# SME FINANCE, DEVELOPMENT AND TRADE IN BOTSWANA: A GENDER PERSPECTIVE

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## ABSTRACT

*This study examines gender-wise the relationship between SMEs' financing, development and trade in Botswana. Data was collected through personal interviews and questionnaires to two sets of 100 SMEs selected randomly. The data was analysed using essentially SPSS. The results reveal that lack of funds especially for "large" SMEs (mainly medium) is not considered to be a major problem in Botswana because the government has instituted mechanisms for assisting SMEs in accessing affordable sources of funds. Some of the SMEs regarded stiff competition, lack of a market and non-payment of accounts by clients as big problems.. However, women experienced more problems in raising funds, competing and accessing markets than their male counterparts. It is recommended that women should further be empowered economically and should form networks and get into joint ventures. SMEs should be encouraged to participate in international trade in order to expand the market.*

Key Words: SMEs Finance, Development and Trade, Gender Perspective

## INTRODUCTION

Small and medium enterprises (SMEs) play an important role in an economy. SMEs need to develop in order to fulfill their expected role of poverty alleviation through employment and income generation, rural industrialization and citizen and gender empowerment. SMEs need finance to improve performance in terms of employment, profitability and trade.

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While SMEs are globally dominated by men, the number of female SME owners has significantly increased in some countries in recent years. In Canada, for example, women "have taken on the risks and rewards of entrepreneurship in ever-increasing numbers and now have whole or part ownership in over 47 percent of SMEs".[1] In some countries like Botswana SMEs (in the form of informal/self employment) have been dominated by women in the past two decades (Kapunda and Mmolawa, 2007).

The Botswana economy is heavily dependent on diamonds, whose diamond exports account for over 70% of exports. With the advent of synthetic diamonds and the controversy over "blood diamonds", the government is keen to diversify the economy away from its heavy reliance on diamonds. SMEs can play an important role in the diversification process by producing products that can be exported to other countries. These products could be in the form of crafts, textiles, leather goods and the like that are normally produced by SMEs. However, SMEs face a number of problems; some of them, for instance, are examined by Acquah (2007), Kapunda, Magembe and Shunda (2007), Kapunda and Mmolawa (2007, Chipeta *et al* (1991) and McPherson, M, and include intense competition, lack of funds and lack of a market.

This study examines such problems with special gender considerations in Botswana, which have not been well captured in previous studies. This is essentially one major contribution of this study.

The main research questions are:

What are the main problems facing female-owned/managed enterprises? Are raising capital, fierce competition, and lack of markets significant problems for such SMEs? Do these problems affect the SMEs' performance in terms of employment, profitability, and participation in trade? If so, how? What should be done to improve the situation?

The main objective of this study is to examine gender-wise the relationship between SME financing, development and trade in Botswana. Specific objectives are:

Firstly, to examine the problems facing SMEs. Secondly, to compare the performance in terms of employment, profitability and participation in trade of SMEs owned and managed by women those led by men with special reference to SMEs' financial constraints and other problems. Thirdly, to make policy recommendations that can help to improve the current situation in Botswana and possibly elsewhere in Africa.

It is hoped that the results of this study will inform policy makers on ways to assist SMEs overcome the problems and challenges facing them so that they can contribute significantly to the goal of diversifying the Botswana economy.

The rest of the paper is organised as follows: Section 2 presents the theoretical background and reviews the relevant literature. Methodology is provided in Section 3. Section 4 deals with the analysis, interpretation and discussion of the findings, and the conclusions, policy implications and recommendations are provided in Section 5.

## THEORETICAL BACKGROUND AND LITERATURE REVIEW

### Theoretical Background and Conceptual Framework

There are various definitions of SMEs; however, most of them attempt to specify the employment capacity and annual turnover (see for instance, Kapunda (2006), and Mukras (2003). In this paper a small-scale enterprise is closely aligned to the national definition in Botswana as an enterprise with 25 employees and with an annual turnover of between P60 000 and P1 500 000 (US $10 000 – 250 000).[2] In this definition, the micro enterprises, employing less than six workers including the owner and with an annual turnover of less than P60 000, are included. Medium enterprises are those employing more than 24 people but less than 1000 people and with an annual turnover of between P1 500 000 and P5 000 000. (Republic of Botswana 1999: 3).

Theoretically, enterprises may use internal and external sources of finance. The former comprises own savings and retained earnings, while the latter includes security finance, explicit borrowing from formal and informal sources, implicit borrowing in the form of accounts payable (trade credit and advances from clients), hire purchase and lease-to-buy contracts. However, many SMEs in less developed countries (LDC) cannot resort to primary and secondary money and capital markets either because such markets do not exist or the firms are not in a position to access such markets for several reasons (Ageba, *et al.*, 2006:65).

The analytical framework of this study hinges squarely on the premise that SMEs in Botswana do not consider availability of funds to be a big problem, as personal savings, tailor-made loans for SMEs from commercial banks, subsidised loans from the Citizen Entrepreneurial Development Agency (CEDA) and loans from family form the bulk of relatively easily available sources of funds (Kapunda, Magembe & Shunda, 2007).

## Literature Review

There are very few studies on SMEs' finance and trade, especially in Botswana. However, some authors have pointed out that SMEs need finance to develop, reach out to new markets and products and improve trade performance. Examples include, Ageba, *et al.*,(2006), Satyanarayan (2006), Counts (2004), Fafchamps (1997), Sunny, *et al*., ( 1994) and Rampel (1993).

On the gender front many authors argue that providing financial services to women brings about the "multiplier effect' since women tend to spend more of their income on family welfare and their profits on further investment and trade. Examples include Kapunda and Mmolawa (2007), Cheston (2004), Counts(2004)and Rutashobya (1998). The latter show that women entrepreneurs with a high level of formal education and great experience are more likely to embark on large projects. Such projects are likely to perform well in terms of employment, profitability and trade.

The main problem cited by female SME owners in creating and developing their businesses was financial. In Canada, for example, nearly 50% of women entrepreneurs quoted financial questions as the most important obstacles when starting and also while running a business (Eurochambres, 2005). The system used by banks is rating a borrower's creditworthiness using information from financial statements, annual reports, business plans or tax returns and this rating is "an important factor for the price of a loan to an SME" (Eurochambres, 2005). This could explain why, in 2004, women entrepreneurs in Canada were "less likely than men to approach financial institutions for financing. 6% felt their applications would be rejected and so avoided approaching financial institutions".[3] However, a study on gender differences among Canadian SME owners seeking external financing, including commercial debt, leasing, supplier financing, and equity capital, concluded that "the evidence is convincing to the effect there is no discrimination in terms of approval/turndown rates as to debt financing.[4] This conclusion is supported by the findings of de Bruin and Flint – Hartle (2005: 124) that there does not appear to be any overt gender bias in the New Zealand venture capital industry. The authors also note that in New Zealand, there are encouraging trends with high profile women in evidence in the industry.

Investors need clear and full information in order to be able to make informed decisions on whether to lend money or not. Business plans of start-up and existing businesses are usually required by financiers. Cook, *et al*., (2007, 249) examined the role that gender played in the development of US microenterprise business plans and concluded that women scored significantly higher than men in presenting their business plans to judges at a panel review.  This shows that women were more likely than men to get loans.

Use of technology can also empower SMEs and make them competitive. Martin and Wright (2005) have explored how information and communication technologies (ICT) and the Internet offered opportunities for women to develop as entrepreneurs and innovators. They found that both ICT and the Internet emerged as key enablers for female entrepreneurs. New opportunities for business development were identified, the consistently high level of profitability, the level of overseas work and the outsourcing overseas of key work to specialists (Martin and Wright, 2005:175). The use of ICT was very convenient for female SME owners as they could operate from home, combining business and performing home and family tasks.

To be competitive globally, an enterprise has to have experience in operating competitively. Often experience is gained in the domestic market. Porter (1990) indicated four determinants of national advantage (factors of production, demand conditions, related and supporting industries, and firm strategy, structure and rivalry), which could make an enterprise competitive domestically and spur it on to operate and compete globally. As SMEs grow larger and older, they experience greater competition (Benett and Smith, 2002) who suggest that SMEs can reduce competition by increasing skills level, exporting and innovating. They argue that firms can also develop competitive advantage by specialisation and differentiation of their products.

It has been argued that, traditionally SMEs' international growth in the Southern African region has been hampered by the existence of stringent foreign exchange regulations, limited governmental agency support, domestic market focus by SME management, and a relatively low quality standard in terms of products and production technology compared with foreign competitors. (Viviers *et al*, 1996, Ibeh and Young 2001). However, Mtingwe (2005) argues that, since early 1990s, there has been a fundamental shift in favour of SME internationalisation. This change has been brought about by a change in government policy and support instruments as well as changes in SME behaviour towards foreign business.

Regarding employment and trade, Donald (1994) argued that the contribution of SMEs to the South African economy is limited., but is likely to increase in the future. However, almost all the studies mentioned above do not focus on Botswana. This study is a significant contribution to the rare studies on SMEs' finance, development and trade in Botswana. Studies done by Kapunda, Magembe and Shunda (2007) revealed that lack of markets, too much competition and lack of finance were among the problems that were faced by SMEs in Botswana. However, the gender dimension was not considered. This study aims at looking into these problems with a gender lens to establish whether female-owned SMEs are more prone to these problems and compare performance and participation in trade.

## METHODOLOGY

### Data Sources, Method of Data Collection and Sampling

The study made use of both primary and secondary data. The latter was essentially used in reviewing the literature and providing the analytical framework. Primary data was used in the analysis. The data is based on two own surveys. The first one was conducted in October and November 2002 while the second one was conducted in April and May 2007. The first survey covered relatively “large” SMEs (essentially medium) and excluded micro-entreprises employing less than 6 workers. The average number of employees was 16-20. The second survey included even the micro-enterprises. However, the average number of employees was 6-10. The two surveys are meant for comparability analysis.

***The October/November 2002 Survey***

Primary data was based on a survey of a random sample of small business owners based in Gaborone and the outlying villages. One hundred questionnaires were distributed by hand and by mail to various small business owners. The analysis is based, however, on 33 fully-filled in questionnaires.

The questionnaires aimed at eliciting information on the general problems encountered by SMEs. Respondents were asked to rank a number of problems on a four-point Lickert scale, with *one* indicating “not important at all” and *four* indicating “very important”. The data were summarised and analysed using both qualitative and quantitative techniques aided by computer application. Secondary data were obtained from various sources including the findings of other pieces of research conducted within and outside Botswana, journal articles, and other literature and internet sources.

Since the 2002 survey did not capture the gender aspect, there was a need to carry out another survey which is explained below.

***The April/May 2007 Survey***

In the 2007 survey the personal interview method was used to collect data from respondents with the aid of two questionnaires. In order to establish whether SMEs have access to commercial bank loans, a questionnaire was sent to all six commercial banks operating in Botswana. Only four of the banks responded to our questionnaire. The four banks that responded have been operating in Botswana for more than 10 years, with the oldest one having been present for more than 100 years. The two that did not respond are fairly small and new to the Botswana market.

The second questionnaire was administered to 100 SMEs selected randomly. The sample sizes indicated in brackets in the study sites were as follows: Gaborone city (57), and nearby villages i.e. Mochudi Village (11), Ramotswa Village (32). The questions covered sources of start-up capital, problems in raising capital, general problems relativing to lack of funds and stiff competition and recommendations to improve the situation.

The following hypotheses were considered/examined in this study.

## Hypotheses

*First hypothesis*: Fierce competition is a major problem for all types of SMEs.

*Second hypothesis*: The biggest problem for relatively “large” SMEs is non-payment of accounts by clients.

*Third hypothesis*: Funds availability is a significant problem, especially for relatively “small” SMEs.

*Fourth hypothesis*: Fierce competition, lack of funds and lack of a market are more serious problems for SMEs owned/managed by women than those led by men.

*Fifth hypothesis*: Proportionally, women obtain fewer loans from commercial banks and CEDA than to men.

*Sixth hypothesis*: SMEs owned/managed by women make less profits than those of their male counterparts.

## Estimation Method

In order to avoid direct questions on profit data, respondents were requested to estimate the average income (AI) per month from their businesses and also to estimate average operating costs (AOC) per month. The difference between AI and AOC was treated indirectly as proxy for profit made.

## Limitations of the Study

The study was limited to Gaborone city and nearby villages, Mochudi and Ramotswa, essentially because of lack of time and funds. The sample captured mainly small traders who mostly do not engage in international trade. However, the researchers expect to expand the study in future to capture more observations, variables and places in Botswana, including international traders, so as to have a better understanding of SMEs' trade in Botswana.

## ANALYSIS, INTERPRETATION AND DISCUSSION

### Data Analysis

The method used to analyse the data was essentially descriptive statistics. The Statistical Package for Social Sciences (SPSS) was mainly employed in the analysis. This captured both qualitative and quantitative questions. Empirical findings are provided, interpreted, and discussed below.

### Findings Based on the October/November 2002 Survey

The general problems are more or less the same as the ones identified in the SMEs Policy of the Republic of Botswana (1999). However, this study ranks them as shown in Table 1.

Table1: Mean Scores and Standard Deviations of Problems Facing SMEs (N=33)

| **Problem** | **Mean** | **Rank** | **Std. Deviation** |
|---|---|---|---|
| Non-payment of Outstanding Accounts by Clients | 3.13 | 1 | 1.167 |
| Too much Competition | 3.06 | 2 | 1.209 |
| High Cost of Utilities | 2.94 | 3 | 1.134 |
| Lack of Training | 2.94 | 3 | 1.268 |
| Lack of Government Support | 2.90 | 4 | 1.205 |
| Limited Access to Finance | 2.65 | 5 | 1.018 |
| Unreliable Workers | 2.48 | 6 | 1.313 |
| Lack of Information on where to get financial Assistance | 2.45 | 7 | 1.362 |

*(Scale: 1= Strongly disagree, 2 =Disagree, 4= Agree and 5 =Strongly agree*)

*Source: Compiled by Authors from Research Data*

From the table, non-payment of accounts by clients is considered to be the most crucial problem with a mean of 3.13. Further details reveal that 52 percent of the respondents indicated that the problem was very crucial, and 15 per cent regarded the problem to be crucial. The rest considered it to be either somewhat important or not important. The problem of non-payment of accounts has been a chronic problem affecting many businesses in Botswana. There is a "culture" of people not honouring their obligations to pay. This problem is further compounded by ignorance on the part of the SME owners who are not enlightened about the steps that they can take to enforce payment. Also most of the SMEs are too small for them to enlist the services of accountants and credit controllers who could carry out proper credit analysis before selling or offering services on credit. However, many SMEs are working out means of improving the situation. Some of the methods used include utilising the services of debt collectors and blacklisting habitual offenders with Information Trust Company (ITC). Once listed with ITC a client will find it very difficult to buy goods and services on credit.

The importance of other problems follows in descending order. The problem of too much competition was ranked as number 2 with a mean of 3.06, showing that it was considered to be important. Limited access to finance was ranked number six. This shows that in Botswana limited access to finance, for relatively "large" SMEs, is not as important as the other problems that were ranked higher based on their mean scores. This is probably because the government of Botswana has instituted and implemented a number of financial assistance and advisory programmes, essentially coordinated by the Citizen Entrepreneurial Development Agency (CEDA). CEDA and other programmes help Batswana establish their own enterprises. There is also a CEDA Credit Guarantee Scheme, which guarantees to pay for 75% of an SME loan from a commercial bank if the SME fails to repay the loan. Currently CEDA charges an interest rate of 5% per annum on loans to SMEs, which is very affordable. These findings are generally in line with those of Mukras (2003).

## Findings Based on the April/May 2007 Survey Data

### Background Findings

#### *Type of Business and Education*

Most of the SMEs dealt with services (professional services like electronic services and hair salons), accounting for 40 percent. About a third of the SMEs were involved in trade, which included activities such as, food vending, selling of chickens, cosmetics, clothes and shoes. The remaining SMEs were involved essentially in manufacturing and construction. For details see Table 2.

**Table 2: Type of Business**

| **Gender** | **Economic Activities** | | | |
|---|---|---|---|---|
| | Trade | Services | Manufacturing & Construction | Total |
| Male | 11 (35.5%) | 21 (52.5%) | 19 (65.5%) | 51 |
| Female | 20 (64.5%) | 19 (47.5%) | 10 (34.5%) | 49 |
| Total | 31 (100%) | 40 (100%) | 29 (100%) | 100 |

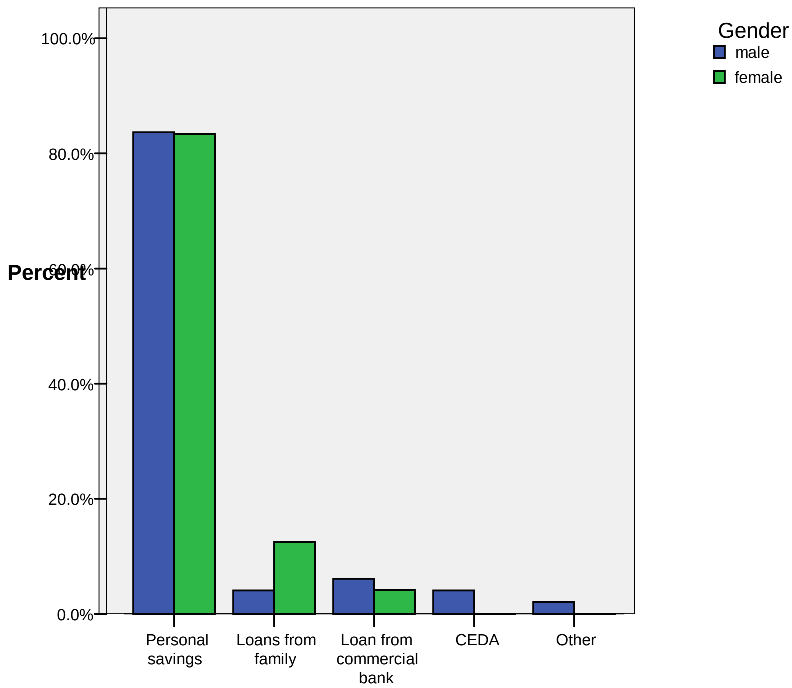
*Source: Computed by the authors from 2007 own survey data*

This pattern of concentration is similar to that discussed in the literature elsewhere by Kapunda and Mmolawa (2007), Rempel (1993) and Sunny and Babikanyisa (1994). Regarding education, almost 86 percent of the men who owned/managed the SMEs had secondary education and above while only 73 percent of the women who owned/managed the SMEs had such education.

***Source of Start-up Capital***

The main sources of start-up capital were personal savings (84 percent for males and 83 percent for females); loans from families (4 percent for males and 13 percent for females); loan from commercial banks (6 percent for males and 4 percent for females); and CEDA loans (4 percent for males and 0 percent for females). For details see Fig. 1. Note that proportionately more women got loans from families, possibly from their spouses. Proportionally, less women obtained loans from commercial banks and CEDA essentially because of limited assets to give as collateral and the marriage laws that require a male spouse to cosign for a wife's loan.

Fig. 1: Sources of Start-up Capital




## Problems that Hinder SMEs' Access to Finance

Respondents were asked to agree with a number of statements that sought to explain why SMEs failed to access bank loans. The respondents were asked to show their agreement/disagreement on a scale ranging from 1 to 5; with 1 showing "strongly agree" and 5 showing "strongly disagree". The mean values of their responses are shown in Table 3 below. It can be seen that most SMEs fail to secure loans from commercial banks due to failure to prepare a business plan and due to lack of collateral. Both of these problems had a mean score of 2, which indicates that the respondents agreed with the statement. The statement that said that most SMEs failed to secure loans due to lack of a viable business idea, had a mean score of 3, indicating that the respondents were neutral. Most banks disagreed with the statements that said that SMEs failed to secure loans due to the fact that interest rates were too high and their inability to meet the loan insurance cover; these had a mean score of 3.5 and 3.75 respectively.

Table 3: Reasons for SME Failure to Secure Bank loans

| Problem/Frequency | Mean | Rank |
|---|---|---|
| Most SMEs fail to prepare business plan | 2 | 1 |
| Most SMEs lack collateral | 2 | 1 |
| Most SMEs lack viable business idea | 3 | 2 |
| Most SME's do not meet insurance cover | 3.5 | 3 |
| Interest rate is too high for SMEs | 3.75 | 4 |

(***Scale:1 Strongly agree and 5 Strongly disagree***)

The respondents were also asked to indicate any other problems which in their opinion hindered SMEs from gaining access to funds. The problems identified included: lack of business acumen; weak management team; lack of planning; poor record keeping and lack of financial statements to support loan applications.

## General Problems Faced by SMEs

SMEs are faced with a number of problems in addition to access to affordable sources of funds. In order to identify those problems, respondents were given a list of problems and were asked to show their agreement or disagreement on whether they considered any of them to be a problem facing their business operations.

Respondents were required to show their agreement/disagreement on a 5-point scale; with 1 denoting "Strongly agree" and 5 denoting "Strongly disagree". The results are shown in the Table 4.

**Table 4: Problems Faced by SMEs in Botswana**

| PROBLEM | Agree | Disagree |
|---|---|---|
| Lack of funds | 42.9% | 57.1% |
| Too much competition | 42.4% | 57.6% |
| High cost of utilities | 40.4% | 59.6% |
| High cost of rent | 37.4% | 62.6% |
| Lack of market | 23.3% | 76.8% |
| Non-payment of accounts | 19.4% | 80.6% |
| Lack of training | 16.4% | 83.7% |
| Unreliable employees | 16% | 83.8% |

*(Agree includes "strongly agree" and "Agree"; Disagree includes "strongly disagree" and "disagree" and neutral responses)*

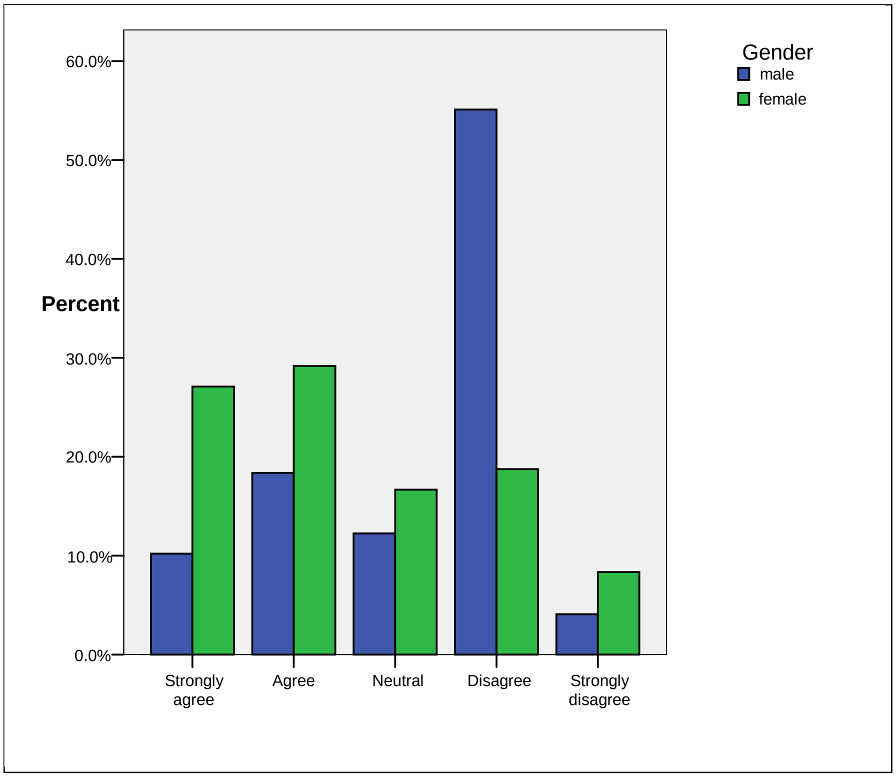
*Source: Compiled by the authors from Survey Data*

In general, the results show that none of the problems identified was considered to be a serious problem as most of the respondents disagreed with the statements. The problem that got the highest "agree" score was that of lack of funds. 42.9% of the respondents agreed that it was a problem; however, 42.8% of the respondents disagreed with the statement. The second problem faced, based on the results, was too much competition where 42.4% of the respondents agreed with the statement. The problem ranked in third position was high cost of utilities, where 40.4% of the respondents agreed that it was a problem. These affected women owners/managers more than the male counterparts. More than 50% of the respondents disagreed with the remaining problems; hence these problems would appear to be insignificant. One would expect too much competition and lack of a market to have the same ranking as high competition could be a symptom of a saturated market. The problems of lack of funds, too much competition and lack of a market were further analysed in detail, based on the gender of the business owner to see if there were any significant differences based on gender.

### Lack of Funds

The results show that 27.1% of female business owners strongly agreed that lack of funds was a big problem, whereas only 10.2% of male respondents agreed with the statement. Only 8. 4% of male business owners agreed that lack of funds was a problem compared with 29.2% of female respondents. 55% of male respondents disagreed with the view that lack of funds is a problem compared with 18.8% of female respondents. Lastly, 4.1% of male respondents and 8.3% of female respondents strongly disagree with the view that lack of funds was a problem. These results are not surprising as female-owned businesses are known to experience more difficulties in raising funds than their male counterparts. For further illustration see Fig.2.

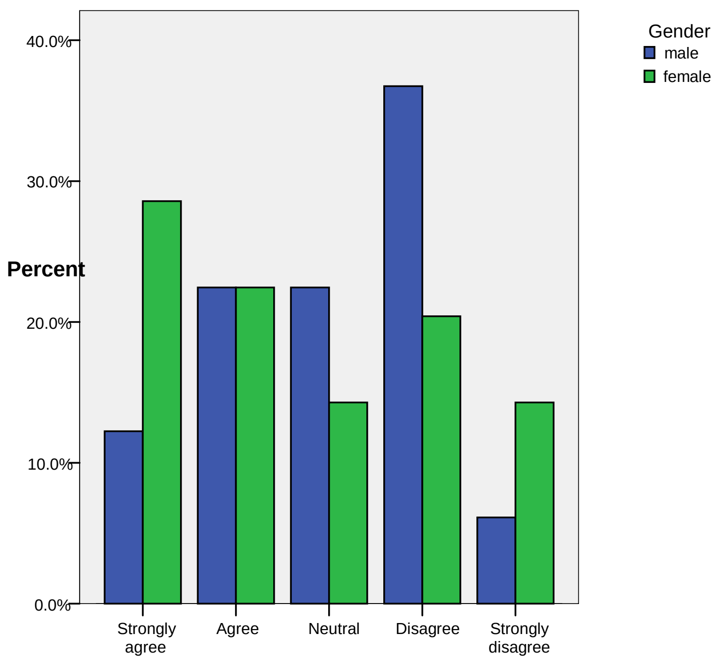
Fig. 2: Lack of Funds




## Too Much Competition

12.2% of the male respondents and 28.6% of female respondents strongly agreed with the statement that too much competition was a problem and 70% of those who strongly agreed with the statement were females. An equal proportion (22.4%) of both males and females agreed with the statement. 36.7% of male respondents and 20.4% of female respondents disagreed with the statement. Of those disagreeing with the statement, 64.3% were males and 35.7% were females. Lastly, only 6.1% of male respondents and 14.3% of female respondents strongly disagreed with the statement, with 70% of all those strongly disagreeing with the statement being females. These results show that female-owned SMEs suffer more from acute competition than their male counterparts. This phenomenon can be explained by the fact that female SMEs tend to engage in businesses such as hair salons, food vending and cloth retailing that require a relatively small amount of start-up capital and are easy to copy. Fig. 3 below shows the responses based on gender perception of the level of competition encountered.

Fig. 3: Too Much Competition




*Source: Compiled from Survey Data*

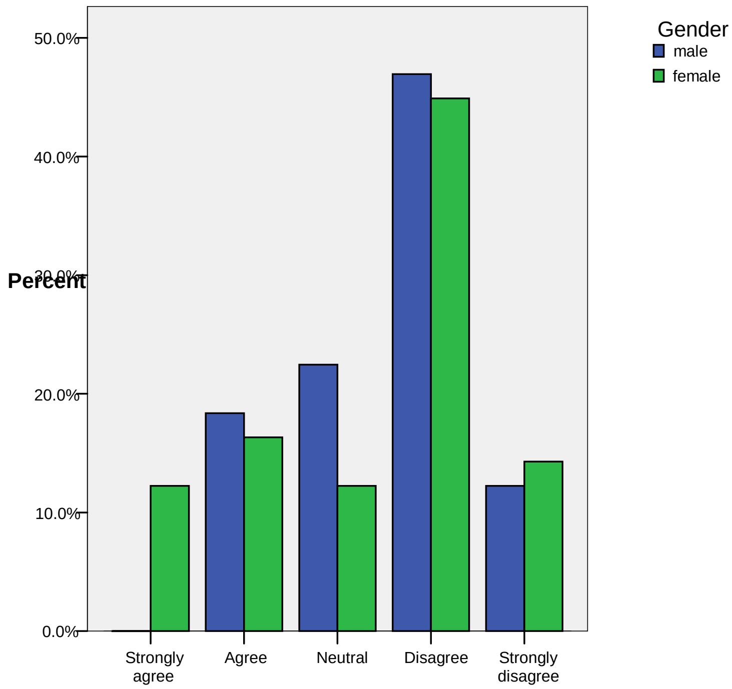
In addition to the ranking above, respondents were asked whether competition was a major problem for them. 45.9% of the respondents said it was a major problem while 54.1% of the respondents said it was not a problem. 70 percent of those who strongly agreed with the statement were females.

In order to alleviate the problem of too much competition, SMEs are advised to form cooperative groups so that they can pool resources and work together towards looking for external markets. SMEs are also advised to produce and market goods that can be exported to other countries, rather than to depend on the domestic market.

### Lack of a Market

As explained above, lack of a market was ranked number five and would appear to be an insignificant problem; however, it warrants further analysis to reveal its gender dimensions. None of the male respondents strongly agreed with the statement, while 12.2% of the female respondents strongly agreed with the statement. 18.4% of male respondents and 16.3% of female respondents agreed with the problem with 52.9% of those agreeing with the statement being males. 46.9% of males and 44.9% of females disagreed with the statement, with 51.1% of those disagreeing with the statement being males and 48.9% being females. Finally, 12.2% of male respondents and 14.3% of female respondents strongly disagreed with the statement. Overall, more females (28.5%) than males (18.4%) agreed ("strongly agree"plus "agree") with the statement that lack of a market is a problem. Fig. 4 below shows an analysis of lack of market based on gender.

Fig. 4: Lack of Market




*Source: Compiled from Survey Data*

## Comparative Analysis of the Problems

Respondents were asked to indicate their agreement or disagreement with statements that showed their perception of the magnitude of a number of problems that affect SMEs' success on a scale of 1 to 5, with 1 showing "strongly agree" and 5 denoting "strongly disagree". The results are shown in Table 5 below. Again it will be seen that not one of the problems is considered to be a major one as they have mean scores of more than 2. Based on total mean scores, too much competition with a mean score of 2.86 is ranked higher than lack of funds with a mean score of 2.89. Lack of a market has a mean score of 3.43, denoting that most respondents tended to disagree with the statement that that lack of a market was a big problem when doing business in

Botswana. When analysed gender-wise, the results show that most female business owners had lower mean score values than their male counterparts, showing that they were more in agreement with the statements that there was too much competition (2.69) and that lack of funds (2.52) was a problem facing their businesses.

**Table 5: Mean Scores of Selected Problems**

| Problem | Means | | |
|---|---|---|---|
| | **Male** | **Female** | **Total** |
| Too much competition | 3.02 | 2.69 | 2.86 |
| Lack of market | 3.53 | 3.33 | 3.43 |
| Lack of Funds | 3.24 | 2.52 | 2.89 |

*(Scale: 1=Strongly agree and % = strongly disagree)*

**Performance of SMEs Dealing With Trade**

Despite the aforementioned problems, the performance of the 31 SMEs dealing with trade was generally good in terms of employment and profitability. The average number of employees of the SMEs owned by women was 1 – 5. This is similar to the averages of the overall sample (100 SMEs) as noted in the methodology section.

Out of the 31 SMEs only 2 SMEs owned/managed by men made a loss the rest made a profit. Other details are shown in Table 6.

**Table 6: Profit Trends of Trade SMEs by Gender**

| Profits (pula) | Number of Enterprises | |
|---|---|---|
| | Owned/Managed by Men | Owned/Managed by Women |
| Below 0 (Losses) | 2 | 0 |
| 0 – 5 000 | 4 | 11 |
| 5 001 – 10 000 | 1 | 5 |
| 10 001 – 20 000 | 1 | 2 |
| 20 001 – 30 000 | 1 | 1 |
| 30 001 – 50 000 | 0 | 1 |
| Over 50 000 | 2 | 0 |
| Total | 11 | 20 |

*Source: Compiled by Authors from Survey Data*

Although no enterprise owned/managed by women made a loss, their average profit per month was only about P11 000, compared with an average monthly profit of about P20 000 for SMEs led by men. This is partially due to the relatively small size of enterprises owned by women as reflected in the structure of the start-up capital explained on page 9, and reflected in Fig. 1. As noted earlier, proportionally more women got loans from family members (possibly, small loans from spouses). Proportionally less women obtained loans from commercial banks and CEDA, essentially because of limited assets to pledge as collateral and legal requirements as stated earlier.

Other problems as noted earlier, include too much competition and lack of a market Almost 70% of those who strongly indicated that "too much competition" was a problem were females. This is to be expected since most of them deal with similar trade activities such as food vending, sale of chicken, small tuck-shops and sale of clothes/textiles essentially in local markets.

Lack of a market seemed not to be a generally crucial problem, especially at the local level. However, about 12 percent of the female respondents considered it to be one of the major problems while none of the male respondents considered it to be a major problem. In general, proportionally more women than men consider lack of a market as a problem and have limited access to markets, especially international ones Furthermore, such women do not have substantial trade information.

## CONCLUSIONS, POLICY IMPLICATIONS AND RECOMMENDATIONS

This study has shown that the main problems for relatively "large" SMEs (which exclude micro enterprises employing less than 6 workers, as per the 2002 survey) were non-payment of outstanding accounts by clients, stiff competition, and high cost of utilities in descending order. Limited access to finance was not a big problem as the Botswana Government has set up the Citizen Entrepreneurship Development Agency (CEDA) which offers subsidised loans to SMEs. In addition, some of the commercial banks have tailor-made loans for SMEs, and there is also an SMEs' credit guarantee scheme. Such SMEs normally took advantage of such loans. However, if the micro-enterprises are included, lack of funds becomes a more visible problem, essentially because of limited assets to pledge as collateral for loans. However, more than 50 percent of the SMEs in general do not consider the problem a serious one.

Based on the 2007 survey, stiff competition and high cost of utilities remain the top 2 and 3 problems and affected more women owners/managers of SMEs than their male counterparts,

Non-payment of accounts did not seem to affect significantly the micro-enterprises as indicated by the 2007 survey.

Lack of markets affected mainly SMEs owned/managed by women. In general, more women considered lack of a market as a problem since they had limited access to such markets, especially international ones. Furthermore, they lacked substantial trade information.

In general, women tended to experience more problems in doing business than their male counterparts. This, to some extent, affected the performance of SMEs led by women. The average monthly profit of the SMEs involved in trade, for instance, was only about P11 000, compared with average monthly profit of about P20 000 for SMEs led by men.

The policy implication and recommendation to be emphasised is that women should be further empowered economically and the possibility of offering them special subsidised loans should be considered by financial institutions and CEDA, given their limited incomes, assets and legal constraints. However, women should also struggle on their own. They should, for instance, form cooperative societies and joint ventures with other businesses in order to sharpen their competitive edge. This is also likely to enhance the quality of their products and marketing capability. Women-led SMEs need to be given preferential treatment over their male counterparts. Research has shown that in most African countries women tend to account for an average 51% of the population, and make up about 65% of the rural labour force. Thus, many rural-based micro-finance programmes have attempted to address the women-specific need for micro-credit. However, according to Pitamber (2003), many of these micro-credit programmes have failed to reduce poverty and empower women because of lack of clear implementation programmes and lack of women’s participation in the design of the programmes.

In general, however, the government and NGOs policies, training and research institutions and others should emphasize educating SMEs about the importance of international trade in expanding their markets and increasing their profits. Emphasis should be put on encouraging SMEs to move away from traditional businesses aimed at producing for local markets and focus on products that can be exported to neighbouring countries and other international markets. Export policy initiatives need to focus on removing SMEs’ barriers to international trade by addressing the financial ability partnerships and opportunities (Mtingwe (2005). Governments can initiate export promotion programmes aimed at reducing the financial burden of SME would-be exporters. This can be achieved by government underwriting the travel expenses of SME managers to enable them to travel abroad to attend trade fairs and trade expos and establish personal contacts with would-be foreign importers. Research has shown that firms like “first-hand” information obtained through a personal visit rather than second-hand information. Also for export policy initiatives to succeed, local firm need to know how to do business in foreign markets so that an appropriate policy can be developed to and applied at at each stage of foreign market development. Barriers to international trade can also be reduce through the use of export promotion initiatives that set up strategic alliances/partnerships between various categories of exporters (Chetty and Blackenburg Holm, 2000, Ibeh and Young 2001).

SMEs need to be made aware of the services that are offered by government and non-government export promotion agencies in their countries, such as exporters’ associations, chambers of commerce, boards of external trade and others.

As already mentioned in the section on limitations of the study, the researchers expect to expand the study in future to capture more observations, variables, and places in Botswana, including international traders, so as to have a better understanding of SMEs’ trade in Botswana.

Although these recommendations are essentially for Botswana, they are likely to be relevant to other countries, especially in Africa.

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## END NOTE

[1] SME Financing Statistics December 2006; downloaded on 22nd June 2007
[2] As at 15th August 2007 the Pula/US $ exchange rate was P6.25 = $1.
[3] SME Financing Data Initiative, downloaded on 22nd June 2007.
[4] Goliath Business Knowledge on Demand, downloaded on 22nd June 2007.