customs Organization and various standards organizations, is desperately needed. Countries could lobby to increase the speed of the negotiations, to ensure that innovative industries have such essentials as Harmonized System codes, to push for the removal of non-tariff barriers on recycled products, and to design globally recognized standards to govern the industry.

**Lessons learned**

**Established companies can pivot to the cutting edge.** BEM Recycling has demonstrated that companies can successfully pivot to newer, eco-friendly industries. Despite challenges, the firm has persevered in developing and promoting e-waste recycling, showing that embracing innovation and the use of innovations can lead to viable business opportunities. BEM Recycling’s efforts to commercialize innovative recycled products highlight the need for substantial support from the Government or development partners in helping to bring such products to market.

**Government support is going to be crucial in the green and circular economy.** The Government of Mauritius is taking a proactive stance on the green economy and the circular economy, passing laws that require companies to recycle e-waste. This ensures a certain level of inputs for recyclers and prevents the externality of cheaply dumping e-waste, thereby supporting the growth of the industry. The Government has also developed a national plan and policy on waste and recycling, ensuring that the industry is provided with a clear, rational and supportive regulatory and legal framework that allows for its continued development.

**Cutting-edge industries suffer from underdeveloped markets.** The lack of well-developed markets for e-waste recycled products indicates the necessity of public awareness-raising campaigns and education on the importance and benefits of such products. The inconsistent availability of raw materials affecting BEM Recycling’s production underscores the need for strategic planning in resource management to ensure a stable supply chain. BEM Recycling’s struggle with exports highlights the critical role that international standards and trade classifications play in global business. It showcases the need for global bodies to adapt more quickly to emerging industries and develop universally accepted norms and standards that can support these new sectors.

**Transferability**

The Government of Mauritius has invested capacity and resources in developing its circular economy programmes and combating the challenges of e-waste. Countries that are not able or willing to invest in this manner, or that have vested interests in preventing green regulation (since forcing companies to recycle rather than dump leads to higher costs), will not be able to develop these industries, as they are reliant on such support.
One of the major potential solutions in the present case study (namely, global regulations and the provision of Harmonized System codes) requires a large multinational effort, which is beyond the power of the six countries targeted in the present study. However, given the importance of the circular economy, the focus on climate change and the environment, and the potential for countries to engage in lobbying at international forums, it was decided to include this solution. During the field visits, an attempt was made to include interviews with the main regulatory agencies in the sector. Owing to the limited time available and the busy schedule of these agencies, however, it was not possible to do so. This could be an area of focus for future work.

4.3.3 Case study 2, Eclosia and the Mauritius Sugar Syndicate: integrating MSMEs into the value chain

4.3.3.1 Summary

In the present case study, it is illustrated how Mauritius has been able to integrate MSMEs within national, subregional and global value chains. The authors begin by illustrating the inclusive business models adopted by Eclosia to integrate MSMEs at a national level. These inclusive business models have been replicated across different sectors in which Eclosia is involved. Follow-up on these models indicates that various multinational companies utilize inclusive business models for the integration of MSMEs. At a national level, the integration of MSMEs into subregional and global value chains requires support from government policy. The Mauritius Sugar Syndicate is one such company that has been able to integrate the MSMEs involved in the sugar industry. This has been possible thanks to a national trade policy stipulating that the Mauritius Sugar Syndicate is the sole marketing organization for all types of sugar produced in Mauritius.

<table>
<thead>
<tr>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>One of the major potential solutions in the present case study (namely, global regulations and the provision of Harmonized System codes) requires a large multinational effort, which is beyond the power of the six countries targeted in the present study. However, given the importance of the circular economy, the focus on climate change and the environment, and the potential for countries to engage in lobbying at international forums, it was decided to include this solution. During the field visits, an attempt was made to include interviews with the main regulatory agencies in the sector. Owing to the limited time available and the busy schedule of these agencies, however, it was not possible to do so. This could be an area of focus for future work.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the present case study, the authors consider how Eclosia has managed to integrate MSMEs into various levels of the value chain by developing inclusive business models through its approach of developing standard operating procedures for MSMEs that are affiliated with the company. Also included in the present case study are insights from the Mauritius Sugar Syndicate. The Syndicate is the sole organization responsible for the marketing of sugar produced in Mauritius, thereby allowing MSMEs in the value chain to aggregate. This makes it possible for the sugar industry in the country to benefit from economies of scale.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reason for inclusion of the case study</th>
</tr>
</thead>
<tbody>
<tr>
<td>In the present case study, it is illustrated how any industry or enterprise can integrate MSMEs by adopting MSME-inclusive business models.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poultry and sugar</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Links to other case studies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital information-sharing platforms to unlock value in inclusive supply chains (Zambia) and the integration of MSMEs into the export value chain (Mozambique)</td>
</tr>
</tbody>
</table>

In the present case study, the authors consider different ways of integrating MSMEs into larger value chains. The study is therefore linked with other case studies featuring Zambia and Mozambique. Different approaches are illustrated in each of these case studies, with the important aspect being that they are focused on the issues that are the most prevalent in a particular area or sector.

<table>
<thead>
<tr>
<th>Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eclosia was incorporated in 1966 and has a regional presence in Kenya, Madagascar, Seychelles and South Africa. The company is a pioneer in poultry production in Mauritius and is built on uncompromising ethics and quality. It is involved in a number of sectors, such as food, retail, hospitality, packaging and recycling, logistics, advice and education. In the present case study, the focus is on the company’s activities within the poultry industry. It has developed an MSME-inclusive business model by identifying challenges faced by MSMEs with regard to integration.</td>
</tr>
</tbody>
</table>

**Mauritius Sugar Syndicate** is the sole organization responsible for the marketing of sugar produced in Mauritius. The company has been in existence since 1951. Following the abolition of the sugar protocol between the African, Caribbean and Pacific States and the European Union...
in 2009, which provided for high prices for sugar from Mauritius, the Syndicate spearheaded the industry towards resilience against industry shocks, such as price fluctuations. It is responsible for the sale of all sugar received from its members and distributes the proceeds from the sale after the deduction of common expenses. Usually, when the sugar is sold, 22 per cent of the proceeds is distributed to the millers and 70 per cent to the planters. The remainder is accounted for by common expense deductions. All sugar producers are members of the Syndicate, and there were about 9,000 small producers as of 2023. Each planter is allocated to a factory area and knows to which factory he or she should deliver the sugar cane. The planters are given quotas on the basis of the demand. In addition to producers, millers are also part of the Syndicate, which is a non-profit organization to which members pay a membership fee. The advantage of the Syndicate is that it provides economies of scale and market power. It can advance funds to planters for production, and it disperses about 40 billion Mauritian rupees in loans annually. Each year, about 180 million tons of sugar are put on the market.

<table>
<thead>
<tr>
<th>Problem statement</th>
<th>The main problems addressed in the present case study include how to integrate MSMEs into value chains and how to create coordination and economies of scale for national, subregional and global value chains.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrative of the case study</td>
<td>MSMEs face a number of challenges regarding their integration into national, subregional and global value chains. These challenges include limited access to affordable capital, as a result of which MSMEs are not actively involved in capital-intensive activities. To address this challenge, Eclosia has adopted an approach of mapping out an entire value chain to understand which activities within that value chain are challenging for MSMEs (i.e. capital intensive) and which ones are not. Once this is done, all capital-intensive activities within the value chain are then carried out by the corporation, while the less capital-intensive activities are carried out by MSMEs, which are provided with strict standard operating procedures. For instance, the slaughter and processing of day-old chicks, which is high technology and capital intensive, is carried out by the company, while MSMEs are involved as growers under contract farming. The company then takes over the processing, whereby the chickens are processed into various chicken parts ready for the market. The selling is then carried out by MSMEs as retailers, and some chicken products and by-products are supplied to supermarkets. All this is achieved by adhering to strict standards and operating procedures developed by the company. Each MSME must adhere to these procedures to ensure quality. Eclosia accompanies the MSMEs at every stage to ensure quality control. This approach has been replicated by the company in other sectors, such as wheat. While Eclosia’s approach involves the integration of MSMEs at a national level, the Mauritius Sugar Syndicate illustrates how an industry can integrate MSMEs into subregional and global value chains. A country’s trade policy can provide for such integration. The regulations in Mauritius provided for the Syndicate to act as the sole marketing organization for sugar. As a custodian of the sugar industry, the Syndicate is able to coordinate and aggregate enough volume for the export market and also benefit from economies of scale with regard to logistics, marketing and branding. The Syndicate has been able to focus on the production and sale of direct consumption sugars, which includes a unique range of specialty sugars that are 100 per cent made in Mauritius. The MSMEs who are the planters and millers of these high-end types of sugar are able to benefit from high world market prices, which would be unattainable for them individually.</td>
</tr>
</tbody>
</table>
| Solutions provided | The following solutions for the integration of MSMEs are provided in the present case study: Eclosia showcased how to successfully integrate MSMEs into the value chain through an inclusive business model. This model involved mapping the entire value chain for the purpose of identifying capital-intensive activities and delegating them to corporate entities while engaging MSMEs in less capital-intensive activities. Furthermore, the company assisted MSMEs with processing and marketing, thereby ensuring quality control at every stage. The Mauritius Sugar Syndicate, for its part, displayed an industry-wide approach to the integration of MSMEs into subregional and global value chains through a national trade policy. The Syndicate, being the sole marketing organization for sugar, aggregates volumes from MSMEs, thus benefiting from economies of scale in logistics, marketing and branding. This

52
enables the Syndicate to focus on the production and sale of high-value specialty sugars, which in turn allows the MSMEs to gain from high world market prices. Moreover, the Syndicate provides financial support to planters and helps to balance production against demand. In both solutions, the importance is shown of tailored business models and collaboration among stakeholders to integrate MSMEs effectively into value chains.

**Lessons learned**

**Customized, inclusive business models.** The integration of MSMEs requires customized, inclusive business models that are sensitive to the specific challenges faced by MSMEs. Eclosia demonstrated that understanding the specific challenges faced by MSMEs and tailoring the business models accordingly can be vital in integrating them into the value chain.

**Guidelines and compliance.** Setting clear standard operating procedures and compliance protocols is essential to ensuring that quality standards are met by MSMEs. These standards not only ensure quality but also build confidence among the MSMEs and other stakeholders involved in the value chain.

**Dynamic collaboration.** Building an effective value chain involves continuous and dynamic collaboration among various stakeholders, including MSMEs, lead firms and the Government. This can be seen in the case of Eclosia, as constant communication and support throughout the value chain are essential for its successful implementation.

**Role of the Government.** The Government plays a significant role in enabling integration. In the present case study, it can be seen how a country’s trade policy can be instrumental in aggregating MSMEs into larger syndicates, such as the Mauritius Sugar Syndicate. This not only helps to achieve economies of scale but also helps to open up MSMEs to subregional and global markets.

**Financial support and risk management.** In the case of the Syndicate, the importance of providing financial support to MSMEs by advancing funds is highlighted, which can be crucial to the MSMEs’ ability to meet operational costs and invest in capacity-building.

**Sustainability and resilience.** Long-term sustainability requires an agile approach that can be adapted to changes in market conditions and policy landscapes. The case of the Mauritius Sugar Syndicate shows how transforming strategies following the abolition of the sugar protocol between the African, Caribbean and Pacific States and the European Union was essential to building resilience against market fluctuations.

**Monitoring and evaluation.** Continuous monitoring and evaluation of inclusive business models are important to ensure that they remain effective and can be adjusted in response to changing conditions.

**Transferability**

To some extent, these models are already working in other countries. Some of the inclusive business models adopted include out-grower schemes and contract farming.

The integration of MSMEs through a national trade policy framework requires strict enforcement. In cases in which the enforcement of government regulations is a challenge, implementation would also pose a challenge. Even in Mauritius, the Syndicate is facing challenges in maintaining the current structure, as other players are lobbying for the right to also be involved in the marketing of sugar. However, such regulation seems to help to ensure that no side-selling of the product in international markets is carried out. The industry can balance production against demand to avoid dampening the price, since production is against confirmed purchase orders. In the case of Mauritius, being an island implies that its borders are not that porous (porous borders would allow for any stakeholder to export illegally).

**Comments**

None
4.4 Mozambique

4.4.1 Country profile

Table 15
Economy, trade and investment profile of Mozambique

<table>
<thead>
<tr>
<th>Economy, trade and investment profile</th>
<th>Most recent GDP</th>
<th>GDP growth rate (2022)</th>
<th>GDP by sector</th>
<th>Top five export partners</th>
<th>Top five import partners</th>
<th>Top five exports (HS-4)</th>
<th>Top five imports (HS-4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$15.78 billion</td>
<td>2.4 per cent</td>
<td>Agriculture: 27.5 per cent Industry: 21.9 per cent Services: 40.1 per cent</td>
<td>India, the United Kingdom, South Africa, the Republic of Korea and China</td>
<td>The Republic of Korea, South Africa, the United Arab Emirates, China and India</td>
<td>Coal, unwrought aluminium, coke, petroleum gas and titanium ores</td>
<td>Light vessels, petroleum oils, fluorides, rice and palm oil</td>
</tr>
</tbody>
</table>

*Note: HS-4 refers to the first four digits of the Harmonized Commodity Description and Coding System codes for each product or article.*

According to the ITC trade potential tool, the following products show the largest potential for export growth.

Table 16
Products with the largest potential for export growth in Mozambique

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Aluminium</td>
<td>$406 million</td>
</tr>
<tr>
<td>2</td>
<td>Titanium ores</td>
<td>$230 million</td>
</tr>
<tr>
<td>3</td>
<td>Gold</td>
<td>$266 million</td>
</tr>
<tr>
<td>4</td>
<td>Electrical energy</td>
<td>$131 million</td>
</tr>
<tr>
<td>5</td>
<td>Wood in the rough</td>
<td>$170 million</td>
</tr>
<tr>
<td>6</td>
<td>Legumes not elsewhere specified</td>
<td>$149 million</td>
</tr>
<tr>
<td>7</td>
<td>Zirconium ores</td>
<td>$169 million</td>
</tr>
<tr>
<td>8</td>
<td>Sesame seeds</td>
<td>$85 million</td>
</tr>
<tr>
<td>9</td>
<td>Cashew nuts</td>
<td>$104 million</td>
</tr>
<tr>
<td>10</td>
<td>Bananas</td>
<td>$115 million</td>
</tr>
</tbody>
</table>


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MSME volume
MSMEs in Mozambique contribute 52.1 per cent of the total GDP and employ 42.9 per cent of people working in the formal sector.110

Distribution of enterprises
The majority of enterprises are located in Maputo, Sofala and Nampula.

Figure XIII
Number of enterprises in Mozambique, by location

<table>
<thead>
<tr>
<th>Location</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maputo</td>
<td>96</td>
</tr>
<tr>
<td>Sofala</td>
<td>87</td>
</tr>
<tr>
<td>Nampula</td>
<td>52</td>
</tr>
<tr>
<td>Cabo Delgado</td>
<td>47</td>
</tr>
<tr>
<td>Manica</td>
<td>47</td>
</tr>
<tr>
<td>Zambezia</td>
<td>47</td>
</tr>
<tr>
<td>Tete</td>
<td>37</td>
</tr>
</tbody>
</table>


MSMEs by sector
The MSME sector is dominated mostly by trade, hospitality and manufacturing. Trade firms make up 57.4 per cent of the total number of MSMEs, with 22.9 per cent of sales originating from MSMEs. The hospitality industry constitutes 20.2 per cent of the MSME sector and manufacturing 9.9 per cent. Agriculture accounts for 2.17 per cent of the MSME sector111 but only 1.2 per cent of sales by MSMEs.112

Figure XIV
Number of enterprises in Mozambique, by sector

<table>
<thead>
<tr>
<th>Sector</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other service</td>
<td>78</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td>105</td>
</tr>
<tr>
<td>Retail</td>
<td>101</td>
</tr>
<tr>
<td>Food</td>
<td>81</td>
</tr>
<tr>
<td>Tourism</td>
<td>83</td>
</tr>
<tr>
<td>Meals, machinery, computer and electronics</td>
<td>0</td>
</tr>
</tbody>
</table>


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110 Iris Chivite Guimarães, “SMEs and the path to operational sustainability”, 360 Mozambique, 3 March 2023.
### Formality of MSMEs

The informal sector in Mozambique is quite large. Approximately 75 per cent of the population is engaged in some form of informal economic activity. Informal businesses outnumber formal ones by a ratio of 8:1.\(^{113}\)

### MSME business size

According to the World Bank Enterprise Survey, 83 per cent of all enterprises in Mozambique are small and medium-sized ones. However, the enterprise sector in Mozambique is dominated by individual entrepreneurs (93 per cent) and microenterprises (6.6 per cent).\(^{115}\)

**Figure XV**

**Number of enterprises in Mozambique, by size**

![Graph showing the number of enterprises by size](image)


### MSMEs’ access to finance

Commercial banks in Mozambique are mainly focused on urban areas and salaried employees, State-owned enterprises and large corporate clients. While there has been an emerging interest in financing MSMEs, there is a need for greater awareness regarding finance options and limitations for MSMEs.

### Biggest challenges faced by MSMEs during the COVID-19 pandemic

The Mozambican economy lost about 3.6 per cent of GDP growth in 2020, and employment was down 1.9 per cent. For the MSME sector and the economy as a whole, major shocks included export shocks – which heavily affected the trade, accommodation and mining sectors – and supplier business closures and shortages of supplies.

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\(^{113}\) Ibid.


The digital footprint of Mozambique is growing, with 21 per cent of the population using mobile networks to access the Internet. Maputo is the largest and best-connected city in Mozambique, despite infrastructure challenges and low market maturity. In addition, data connections are very expensive in Mozambique.\footnote{International Trade Administration, “Mozambique’s digital transformation”, 22 December 2021.}

The following are some of the digital projects in Mozambique:

- A $150 million grant from the World Bank to support the Digital Governance and Economy Project with the aim of improving digital public services and digital business opportunities
- Establishment of two data centres in the north of Mozambique (in the cities of Mocuba and Nacala)
- Infrastructure improvement for the country’s e-government network
- Multimedia community centres

The primary institutions that are responsible for the MSME institutional framework in Mozambique are:

- Ministry of Industry and Commerce
- Ministry of Micro, Small and Medium Enterprises
- Institute for the Promotion of Small and Medium-Sized Enterprises – a government agency that promotes and advocates on behalf of SMEs in Mozambique

The Central Bank of Mozambique drives the financial inclusion agenda for MSMEs.

The Economic Linkages for Diversification Project, which is supported by a $100 million grant from the International Development Association of the World Bank,\footnote{World Bank, “World Bank supports micro, small, and medium enterprises to foster inclusive growth in Mozambique”, 11 May 2021.} is aimed at developing the capacities of MSMEs to provide goods and services to larger businesses, as well as to serve the growing cities in the centre and north of Mozambique, thus fostering linkages and economic diversification. The project will help to develop MSMEs’ abilities to provide goods and services to businesses making large investments along their value chains, through skills development, the expansion of access to finance and markets, and the upgrading of the quality of their processes and products. The project will also support enabling conditions for economic linkages, such as developing digital solutions that will increase firms’ access to markets and financial services, promoting last-mile infrastructure, supporting institutional development and carrying out regulatory reforms that can drive further sustainable private investments and institutional coordination.

The European Union has pledged to disburse 148.2 million euros for the implementation of projects in six sectors in Mozambique, including education, building resilience in the northern region of the country, water and sanitation, energy, culture and digitalization.\footnote{Club of Mozambique, “EU grants over 148 million euros to finance projects in Mozambique – AIM report”, 1 November 2022.} While these projects are not specifically targeted at MSMEs, they are expected to create a transformational and tangible impact on Mozambicans and could indirectly benefit MSMEs operating in these sectors.

The German Agency for International Cooperation is implementing a project in Mozambique called “Improving framework conditions in the private and financial sector (ProEcon-PROMOVE Agribiz)” on behalf of the Federal Ministry for Economic Cooperation and Development of Germany and with co-funding from the
The project is aimed at improving the framework conditions for growth that benefits all sections of the population, with a focus on MSMEs. It comprises three fields of action: supporting reforms that improve the business climate and the range of public services available to MSMEs; promoting inclusive business models through development partnerships with numerous national and international companies, with the aim of integrating MSMEs into their supply chains and improving services; and improving the range of services provided by the formal financial system, in particular for women.

4.4.2 Case study 1, EcoEnergia: certification constraints for new or emerging products in insecure areas

4.4.2.1 Summary

In the present case study, the authors examine the hurdles faced by EcoEnergia – The Feeling Good Company, a social enterprise operating in the conflict-ridden Cabo Delgado region of Mozambique, in producing and exporting organic cashews, moringa powder and unrefined organic whole cane sugar. In the present study, the authors highlight the importance of organic and social certifications for securing higher market prices and market access for products from such remote and insecure areas. The logistical challenges and security issues have made it difficult to maintain organic certification, however, as physical inspections are necessary but risky. During the COVID-19 pandemic, remote inspections were temporarily adopted, which proved to be beneficial. The authors suggest exploring technological solutions to aid certification in such regions, taking into account the various requirements for organic certification that may limit the extent of virtual inspections.

Description

In the present case study, the authors consider the challenges facing producers and exporters of organic products in the relatively remote and insecure region of Cabo Delgado, which has been deeply affected by conflict in recent years.

In particular, they consider organic and social certification and the potential for greater use of virtual inspection for producers in insecure and remote areas.

Reason for inclusion of the case study

Through the present case study, lessons can be learned with regard to market access for producers and exporters from remote and insecure regions concerning how they can secure higher and more stable prices. Through the case study, insights can be gained into not only how exports can help to break the vicious cycle of limited economic opportunities and conflict, but also the practical challenges facing those businesses that are brave enough to attempt to do so.

Sector

Cash crops: organic cashews, organic moringa powder and unrefined organic whole cane sugar

Links to other case studies

Not applicable

Stakeholders

EcoEnergia – The Feeling Good Company manages a vertically integrated agro-industry farm project in Cabo Delgado Province, Mozambique that involves the organically certified growing, processing, packaging and sale of natural whole cane sugar, cashew kernels, moringa powder and medicinal alcohol.

Ecocert South Africa, a subsidiary of the Ecocert group, has assisted stakeholders since 2022 in the implementation and promotion of sustainable practices through certification, consulting and training services, and it continues to do so. It also offers the attestation of inputs for use in organic agriculture.

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**Fairtrade Africa**, a member of the wider Fairtrade International movement, represents Fairtrade certified producers in Africa and the Middle East.

**FLOCERT** is the global certification body for Fairtrade.

<table>
<thead>
<tr>
<th>Problem statement</th>
<th>Farmers in remote areas face high costs of transport and logistics, and insecurity or conflict in these areas has major consequences.</th>
</tr>
</thead>
</table>
| Narrative of the case study | **EcoEnergia – The Feeling Good Company** anchors its activities on its farm of 1,000 ha in Cabo Delgado. The farm is called Ouro Verde and operates as a core farm in partnership with local farmer cooperatives. The Ouro Verde farm employs 40 permanent and 100 seasonal workers, 20 per cent of whom are women. The company has been successfully exporting its organic products to Europe for more than a year. Currently, the farm has initiated the process of building a cashew processing facility; once this is in place, it expects to double the number of permanent employees.  

The farm works closely with cooperatives, currently partnering with approximately 300 smallholder farmers. It expects this number to increase to 800 farmers by 2028. The farm is a for-profit social enterprise that aims to be commercially viable. By receiving grant funding and working with farming cooperatives, it has focused on enhancing its social footprint.  

With relatively low volumes (e.g. producing 1,000 tons of organic whole cane sugar annually, compared with the commercial volume of 80,000 tons), it is attempting to target niche export markets, selling to consumers who value healthy products that promote sustainability, with organic produce being a necessity for these types of customers. For the company, achieving organic certification is fundamental to mitigating the high costs of transport and logistics, as with organic products it is able to secure a more stable and higher priced market – as much as 20 per cent to 30 per cent higher than for non-organic products. Social certification is also important but is not as much of a deal breaker.  

The Ouro Verde farm has been certified for several years, with the process of certification being relatively straightforward. A big breakthrough for the farm was the certification of the cooperatives, which operate beyond the farm itself, in 2020 and 2021. This certification was made possible thanks to the efforts of Ecocert and FLOCERT, which, in order to adapt to the reality of the COVID-19 pandemic, adopted a remote procedure for the inspection of the cooperatives. Prior to the pandemic, the physical inspection was rigorous, with several tests being carried out on the soil, among other things.  

Since the pandemic, the company and the cooperative growers have been affected by the insurgency in the region, with insurgency groups operating as close as 20 km from the farm. Consequently, the farm was closed from September 2022 to February 2023. Unfortunately, since reopening, the company has not been able to maintain organic certification. This is because virtual inspection is no longer an option for such certification, and the instability makes it impossible for any personnel of the certifying body to travel to the region.  

By contrast, with regard to post-pandemic social certification, there is an option to use a hybrid model involving both virtual and physical inspection to accommodate health risks. However, it could not be established whether that would be an option in the case of instability and conflict.  

In March 2020, FLOCERT, Fairtrade’s global certification body, introduced remote audits in response to the COVID-19 pandemic. It developed a remote audit methodology and a standard operating procedure for such audits. In the standard operating procedure, the steps to be followed during the remote audit are clearly laid out, including online live interaction to triangulate information and conduct video site visits and interviews. In addition, a local facilitator is appointed to support the auditor in the remote audit. This local facilitator may be a worker representative (if hired labour) or a member of a small-scale producer or trader organization that is being certified. Their role is purely facilitation.

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According to the FLOCERT website, the remote audits were well received by its customers. By 2023, FLOCERT had returned to the on-site model for most audits. In cases in which an on-site audit would pose a health risk for communities or the auditor, however, FLOCERT still reverts to remote audits if necessary.

### Potential solution

While recognizing that organic certification has different requirements that limit the extent to which virtual inspections can be carried out (such as soil testing), the situation does beg the question as to whether there is greater scope for using technology to audit producers in insecure areas.

### Lessons learned

**Niche, high-value products can be a solution to mitigate the costs of remoteness.** Specializing in niche, high-value products, such as organic goods, can offset the high costs associated with logistics and transport, thereby contributing to economic sustainability for these producers.

**Technology can mitigate the challenges of certification in remote or unstable areas.** The adoption of a remote inspection procedure during the COVID-19 pandemic demonstrated the potential of technological innovations for overcoming logistical challenges associated with certification. In the case of organic certifications, however, which necessitate more rigorous physical inspections (e.g. soil testing), there is a need to develop hybrid models that effectively combine remote technologies with on-site assessments, without compromising the integrity of the certification.

**Adaptability is crucial if certification is to be made available to remote or unstable regions.** In regions facing conflict and security issues, alternative strategies, such as employing local facilitators to support remote audits, could be considered. In the present case study, the authors underscore the need for certification bodies to continuously adapt and innovate in their methodologies to support producers in remote and insecure areas while maintaining the rigor and credibility of certification. In addition, collaboration among stakeholders, including certification bodies, producers and local communities, can foster the development of tailored solutions that address the unique challenges of specific regions.

### Transferability

In the case of social certification, there is scope within current practices to accommodate remoteness, but the extent to which conflict can be accommodated is an issue for further consideration.

The extent to which virtual inspections for organic certification can be rolled out, without a bank of physical tests from previous inspections, is an issue for further consideration.

### Comments

During the pandemic, most agencies and actors involved acknowledged the efficiency and attractiveness of electronic submissions or exchanges of mandatory standards, such as sanitary and phytosanitary certificates, and some WTO members, including Switzerland, sought innovative ways of using technology for standards compliance. There were also interesting innovations in the voluntary certification space. Service providers in the coffee and cocoa supply and value chains, such as FLOCERT and GLOBALG.A.P., developed remote audit methodologies. A potential area for further study would be to assess what could be learned and expanded upon from these innovations.

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### 4.4.3 Case study 2, Mozal and the Mozambique Economic Linkages for Diversification Project: integration of MSMEs into the export value chain

**4.4.3.1 Summary**

In the present case study, the authors explore innovative initiatives by the World Bank Mozambique Economic Linkages for Diversification Project and Mozal to foster the integration of MSMEs into the export value chain of larger firms in Mozambique. The Mozambique Economic Linkages for Diversification Project is focused on strengthening the performance and readiness of MSMEs for business opportunities through skills development, financial assistance and quality upgrading. Simultaneously, Mozal aims to revitalize its “Link” programme to nurture the potential of local MSMEs, delivering skills training and proposing a microfinance-like system to incentivize efficient investments. While
In the present case study, the authors examine the integration of MSMEs into the export value chain of large companies in Mozambique, detailing such initiatives as the World Bank Mozambique Economic Linkages for Diversification Project, which is aimed at bolstering MSMEs’ capabilities, and Mozaal’s innovative efforts to integrate MSMEs into its supply chain.

### Reason for inclusion of the case study
The present case study is included in the present report because it offers valuable insights into the strategies and programmes employed to integrate MSMEs into the export value chains of larger industries – a crucial aspect for their growth and participation in the national, subregional and global economies.

### Sector
The primary focus is on linking MSMEs to lead firms in the extractives sector.

### Links to other case studies
**Providing access to financing for catalytic initiatives that integrate MSMEs into value chains and improve their market access (Zambia)**

In both the present case study and the one focused on Zambia, the authors consider programmes that are aimed at supporting MSMEs in their integration into value chains. In both case studies, matched funding is used to a certain extent. However, the ENTERPRISE Zambia Challenge Fund project is more focused on access to finance, while both projects in the present case study have access to finance as a component but also have a large focus on skills development and the certification of MSMEs through training and partnerships. This illustrates the different approaches that can be taken in such types of projects.

**Stakeholder**
Mozaal is an aluminium smelter joint project in Beluluane Industrial Park in Maputo. The project is a smelting facility that began operations as a producer of aluminium exclusively for export. It was developed as a joint venture between BHP Billiton (now South32), Mitsubishi Corporation, the Industrial Development Corporation of South Africa and the Government of Mozambique.

### Problem statement
The lack of skills, certification and integration within the larger industry value chains often constrains the performance and growth of MSMEs in Mozambique.

### Narrative of the case study
**World Bank Mozambique Economic Linkages for Diversification Project**

The development objective for the Mozambique Economic Linkages for Diversification Project is to strengthen the performance of MSMEs in Mozambique through economic linkages. The project has three components: (a) the development of economic linkages through skills, finance and quality upgrading; (b) enabling elements (digital platforms and infrastructure) to support economic linkages; and (c) project management. The project activities were informed by: (a) multiple consultations and discussions with important stakeholders, including from the private sector, women’s associations and large-scale investments; (b) a stocktaking exercise regarding ongoing relevant programmes in Mozambique; (c) field visits to some of the most relevant programmes; and (d) a review of relevant evidence and lessons learned from projects in the subregion and elsewhere. The World Bank has allocated $100 million to this project.

The concept of the project is based in part on a realization that investment and growth in Mozambique are concentrated heavily in the extractives industry, specifically in large companies in this industry. As a result, much of the rest of the economy, especially MSMEs, has seen little growth. The project is aimed at providing mechanisms for MSMEs to link into the supply chains of these large industries, especially MSMEs operating in the services sector. The project is focused on creating upstream linkages by increasing the readiness of MSMEs for business-to-business opportunities in Cabo Delgado, Nampula and Tete Provinces. It is still in its early stages, having just passed the initial planning stage, and therefore there are not yet any results available. The aim, however, is to reach 10,000 beneficiaries, split between 1,000 small or medium-sized firms and 9,000 micro-level operators.
During initial research conducted as part of the conceptualization of the project, which drew on previous World Bank projects, interviews with MSMEs and interviews with lead firms, areas were identified where assistance could potentially catalyse the integration of MSMEs into value chains. For MSMEs, many of the challenges revolved around a lack of skills and certification. As a result, through the Project the World Bank has developed training materials and partnered with lead firms to help MSMEs to become certified. The type of training that will be provided includes training in general management practices, standard MSME-type support management, financial management, planning and other core business functions. Furthermore, the training will have a gender lens and a green lens to ensure that these issues are at the forefront of the solutions provided through the Project. The standards certification will focus on the requirements of the lead firms (gained from key informant interviews and surveys of these firms), and certification will mostly be delivered by the International Organization for Standardization, with the assistance of the Mozambique Quality Assurance Institute. Lastly, a separate phase of the project will be focused on providing matched funding for investment in the upgrading of MSMEs’ capacity through investment in new technology, production equipment or other forms of capital. Microfirms will be eligible for smaller grants but will not have to show matched funding.

Mozal

Ever since its establishment, Mozal has recognized that, in order to operate properly, it would need to develop local MSMEs to integrate into its supply chain but also to develop the regions in which they operated more broadly. Almost immediately after its foundation in 1998, it created the Link programme to achieve this. However, this programme came to an end a few years later. Mozal is now in the process of developing a follow-up programme along much the same lines.

As part of the revitalized project, Mozal is seeking ways to integrate new MSMEs into its value chains, especially in the services sector, while also aiming to increase the capability of the MSMEs that are already in its value chains. This will involve, among other things, conducting workshops to upskill MSMEs in everything from basic business practices to health and safety rules.

To deliver some of the training, Mozal was able to leverage knowledge from its parent companies (BHP Billiton and South32), which have years of experience in the industry. The content of health and safety accreditation workshops, for example, was largely taken from existing materials created by South32. This accreditation opens up more potential work opportunities for local MSMEs, especially small contractors, while also helping to improve their safety while on the job.

The project will be expanded beyond the training component in the near future. The details are still being developed, but the aim is to expand support to encompass a wide array of measures that will help MSMEs the most. The project will be targeted not only at services sectors linking to the Mozal supply chain but also at MSMEs in the subregion more generally. It is expected that many of the MSMEs assisted will be in the agriculture and agroprocessing sector, as this is where most MSMEs operate. The interventions incorporated into the next phases of the project will in part be inspired by the results of a preliminary survey of MSMEs conducted by the company, which identified such issues as access to finance as major constraints.

The format of the access to finance aspect of the project has yet to be finalized, but it will incorporate lessons learned in a previous project run by Mozal for the MSMEs in its value chain. In this previous project, it was found that grants paid to MSMEs did not make the impact that Mozal had hoped they would. Mozal found that it was difficult to measure the impact of the grants and that MSMEs that received support did not necessarily take responsibility for the assistance received. Therefore, the new project will operate more like a microfinance system. MSMEs will be able to apply for financing for a defined reason (such as an investment in new machinery). They will then have to pay back the loan over a defined period. If the MSMEs pay off the loan within the established period, a percentage will be refunded to them. The project will therefore incentivize efficient investment, and, if most of the MSMEs pay back their loans, there will be further capital to be made available for subsequent rounds of loans, making it possible to help a greater number of MSMEs through the project.

**Solution offered** The solutions proposed through the Mozambique Economic Linkages for Diversification Project and Mozal are centered on comprehensive capacity-building and economic linkages for MSMEs. The Mozambique Economic Linkages for Diversification Project is focused on enhancing the readiness of MSMEs for business-to-business opportunities by providing training in core business functions and assisting with standards certification. There are also plans to offer matched funding.
for investment. Mozal, leveraging knowledge from its parent companies, provides workshops to upskill MSMEs in such areas as basic business practices and health and safety rules. Mozal is also exploring a microfinance-like system for MSMEs.

### Lessons learned

**Building programmes on the basis of stakeholder needs.** Through the Mozambique Economic Linkages for Diversification Project, a survey of lead firms was conducted in several different sectors to determine the main challenges they were facing in linking MSMEs into their value chains. This then made it possible to build interventions into the programme that responded to the needs highlighted in the surveys. Similarly, Mozal conducted a survey of MSMEs before designing its interventions.

**Investment concentration challenges.** The concentration of investment and growth in large extractive industry firms can lead to slower growth in other sectors of the economy, in particular MSMEs. Diversification and integration into larger supply chains are crucial for these smaller entities to thrive.

**Importance of skills and certification.** In order for MSMEs to integrate into value chains, it is paramount to address challenges related to a lack of skills and certification. Tailored training and certification programmes can greatly improve MSMEs’ readiness for business opportunities.

**Effective use of funding.** It has been learned from Mozal’s previous project that grants do not necessarily result in the expected impact, as their efficacy can be challenging to measure, and grant recipients might not fully capitalize on the assistance. A more structured system, similar to microfinance, whereby the recipients are held accountable for their investments, can lead to a more effective use of funds.

**Collaboration and leveraging experience.** Working closely with larger established firms in the industry can be beneficial for developing effective training programmes for MSMEs. Mozal’s use of materials from its parent company, South32, for training programmes is a great example of leveraging existing resources for capacity-building.

**Context-specific approach.** Initiatives should be designed taking into account the specific context and needs of the MSMEs they are aimed at assisting. The project in Mozambique, for instance, has a special focus on service sector MSMEs and those operating in the agricultural and agroprocessing sectors, reflecting the predominant sectors in the subregion.

### Transferability

In the present case study, examples of both a donor programme and a programme run by a private company are provided. As a result, it will be transferable to most countries, with two distinct options for how the programme can be run.

### Comments

The documents and reports from the original Link project were unfortunately not made available for review as part of the present case study.

Both projects are barely out of the planning phase, and therefore no information on their impact could be obtained.
### 4.5 Namibia

#### 4.5.1 Country profile

#### Table 17

**Economy, trade and investment profile**

<table>
<thead>
<tr>
<th>Most recent GDP</th>
<th>$12.31 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP growth rate</strong></td>
<td>2.7 per cent</td>
</tr>
<tr>
<td><strong>GDP by sector</strong></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>9.48 per cent</td>
</tr>
<tr>
<td>Industry</td>
<td>25.29 per cent</td>
</tr>
<tr>
<td>Services</td>
<td>58.33 per cent</td>
</tr>
<tr>
<td><strong>Top five export partners</strong></td>
<td>China, South Africa, Botswana, Belgium and Spain</td>
</tr>
<tr>
<td><strong>Top five import partners</strong></td>
<td>South Africa, Zambia, the Democratic Republic of the Congo, China and Bulgaria</td>
</tr>
<tr>
<td><strong>Top five exports (HS-4)</strong></td>
<td>Radioactive chemical elements, diamonds, copper (unrefined), gold and fish fillets</td>
</tr>
<tr>
<td><strong>Top five imports (HS-4)</strong></td>
<td>Light vessels, copper ores, petroleum oils, motor vehicles and electrical energy</td>
</tr>
</tbody>
</table>

*Note: HS-4 refers to the first four digits of the Harmonized Commodity Description and Coding System codes for each product or article.*

#### Export opportunities and dynamics

According to the ITC trade potential tool, the following products show the largest potential for export growth.

#### Table 18

**Products with the largest potential for export growth in Namibia**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Diamonds (unworked)</td>
<td>$585 million</td>
</tr>
<tr>
<td>2</td>
<td>Fish fillets</td>
<td>$265 million</td>
</tr>
<tr>
<td>3</td>
<td>Unrefined copper</td>
<td>$77 million</td>
</tr>
<tr>
<td>4</td>
<td>Fish not elsewhere specified</td>
<td>$140 million</td>
</tr>
<tr>
<td>5</td>
<td>Live bovine animals</td>
<td>$56 million</td>
</tr>
<tr>
<td>6</td>
<td>Zinc ores</td>
<td>$100 million</td>
</tr>
<tr>
<td>7</td>
<td>Fresh grapes</td>
<td>$59 million</td>
</tr>
<tr>
<td>8</td>
<td>Diamonds (worked)</td>
<td>$22 million</td>
</tr>
<tr>
<td>9</td>
<td>Beer (malt)</td>
<td>$65 million</td>
</tr>
<tr>
<td>10</td>
<td>Copper cathodes</td>
<td>$37 million</td>
</tr>
</tbody>
</table>


---


MSME volume

As of 2017, there were about 71,000 MSMEs in Namibia. They provide employment to approximately 160,000 people, which accounts for one third of the workforce, and they contribute approximately 12 per cent of the country’s GDP.\textsuperscript{124} Namibia ranks sixty-first out of 137 countries in the 2018 Global Entrepreneurship Index and is among the highest-ranking countries in Africa.

MSMEs by sector

As of 2004, MSMEs in Namibia were distributed across various sectors, as indicated in figure XVI, with the food sector making up almost one quarter of MSMEs.\textsuperscript{125}

Figure XVI
SMEs in Namibia, by sector
(Percentage)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food: manufacturing, selling and catering</td>
<td>11.88</td>
</tr>
<tr>
<td>ICT, electronics and business consulting</td>
<td>11.52</td>
</tr>
<tr>
<td>Textile and leather: manufacturing and services</td>
<td>10.89</td>
</tr>
<tr>
<td>Body care, health and crèches</td>
<td>10.11</td>
</tr>
<tr>
<td>Metal and mechanics: manufacturing services</td>
<td>9.5</td>
</tr>
<tr>
<td>Hospitality, tourism and crafts</td>
<td>9.2</td>
</tr>
<tr>
<td>Construction, maintenance and carpentry</td>
<td>7.72</td>
</tr>
<tr>
<td>Transport</td>
<td>5.05</td>
</tr>
<tr>
<td>Other</td>
<td>5.05</td>
</tr>
</tbody>
</table>

Source: Schöneburg-Schultz and Schultz, “Small and medium enterprises in Namibia”.

Formality of MSMEs

In 2017, out of 71,000 MSMEs, about half were formally registered.\textsuperscript{126} These informal MSMEs are mostly found in rural areas, especially in the regions of Khomas, Oshana and Ohangwena (which combined make up more than 90 per cent) and operate mostly as wholesalers and retailers (47 per cent) or as producers of food and beverages (19 per cent).\textsuperscript{127}

Trade

The majority (67 per cent) of MSMEs in Namibia do business locally. Only 4 per cent export their goods and services, while 16 per cent sell the goods or services only within the administrative regions where they operate, and only 12.7 per cent.


\textsuperscript{126} IFC, \textit{Country Private Sector Diagnostic}.

\textsuperscript{127} Schöneburg-Schultz and Schultz, “Small and medium enterprises in Namibia”.

65
do business throughout the whole of Namibia.128

<table>
<thead>
<tr>
<th>Biggest challenges faced by MSMEs during the COVID-19 pandemic</th>
<th>The following are the top five challenges facing MSMEs in Namibia:129</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Access to finance</td>
</tr>
<tr>
<td></td>
<td>• Access to land</td>
</tr>
<tr>
<td></td>
<td>• Corruption</td>
</tr>
<tr>
<td></td>
<td>• Access to electricity</td>
</tr>
<tr>
<td></td>
<td>• Licences and permits</td>
</tr>
</tbody>
</table>

| MSMEs’ use of technology | About 40 per cent of MSMEs use technology licensed from foreign companies. There is limited knowledge in Namibia of the availability of suitable technologies, and as a result the technology employed does not meet the needs of MSMEs.130 |

<table>
<thead>
<tr>
<th>MSME institutional framework</th>
<th>The primary institutions that are responsible for the MSME institutional framework in Namibia are:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Ministry of Industrialization, Trade and SME Development</td>
</tr>
<tr>
<td></td>
<td>• Namibia Investment Centre</td>
</tr>
<tr>
<td></td>
<td>• Namibia Chamber of Commerce and Industry</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>National and regional policy measures to facilitate the development and integration of MSMEs</th>
<th>Government</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The Government of Namibia has adopted and pursued policies and programmes aimed at fostering an environment in which its citizens can have access to resources and undertake economic activities that will result in the improvement of their social welfare and national economic growth and development.131 The national policy on micro, small and medium enterprises in Namibia (2016–2021) was developed by the Ministry of Industrialization, Trade and SME Development to create an enabling regulatory environment in which MSMEs could be developed and promoted by the public and private sectors.132</td>
</tr>
</tbody>
</table>

**Development partners**

There are several MSME development projects being carried out in Namibia. For example, the Namibia Investment Promotion and Development Board launched the Know2Grow campaign, which is a regional knowledge dissemination, capacity-building and networking initiative through which the Board strives to provide MSMEs with critical information, including on how to scale their businesses by gaining domestic and international market access.133 Another example is the EMPRETEC Namibia Programme, an initiative of the Government of Namibia working in partnership with UNDP with the aim of unlocking the growth potential of MSMEs in Namibia through competency-based behavioural entrepreneurship training and a range of business advisory services.134

The German Agency for International Cooperation is working on behalf of the

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129 IFC, *Country Private Sector Diagnostic*.
131 Ibid.
132 Ibid.
Government of Germany and the European Union, among others, in Namibia to support the country’s sustainable economic and social development. The Agency is cooperating with its local Namibian partners on over 20 projects. The priority areas of its work in Namibia are sustainable economic development, natural resource management and inclusive urban development. In the interests of sustainable development, the Agency is helping Namibia to diversify its economy. Easier access to funding is giving local businesses stability and facilitating higher growth, while improved technical and vocational education and training is increasing employment. This is securing higher incomes for workers with qualifications and providing companies with skilled labour.

4.5.2 Case study 1, Omulamba Plantations, Miombo Forestry Products and Ilotu Cosmetics: challenges facing MSME exporters in Namibia

4.5.2.1 Summary

In the present case study, the authors explore the challenges faced by three Namibian enterprises – Omulamba Plantations, Miombo Forestry Products and Ilotu Cosmetics – in the exportation of their products within SADC. These businesses, operating in diverse sectors, have encountered various obstacles, including regulatory hurdles, logistical issues and institutional limitations, which have impeded their export potential. These challenges are not unique to these enterprises but rather are representative of the broader issues faced by MSMEs in Namibia that are currently exporting or have attempted to export previously.

The main takeaways for businesses and entrepreneurs seeking to join subregional or global value chains are the importance of:

- Conducting strategic planning and market research
- Building strong networks
- Utilizing trade agreements
- Finding solutions to overcome logistical challenges
- Addressing language barriers
- Gaining access to finance
- Adapting to regulatory and institutional barriers
- Leveraging informal markets to hedge against losses and costs incurred on subregional markets
- Adopting sustainable practices
- Obtaining certification and complying with standards

<table>
<thead>
<tr>
<th>Description</th>
<th>In the present case study, the authors examine three Namibian enterprises: Omulamba Plantations, a horticultural business specializing in the production and export of juices and jams; Miombo Forestry Products, a company involved in the export of forestry products; and Ilotu Cosmetics, a manufacturer of organic, natural hair and body care products. Despite their success domestically and some subregional expansion, these businesses have faced significant challenges in exporting their products to other countries within SADC.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reason for inclusion of the case study</td>
<td>These three enterprises were selected on the basis of their diverse sectors, their experiences with export challenges and their potential to provide insights into the broader export barriers faced by MSMEs in Namibia as they seek to integrate into subregional value chains. In addition, through the present case study examples are provided of best practices and lessons learned, which can be applied by other entrepreneurs, from the entry of those enterprises into value chains and the utilization of trade agreements, highlighting constraints and opportunities faced.</td>
</tr>
<tr>
<td>Sector</td>
<td>The sectors represented in the present case study include horticulture, forestry and cosmetics.</td>
</tr>
</tbody>
</table>

**Stakeholders**

**Omulamba Plantations** was incorporated in 2002, employing about 67 employees on a full-time basis with a turnover of about 3.5 to 4.8 million Namibian dollars. The company owns a 1,200-hectare farm, from which it produces about 40,000 kg of fruit annually and about 18,000 kg of horticultural products annually. The company produces jams, juices and dry fruits and packages its own horticultural products, such as tomato paste, carrots and nuts, with the packaging materials being imported from South Africa. Jams and juices contribute about 40 per cent to 45 per cent of the total turnover and are the company’s primary export products.

**Miombo Forestry Products** was launched in 2017, as a rebrand of LDO Timbers. The company has a turnover of about $250,000 and employs about 17 people. It processes raw timber into planks and other value added timber products for local and international markets. The company plans to employ circular economy principles to become zero waste by making products from its waste, most of which will be laminated products. It exports 80 per cent of its products to South Africa. The raw materials, namely wood, are sourced from Angola. The company is strategically located in Katwitwi, in the Kavango West region of Namibia. Katwitwi is the second largest border control point between Angola and Namibia after Oshikango.

**Ilotu Cosmetics** manufactures and sells organic, natural hair and body care products. The company was incorporated in 2018 and has three employees. Its estimated turnover is around 80,000 Namibian dollars. It produces a wide range of skin and hair products (including shampoo, body lotion, body oil, gel and face wash), with a focus on the treatment of various health ailments, including fungal infections, insect bites and alopecia, as well as aromatherapy for cancer patients and cosmetics lines for persons living with albinism. The company operates on both business-to-business and business-to-consumer models. It has four retail outlets and an online shop.

**Problem statement**

As the present case study involved three different firms facing different but related challenges, the following problem statements are divided by firm:

1. **Omulamba Plantations**: regulatory hurdles such as the need to comply with different countries’ phytosanitary requirements, and logistical issues, such as poor infrastructure and the need for cold storage facilities.
2. **Miombo Forestry Products**: high costs and bureaucratic procedures related to the export of forestry products. In the company’s previous experience, despite Namibia having trade agreements with such countries as Angola, instruments to utilize such trade agreements have not been put in place.
3. **Ilotu Cosmetics**: difficulties in penetrating regional markets, owing to challenges relating to standards and accreditation and the cost of achieving and maintaining compliance with organic standards.

**Narrative of the case study**

The export environment for MSMEs in Namibia, like in many other African countries, is characterized by various non-tariff measures and non-tariff barriers that significantly hinder trade. The most common non-tariff measures faced by MSMEs in Namibia are sanitary and phytosanitary measures, technical barriers to trade, customs and administrative entry procedures and trade-related investment measures. These non-tariff measures, which can be either deliberately protectionist or not, raise trade costs and inhibit subregional trade. The major non-tariff measures affecting the MSMEs in the present case study are sanitary and phytosanitary measures or product standards that are often ill-suited to both consumer protection needs and government monitoring capabilities, generating unnecessary hurdles for MSMEs. It must be pointed out that some non-tariff measures are legitimate. The export barrier raised by Omulamba Plantations that consists of having to label its products in the national language of the SADC country to which it is exporting is one example of a legitimate non-tariff measure that cannot and should not be removed.

Elsewhere in SADC, MSMEs face challenges similar to the ones faced by MSMEs in Namibia, as, despite widespread tariff reductions, intra-African borders remain “thick”, with many non-tariff measures and non-tariff barriers hindering subregional trade. These barriers are not limited to inadequate transportation infrastructure, as is experienced by Omulamba Plantations when exporting from Namibia to Zambia, but rather extend to various government-imposed measures.
In the context of Namibia, the Namibian Standards Institution imposes some of the measures the companies in the present case study have raised, but in other cases the companies are coming up against SADC standards.

Each enterprise has its own unique context and experiences with export challenges.

**Omulamba Plantations**

Omulamba Plantations, for instance, has faced issues related to the export of horticultural products, including the need for quality road infrastructure, and the complexities of complying with different countries’ phytosanitary requirements. In addition, it faces a number of challenges in exporting horticultural products to subregional markets. These challenges include different packaging standards across countries, language barriers with regard to product labelling, the high cost of acquiring bar-codes from bar-code providers in South Africa, the cost of packaging materials imported from South Africa, international competition, phytosanitary standards that are legitimate but that cause delays in importing tree seedlings, limited access to financial institutions for internal financing, and the effects of the COVID-19 pandemic on distribution from farm to market.

**Miombo Forestry Products**

Miombo Forestry Products, on the other hand, has grappled with challenges related to the export of forestry products, including high costs of transport and Forest Stewardship Council certification and other time-consuming bureaucratic procedures. Miombo faces significant challenges regarding licensing, permits and international regulations. The area from which Miombo harvests its timber is within Angola, but the company has to comply with both Namibian and Angolan sanitary and phytosanitary standards, which differ, even though this should not be the case. In addition, issuance of the required documents is centralized and cannot be carried out at the border, unlike in other countries that use online processes, such as electronic phytosanitary certificates. Government institutions lack coordination at the border, hindering efficient inspections. To address this, Miombo argued that regular meetings between counterpart countries and the harmonization of policies were necessary. In addition, transportation costs have risen with fuel prices, making it very difficult to be competitive in subregional markets. Lastly, the high cost of Forest Stewardship Council certification further limits market expansion to countries that want to buy Miombo timber products but require certification.

**Ilotu Cosmetics**

Ilotu Cosmetics, while successful nationally, has faced difficulties in penetrating subregional markets, owing to challenges relating to standards and accreditation bodies. For Ilotu Cosmetics, the journey to becoming organically certified was a lengthy and costly process that involved sourcing both raw materials and packaging from organically certified sources in South Africa and obtaining certification through such service providers as Ecocert. The company’s experience highlights the institutional challenges relating to standards and accreditation in Namibia and the impact these challenges can have on MSMEs’ ability to export their products, as many of them do not have the capital or access to finance they need to acquire all of these certifications and accreditations and still market and transport their products to these subregional or global markets.

<table>
<thead>
<tr>
<th>Potential solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solutions include such strategies as pre-planning for bureaucratic procedures, creating local accounts for suppliers to enable faster transactions, and seeking organic certification to enhance product appeal and value across a wider range of markets.</td>
</tr>
</tbody>
</table>

Given the competition from international brands, informal markets have provided the needed market for Omulamba Plantations, which targets local businesses and customers opting for cheaper and readily available products. This has helped the company to hedge the risk of exporting and to recover losses, which can be as high as 30 per cent, from breakages (namely, of jams and glass packaged goods, which are its main exported products) during subregional transportation.

Other solutions, which will require more stakeholders to implement, involve improvements in regulatory harmonization, coordinated border management and the development of supportive policies and mechanisms to facilitate MSMEs’ export processes. External solutions could also involve interregional cooperation initiatives within and involving SADC, such as the working relationship among the African Continental Free Trade Area, SADC and the New Partnership for
Africa’s Development, and the tripartite cooperation among SADC, the East African Community and COMESA. These initiatives are aimed at positively contributing to capacity-building, infrastructure and economic development across countries and subregions, which could help to alleviate some of the challenges faced by the MSMEs in the present case study.

Specifically, an external solution could be the application of the recently approved SADC Trade Monitoring and Compliance Mechanism to report and monitor non-tariff measures and to enforce the removal of non-tariff barriers, as they undermine the rights provided for in the SADC Protocol on Trade. This would be the most targeted and streamlined way of removing all the non-tariff measures reported by the three companies that are, in fact, non-tariff barriers and are illegal under the SADC Protocol on Trade.

Lessons learned

Importance of diverse strategies for different markets. In the present case study, emphasis is placed on the importance of devising tailored strategies for different subregional markets, taking into account the unique regulatory, logistical and consumer preferences of each.

Holistic approach to logistics management. Handling logistical challenges requires a holistic approach. This includes not only focusing on transportation but also considering such elements as cold storage, packaging and handling to minimize damages and losses during transportation.

Leveraging informal markets. As illustrated by Omulamba Plantations, informal markets can provide a valuable avenue for offsetting the risks and costs associated with exporting, especially when faced with stiff competition in international markets.

Collaboration with standards bodies and authorities. Establishing close collaboration with standards bodies and regulatory authorities is crucial. This can facilitate smoother certification processes and allow for greater input from businesses in the shaping of standards and regulations that are practical and supportive of MSME growth.

Sustainability and value addition. As seen with Miombo Forestry Products, incorporating sustainability and circular economy principles can not only reduce waste but also add value to products, making them more appealing in international markets.

Financial preparedness. MSMEs must be financially prepared to handle the high costs associated with international expansion. This includes seeking external financing or strategically allocating resources for certification, compliance and marketing.

Digital transformation and e-governance. The adoption of digital solutions for regulatory compliance can streamline processes. The experience of Miombo Forestry Products with the centralization of the issuance of required documents underscores the need for digital solutions, such as electronic phytosanitary certificates, which can make cross-border compliance more accessible.

Diversification of supply chains. As noted in the case of Ilotu Cosmetics, reliance on imported raw materials and packaging from specific countries can create a bottleneck. The diversification of supply chains can provide alternatives and reduce dependence on single sources.

Engagement with regional development initiatives. MSMEs should actively engage with regional development initiatives, such as the SADC Trade Monitoring and Compliance Mechanism, to address non-tariff barriers and other barriers. Such platforms can offer MSMEs the opportunity to voice their concerns and contribute to policy development.

Transferability

While the specific challenges faced by these enterprises are shaped by their unique contexts, the lessons learned are broadly applicable to other MSMEs in Namibia and potentially in other SADC countries. The transferability of these lessons will depend on several factors, however, including the specific sector, the regulatory environment and the availability and competency of supportive institutional mechanisms in other countries.

The level of transferability will also depend heavily on how competent, capable and accessible the bureau of standards of each jurisdiction is. In Namibia, the Namibian Standards Institution plays a critical role in setting standards and providing certification for products. However, the Institution’s limited capacity and high costs can pose challenges for MSMEs, as evidenced in the present case study. In South Africa, for example, there are numerous private standard
accreditation bodies that make it much easier to obtain a range of the certifications and standards required to export or to integrate a business into subregional and global value chains.

**Comments**
The present case study was developed on the basis of interviews conducted with the enterprises and supplemented with information available on the Internet and in secondary literature. While every effort was made to ensure the accuracy of the information, there may be some discrepancies, owing to the dynamic nature of business operations and regulatory environments. In addition, the COVID-19 pandemic has had a significant impact on these businesses, in particular in terms of their ability to import raw materials and export finished products. This factor should be taken into consideration when interpreting the findings of the present case study.

### 4.6 South Africa

#### 4.6.1 Country profile

Table 19

<table>
<thead>
<tr>
<th>Economy, trade and investment profile</th>
<th>Most recent GDP(^{136})</th>
<th>$419.02 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate (2022)(^{137})</td>
<td>4.9 per cent</td>
<td></td>
</tr>
<tr>
<td>GDP by sector:(^{138})</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>2.47 per cent</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>24.50 per cent</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>63.02 per cent</td>
<td></td>
</tr>
<tr>
<td>Top five export partners</td>
<td>China, the United States, Germany, Japan and the United Kingdom</td>
<td></td>
</tr>
<tr>
<td>Top five import partners</td>
<td>China, India, Germany, the United States and Saudi Arabia</td>
<td></td>
</tr>
<tr>
<td>Top five exports (HS-4)</td>
<td>Platinum, coal, iron ores, motor cars and gold</td>
<td></td>
</tr>
<tr>
<td>Top five imports (HS-4)</td>
<td>Petroleum oils (excluding crude), motor cars, petroleum oils (including crude), telephone sets and automatic data processing machines</td>
<td></td>
</tr>
</tbody>
</table>

*Note:* HS-4 refers to the first four digits of the Harmonized Commodity Description and Coding System codes for each product or article.

According to the ITC trade potential tool, the following products show the largest potential for export growth.

---


### Table 20: Products with the largest potential for export growth in South Africa

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Irons ores</td>
<td>$5.5 billion</td>
</tr>
<tr>
<td>2</td>
<td>Rhodium powder</td>
<td>$3.2 billion</td>
</tr>
<tr>
<td>3</td>
<td>Manganese ores</td>
<td>$3.4 billion</td>
</tr>
<tr>
<td>4</td>
<td>Gold</td>
<td>$3.7 billion</td>
</tr>
<tr>
<td>5</td>
<td>Motor vehicles</td>
<td>$2.5 billion</td>
</tr>
<tr>
<td>6</td>
<td>Chromium ores</td>
<td>$3 billion</td>
</tr>
<tr>
<td>7</td>
<td>Palladium powder</td>
<td>$1.4 billion</td>
</tr>
<tr>
<td>8</td>
<td>Ferrochromium</td>
<td>$1.3 billion</td>
</tr>
<tr>
<td>9</td>
<td>Diamonds (unworked)</td>
<td>$2 billion</td>
</tr>
<tr>
<td>10</td>
<td>Platinum powder</td>
<td>$693 million</td>
</tr>
</tbody>
</table>


According to data from the Trade Map database, of the top 25 products exported from South Africa, those that showed the highest growth over the past five years were precious metal ores (389 per cent), coins (256 per cent) and unwrought nickel (187 per cent). By contrast, the export of manganese ores declined by 20 per cent over the past five years, that of wine declined by 12 per cent, and that of motor cars declined by 7 per cent.

### MSME volume

As of 2019, South Africa had 2,615,751 MSME owners employing 12,947,127 people, representing 87 per cent of the formal labour force. This is an increase from 63 per cent in 2010. The sector’s turnover is estimated at 3.1 trillion South African rand.\(^{139}\)

### Distribution of MSMEs

Of all the MSMEs in South Africa, 63 per cent are based in Gauteng and KwaZulu-Natal Provinces.\(^{140}\)

*Figure XVII: MSMEs in South Africa, by province (Percentage)*

\(^{139}\)FinMark Trust, “FinScope MSME survey South Africa 2020”.

\(^{140}\)Ibid.
**MSMEs by sector**

MSMEs are predominantly in the service and trade sectors, accounting for 58 per cent and 26 per cent, respectively. The industrial sector accounts for 12 per cent, followed by 4 per cent in the agricultural sector.¹⁴¹

![Figure XVIII: MSMEs in South Africa, by sector (Percentage)](image)

**Formality of MSMEs**

Of all of the MSMEs in South Africa, 37 per cent are formally registered with the South African Revenue Service or the Companies and Intellectual Property Commission. Five per cent of South African MSMEs are semi-formal enterprises and 58 per cent are informal enterprises.¹⁴²

![Figure XIX: MSMEs in South Africa, by degree of formal registration (Percentage)](image)

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¹⁴¹ Ibid.
¹⁴² Ibid.
¹⁴³ Ibid.
¹⁴⁴ Ibid.
Figure XX
Access to financial services
(Percentage)

Source: FinMark Trust, “FinScope MSME survey South Africa 2020”.

Figure XXI
Biggest risk faced by MSMEs during the COVID-19 pandemic
(Percentage)

Source: FinMark Trust, “FinScope MSME survey South Africa 2020”.
Figure XXII
Support received by MSMEs in addressing top 10 challenges
(Percentage)

Source: FinMark Trust, “FinScope MSME survey South Africa 2020”.

Figure XXIII
Forms of support needed by MSMEs to survive the COVID-19 pandemic
(Percentage)

Source: FinMark Trust, “FinScope MSME survey South Africa 2020”.
MSMEs must grapple with a multitude of challenges to achieve success, and this situation is further complicated by the COVID-19 pandemic and the recent civil unrest in South Africa. Notably, 58 per cent of businesses identified the primary risk they faced as damage to business property and theft of stock, fuelled by the ongoing social disruptions. Concurrently, 19 per cent of businesses cited pandemic-related restrictions as a significant risk, notably affecting investor confidence and interest.

Amid these myriad challenges, businesses have pinpointed cash flow as the crucial lifeline for survival during the pandemic, with an overwhelming 74 per cent identifying it as a primary need. Furthermore, operating space has become a substantial concern under the new, pandemic-induced social norms. The need to maintain social distancing and adhere to lockdown regulations has resulted in diminished operational space and heightened safety measures. This constraint is squeezing businesses, straining resources and operational capabilities.

MSMEs’ use of technology

Only 58 per cent of MSMEs use digital financial services, 97 per cent use cash, and only 35 per cent use digital media.

Figure XXIV

Use of cash, digital financial services and digital media by MSMEs in South Africa

Use of cash, digital payments and digital usage

Source: FinMark Trust, “FinScope MSME survey South Africa 2020”.

Among the MSMEs that keep financial records, 45 per cent still use manual systems for financial record keeping, while 18 per cent use computerized systems.

\[^{146}\] Ibid.
Figure XXV
Tools used by MSMEs in South Africa (Percentage)

- Cell phone: 53%
- Generator: 20%
- Car or minibus: 18%
- Computer or laptop: 15%
- Computer/Laptop: 14%
- Security system: 12%
- Cash register: 11%
- Printers: 11%
- Copying machine: 9%
- Website: 8%
- Speed point: 8%
- Fax machine: 8%
- Landline: 8%
- Device to monitor access: 6%

Source: FinMark Trust, “FinScope MSME survey South Africa 2020”.

Figure XXVI
MSMEs in South Africa that keep financial records (Percentage)

- Yes: 39%
- No: 61%

Source: FinMark Trust, “FinScope MSME survey South Africa 2020”.
A total of 60 per cent of MSMEs claim to have access to a mobile telephone, while only 53 per cent use the telephone for business purposes. The proportion of MSMEs with access to the Internet is low, however, standing at 18 per cent.

Government
The Government of South Africa, under the Department of Small Business Development, has put into motion a series of programmes to bolster the strength of MSMEs. One such initiative is the Business Viability Programme, a comprehensive plan designed to help MSMEs, including cooperatives, to navigate both financial and non-financial hurdles. The goals of the Programme encompass promoting competitiveness, sustainability, viability and growth for MSMEs. Through the Programme, the Department of Small Business Development also emphasizes the importance of job creation and seeks to prevent job losses and business closures by providing a combination of financial and non-financial support. Beyond the Business Viability Programme, the Government of South Africa has also allocated funds for additional MSME-oriented initiatives. Among these are the Youth Challenge Fund, a platform designed to empower young entrepreneurs; SheTradesZA, through which support is provided to female-owned businesses; and the Township and Rural Entrepreneurship Programme, which is aimed at promoting entrepreneurship in less urbanized areas.

Development partners
The Ecosystems Development for Small Enterprises Programme is a programme funded by the European Union that is aimed at creating meaningful change and substantial progress across the South African MSME system. The goals of the initiative are aligned with inclusive and sustainable economic growth, as well as job creation. Funded with an allocation of approximately 56 million euros, the Ecosystems Development for Small Enterprises Programme is a seven-year programme, commencing in 2017 and culminating in 2024. Its implementation involves collaboration with the Department of Small Business Development of South Africa, as well as several other governmental departments and agencies. The funding approach for the Programme is two-pronged, with budget support funding and technical assistance.

4.6.2 Case study 1, Finvex.tech: working capital and trade finance

4.6.2.1 Summary
Finvex.tech, a South African fintech startup, has leveraged technology to address the significant barrier hindering access to working capital for MSMEs by innovating in relation to the concept of factoring. Determining that MSMEs often had to wait for extended periods to have their invoices settled by larger corporations, leading to a debilitating lack of working capital, Finvex.tech created a secure and efficient platform for factoring, essentially enabling MSMEs to sell their invoices to financial services providers at a discount for immediate payment. Through the platform, Finvex.tech ensures that each invoice can be sold only once and that the payment directly reaches the invoiced buyer, thus mitigating fraud risks and reducing the significant risk premium currently charged on factoring contracts. Despite these advantages, Finvex.tech has faced resistance from the established financial institutions in its home market, which are needed to provide the capital for factoring, prompting a strategic pivot towards the European market in an attempt to prove the worth of the concept before returning to the South African market.

Description
In the present case study, the authors consider Finvex.tech, a company that addresses the issue of lack of access to working capital for MSMEs by innovating with regard to traditional factoring methods through a technology-focused solution that mitigates fraud and makes the process more efficient and accessible, ultimately enhancing the MSMEs’ sustainability.

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147 Department of Small Business Development, “Business Viability Programme”.
Reason for inclusion of the case study

In such surveys as the FinScope MSME survey, access to finance is regularly cited as the most important barrier facing MSMEs. In the present case study, lessons are provided regarding some innovative solutions to this issue.

Sector

The fintech sector, which is the intersection between financial services and ICT services.

Links to other case studies

Challenges of being at the cutting edge (Mauritius)

Like other solutions providers on the cutting edge, Finvex.tech faces a lack of understanding and awareness of its product. In this way, the issues it faces are similar to those faced by BEM Recycling in Mauritius. In that case study, however, the issues were more about regulations emanating from the Government, while in the present case the issue stems from a lack of understanding and reluctance on the part of the private sector to adopt something new.

Stakeholder

Finvex.tech is a small South African startup operating in the fintech space. The company has designed a financial service that is based on the idea of factoring,\(^{150}\) having identified the issue of lack of access to working capital, which is a widespread challenge in emerging markets. Finvex.tech offers a technology-focused solution to the issue of factoring, making it safer and more efficient. In the light of the service it offers, it operates as a solutions provider for MSMEs.

However, Finvex.tech’s clients are actually large corporations that hire the company to build an online portal to provide factoring services for the companies in their supply chain.

Problem statement

Despite persistent problems with access to working capital for MSMEs in South Africa, there are several issues involved in factoring that prevent its widespread use. Fraud is a serious problem in factoring, with single invoices being factored multiple times, or companies selling the invoice and then absconding with the final payment when it is made. This has led to large, formal institutions avoiding the practice and informal lenders charging exorbitant rates, owing to the risks involved and the lack of alternatives.

Narrative of the case study

Finvex.tech’s business case is focused on taking a traditional solution to MSMEs’ working capital problem (factoring) and combining it with a science, technology and innovation solution to make it more efficient and less prone to fraud.

The founders identified several issues within South African value chains that disadvantaged MSMEs, also noting that those issues were persistent in other developing countries in Southern Africa and South America. First, the dominant position of large corporations in those economies allowed them to dictate terms to the MSMEs in their supply chain. As a result, payment terms were slanted in a way that benefited the large company and often led to MSMEs waiting months after delivery for their invoice to be settled. The impact of that situation on MSMEs was compounded by their inability to gain access to financing from the formal market, which was traditionally risk averse, and the exorbitant costs charged by the lenders (often informal) who were willing to service them. That meant that MSMEs were unable to deliver on contracts they had been awarded, or in some cases went bankrupt after delivery while waiting for final payment. A traditional solution to this problem is factoring, as described above.

Second, the offerings available to MSMEs are limited and expensive, with large banks dealing only with large invoices, excluding MSMEs from their services. For example, South African Breweries partners with Citibank to provide factoring in its supply chain, but the company will buy only invoices worth 15 million rand or more, meaning that only 3 per cent of its supply chain qualifies. Outside of the large banks, the rates charged for factoring can rise to 100 per cent annualized or more, making it too expensive for most MSMEs. Part of the reason for these high rates is the prevalence of fraud, as informal lenders cannot verify whether the invoice they are buying has already been sold to someone else. Alternatively, an invoice can be sold by an MSME without notifying the payer, which results in the MSME being paid twice and the factorer not

\(^{150}\) Factoring is the practice of selling an invoice to a financial services provider at a discount in order to receive money from an order up front. This allows the seller to gain access to working capital immediately in order to fulfil the invoice. The financial services company then collects the payment once the original invoice is settled and the payment terms expire.
receiving the service. The risk of fraud, along with large corporations not fulfilling the invoices, lies with the factorer, which is why there is such a premium on their services.

Finvex.tech offers an innovative solution to these challenges. It approaches large companies and offers to build a digital platform that manages all of the factoring in their supply chain. The company itself does not provide the financing for the factoring; rather, it partners with formal financial services providers or donor agencies to provide it at sustainable rates. The platform links to the invoicing system of the large company, so that every invoice it issues is captured on the platform and linked to the MSME for which it was issued. Once the system is built, this occurs automatically, and Finvex.tech is now processing over 40,000 invoices daily on its platforms. MSMEs have their own area on the platform where they can access their invoices, and they can elect to sell them to the financial services provider (at a discount) to receive payment immediately. Because each invoice is monitored by the platform, it can be sold only once, and after the MSME sells it the invoice is transferred to the financial services provider. When the invoice is settled by the large company, the system ensures that the payment goes directly to the financial services provider who bought the invoice, thereby eliminating the possibility of fraud. Finvex.tech earns its revenue through a one-time set-up fee charged to the company for which it sets up the platform, as well as a 0.5 per cent charge on every factoring contract processed on the platform.

Currently, Finvex.tech is working with a few companies in Botswana and South America. It has not, however, been able to make large inroads into South Africa or Southern Africa in general. The founders report that large corporate firms and banks (which are very concentrated in South Africa) are reluctant to adopt innovative solutions. They see the benefit as largely going to MSMEs and do not want to take the risk of being the first to adopt a digital solution. They raised concerns about the security of cloud-based solutions and wanted more human processing of invoices, as opposed to the automatic capturing that currently takes place. They have no pressing need to innovate, because they are already in a good position. Market power is concentrated in only 5 to 10 large banks, which do not need to innovate to survive. During meetings with the banks, the latter reaffirmed that they would be willing to adopt the technology if they saw proof of it working at scale somewhere else. As a result, Finvex.tech is pivoting to the European market, which shows more willingness to adopt new ideas. The company’s founders are in the process of moving and are aiming to set up partnerships with European financial services providers as their next step.

<table>
<thead>
<tr>
<th>Solution provided</th>
<th>The platform offered by Finvex.tech solves the issue of factoring fraud by preventing an invoice from being sold more than once and by ensuring that the payment goes directly to the factorer who bought it. This in turn makes factoring more affordable for MSMEs using the platform, as it reduces the risk premium, thereby increasing their access to working capital.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lessons learned</td>
<td><strong>Innovative technology can mitigate risks and barriers in traditional financing methods.</strong> Finvex.tech’s technology platform demonstrates that innovative digital solutions can effectively address the risks and barriers, such as fraud, that are inherent in traditional factoring, thereby making it more secure, efficient and accessible to MSMEs.</td>
</tr>
<tr>
<td></td>
<td><strong>Leveraging larger corporations to reach MSMEs.</strong> By partnering with large corporations, Finvex.tech effectively reaches numerous MSMEs within the supply chain, which underscores the potential value of building solutions that take advantage of existing business systems.</td>
</tr>
<tr>
<td></td>
<td><strong>Importance of partnership with formal financial institutions.</strong> In order to offer affordable rates and ensure sustainability, Finvex.tech partners with formal financial institutions or donor agencies, as it cannot provide the capital for loans itself. This suggests the importance of leveraging institutional partnerships for startups aiming to disrupt traditional financial services.</td>
</tr>
<tr>
<td></td>
<td><strong>The challenge of breaking into conservative markets.</strong> Despite the potential benefits of Finvex.tech’s solution, its struggle to gain traction in South Africa and in Southern Africa more broadly highlights the challenges that fintech innovators may face in markets resistant to change and the need for proven, scalable results to persuade established players. This is especially true in cases in which the financial sector is concentrated in a few firms that see no need to innovate and are open to adopting proven solutions only if they have displayed results in other markets. This has ironically caused Finvex.tech to pivot to Europe (where the technology will have less of an impact) in the hope of reimporting the solution once it has proven itself, which is a much less</td>
</tr>
</tbody>
</table>
efficient solution that leaves Southern African MSMEs unable to benefit from a product developed in the subregion.

**Balancing automation with security concerns.** Despite the benefits of automating invoice capturing and other processes, some stakeholders expressed reservations about the security of cloud-based solutions. This highlights the need to balance effectively efficiency, convenience and security to ensure widespread adoption.

**Transferability**

The solution requires buy-in from a source that is able to fund the factoring service. In South Africa, this would be the banks. However, they are currently not willing to adopt it, owing to their reluctance to adopt new ideas. However, in other subregions where the financial services industry is less concentrated and is more willing to embrace new ideas, or in countries where a donor agency is willing to put up the capital to fund the factoring, this solution will be more workable.

In addition, this solution is currently operating as a fully private business, with very limited support from the Government of South Africa, which has shown little interest in using it as an MSME development tool. In other countries where Governments may be willing to adopt the factoring tool as an MSME development instrument, it may be possible to achieve better results. This would require political will on the part of the Government.

Lastly, one of the major competitive edges that Finvex.tech offers is its ability to process contracts at scale (tens of thousands of contracts daily). In a smaller economy with fewer participants in supply chains (and therefore fewer contracts), the advantage of the platform would not be as great.

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**4.6.3 Case study 2, the Wesgro Cape Trade Portal, the Standard Bank Trade Club and TradeBRICS: linkages and trust in export and domestic markets**

**4.6.3.1 Summary**

In the present case study, the authors explore digital solutions offered by both public and private institutions aimed at reducing the costs of networking and surmounting trust-related challenges in the export market, in particular in jurisdictions with weak contract enforcement. Two noteworthy examples, the Wesgro Cape Trade Portal and the Standard Bank Trade Club, serve as important models. Wesgro, an export promotion agency, has developed the Cape Trade Portal, which is a virtual marketplace that connects verified local exporters to international buyers, alleviating issues related to trust and information asymmetry. In parallel, Standard Bank, one of the largest banking groups in Africa, has created the Trade Club, which is a broad online trading platform connecting pre-vetted buyers and sellers across multiple countries. Despite its benefits being skewed towards larger companies, it represents a robust private sector solution. In the present case study, the authors highlight the potential for both public and private sector responses to market failures and the need for a supportive regulatory environment to ensure their success and scalability. Lastly, another option is provided by TradeBRICS, which is a fully private portal built from scratch to provide a very similar service to that of the two larger “competitors” mentioned above.

**Description**

In the present case study, the authors consider digital solutions, provided by public or private institutions, that can reduce the costs of networking and overcome the challenges concerning trust, especially with regard to delivery and non-payment (in particular across jurisdictions where contract enforcement is extremely weak).

**Reason for inclusion of the case study**

In the present case study, the authors offer potential policy learning with regard to private and public sector solutions to market failures. They provide a different perspective on Governments’ approaches to providing support for SMEs regarding networking and market linkages compared with private sector approaches.

**Sector**

All
**Stakeholders**

- **Wesgro** is an export promotion agency operating in Western Cape Province in South Africa. The agency is tasked with running programmes aimed at attracting tourism and investment and facilitating exports from the Province. The organization offers multiple services to local businesses, including training and mentoring programmes, trade fairs and trade promotion services, market research, advocacy programmes and networking opportunities.

- **TradeBRICS** is a South African startup founded in 2019. It operates as an e-commerce marketplace that connects global business-to-business buyers with African suppliers and manufacturers.

- **The Standard Bank Group** has served clients for over 160 years. The Bank has since grown to serve over 15 million clients across 20 sub-Saharan African countries. It specializes in providing banking, insurance and investment solutions to its clients and has accumulated 1.4 trillion South African rand in assets under its global management. The locations in which it operates are as follows:

  **Standard Bank locations in Africa:**
  - Angola: Standard Bank de Angola S.A.
  - Botswana: Stanbic Bank Botswana Limited
  - Côte d’Ivoire: Stanbic Bank – Bureau de Representation
  - Democratic Republic of the Congo: Standard Bank RDC SARL
  - Eswatini: Standard Bank Eswatini Limited
  - Ethiopia: Standard Bank Representative Office
  - Ghana: Stanbic Bank Ghana Limited
  - Kenya: Stanbic Bank Limited
  - Lesotho: Standard Lesotho Bank Limited
  - Malawi: Standard Bank Malawi Limited
  - Mauritius: Standard Bank Mauritius
  - Mozambique: Standard Bank Mozambique
  - Namibia: Standard Bank Head Office
  - Nigeria: Stanbic IBTC Bank Plc
  - South Africa: Standard Bank of South Africa Limited
  - South Sudan: Stanbic Bank Limited
  - Uganda: Stanbic Bank Uganda Limited
  - United Republic of Tanzania: Stanbic Bank Tanzania Limited
  - Zambia: Stanbic Bank Zambia Limited
  - Zimbabwe: Stanbic Bank Zimbabwe Limited

  **Other Standard Bank locations:**
  - China: Standard Advisory (China) Limited
  - Jersey: Standard Bank Jersey Limited
  - United Arab Emirates: Standard Bank of South Africa Limited (Dubai International Financial Centre Branch)
  - United Kingdom of Great Britain and Northern Ireland: Standard Advisory
  - United States: Standard New York, Inc.
The present case study is focused on two such examples. The first is the Cape Trade Portal, an online repository of exporters from the subregion and foreign buyers that can enable networking and expanded market access. The second is the Made in the Cape campaign, which is aimed at promoting quality goods and services produced in Western Cape Province.

The Cape Trade Portal operates as a virtual marketplace, connecting buyers all over the world to local exporters of goods and services. It currently has 4,160 products on display from 676 verified exports. There are a further 166 exporters who have newly completed the verification process and 82 who have just started the process of being verified on the portal. On the buying side, 144 verified international buyers have registered on the platform. In just over a year since its launch, the website has received 390,000 collective hits from countries all over the world.

The Cape Trade Portal helps MSMEs by creating a network that is trusted, given that it has been developed and endorsed by Wesgro through its verification process, and by providing market information to which the MSMEs would not otherwise have access. Similarly, the portal connects international buyers to companies that are verified by Wesgro, thereby reaffirming an element of trust and granting them access to companies that they would not otherwise have. In order to be verified on the portal, companies need to provide their identification documents, proof of location, certificates issued through the Support towards Industrialization and the Productive Sectors programme, tax certificates and other legal documents to prove their identity and to show that they abide by South African law. The process, therefore, goes a long way towards solving the two-way trust and information problem between exporting MSMEs and foreign importers, connecting the two and allowing MSMEs to link into foreign value chains by means of the “matchmaking” marketplace of the Cape Trade Portal. Furthermore, the portal allows local MSMEs to gain access to resources, training materials and research by Wesgro, helping them to make use of the other forms of assistance the organization makes available.

In a supplementary campaign aimed in part at increasing the benefit of the portal, Wesgro launched the “Made in the Cape” campaign to improve the global footprint of businesses in the Province. The aim is to strengthen the “Cape” brand identity across global markets, with an initial focus on the Province’s top export market of the United Kingdom of Great Britain and Northern Ireland. Through the campaign, resources will be dedicated to marketing and increasing the visibility of the Cape brand, positioning it as a place of origin of quality goods and services. Approved exporters registered on the portal can download the logo and other marketing assets and use them in their marketing efforts, thereby furthering the spread of the campaign. Wesgro hopes that positioning the Cape brand in this way will allow exporters to leverage a premium on their products and build a solid identity as a business from a place that provides premium goods and services. As part of building a provincial identity, the first products targeted for promotion under the campaign all have a strong tie to industries already identified as linked to the province, namely, rooibos, citrus, wine, software development (representing the Cape Town technology hub) and creative industries. The programme combines well with the portal by adding a marker of quality to a guarantee that the company with which buyers are dealing is legitimate and has a track record of fulfilling its orders (through the verification process to be listed on the portal) – a guarantee they would not have if they bought from somewhere else.

Through this campaign, MSMEs are afforded the opportunity to capitalize on provincial branding, which can provide a number of benefits that stand to increase their competitiveness within both regional and global value chains. With respect to the former, in domestic markets nationally or provincially branded products can give MSMEs a competitive edge over imported goods, as consumers often associate local products with freshness, authenticity or support for the local economy. As for the latter, SMEs can leverage the positive perception of their province to gain access to foreign markets and bolster their global competitiveness, as consumers tend to prefer products from places that have established reputations for quality and reliability.
Standard Bank Group

The Trade Club established by Standard Bank South Africa stands as one of the most extensive online trading platforms in the country. It provides a platform for both local and international transactions among pre-vetted sellers and buyers. The Trade Club operates not only in South Africa but also in such countries as Botswana, Kenya, Lesotho and Uganda. There are plans to expand to Malawi, Mozambique and Zambia (among other countries) in the coming years, but Namibia is currently not a target. In addition, there are ongoing initiatives to incorporate the Bank of China into this network.

Standard Bank South Africa has collaborated with 15 banks to connect clients. The primary value of this partnership lies in enabling clients to interact with international markets, where they can connect with vetted, trusted and reputable buyers and sellers. Currently, the platform hosts around 17,000 vetted businesses from 60 different countries. To utilize this platform, a client must hold an account with the bank. Each partner bank undertakes its own client vetting, and members of the Trade Club are also subject to verification. Clients register and create a profile on the online platform, outlining their business activities. The system’s algorithm then matches clients on the basis of their specific needs, whether they are buying or selling. Once a match is made, the clients can interact through email to finalize the deal.

The Trade Club is divided into two sections. The first section is a networking space that allows clients to make connections, while the second section serves as a resource library. This library contains over 200,000 pages of both local and global trade information.

Given that the platform primarily functions as a networking and resource tool for vetted clients, monitoring the progression of business deals can be challenging. Once a match is made, the ensuing conversation is typically moved offline. Nevertheless, the platform’s success can be measured in its ability to broaden the networks of MSMEs. In addition, it offers clients access to both virtual and physical trade shows and events on a local and international scale. By offering opportunities for online networking and providing valuable resources to enhance their visibility, the platform enables MSMEs to effectively address various growth impediments. It empowers them to either overcome the challenges they face or significantly mitigate the impact of those challenges, enabling smoother integration into subregional and global value chains in a more cost-effective and time-efficient manner. Some of these benefits could include: expanding market reach (SMEs can broaden their horizons by extending their customer base and gaining access to new markets without the need for a physical presence, thus allowing them to engage with a global or broader subregional audience); diversifying connections (connecting SMEs with a diverse array of professionals, ranging from industry experts to potential customers, suppliers and investors); enhancing brand visibility and boosting company reputation; and facilitating efficient information-sharing (by simplifying the process of disseminating information, updates and content to a wider audience, this platform can boost efficiency in communication and knowledge-sharing).

The platform does face a few challenges, however. Some clients sign up but do not respond to queries, with only about 30 per cent of the clients actively engaging with queries. In many instances, clients log in only when they have a specific need, resulting in sporadic online activity. The offerings and benefits of the platform are also skewed towards large formal companies, which make up 11,000 of the 17,000 members, with these companies able to gain access to the full benefits of the platform. The 6,000 smaller firms on the platform have access to its networking function, but their access to other features is limited. The platform is designed for larger companies, as these are the clients from which Standard Bank draws most of its revenue. This illustrates one of the drawbacks of the private sector approach, which is centred around the profit incentive.

TradeBRICS

The TradeBRICS platform was conceived in response to the Agreement Establishing the African Continental Free Trade Area and is aimed at tapping into the underutilized manufacturing output of Africa, which was previously hindered owing to a lack of domestic demand and imports of cheaper goods from Asia. TradeBRICS facilitates the sourcing of locally produced African goods, order management, shipment and negotiations and offers various payment and credit options. The platform boasts over 55,000 African suppliers from 15 countries and serves thousands of global buyers across 130 countries, who award $150 million annually through TradeBRICS. The startup employs a freemium business model, with revenue generated through...
transaction fees and premium features available with a subscription. TradeBRICS has already raised $500,000 in pre-seed funding and garnered participation in Knife Capital’s Grindstone Accelerator. Despite an annual revenue of around $250,000, the company faces challenges in modernizing traditional African suppliers and manufacturers to embrace the online business-to-business e-commerce market.

**Solution provided**  
By providing an online digital platform, institutions are able to build a large network and efficiently connect nodes on that network. These platforms also serve as sources of information for the clients that use them. The trust element is addressed through a stringent verification process, with the institutions essentially vouching for the reliability of verified users of the platform when it comes to payment, order fulfilment and quality.

**Lessons learned**  
Verification of reliability is crucial for MSMEs’ participation in subregional and global value chains. The platforms work by combining the building of a network with a verification process that “certifies” the reliability of users on the platform. This goes a long way towards improving the quality of the network as an offering. Both solutions emphasize verification. In the case of the Trade Club, a company needs to have a bank account with the bank or a partner, which requires a range of official documentation, before registration is allowed. This provides certainty that payments and orders will be fulfilled, thereby creating a sense of trust to allow for linkages.

Both public and private sector solutions are viable. These types of offerings can be provided by both the private sector and the public sector. However, each one comes with its own strengths and weaknesses. Public institutions can subsidize MSMEs and better cater to their needs. They are also better equipped to run complimentary projects that are not directly revenue generating, as can be seen in the combination between the Cape Trade Portal and Made in the Cape. The lack of a need to make a profit allows them to be more flexible and dynamic with their offerings, catering to their “clients” needs rather than focusing on revenue generation. Private sector solutions need to generate revenue for the implementing institution, which likely means a focus on servicing the needs of large companies, as can be seen with the Trade Club. However, while the public sector solutions require resources from the Government, the private sector solutions do not. They simply require a conducive regulatory environment for the bank to integrate local traders into its existing club.

**Transferability**  
Publicly run solutions require resources, especially if they do not have a revenue-generating aspect. Wesgro can provide the Cape Trade Portal and its other offerings because it receives the funding needed to do so. While this can work in South Africa, it will not be an option in countries where government resources are scarcer.

A private sector solution does not require government resources. The first step towards the implementation of this option is to ensure that the regulatory environment is conducive to the setting up of trade clubs by banks. If so, the private sector solution should be transferable. This is already taking place in the form of Standard Bank’s targeted expansion of its programme to Malawi, Mozambique and Zambia.
### 4.7 Zambia

#### 4.7.1 Country profile

Table 21  
Economy, trade and investment profile of Zambia

<table>
<thead>
<tr>
<th>Economy, trade and investment profile</th>
<th>Most recent GDP</th>
<th>$22.15 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP growth rate (2022)</td>
<td>4.60 per cent</td>
<td></td>
</tr>
<tr>
<td>GDP by sector:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.39 per cent</td>
<td></td>
</tr>
<tr>
<td>Industry</td>
<td>42.50 per cent</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>49.88 per cent</td>
<td></td>
</tr>
</tbody>
</table>

| Top five export partners | Switzerland, China, the Democratic Republic of the Congo, the Pitcairn Islands and Equatorial Guinea |
| Top five import partners | South Africa, Equatorial Guinea, China, the United Arab Emirates and the Democratic Republic of the Congo |
| Top five exports (HS-4) | Unrefined cooper, refined copper, sulfur, electrical energy and ferro-alloys |
| Top five imports (HS-4) | Petroleum oils, sulfur, mineral and chemical nitrogenous fertilizers, copper ores and motor vehicles |

*Note: HS-4 refers to the first four digits of the Harmonized Commodity Description and Coding System codes for each product or article.*

Export opportunities and dynamics  
According to the ITC trade potential tool, the following products show the largest potential for export growth.

Table 22  
Products with the largest potential for export growth in Zambia

<table>
<thead>
<tr>
<th>Rank</th>
<th>Product</th>
<th>Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Unrefined copper</td>
<td>$2 billion</td>
</tr>
<tr>
<td>2</td>
<td>Copper cathodes</td>
<td>$1.1 billion</td>
</tr>
<tr>
<td>3</td>
<td>Gold</td>
<td>$350 million</td>
</tr>
<tr>
<td>4</td>
<td>Copper ores</td>
<td>$154 million</td>
</tr>
<tr>
<td>5</td>
<td>Rubies, sapphires and emeralds</td>
<td>$58 million</td>
</tr>
<tr>
<td>6</td>
<td>Semi-precious stones</td>
<td>$46 million</td>
</tr>
<tr>
<td>7</td>
<td>Cobalt</td>
<td>$49 million</td>
</tr>
<tr>
<td>8</td>
<td>Soya bean oilcake</td>
<td>$51 million</td>
</tr>
<tr>
<td>9</td>
<td>Portland cement</td>
<td>$29 million</td>
</tr>
<tr>
<td>10</td>
<td>Manganese ores</td>
<td>$30 million</td>
</tr>
</tbody>
</table>


MSME volume

**MSMEs by sector**

Enterprises are mainly concentrated in the services sector, which accounts for 45% of MSMEs. Manufacturing accounts for 43% per cent, while 12 per cent are in primary industries.\(^{155}\)

**Formality of MSMEs**

Despite a large MSME sector, 90 per cent of the MSMEs are informal.

**MSME business size**

A total of 47 per cent of firms in Zambia are microenterprises, 28 per cent are small enterprises, 13 per cent are medium-sized and 12 per cent are large enterprises.\(^{156}\)

**Trends in MSME participation within value chains (growth)**

The manufacturing sector accounts for 7.5 per cent of Zambian GDP and 83 per cent of the country’s exports. There has been an increase in national demand (led by an emerging middle class) and subregional demand (led by the country’s membership in COMESA) for domestic manufacturing in the textile, metal, chemical and fertilizer sectors, along with leather subsectors.\(^{157}\)

**Trade**

Enterprises in Zambia are predominantly non-exporting firms. Only 7 per cent of the enterprises are export oriented. However, 43 per cent of the firms are importing and 57 per cent are non-importing firms.\(^{158}\)

**MSMEs’ access to finance**

Almost half (49 per cent) of MSMEs in Zambia perceive access to credit as a major obstacle to their business operation. The majority of banks lend only to MSMEs that have adequate security.\(^{159}\)

**MSMEs’ use of technology**

More than half (52 per cent) of MSMEs have access to a good quality Internet connection, 44 per cent maintain a company website, and 56 per cent advertise their businesses on the Internet or on social media.

**MSME institutional framework**

The primary institution that is responsible for the MSME institutional framework in Zambia is the Ministry of Commerce, Trade and Industry.

**National and regional policy measures to facilitate the development and integration of MSMEs**

Government

Zambia is working to integrate MSMEs into subregional and global value chains through the development of coherent trade, investment, tax and competition policies, labour market regulation, protection of intellectual property rights and access to land. Trade and investment facilitation efforts are also being made to help to create a sound business environment.\(^{160}\) The Zambian Ministry of Commerce, Trade and Industry has also developed a national investment promotion strategy for the period 2018–2022. In the strategy are outlined several objectives and targets for promoting investment in Zambia. The strategy also includes an implementation framework with details on

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\(^{154}\) ITC, “Promoting SME competitiveness in Zambia”, 8 April 2019.

\(^{155}\) Ibid.

\(^{156}\) Ibid.

\(^{157}\) Ibid.

\(^{158}\) Ibid.


\(^{160}\) UNCTAD, “Integrating SMEs into value chains can boost development”, 13 September 2017.
institutional arrangements, legal frameworks, resource mobilization and financing, monitoring and evaluation measures and an implementation log frame.\textsuperscript{161}

**Development partners**

There are several programmes funded by development partners that are available to help MSMEs in Zambia to grow and develop. One such programme is the Accelerated Growth for Micro, Small and Medium-Sized Enterprises in Zambia Programme, which is funded by the Ministry for Foreign Affairs of Finland and implemented in partnership with the Ministry for Small and Medium Enterprise Development of Zambia. The Programme is aimed at accelerating the growth and competitiveness of MSMEs and startups in Zambia.\textsuperscript{162}

Another programme of interest is the African Guarantee Fund for Small and Medium-Sized Enterprises, through which three types of guarantees are offered with different fee structures – portfolio and individual loan guarantees, bank fundraising guarantees and equity guarantees.\textsuperscript{163}

Zambia has several trade and investment facilitation efforts in place. One such effort is TradeBoost Zambia, which is a $30 million investment by the United States Agency for International Development in the Africa Trade and Investment Activity. This funding leverages the resources of Prosper Africa to catalyse, expand and accelerate two-way trade and investment between African nations and the United States. TradeBoost Zambia is also aimed at promoting job creation, increasing incomes and boosting the participation of women and young people in the economic development of Zambia, ultimately decreasing rural poverty through green growth.\textsuperscript{164}

The ENTERPRISE Zambia Challenge Fund is a €25.9 million initiative carried out by the European Union in cooperation with the Ministry of Agriculture and the Ministry of Fisheries and Livestock of Zambia. It is part of the wider eleventh European Development Fund programme providing support for the sustainable commercialization of Zambian smallholder farmers and is aimed at unlocking, accelerating and leveraging investments within agricultural value chains (including agroforestry and aquaculture).\textsuperscript{165}

Through the ENTERPRISE Zambia Challenge Fund, grants are provided to support agribusinesses with the potential to benefit smallholder farmers by increasing access to services, including agroinputs, financial services, extension advice, aggregation and transport and climate-smart technologies. The Fund is designed in such a way as to ensure that financial support incentivizes greater commercialization of smallholder farmers, their integration into value chains, and the creation and strengthening of smallholder farmers and agribusiness associations. This will generate employment opportunities, in particular for women and young people.\textsuperscript{166}

The Agriculture Value Chain Facility, funded by the European Union, is a €30 million initiative launched by Zanaco and Team Europe to accelerate agricultural investment. Through this initiative, Zanaco and Team Europe will improve agricultural productivity, upgrade agricultural processing and support a sector severely affected by

\textsuperscript{161} Ministry of Commerce, Trade and Industry, “National investment promotion strategy 2018 to 2022”.


\textsuperscript{164} United States Agency for International Development and Prosper Africa, “TradeBoost Zambia fact sheet”.

\textsuperscript{165} Funds for NGOs, “ENTERPRISE Zambia Challenge Fund: apply now!".

COVID-19 challenges. The initiative is also supported by a best practice assistance programme.\textsuperscript{167}

The German Agency for International Cooperation also has an initiative called the Green Infrastructure Corridors for Intra-African Trade Programme, which includes a specific component on digital solutions of MSMEs for trade and green infrastructure. Through this programme, the German Agency for International Cooperation provides business development support to MSMEs for digital solutions that promote trade and climate-resilient infrastructure.\textsuperscript{168}

4.7.2 Case study 1, Alliance Ginneries: overcoming weak contract enforcement in agricultural and agroprocessing inclusive supply chains

4.7.2.1 Summary

The present case study is focused on contract enforcement challenges in the cotton industry in Zambia. Side-selling to non-contracted aggregator firms has hindered the development of the agroprocessing sector and led to sub-optimal outcomes for farmers and aggregators. Alliance Ginneries, a major player in the industry, has implemented such solutions as shifting to organic cotton, making advanced cash payments to farmers and diversifying into soybeans. These strategies have incentivized farmers to reduce side-selling, addressing the contract enforcement issue and improving outcomes for both smallholder farmers and aggregator firms.

<table>
<thead>
<tr>
<th>Description</th>
<th>In the present case study, solutions to side-selling in the Zambian cotton sector are illustrated.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reason for inclusion of the case study</td>
<td>It contains examples of potential best practices and lessons learned from inclusive value chains, with a specific focus on Southern Africa and the use of innovation. The agricultural and agroprocessing sector is a crucial sector both in Zambia and in Southern Africa as a whole, for both economic development and poverty alleviation.</td>
</tr>
<tr>
<td>Sector</td>
<td>Cotton</td>
</tr>
<tr>
<td>Links to other case studies</td>
<td>Supply chain management: digital information-sharing platforms to unlock value in inclusive supply chains (Zambia)</td>
</tr>
<tr>
<td></td>
<td>Through the present case study, the authors illustrate the importance of digital information-sharing platforms to increase value for both smallholder farmers and aggregators. Such systems can form part of the solution to side-selling by improving transparency, traceability and farmer information – such as information about previous side-selling. These databases could be shared with other aggregators so that they can have information about which farmers have previously engaged in side-selling.</td>
</tr>
<tr>
<td>Stakeholder</td>
<td>Alliance Ginneries is a cotton ginning company based in Zambia. It has sister companies in the United Republic of Tanzania and Zimbabwe. It works with 35,000 farmers, of which around 6,000 are organic certified. The remainder of the farmers are largely certified through the sustainable cotton initiative called “Cotton made in Africa”. Alliance Ginneries’ cotton is largely sold to international buyers – from whom it receives encouragement to produce more organic and sustainable cotton.</td>
</tr>
</tbody>
</table>

\textsuperscript{167} European Investment Bank, “Zambia: thousands of smallholders to benefit from EUR 30 million (635m ZK) agriculture investment initiative launched by Zanaco and Team Europe”, 5 October 2021.

\textsuperscript{168} German Agency for International Cooperation, “Enabling the creation of green infrastructure corridors in the AU”, May 2023.
**Problem statement**

There is a lack of contract enforcement in the Zambian cotton industry, and this is widely recognized as a constraint on the development of the agroprocessing industry. It disincentives aggregator firms from alleviating suppliers’ financing constraints by offering trade credit in the form of inputs and microcredit, as well as investing in the training of farmers.

In one study of 400 Zambian cotton farming households, 84 per cent of respondents admitted to side-selling.\(^\text{169}\) This finding suggests that side-selling has been a major reason for the decline of the cotton sector in Zambia, with ginneries running at 33 per cent capacity in 2015.

Side-selling results in a short-term gain for the farmer in the form of immediate cash and potential avoidance of debt owed to the contracted aggregator. It can increase aggregators’ profitability in the short term – as they can free-ride on other aggregators’ investment in training for farmers, among other things. However, it ultimately results in a sub-optimal outcome for both the farmers and the aggregators. It is a prisoner’s dilemma type of game with both players pursuing their own interests, resulting in the worst outcome for both – low production and poor quality.

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**Narrative of the case study**

The cotton sector in Zambia was once one of the biggest exporters of cotton lint in Southern and East Africa.\(^\text{170}\) Over time, however, markets have become more competitive, and cotton ginning firms have had to increasingly compete for access to smallholder-produced cotton. As ginneries’ agents earn commission on volumes, they have incentives to buy cotton from non-contracted farmers and offer the farmers cash payments, thereby creating the issue of side-selling.

The typical response from ginneries has been to reduce their investment in farmers, who may well sell to other ginneries.\(^\text{171}\) This reduction in critical support for smallholder farmers limits their ability to attain good yields and high quality – which is well below potential.\(^\text{172}\)

Alliance Ginneries has contracts with 35,000 smallholder cotton farmers in Zambia and has been significantly affected by side-selling over the years. Instead of reducing investment in farmers, however, it has adopted different approaches to reduce side-selling. These include shifting to organic farming, which is associated with a premium, and making advanced cash payments to farmers, which increases loyalty.

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**Potential solutions**

Alliance Ginneries has demonstrated the effectiveness of several approaches to dealing with side-selling in Zambia.

The first is to shift to organic cotton, which is linked to a market premium. This shifts the payoff matrix, incentivizing farmers to sell to Alliance Ginneries in the current season so that they can also receive the premium the following season. If the farmers side-sell in the current season, they will not be allowed to sell to Alliance Ginneries the following season. Alliance Ginneries has also made sure that it has aggregation points located close to these farmers – who farm in different areas than conventional farmers. This is important, because the cost of transporting produce to aggregation centres can amount to up to 50 per cent of the value of the actual product.

Another advantage of shifting to organic farming is that it requires the implementation of systems so that the cotton can be traced back to specific, geotagged farms. This means that, even if other firms were to introduce organic certification, it would be more difficult for agents to purchase from non-contracted farmers. It also increases transparency for the farmers, which is valuable, since one of the major reasons farmers cite for side-selling is mistrust of the cotton ginneries.

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\(^{170}\) Ibid.

\(^{171}\) Ibid.

The second initiative is an advance cash payment made to the farmers in the season just before harvest – known as the hungry season. In partnership with the Abdul Latif Jameel Poverty Action Lab, Alliance Ginneries has conducted a randomized control trial, making advanced cash payments in the hungry season to a random sample of its farmers. The payments have resulted in a 61 per cent increase in farmer loyalty to Alliance Ginneries.

The third approach is to purchase soya beans from the farmers in addition to cotton. This means that, when farmers rotate their crops, they do not need to go to another buyer and can stay under contract with Alliance Ginneries.

Lessons learned

**Market premiums can be leveraged to fix market failures.** Without an international market for organic cotton, there would not be a premium to incentivize loyalty. Alliance is able to leverage this increased price to ensure that contracts are adhered to and reduce side-selling.

**Traceability is a major factor in obtaining these premiums.** Organic production requires traceability, which increases transparency and trust for farmers, thereby reducing the risk of free-riding from other ginning firms.

**Understanding farmers’ most critical needs makes it possible to tailor the programme.** This can be seen in the income smoothing approach taken during the hungry season. This basic offering provided for a significant increase in loyalty and the honouring of contracts.

**Proximity to farmers is vital.** Establishing aggregation points close to the organic cotton farmers reduced transportation costs and logistical challenges.

Transferability

Side-selling is a significant issue in other Southern African countries. In Malawi, for example, it was found through a study that 30 per cent of farmers surveyed in the paprika value chain engaged in side-selling. In Zimbabwe, 57 per cent of cotton farmers surveyed admitted to side-selling. The solutions provided in the present case study are particularly useful in such countries with high side-selling rates.

However, it is important to consider the unique characteristics and challenges of each country’s agricultural sector. Local contextual factors, such as regulatory frameworks, market dynamics and infrastructure, should be taken into account when implementing and adapting these solutions.

Comments

The present case study was based on an interview with an aggregator combined with desk research. Smallholder farmers were not interviewed.

4.7.3 Case study 2, Good Nature Agro and Farm Depot: digital information-sharing platforms to unlock value in inclusive supply chains

4.7.3.1 Summary

In the present case study, the authors highlight how digital platforms and information-sharing in the agricultural sectors in Zambia foster inclusive supply chains, addressing challenges faced by smallholder farmers and enhancing their competitiveness and access to finance while benefiting larger enterprises, economic development and poverty alleviation.


In the present case study, the authors examine successful private sector initiatives in Zambia that leverage information-sharing to overcome several barriers faced in inclusive supply chains and to unlock value in the agricultural and agroprocessing sectors.

The present case study contains examples of potential best practices and lessons learned from inclusive value chains, with a specific focus on Southern Africa and the use of innovation. The agricultural and agroprocessing sector is a major sector both in Zambia and in Southern Africa as a whole, for both economic development and poverty alleviation.

<table>
<thead>
<tr>
<th>Description</th>
<th>In the present case study, the authors examine successful private sector initiatives in Zambia that leverage information-sharing to overcome several barriers faced in inclusive supply chains and to unlock value in the agricultural and agroprocessing sectors.</th>
</tr>
</thead>
<tbody>
<tr>
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<td>The present case study contains examples of potential best practices and lessons learned from inclusive value chains, with a specific focus on Southern Africa and the use of innovation. The agricultural and agroprocessing sector is a major sector both in Zambia and in Southern Africa as a whole, for both economic development and poverty alleviation.</td>
</tr>
<tr>
<td>Sectors</td>
<td>Seeds and nuts</td>
</tr>
<tr>
<td>Links to other case studies</td>
<td>Supply chain management: overcoming weak contract enforcement in agriculture and agroprocessing inclusive supply chains (Zambia) Another solution to issues regarding access to finance for smallholder farmers has been implemented by Alliance Ginneries. Rather than giving the farmer a loan, they make advanced cash payments during the hungry season – that is, just before harvest. This is then deducted from the value of the cotton sold to Alliance Ginneries.</td>
</tr>
<tr>
<td>Stakeholders</td>
<td>Good Nature Agro is a Zambian company founded in 2014 that works with 10,000 contracted smallholder farmers to multiply high-quality, locally developed and adapted seed, which is then sold to Zambian farmers. It also aggregates produce from its seed customers, which it sells on to commodity traders. It provides extension services to its farmers, making use of a digital platform containing full farm profiles that have been developed with historical data. Avian Ventures (Farm Depot), founded in 2008, is a Zambian agricultural input retail business supplying small-scale farmers with a range of poultry, animal and cropping inputs. Technical support is delivered to Farm Depot’s 12,000 small-scale farmer customers by its technical officers, using a digital field officer management platform and franchised agricultural extension officers who conduct site visits and offer assurance to potential smallholder farmer financiers, through the data they collect and verify. Farm Depot has partnered with a local microfinance institution, Inde Credit, to provide input financing products to smallholder farmers through in-store credit. The two companies will also be branching out into crop insurance and life insurance soon.</td>
</tr>
<tr>
<td>Problem statement</td>
<td>There are several challenges associated with establishing an inclusive supply chain with smallholder farmers in rural Zambia. Ultimately, these challenges reduce the value that both the smallholder farmers and the off-taker firms can capture. First, given the fragmentation of the supply chains, providing extension services for producing high-yield and high-quality crops is costly. Second, and in relation to this, farmers are unable to gain access to basic information, such as crop prices and weather forecasts, which would enhance their production. Third, the farmers are unable to gain access to credit, owing to a lack of collateral and credit history, which means that they cannot buy inputs during planting season or grow their farming enterprise easily. Fourth, commodity traders are increasingly demanding traceability in supply chains, which has a cost attached. Lastly, if the quality is not graded at source, Good Nature Agro could end up with a “lemons market” situation, in which the price is so low that only poor-quality produce is sold to the off-taker. Furthermore, if the quality is not graded at the site, the off-taker may pay for expensive transport to the aggregation centre only to find that the product is too poor quality to sell.</td>
</tr>
<tr>
<td>Narrative of the case study</td>
<td>The 1.5 million smallholder farmers in Zambia supply 80 per cent of domestic food, with it being common practice for small to medium-sized companies to purchase and aggregate their produce. These farmers are largely dependent on rain-fed agriculture, exposing them heavily to climate...</td>
</tr>
</tbody>
</table>
change and making them the prime candidates for micro crop insurance.\textsuperscript{175} There is significant space for improving farmers’ income, however, through higher yields and better quality. For example, Good Nature Agro has seen average farmer incomes increase from $113 to $777 per hectare (an increase of 588 per cent).

Many of these farmers live in remote areas with poor transport infrastructure, where it can cost half of the value of the crop to transport it to an aggregation centre. The same issue makes it costly for off-takers to provide frequent extension services to the farmers.

More than 40 per cent of Zambians remain without Internet access\textsuperscript{176} — a situation that is driven both by poor (although improving) telecommunications infrastructure and by the lack of access to devices that connect to the Internet. Compounding these issues is the fact that smallholder farmers are not able to gain access to financing from conventional sources. In one study covering six districts in Zambia, it was found that 85 per cent of smallholder farmers did not have access to credit.\textsuperscript{177}

In this context, Zambian off-taker firms are innovating to lower the costs of supply chain management and increase value for smallholder farmers and for themselves. Good Nature Agro, for example, has developed a digital platform that connects the system of farmers, seed producers, agroprocessing operations and research and development units. This means that valuable information can be shared among all parties, in both directions.

Good Nature Agro uses the system to share information with extension officers and lead farmers who have frequent contact with farmers. Through frequent physical visits, the company has been able to develop full farm profiles for each of its suppliers. This makes it possible to provide cost-effective, tailored support to individual farmers and efficiently track farmer performance, grant credit to farmers for the purpose of purchasing inputs, and provide inputs to farmers that need to be repaid.

\begin{center}
\textbf{Potential solutions}
\end{center}

Through the digital platform that it has developed, Good Nature Agro provides solutions to the problems of costly extension services, a lack of information for farmers and traceability demanded by customers. Farm Depot’s platform performs similarly but has an additional aspect, in that it now uses customer and smallholder farmer data to create credit profiles for Farm Depot’s smallholder farmers and help them to gain access to finance.

Through both companies’ platforms, information is made accessible to extension officers and lead farmers who have access to smartphones, thereby reducing the physical barriers and associated costs of information. Good Nature Agro plans to add an Unstructured Supplementary Service Data component that will be accessible to farmers without smartphones. Similarly, Farm Depot’s platform is designed for use with an intermittent Internet connection. Another Zambian company believes that it can reduce its cost of delivering extension services from $11 to $6 per farmer by upskilling cooperatives, starting with the use of technology.

In addition to this, Good Nature Agro has a system in place whereby extension officers are trained to train lead farmers, who are elected by farmer groups. The lead farmers earn 2 per cent of the revenue generated by the farmer group, thus creating a low-cost incentive for them to ensure that their farmers are implementing best practices. This system leverages existing social capital in tight-knit communities.

Good Nature Agro has recently added a system that uses quick response (QR) codes to cost-effectively trace produce to its source, solving the traceability issue.

To solve the “market for lemons” problem of quality, Good Nature Agro has grading equipment at buying points that are located close to farmers. This means that produce of a quality that is too

\footnotesize
\begin{itemize}
  \item \textsuperscript{175} World Food Programme, \textit{Zambia Annual Country Report 2020}, available at \url{https://docs.wfp.org/api/documents/WFP-0000125456/download/}.
  \item \textsuperscript{176} Buumba Chimbulu, “Report shows Zambia’s active internet users now 11.1 million, representing 6.73% growth in 2022”, Zambia Monitor, 14 March 2023.
  \item \textsuperscript{177} Mwasa Siwale, “Factors affecting access to finance by smallholder farmers in Zambia”, Master’s degree dissertation, University of Cape Town, 2018.
\end{itemize}
low can be rejected and the rest appropriately compensated for. This information adds further detail to the farm databases Good Nature Agro has built.

To solve the problem of smallholder farmers’ lack of access to financing and their non-existent credit records, Farm Depot, in partnership with Inde Credit, demonstrates how such digital platforms with extensive data on smallholder farmers can be used to secure financing for their farmers and, in so doing, develop a credit score and other know your customer information for the smallholder farmers. This ultimately benefits the off-takers, input suppliers and financial services providers, but also the smallholder farmers. As a starting point, proof of provision of technical services to the smallholder farmers serves as a de-risking mechanism to secure the interest of the microfinance institution, and in the present case study it has been shown how pivotal this element is in the likelihood of the loan request being approved. Furthermore, the critical factor is access to the customers’ historical data through the platform, which enables the microfinance institution to run sufficient credit checks and price the loan appropriately and responsibly.

### Lessons learned

Several critical success factors and lessons can be derived from the present case study. First, the leveraging of digital platforms for information-sharing and collaboration is instrumental in overcoming barriers faced by both smallholder farmers and larger off-taker firms in developing cost-competitive, inclusive supply chains. It enables the efficient dissemination of market information, extension services and financial services to smallholder farmers. This reduces costs and increases quality and volumes for off-taker firms.

Second, the use of existing social capital, such as lead farmers and farmer groups, can be leveraged to incentivize the adoption of best practices and ensure effective knowledge transfer. Incentivizing lead farmers through revenue-sharing mechanisms creates a low-cost incentive structure to promote adoption and support smallholder farmers, and it further builds social capital, thereby contributing to community cohesiveness and resilience.

In order for similar interventions to be successful, it is critical that the digital platforms are farmer-centric, meeting the farmers where they are in terms of access to the Internet, technology, literacy and resources. The technical assistance provided needs to be high quality and suitable to low-resource smallholder farmers, and, in the case of Farm Depot, its franchise model cannot have perverse incentives for its extension service agents. There is also a requirement of knowing what risks the financiers need to have mitigated. This aspect is especially important, as it de-risks the provision of microcredit to farmers for the purchase of inputs and equipment that will increase yield and allow for the growth of the smallholder farmers’ farming enterprises.

Lastly, an important lesson learned from the present case study is captured in the following quote from the chief technology officer and customer data manager of Farm Depot: “I am still so surprised at the lack of interest the institutional banks and other large financial service providers have in the KYC and the information I have on over 105,000 smallholder farmers in Zambia.” It seems that this consumer data and the unified customer records that Farm Depot has created and is creating are not yet valued by the market, and this indicates that the market is not assigning much value to information about this demographic.

### Transferability

The solutions and lessons learned from the present case study have significant potential for transferability to other countries in Southern Africa. It is estimated that 60 per cent of the population in sub-Saharan Africa are smallholder farmers. These farmers face many of the same issues faced in Zambia – poor yields owing to a lack of access to information, quality inputs and credit to buy inputs – and would benefit from improved information-sharing through digital platforms and from having a credit history to enable them to access credit.

However, contextual factors such as infrastructure, the degree of farmer organization, market dynamics and regulatory frameworks need to be taken into account for successful replication. For example, the extent of access to the Internet varies across countries, as does the degree to which farmers are organized into groups with lead farmers and cooperative boards that they can trust.
Such an initiative would be less effective in South Africa, for example, where smallholder farmers own only 13 per cent of the land, and where farmers often have title deeds for larger parcels of land – meaning that they are already able to gain access to finance.

**Comments**

The technological innovations discussed in the present case study are relatively new and are still in the process of being refined. At this stage, the impact of the specific interventions regarding value created for smallholder farmers and costs saved for off-taker firms has not been quantified.

### 4.7.4 Case study 3, ENTERPRISE Zambia Challenge Fund: providing access to financing for catalytic initiatives that integrate MSMEs into value chains and improve their market access

#### 4.7.4.1 Summary

In the present case study, the authors discuss how the ENTERPRISE Zambia Challenge Fund has provided access to financing for catalytic initiatives that integrate MSMEs into value chains and improve their market access. The Fund is an innovative matched- grants financing instrument that has de-risked investment for private sector initiatives, accelerated the uptake of climate-smart practices and prioritized the inclusion of smallholder farmers and, in particular, of producers who are women and young people. In the present case study, the authors highlight the importance of understanding the absorptive capacities of target sectors, ensuring that programme implementation is flexible and pragmatic, and of providing technical assistance and business development services to grantee firms in order to reduce the risk of failure. The ENTERPRISE Zambia Challenge Fund catalyses innovation by funding high-risk, highly innovative projects for MSMEs in agricultural value chains in Zambia through non-refundable grants and matched funding. The insights drawn from the Fund are applicable to any initiatives aimed at increasing value chain participation or upgrading technologies or practices upstream or downstream in supply chains. Specifically, its later calls for applications and conditions are useful for learning how to stimulate the generation of innovative project concepts among MSMEs and then fund them with a non-refundable grant that is equal to 50 per cent of the total project cost.

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
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<tbody>
<tr>
<td>In the present case study, the authors discuss the implementation of the support programme of the ENTERPRISE Zambia Challenge Fund – a matched-grants financing instrument funded by the European Union. The support programme is aimed at supporting MSMEs and the value chains into which they integrate in Zambia. The authors also consider the lessons that can be drawn from the experience of the Fund.</td>
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**Reason for inclusion of the case study**

The insights drawn from the present case study can be applicable to any initiatives – whether carried out through large-scale programmatic mechanisms or firm-level projects – aimed at increasing value chain participation or upgrading technologies or practices upstream or downstream in supply chains.

<table>
<thead>
<tr>
<th><strong>Sector</strong></th>
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<tr>
<td>Agroprocessing, aquaculture and the green economy</td>
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</table>

**Links to other case studies**

**Integration of MSMEs into the export value chain (Mozambique)**

The present case study is linked with other case studies in which MSMEs are being developed and their capacity increased, either by lead firms or by donor-funded development programmes. These contain important lessons regarding programme design.

<table>
<thead>
<tr>
<th><strong>Stakeholder</strong></th>
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<tr>
<td>ENTERPRISE Zambia Challenge Fund is an agribusiness support initiative through which €25.9 million will be invested in the agribusiness and aquaculture sector over a five-year period (2020–2024). The project is part of the European Union</td>
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programme of support for the sustainable commercialization of Zambian smallholder farmers. It is implemented by Gorta-Self Help Africa and Imani Development Limited.

MSMEs, including input suppliers, aggregators, processors, traders, exporters and primary and secondary producers, are also among the stakeholders in the present case study.

**Problem statement**

Gaining access to suitable financial products is challenging for MSMEs, and pioneering initiatives rarely receive the support they require, owing to the fact that they are perceived as high risk – even though many show great promise in catalysing the necessary technological upgrading and increased competitiveness required for firms and upstream actors to adequately participate in value chains and gain access to and compete in export markets.

**Narrative of the case study**

The ENTERPRISE Zambia Challenge Fund utilizes a competitive application process, executed through time-bound funding windows, to award medium-sized and large-sized lead firms with grants of up to €1 million, which can be used to secure additional financing from traditional sources or complement the firms’ own capital investments into these initiatives. Eligible initiatives must show commercial viability, be conceptualized and implemented by private sector firms and significantly improve market access and market compliance for MSMEs. Applicant firms could be either MSMEs or large enterprises working closely with MSMEs as clients, suppliers or service providers.

During the first funding window, the Fund received a fair amount of interest from applicants, but, while their concepts seemed enticing, the quality of their applications was not as strong, and some fell short of appropriately describing the initiative, its innovative nature, how they would create, sustain and measure its impact, and how the grants would be applied. This necessitated the delivery of capacity-building and training workshops to potential applicant firms across Zambia, both raising their awareness of the Fund’s objectives and eligibility requirements and teaching them simple yet fundamental elements of project design. This resulted in the number of successful firm applications doubling (from 5 in the first call to 10 in the second) and a 58 per cent increase in the value of grants disbursed. Subsequent calls were amended to ease eligibility criteria, making them more amenable to smaller firms, and have also resulted in higher success rates, with 89 per cent of proposals assessed in the fourth call being successful in their application.

A deep appreciation and technical understanding of the target sectors’ market behaviour was important. For example, €6 million of the total value of the Fund was initially earmarked for the aquaculture sector. In Zambia, however, most aquaculture firms are microenterprises or small enterprises, with only a single-digit number of large and well-established aquaculture firms eligible for financing under the ENTERPRISE Zambia Challenge Fund. This necessitated a facilitated and consultative approach, with the Fund’s portfolio managers collaboratively formulating projects with the few eligible firms available. The sector’s absorptive capacity was very quickly reached, as evidenced through consultations with sector stakeholders and close monitoring of firms’ interest, leaving approximately half of the originally intended grant value for aquaculture undisbursed. In consultation with the contracting authority, a decision was made to reallocate the remaining financing to other sectors. Without an appreciation for practical and pragmatic realities within the sector, and ongoing consultations with stakeholders (including the contracting authority), these funds would have remained inaccessible and unutilized.

During implementation, the Fund’s portfolio managers were tasked with monitoring performance and providing advisory support to grantee firms to help mitigate internal and external risks that could derail project delivery. A proportion of the overall value of the Fund was earmarked to provide technical assistance and business development services to grantee firms (either in cohorts or individually) to mitigate risks that were within the control or influence of the firms or the Fund. The risks and concerns
reported by grantee firms and the portfolio managers converged around a number of shared themes, which included, among other things, operational challenges (e.g., challenges in recruiting and contracting smallholders, partially addressed through advisory support in formulating and implementing recruitment plans or contracting arrangements), reporting and project management issues (e.g., non-conformity to performance reporting standards, addressed by the provision of training on financial management and reporting), regulatory or policy-related inhibitors (e.g., the lack of practical information among aquaculture exporters on the necessary licensing to export goods to neighbouring markets, addressed by developing a practical guidebook outlining the regulatory regimes governing exports and market access requirements, both bilaterally and under the SADC Protocol on Trade, and, similarly, government export bans, which were somewhat mitigated through advocacy), and market or environmental externalities (e.g., adverse weather effects on planting seasons, mitigated through the provision of advice on crop insurance and similar risk management services, and exchange rate fluctuations, partially mitigated through capacity-building with regard to financial planning).

Lastly, an emerging insight that is worth noting is the correlation between the size of targeted enterprises and their willingness to participate and comply with the Fund’s requirements. Large-sized lead firms are often perceived as ideal implementation partners for initiatives focused on integrating MSMEs into value chains by virtue of their scale, managerial capacity and experience, existing market access and opportunity for technology transfer. However, large-sized grantee firms have at times been more challenging to work with, as they have not perceived the grant value to be significant enough to justify the compliance and reporting requirements. In their view, traditional financing is as readily available to them as financing provided by the Fund. Conversely, while medium-sized firms have shown more challenges in complying with basic requirements (such as the availability and reliability of company documentation, project management capacity and aptitude in project design), they have been significantly more proactive in working with the Fund and portfolio managers to formulate, deliver and monitor their initiatives.

To date, and with two years of implementation to go, the ENTERPRISE Zambia Challenge Fund is on target to reach its objectives. The Fund has mobilized €25 million of its €26 million budget, is supporting 28 firms, has reached 99,974 microenterprises and small-sized producers (of the 150,000 target) and has created 1,439 full-time jobs (of the 8,500 target).\footnote{ENTERPRISE Zambia Challenge Fund, “The Challenge Fund: our progress”, available at \url{https://enterprisezambia.org/project-progress-2/}.}

Solutions

A combination of actions contributed to successfully addressing major risks and challenges that were within the sphere of influence of the Fund and the grantee firms. Most critically, close monitoring of the outcomes of all project activities against intended objectives allowed for either the rapid realignment of the activities themselves or the amendment of the intended objectives. Complementarily, providing targeted technical assistance to mitigate risks, or empowering firms to navigate externalities, significantly increased the likelihood of success for their projects.

The ENTERPRISE Zambia Challenge Fund’s blended finance approach and specific innovation calls have helped to catalyse and fund innovation in its portfolio companies, such as Farm Depot and Good Nature Agro. Furthermore, the Fund has extended funding to Nash Import and Export Ltd (trading as Yatu Foods) in support of an out-grower scheme that is aimed at integrating smallholder farmers into its supply chains.\footnote{ENTERPRISE Zambia Challenge Fund, “Company profile: Nash Import and Export Ltd trading as Yatu Foods”, available at \url{https://enterprisezambia.org/project-portfolio-call-4/yatu-foods/}. With support from the Fund, Yatu aims to create employment opportunities for 1,000 smallholder farmers – with a particular focus on women (60
per cent) – and to add further value to beneficiaries through the provision of extension services, better quality seeds and climate smart technologies, such as solar pumps for irrigation. Another notable example is the collaboration between the ENTERPRISE Zambia Challenge Fund and Community Markets for Conservation Limited in a project supporting smallholder farmers in the Itezhi-Tezhi and Mumbwa districts to sustainably produce area-specific crops that can be processed and marketed under the “It’s Wild!” brand. Part of this initiative involves assisting farmers in converting reduced carbon dioxide emissions into carbon credits, with the proceeds shared among the beneficiaries and the broader community. With the backing of the Fund, Community Markets for Conservation Limited aims to broaden the project’s reach by incorporating an additional 8,800 farmers and establishing an agroprocessing facility in the Mumbwa district – an expansion that will contribute to further improving livelihoods while concurrently promoting conservation and sustainable practices.

### Lessons learned

**Objectivity and flexibility.** The experience with the Fund has demonstrated that clearly defining objectives and discerning where flexibility can be beneficial significantly contribute to achieving the goals. Pre-established plans need agility to be adjusted in response to evolving conditions or unexpected events.

**Importance of monitoring and rapid decision-making.** Constant monitoring of actions in relation to the intended objectives allows for swift adjustments and course corrections when things do not proceed as planned. It is crucial to stay vigilant to emerging trends, challenges or changes in context and to have the mechanisms in place for quick, informed decision-making.

**Understanding of target markets.** In the present case, the critical need for a profound understanding of the target markets or sectors is underscored. Aligning actions and objectives with the grass-roots realities and market dynamics is crucial. Efforts should be directed towards learning about the sector’s absorptive capacity, the number and nature of eligible firms and the potential challenges that might be faced.

**Behavioural characteristics of partners and stakeholders.** A valuable lesson learned is that recognizing the behavioural characteristics of partners and stakeholders can significantly help to address challenges and mitigate risks. Different sizes and types of firms bring various strengths and potential hurdles to the table. For instance, while large firms offer scale and market access, they may also find compliance with certain requirements challenging, owing to their size.

**Technical assistance and business development services.** Offering technical assistance and business development services to grantee firms aids in mitigating risks within the control or influence of the firms or the Fund. These services, whether delivered individually or in cohorts, can address operational challenges, regulatory issues or external market or environmental factors that may affect the firm’s ability to deliver on the goals of the project.

### Transferability

The challenges, lessons and main principles are transferable to any geographic location, market or sector, as they are fundamentally rooted in carrying out thorough preparation, understanding and navigating critical risks by targeting actions at root causes and managing expectations.

### Comments

Outcomes resulting from the ENTERPRISE Zambia Challenge Fund intervention will be realized only after the life cycle of the project has been completed. Also,
limitations with regard to data-sharing and confidentiality clauses pose challenges in providing detailed specifics on firms, beneficiaries and values.

4.7.5 Case study 4, Proudly Zambian Campaign: quality upgrading and signalling to counter the foreign brand bias

4.7.5.1 Summary

The Proudly Zambian Campaign is an initiative launched in 2018, aimed at improving the quality and perception of locally produced goods and services, while also boosting domestic and subregional demand for Zambian brands. The campaign involves a partnership between the Government of Zambia, the Zambia Association of Manufacturers, the Zambia Bureau of Standards and other important stakeholders. Companies seeking certification through the Proudly Zambian Campaign undergo a stringent vetting process, ensuring compliance with quality standards, good labour practices and environmental regulations. As of June 2023, 80 companies had been certified, contributing to the change in perception and increased market opportunities both locally and internationally. While the Campaign has gained political support and has shown positive anecdotal evidence, further evaluation is needed to assess its overall impact on demand for local brands.

Description

In the present case study, the authors consider the role of the Government. The Bureau of Standards and private sector organizations are working together to: (a) promote higher quality production of goods and services, in particular among MSMEs; and (b) build local and subregional demand by building confidence among consumers through “Proudly Zambian” certification.

Reason for inclusion of the case study

Through the present case study, the authors provide an example of a multi-stakeholder programme, including strong public-private sector partnership, to overcome major challenges faced by domestic producers, and by MSMEs in particular, with a view to increasing domestic demand for home brands and the utilization of subregional trade agreements.

Sector

All goods and services

Links to other case studies

Wesgro Cape Trade Portal and the Standard Bank Trade Club: linkages and trust in export and domestic markets (South Africa)

The Proudly Zambian Campaign is similar to the “Made in the Cape” campaign run by Wesgro. In both cases, there is an attempt to overcome the issue of trust in locally produced goods by positioning them as high quality and verifying them with a logo.

Stakeholders

Ministry of Commerce, Trade and Industry
Zambia Association of Manufacturers
Zambia Bureau of Standards
Zambia Metrology Agency
Zambia Environmental Management Agency
Competition and Consumer Protection Commission
Zambia Development Agency
Business Regulatory Review Agency
KAIZEN Institute of Zambia
Quality, and the perception of quality, is a major constraint to domestic and regional sales, and the lack of demand for home brands has contributed to the dwindling success of local industry on the continent.\textsuperscript{182} African consumers generally prefer brands from other continents, which has resulted in manufacturers often “hiding” the local origin of their products.\textsuperscript{183} Through a recent consumer survey in Zambia, it was confirmed that only 20 per cent of consumers preferred buying local – a figure very similar to that for South Africa.\textsuperscript{184}

The proudly Zambian Campaign was initiated by the Department of Domestic Trade of the Ministry of Commerce, Trade and Industry and was officially launched in 2018, with the Zambia Association of Manufacturers as an implementer. It has a strong policy underpinning, being recognized in the trade policy, the national export strategy and the national local content strategy of 2018 and the national standards strategy of 2020.

Applicants for membership in the Proudly Zambian Campaign go through a vetting process. Requirements for approval to be granted by the vetting committee include the relevant standards certificate issued by the Zambia Bureau of Standards, a certificate of incorporation issued by the Patents and Companies Registration Agency and a tax clearance certificate issued by the Zambia Revenue Authority. Companies producing Proudly Zambian products are inspected to ensure that they adhere to good labour practices, and they must also comply with the Zambia Environmental Management Agency regulations to ensure that their production processes do not degrade the environment.

Crucially, the Proudly Zambian Campaign also aids prospective members who may face challenges in meeting the above requirements.

In order to be “Proudly Zambian”, the value added content must be 35 per cent made in Zambia.

The programme brings together a wide range of important stakeholders. A memorandum of understanding is in place between the Malawi Investment and Trade Centre and the Zambia Association of Manufacturers, and between the Zambia Association of Manufacturers and the Zambia Bureau of Standards. The programme also extends to other organizations, however, including the Zambia Development Agency. There are focal points in the various institutions that participate in the programme.

As of June 2023, 80 companies had received Proudly Zambian certification. The certification process can be slow, as an estimated 70 per cent of MSME applicants are not immediately eligible and thus need to upgrade production processes, among other things, to comply with the required standards. Despite the process being challenging, the number of applications is increasing, currently exceeding the targets set for the programme.

Through the certification process, gaps in the applicants’ quality standards and business practices are identified. This in itself is very valuable, providing a route for the company to qualify under inspection. Training can also be provided by the Zambia Bureau of Standards, at a subsidized rate, to enable the applicants to meet

\begin{itemize}
  \item \textsuperscript{182} Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa (United Nations publication, 2014).
\end{itemize}
the required standards. Once certified, further training from the Zambia Bureau of Standards is available to the companies.

An important component of the Proudly Zambian Campaign is networking and linkages. As the network of members grows stronger and wider, peer learning grows, as does the scope for more local sourcing. Linkages to buyers are a central pillar of the Campaign and seem to be a crucial draw for applicants. The programme has been focused domestically on linkages with mining firms, government departments and subregional retail chains – whereby a relatively strong relationship has been established with supermarkets, including Shoprite and Food Lover’s Market. Internationally, the focus has been on participation at trade fairs and exhibitions.

Quality signalling has also been mentioned as an important benefit of the programme. The Queen of Chitenge clothing brand noted that the quality promise that came with being “Proudly Zambian” certified also played a role in its entry into the market for clothing in the mining sector in Zambia. In addition, during consultations MSMEs indicated that they had used the certification as a pitching point for their businesses.

A further crucial pillar of the programme is raising the profile of the “Proudly Zambian” logo and the Campaign more broadly, and what it means in terms of both ensuring quality for the consumer and having an impact on the development of the economy as a whole. The profile of the Campaign has been raised through traditional and social media, trade fairs and exhibitions.

Political support has also been significant. In his state of the nation address of February 2021, President Lungu noted that more local products were being sold in shops, and he viewed this as an indication that the Proudly Zambian Campaign had taken root.

While there has been no formal evaluation of the Campaign to date, “success stories” offer anecdotal evidence. Sales of the Queen of Chitenge products have greatly benefited from the visibility offered by the programme, both in Zambia and internationally. Other successes cited included Tranzam Enterprises, an agroprocessing MSME whose products are now stocked on the shelves of subregional supermarkets in Zambia and are also being exported, and Brand260, which is now exporting soy products to the United States.

Stakeholders acknowledged the challenge of obtaining high-quality, locally made inputs – in particular for the food processing industry.

| Potential solution | The political interest and policy framework supporting the Proudly Zambian Campaign made coordination across multiple support institutions and actors relatively effective. Establishing memorandums of understanding among the main institutions also enhanced cooperation.

The importance of collaboration with the private sector, and the act of placing a private sector organization at the centre of delivery, has served to build the credibility of the Campaign among companies themselves.

There is only limited evidence from which to determine the impact of the Proudly Zambian Campaign and the extent to which it has solved the problem of a lack of demand for local brands, and more needs to be done in terms of evaluation. However, there is evidence that the building of a quality national brand, together with sustained customer engagement, can expand not only domestic markets but also export markets.

Further consideration also needs to be given to understanding whether the branding does effectively signal quality to domestic and foreign buyers and whether the logo has value in and of itself. |

| Lessons learned | Integrated and comprehensive solution. An important factor for achieving progress is the fact that the Campaign offers an integrated and comprehensive range of services through which it provides a relatively complete solution to the problem |
of limited consumer demand for locally made products and services – in domestic and export markets – and the related issue of quality. Applicants are not simply assessed for certification and given a “pass” or “fail” mark. Rather, through the inspection process the unsuccessful applicants are provided with a road map to quality, and through the relationship with the Zambia Bureau of Standards the applicants gain access to targeted training, which will enable them to become certified. At the same time, the Campaign provides members with links to important potential customers (business-to-business) and raises their profiles with domestic and foreign consumers.

**Coordinated network with well-defined roles and some accountability to the beneficiaries.** The Campaign is delivered by a network of institutions that have relatively well-defined roles – which in the case of the main partnerships are guided by memorandums of understanding (signed by the Malawi Investment and Trade Centre, the Zambia Association of Manufacturers and the Zambia Bureau of Standards). The Campaign is driven by the Zambia Association of Manufacturers – an organization that represents the beneficiaries and is accountable to its members, as opposed to a government institution, but has strong capacity and a trained team.

**The leveraging of political support.** Crucially, the Proudly Zambian Campaign’s strong political backing from the very top and its supportive policy framework enable its secretariat to obtain results from other institutions, using a network of focal points. The importance of this backing should be emphasized, as without it the multi-agency and stakeholder structure of the Campaign would likely have resulted in significant delays and poor delivery.

**Challenging issue that needs to be rooted in the private sector to have credibility.** There is positive anecdotal evidence indicating that progress is being made. It is suggested in the literature that “buy local” campaigns can have a positive impact on domestic sales, including in Africa. In a comparative study of campaigns targeting clothing and textiles in Ghana and in South Africa, it was found that 80 per cent of respondents in Ghana had been positively influenced in the decision to buy clothes.

The manner of execution is important, however. For example, the campaign in Ghana was considered to be more successful because it was carried out through networks and word of mouth, whereas the Proudly South African campaign was more formal.

In the case of Zambia, there is clearly more to be done in terms of raising the profile of the Campaign, with only 50 per cent of respondents to a survey conducted in Lusaka recognizing the brand. The use of multiple logos for the campaign has also been highlighted as a factor that has potentially inhibited greater brand recognition.

**Value chain approach going forward.** Lastly, to address the challenge of the availability of high-quality, locally made inputs, the Proudly Zambian Campaign will use a value chain lens to identify an appropriate response to ensure that local content requirements can be met for priority products and services.

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**Transferability**

The strategy used by the Proudly Zambian Campaign is transferable to all the countries targeted in the present study, as demand for local products is a persistent issue. However, it should be noted that such a campaign requires dedicated government resources and the time and effort of multiple government departments

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working together to operate effectively. In cases in which these are not available, this solution will not be transferable.

**Comments**

The Proudly Zambian Campaign is currently in the process of expanding. The stakeholders are hopeful that it will soon include more products and services and will therefore have a bigger impact in the market.

### 4.8 Cross-cutting issues not captured in the case studies

In the course of the field visits, three issues arose that could not be appropriately captured with a specific case study but that are potentially very important for unlocking the role of technology as a driver for MSME integration into value chains and their access to markets: (a) the value of digital information; (b) training with a view to the adoption of technology by MSMEs; and (c) the role of the macroeconomic environment in reducing opportunities for MSMEs to integrate into value chains.

#### 4.8.1 The value of digital information to financial services providers

The Accelerated Growth for Micro, Small and Medium-Sized Enterprises in Zambia Programme and Sunseed Oil Limited in Malawi noted that financial services providers seemed to have less than expected interest in “big data” that could help to establish credit scores for small producers. It is important to note that this information is purely anecdotal and that an assessment of the situation is beyond the scope of the present report. However, there is reason to believe that digital and consumer data may not be as valuable in Africa compared with in other parts of the world, for several reasons. First, the level of Internet connectivity and digital infrastructure in many African countries is still developing. Limited access to the Internet and low smartphone penetration rates hinder the collection and utilization of digital data. This lack of connectivity restricts the volume and variety of data that can be generated, limiting their potential value for businesses and advertisers.

Second, many African countries have a large informal sector, and a significant portion of the population still engages in cash-based transactions. This reliance on cash limits the amount of digital data available on consumer spending habits and preferences. Without robust data on consumer behaviour, companies face challenges in targeting their marketing efforts effectively and extracting value from consumer data.

In addition, privacy concerns and regulatory frameworks play a role in limiting the value of digital and consumer data in Africa. Data protection regulations are still evolving in many African countries, and there is a lack of trust among consumers regarding the use of their personal information. This scepticism might hamper the willingness of individuals to share their data, thereby reducing the quantity and quality of data available for analysis and monetization.

Furthermore, the dominance of foreign technology companies in the African digital landscape contributes to the limited value of African data. These companies often collect data from African users and monetize them outside the continent, thereby minimizing the direct economic benefits for local African businesses. The lack of African-owned firms with the capacity to leverage and monetize data further limits the value creation potential of consumer data within Africa.

Addressing these challenges, including by improving digital infrastructure, fostering trust and privacy protection and nurturing the local capacity for data utilization, is crucial for unlocking the full potential of data-driven economies in Africa.
In specific sectors, the situation may also be related to a lack of competition. In the financial services sector, for example, while banks can make high returns from the government bond market, the incentive to innovate and push further down the pyramid is limited.

4.8.2 Adoption of technology by MSMEs

The adoption of technology was highlighted as a particular challenge for MSMEs in Mozambique by both the Institute for the Promotion of Small and Medium-Sized Enterprises and the Mozambique Chamber of Commerce. Challenges there ranged from the availability of Internet connectivity to the capacity to meet labelling requirements and adopt bar codes.

Exporting in the African context can pose various technological challenges for MSMEs. The major ones include the following:

- **Limited access to information and communications technology infrastructure.** MSMEs in certain regions of Africa may face inadequate access to reliable Internet connectivity and basic ICT infrastructure. This hampers their ability to engage in e-commerce, communicate with international partners and gain access to online marketplaces.

- **Digital skills and awareness gap.** MSMEs often lack the necessary digital skills and awareness to leverage technology effectively for the purpose of exporting. Limited knowledge of e-commerce platforms, digital marketing strategies and online payment systems can hinder their ability to compete in international markets.

- **Financial constraints.** Investing in technology infrastructure and digital tools can be a financial burden for MSMEs, especially those with limited resources. The cost of acquiring and maintaining hardware, software and necessary licences may strain their budgets, making it challenging to adopt advanced technological solutions.

- **Cross-border logistics and supply chain management.** MSMEs involved in exporting face complexities in managing cross-border logistics and supply chain operations. Inefficient tracking systems, inadequate customs processes and the lack of integrated digital platforms for managing shipments can result in delays, increased costs and reduced customer satisfaction.

- **E-commerce security and trust.** Cybersecurity concerns are significant for MSMEs engaged in online exports. The risk of data breaches, fraudulent activities and online scams can undermine trust in e-commerce transactions, both domestically and internationally. MSMEs need to invest in robust cybersecurity measures to protect sensitive information and ensure secure online transactions.

- **Limited market access and digital marketing.** MSMEs often struggle to reach international customers, owing to limited access to global online marketplaces and effective digital marketing strategies. Understanding and navigating international marketplaces, optimizing websites for search engines and targeting the right customer segments pose challenges for MSMEs in expanding their export reach.

- **Regulatory and legal frameworks.** MSMEs exporting across borders must comply with various regulatory requirements and legal frameworks, both domestically and in the target markets. Understanding and adhering to complex customs regulations, trade agreements and laws on intellectual property rights and data protection can be daunting for MSMEs with limited legal expertise and resources.

Addressing these technological challenges requires a multifaceted approach involving public and private sector collaboration. It includes improving ICT infrastructure, providing digital skills training and capacity-building programmes, facilitating access to finance for technology investments,
promoting cybersecurity awareness, streamlining customs processes and supporting MSMEs with market access initiatives and digital marketing support.

### 4.8.3 Role of the macroeconomic environment in reducing opportunities for MSMEs to integrate into value chains

The macroeconomic environment in Malawi provides a suitable example for illustrating the role of the macroeconomic environment in the integration of MSMEs into value chains. Despite the 25 per cent devaluation of the Malawi kwacha against the United States dollar in 2022, official reserves continue to remain alarmingly low – even lower than the 0.5 months of import cover recorded at the end of 2022.

This stark deficiency in foreign currency is mirrored in the scarcity of imported goods\(^{188}\) and has had a considerable negative impact on the accessibility of essential inputs for the companies that were surveyed, with packaging materials being particularly affected. For instance, Naturals, an MSME, finds importing packaging not only costly but, more critically, exceedingly challenging owing to the shortage of foreign exchange required to facilitate imports. The firm is compelled to rely on imports, as the quality of packaging materials available locally does not meet its standards.

In the longer term, it is plausible that the persistent and severe shortages in foreign exchange may lead companies to contemplate more extensive vertical integration, in particular in the realm of packaging. Thus, while larger processors have escalated the outsourcing of certain services, especially transportation (as evidenced by Sunseed Oil Limited, which employs between 200 and 300 transporters), growing apprehensions regarding the availability of crucial inputs may, in the longer run, curtail opportunities for MSMEs to integrate into value chains.

Another macroeconomic concern frequently raised during the interviews was the issue of market dominance.\(^{189}\) Macroeconomic instability is likely exacerbating the concentration of market power, as access to both finance and foreign exchange becomes increasingly constricted.

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5. Discussion and initial recommendations

5.1 Introduction

The case studies contain a significant amount of information on the constraints and challenges facing MSMEs aiming to integrate into value chains in the six targeted countries, as well as some important potential solutions that can be used to overcome these constraints and challenges. In the current section, the authors consider these constraints and challenges and, critically, some of the solutions to them, tying them back to the case studies in which they were identified and discussing what they mean for MSMEs wishing to integrate into value chains. In particular, the authors will consider some of the innovative solutions that were uncovered during the field visits, which could provide the basis for recommendations that would support the development of MSMEs and boost their ability to export, either on their own or through integration into value chains.

The present section then ends with a conclusion in which the authors set out their initial recommendations. These are based on the literature, key informant interviews and, most importantly, the experiences of MSMEs, MSME solutions providers and lead firms interviewed during the field visits.

5.2 Nature of constraints

Through their fieldwork, the authors gained insights into how constraints operated at both the MSME level and at the wider market level. Broadly speaking, constraints can be divided into two groups – those that are internal to the firm and those that are external and prevalent throughout the market. The first group are characterized by the MSME’s ability to control these factors. This includes such constraints as the MSME’s knowledge base, its networking capacity and its general capability to perform main functions (i.e. business skills). By contrast, constraints that impact the functioning of the market are those over which individual MSMEs have no independent control. Some examples of these types of constraints that were found during the fieldwork include the issue of low trust and poor contract enforcement in the market, diseconomies of scale and information asymmetry.

5.2.1 Insights from the case studies regarding constraints internal to the firm

The first internal constraint that came up repeatedly in the case studies was a lack of basic knowledge and information on many issues, including a lack of technical and business knowledge, financial and digital literacy and market information. This was highlighted both by MSMEs that were interviewed and by lead firms and solutions providers that deal with MSMEs regularly. For example, in the case study regarding the integration of MSMEs into the export value chain, both Mozal and the World Bank identified that simple business skills were lacking in the MSMEs that they worked with. Similarly, stakeholders who delivered digital platforms, such as Good Nature Agro, had to contend with low digital literacy that restricted where, how and how fast these platforms could be rolled out. Lack of knowledge with regard to foreign markets (including customs procedures, such market requirements as standards and market information) was highlighted in such case studies as the one featuring Kombeza Foods Limited in Malawi and by the various firms in the Namibia case study. Difficulty in meeting standards, both foreign (Namibia) and domestic (the Proudly Zambia Campaign), appeared regularly as a constraint across the case studies.

The authors also identified in multiple case studies the issues that MSMEs faced in networking and building relationships with importers, and even with local large firms. This was considered to be a major constraint by Wesgro and also by the Proudly Zambian Campaign.
Lastly, the issues of productive capacity and economies of scale were noted as major constraints for MSMEs in several of the targeted countries. This was especially true in the case studies involving smallholder farmers (the Mauritius Sugar Syndicate, Good Nature Agro and Farm Depot), who face significant problems with this issue on account of their small volumes and lack of market power.

5.2.2 Insights from the case studies regarding constraints on the functioning of the market

As emphasized in the literature, access to financing is often the single most important constraint highlighted in MSME surveys. As a result, it was no surprise that this issue came up again and again during the case studies. The constraint was so prevalent that it was referenced by at least one stakeholder in each of the six targeted countries, from Finvex.tech in South Africa to Mozal in Mozambique.

Access to infrastructure, both physical and digital, is a major constraint that MSMEs do not have any power to control. Such forms of infrastructure constitute public goods that are not provided, or are underprovided, in many areas of the six targeted countries. As a result, MSMEs are faced with high transport costs (such as Kombeza Foods Limited in Malawi and Alliance Ginneries in Zambia) or high data costs (see the cross-cutting issues in section 4.8 of the present report). This precludes MSMEs from gaining access to important markets, both physically and by means of e-commerce, while cutting them off from service provision or making these services too expensive to deliver, either in person or through the Internet.

Lastly, non-tariff barriers are a significant issue for MSMEs across the six targeted countries. There are many different types of non-tariff barriers that can affect MSMEs in different ways, but all types are consistently hindering the ability of MSMEs to integrate into value chains. In Namibia, non-tariff barriers prohibited under the SADC Protocol on Trade were inhibiting Omulamba Plantations and Miombo Forestry Products, while in Mauritius BEM Recycling had difficulty exporting its recycled products owing to non-tariff barriers.

5.3 Insights into challenges identified in the case studies

Poor contract enforcement and business practices, as well as market pressures, play a substantial role in hindering various aspects of business operations. These factors restrict trade credit, the collateralization of contracts, the provision of extension services and investments in quality. This multifaceted issue calls for strengthening regulatory frameworks and enhancing business practices.

The regulatory and commercial framework surrounding innovative products or services presents both challenges and opportunities for new and small firms. BEM Recycling in Mauritius specializes in recycling electronic waste, generating 20 per cent of its revenue from the sale of plastic pallets and 80 per cent from recycling fees. This new sector faces challenges, however, such as inadequate regulations, underdeveloped markets and a lack of certification. The absence of Harmonized System codes for secondary materials, which are often categorized as waste, has also restricted exports to such countries as China, owing to its Operation Green Fence.

Another challenge faced by local businesses in African countries is the negative consumer perception associated with “Made in Africa” products. The general preference of African consumers for international brands over homegrown ones has compelled local businesses to mask the local origins of their products. This assertion is supported by a consumer survey in Zambia, the results of which indicated that only 20 per cent of consumers favoured purchasing local products – a trend that is consistent in South Africa as well.
Failure to provide public goods is also a hindrance. Organic certification, which is crucial for gaining access to premium markets, is particularly challenging owing to security issues. For example, some businesses have been unable to undergo organic inspection. Although certification bodies have offered virtual inspections, especially during the COVID-19 pandemic, the need for rigorous certification remains, with technology serving as a potential facilitator.

Companies such as Omulamba Plantations, Miombo Forestry Products and Ilotu Cosmetics in Namibia face challenges regarding sanitary and phytosanitary measures, the capacity constraints of standards bodies, unharmonized packaging standards and the high costs associated with bar-codes.

In Malawi, there is a trend of increasing vertical integration, in particular in bottling and packaging, as evidenced by Sunseed Oil Limited and Naturals. This vertical integration limits opportunities for outsourcing. The dairy sector in Malawi, represented by such companies as Kombeza Foods Limited, is affected by a weak regulatory framework, which has allowed for the adulteration of milk. This, in turn, increases the costs of testing and compromises quality.

In addition, entities such as the Institute for the Promotion of Small and Medium-Sized Enterprises and the Chamber of Commerce in Mozambique offer training to MSMEs on the adoption of technology and upgrading. Striking a balance between vocational training and MSME development poses a considerable challenge.

Another example is iMoSyS in Malawi, which faces hurdles in its strategies for entering markets in Zambia and Madagascar, owing to a lack of commercial presence or partnerships for after-sales service.

Lastly, the value of digital information is often perceived as being low, especially concerning financial services providers. This perception must be altered in order to realize the potential benefits that digital information can bring to the financial landscape.

5.4 Insights into solutions from the case studies

5.4.1 Externalities of low trust and lack of contract enforcement

As set out above, one of the major challenges identified during the case studies was the issue of low trust and a lack of contract enforcement. These challenges go hand in hand and exacerbate each other, creating serious externalities that have a negative impact on MSMEs. Two examples of this type of externality creating problems for MSMEs were uncovered in the case studies concerning the issues of counterfeit seeds and side-selling, and in both cases potential solutions were provided that could be used to minimize these problems even in a low trust society where contract enforcement is non-existent.

In Malawi, it was found that counterfeit seeds could cost smallholder farmers up to two thirds of their harvest. This situation has consequences for food security, both globally and subregionally, as well as drastically decreasing the incomes of these farmers. Global Seeds in Malawi has developed a scratch card system that allows for every bag of seeds to be verified by means of a unique code inside the packet that can be used for SMS verification. This allows all farmers with access to a mobile device and network to be certain that the seeds they are buying are legitimate. Furthermore, this relatively inexpensive innovation and its use have been complemented by a strong new regulatory framework set out in the 2022 Seed Act, which provides for severe punishment for anyone caught selling counterfeit seeds.
The issue of side-selling, which undermines the contract signed between smallholder farmers and suppliers or aggregators, is another example of the type of externality discussed in the present section. In a previous survey, it was found that 84 per cent of cotton farmers admitted to the practice of side-selling. This creates problems for ginneries, which are now running at 33 per cent capacity, owing to a lack of supply. Alliance Ginneries in Zambia has created a series of interventions aimed at combating by means of a four-pronged approach the issues of low trust and poor contract enforcement that have plagued the Zambian cotton industry. First, the company has shifted to organic cotton, which generates a premium and also requires traceability and specific practices that are supported by the company. As farmers can get a premium for their crop from Alliance Ginneries, they are less likely to sell to side sellers. Second, the company has ensured that its aggregation facilities are close to its smallholder farmers, thereby decreasing transport costs that eat into smallholder farmers’ profits. Third, it offers an advanced payment during the “hungry season”, which is when many farmers turn to side sellers to obtain quick cash to cover urgent expenses, such as food or school fees. Lastly, Alliance Ginneries purchases soya beans in addition to cotton, which allows its farmers to grow year round, thereby leveraging the existing networks and relationships and ensuring higher incomes for farmers that partner with the company.

5.4.2 Economies of scale, networking and access to information

Lack of information and lack of economies of scale for smallholder farmers. A persistent problem among MSMEs, especially those in agriculture, is that they lack access to information, which makes even the simplest of business decisions complicated and risky. For example, farmers without access to weather forecasts may plant their crops at the wrong time. Providing solutions to this type of problem raises a different issue that is prevalent among MSMEs, which is the problem of a lack of economies of scale. As a result of this, once-off transaction costs can be prohibitively expensive for MSMEs, owing to their low volumes and low revenue.

A potential solution to the lack of information and lack of economies of scale can be found in the case study featuring Good Nature Agro in Zambia. The company developed a digital platform to address challenges facing smallholder farmers in its network. These farmers lacked the financing to buy extension services that would grant them access to price data, weather forecasts and other information important to their business. They also struggled to finance quality inputs during the planting season or to adhere to costly traceability requirements, which were becoming more prevalent. Information is made available to the company’s extension officers and lead farmers through smartphones, which cuts considerably the transaction costs of providing this information (the company estimated that it could reduce the cost of delivering extension services from $11 to $6 per farmer). Extension officers are trained to train lead farmers, who are elected by farm groups. The lead farmer earns 2 per cent of the revenue generated by the group. The digital solution also comprises QR codes to track produce, thereby increasing traceability and making it easier for smallholder farmers to use. Lastly, the sector has had problems with quality grading, which creates a “market for lemons” if the grading is not carried out close to the source. In response to this, Good Nature Agro has invested in creating the capability to grade near most of the farmers in its network.

In another of the Zambian case studies, the one involving Farm Depot, a similar solution to these problems is being developed. Farm Depot has partnered with Inde Credit to upgrade its existing digital platform to assist with information gathering, as well as assisting smallholder farmers in gaining access to finance. This is another example of a lead firm using an innovative (mostly digital) solution to address the problem of lack of information, while also using an aggregation approach to bring down the transaction costs faced by smallholder farmers undertaking necessary business activities, such as gaining access to finance, thereby combating the economies of scale constraint that they face.
Networking and access to information. The ability of technology to decrease the cost of networking was clearly emphasized during the field visit to South Africa. During that visit, three different types of solutions were found to the problem of networking costs and access to information, each with different strengths and shortcomings. The three solutions are discussed in more depth in section 4.6.3 above, but essentially all three leverage the ability of a central actor to create a network (with its own verification requirements) that businesses and clients can use to connect with each other, rather than attempting to connect without any form of introduction. This lowers the risk, lowers the transaction costs of networking (by concentrating it in a single platform) and provides companies with access to information (including on purchase orders, volumes, prices and client contacts).

The first approach is the public sector offering provided by Wesgro through its Cape Trade Portal – a virtual marketplace through which Wesgro also provides access to training and market information. The portal has 4,160 products, 676 verified exporters and 144 foreign buyers. MSMEs in the Western Cape can harness the reputational capital of Wesgro through the verification process and leverage the network of the organization to find potential clients. There is no fee charged beyond the verification stage, and therefore the cost of networking is decreased to a negligible amount. Because Wesgro is a public organization, it is able to subsidize MSMEs under its development agenda and ensure that they are serviced and included in the portal. Furthermore, it can link other projects to the portal to catalyse its effect, and it is indeed doing so through the “Made in the Cape” quality branding project in tandem with other local and regional government bodies.

The second approach is the private sector approach taken by Standard Bank, using its existing service offering as a starting point for a networking service that can be added on. The Trade Club, which is currently operating in Botswana, Kenya, Lesotho, South Africa and Uganda, brings together clients of 15 banks to create an online platform featuring 17,000 selected companies in 60 countries, with a matchmaking algorithm and email follow-up. The platform also enables access to a resource library (200,000 pages) to alleviate the problem of access to information. Beyond the issue of a low response rate (30 per cent), it must be noted that the fact that the Trade Club is owned and operated by a major bank means that it is heavily slanted towards meeting the needs of that bank’s major clients, and only clients of Standard Bank or its partners can use the platform. Only about a third of the companies on the platform are small firms, and they have access only to limited features. Furthermore, this service is not currently available in Malawi, Mozambique or Zambia, although there is an intention to expand to these countries. The bank does not currently intend to expand to Namibia in the foreseeable future.

Lastly, the third option is provided by TradeBRICS, a private company that has built its own network from scratch. TradeBRICS facilitates the sourcing of locally produced African goods, order management, shipment and negotiations, and it offers various payment and credit options. Currently, the platform boasts over 55,000 African suppliers from 15 countries, serving thousands of global buyers across 130 countries who award $150 million annually through TradeBRICS.

Each of these options can be rolled out in countries other than South Africa, but certain factors will have to be kept in mind. The public option, while the most beneficial to MSMEs, requires dedicated and ongoing resource commitments from Governments, which may not be feasible. The bank-partnered option, while the most transferable, is slanted towards large firms and provides limited benefits to MSMEs. Lastly, the TradeBRICS option is limited, owing to the company’s small size as a startup. However, it is possible that this could be overcome using subsidies and an agent model.
5.4.3 Access to finance

Access to finance has been identified as a critical, if not the most critical, constraint faced by MSMEs. Within the value chain, these enterprises frequently face prolonged payment terms imposed by lead firms. This often results in financial strain on MSMEs, as their capital remains tied up in outstanding invoices.

One solution to alleviate this challenge is factoring, which involves selling invoices or contracts to a third party at a discount to get immediate cash. However, this option is usually available only for large invoices. For instance, only 3 per cent of the supply chain for South African Breweries qualifies for factoring with Citibank. In addition, factoring is further complicated by trust issues.

A solution to these issues is provided in the case study featuring Finvex.tech, a financial technology company that has developed a platform aimed at facilitating and managing factoring across the entire supply chain. The platform is partnered with financial services providers and donors to offer sustainable rates, while also leveraging environmental, social and governance factors. Each invoice issued by the lead firm is registered on the platform and linked specifically to the MSME for which it was issued. This eliminates the possibility of multiple claims on the same payment, as the invoice is transferred to the financial services provider in a manner akin to payroll microlending. Once set up, the system is updated automatically. Impressively, Finvex.tech is now processing 40,000 invoices daily on its platform.

At the subregional level, Finvex.tech has collaborated with a few companies in Botswana and South Africa. However, it has faced challenges in making significant progress, as South African financial services providers are reluctant to be early adopters of an innovative solution, citing risks associated with cloud-based systems. Nevertheless, without utilizing cloud technology, the transaction costs would be prohibitively high for the system to be commercially viable. Owing to the dominant position of these financial services providers in the South African market, and their reluctance to try the product, Finvex.tech is now pivoting towards the European market, where there might be greater openness to adopting its innovative solutions for improving access to finance for MSMEs. It is hoped that, once the platform’s usefulness has been proven on the European market, Finvex.tech will be able to provide the same solution for the South African market.

5.4.4 Quality signalling and the consumer’s perception of “Made in Africa”

One part of the challenges faced by local businesses in African countries is a low public opinion of locally made goods. A solution provided to combat this trend and bolster the profile of local brands comes from the case study featuring the Proudly Zambian Campaign. The Campaign encompasses a vetting process for local manufacturers and service providers to ensure quality, which is valuable in and of itself, as this process provides a road map for attaining quality standards. The Campaign has also entered into a memorandum of understanding with the Zambia Bureau of Standards, which facilitates training. Moreover, creating linkages is another integral component of the Campaign. It has forged relationships with supermarkets to ensure that products from its members are stocked on their shelves. In addition, trade fairs and exhibitions are recognized as important avenues for promoting local products.

While no formal evaluation of the Campaign’s success has been conducted, anecdotal evidence suggests that it has been beneficial. According to the fashion brand Queen of Chitenge, the Proudly Zambian Campaign has been instrumental in elevating the brand’s profile and boosting exports. The Campaign’s logo is increasingly associated with quality, thereby facilitating business-to-business relationships. Furthermore, the aim is to target business-to-consumer relationships by enhancing the logo’s visibility.
The Campaign is managed by the Zambia Association of Manufacturers and operates under a memorandum of understanding with the Ministry of Commerce, Trade and Industry. This collaboration augments the Campaign’s relevance and accountability.

Challenges persist, however, including with regard to adhering to the requirement that products have at least 35 per cent local value added. This is particularly difficult given the constraints in sourcing local inputs. Addressing this issue requires interventions across the entire value chain. Moreover, the existence of multiple logos and an alternative “Buy Zambia” campaign could lead to confusion and possibly counteract the efforts of the Proudly Zambian Campaign.

It is worth noting that the Proudly Zambian Campaign has similarities with campaigns in other regions, such as “Made in the Cape” and “Proudly South African,” which are also aimed at promoting locally produced goods and services.

5.5 Conclusions and initial recommendations

In the case studies, the authors underscore the pivotal role that the use of technology and innovations is playing in addressing the challenges faced by MSMEs regarding their inclusion in value chains and the leveraging of trade agreements. Innovations offer solutions by catering to market requirements and consumer demand, which are critical for the commercial viability of these solutions.

A range of ongoing challenges are also brought to light in the case studies, however. Notably, non-tariff barriers continue to hinder the ability of MSMEs to participate effectively in value chains. Market dominance by certain players poses another significant challenge, as it can stifle competition and limit opportunities for smaller enterprises. Furthermore, instances of vertical integration into value chains have been observed, which can sometimes create barriers to entry for MSMEs.

Among the solutions, a notable aspect that has been addressed by innovations is the mitigation of issues arising from ineffective contract enforcement and low trust. Establishing trust is fundamental to the smooth functioning of value chains, and innovations aimed at ensuring compliance with contracts in cases in which enforcement is often challenging can greatly facilitate this.

Another critical area that innovations are targeting is the cost associated with inclusion in the value chain. This encompasses compliance and certification, which are often prerequisites for participation in value chains. By reducing these costs, innovations can make it more feasible for MSMEs to enter into and thrive in value chains. In addition, the quality of products and services is a determining factor in the success of MSMEs in value chains. Innovations that enable MSMEs to invest in improving quality can thus be invaluable.

Moreover, creating market linkages is essential for MSMEs to reach a wider customer base and expand their operations. Innovations that facilitate the establishment of these linkages can play a significant role in enhancing the market presence of MSMEs.

Lastly, access to finance is a perennial challenge for MSMEs. Although innovations have been able to address this to an extent, there is still room for further improvement. Access to finance is integral for MSMEs to invest in capacity-building, quality improvement and market expansion.

In conclusion, while innovations and their use are making strides in addressing some of the major challenges for MSMEs in value chains, ongoing issues such as non-tariff barriers and market dominance still need to be tackled. A holistic approach in which all aspects of MSMEs’ participation in value chains are considered is necessary for sustainable inclusion and growth. The following are proposed as initial recommendations:
5.5.1 Establish a knowledge-sharing hub to share the lessons learned and solutions that are already in operation, so as to prevent unnecessary duplication

This involves taking the following measures:

(a) Developing and disseminating comprehensive market entry strategies, with a special focus on the services sector, to assist businesses in navigating the complexities of entering new markets;

(b) Creating a repository of best practices and case studies pertaining to “buy local” campaigns, analysing which strategies have proven to be successful and which ones have not;

(c) Providing information on available commercial solutions in the form of digital linkage platforms that facilitate connections among various players in the market;

(d) Developing resources on digital cross-border payments and factoring models, outlining the necessary components for creating a robust framework that supports commercially viable solutions;

(e) Launching initiatives to address the issue of counterfeit seeds through awareness-raising campaigns and collaboration with relevant authorities;

(f) Introducing digital platforms aimed at supply chain management, incorporating features that help to mitigate side-selling practices.

5.5.2 Develop a technology absorption module for MSMEs

Develop a specialized module to facilitate the absorption of technology by MSMEs, with an emphasis on capacity-building and technology integration in Mozambique. The module should address the challenges faced by MSMEs in adopting and utilizing technology effectively.

5.5.3 Conduct a scoping study for enhanced inspection methods

Conduct a comprehensive scoping study to evaluate the potential and feasibility of integrating blended virtual and physical inspection methods for certification processes. The study should include an assessment of the benefits and limitations of such an approach and recommendations for implementation.

5.5.4 Assess the impact of big data on financial inclusion for MSMEs

Undertake an assessment to evaluate the uptake and value of leveraging digital big data from donor programmes to enhance financial inclusion for MSMEs. The assessment should include an analysis of how data can be utilized to provide insights, streamline processes and foster greater financial inclusion for MSMEs.

5.5.5 Provide targeted bilateral support for the implementation of a non-tariff barrier monitoring mechanism

Offer selected bilateral support for the implementation of the non-tariff barrier monitoring mechanism, aiding in the identification and resolution of trade barriers. The support should be tailored to the specific needs and challenges of the involved parties and should be aimed at enhancing the effectiveness of the monitoring mechanism.