THE ROLE OF SMALL, MICRO AND MEDIUM ENTERPRISES IN
EMPLOYMENT CREATION IN BOTSWANA: THE CASE OF GABORONE.

MOILLA MUNJOMA

A mini dissertation submitted in partial fulfilment of the
requirements for the degree of
Masters of Business Management in Finance at the
Mafikeng Campus of the North - West University.

Supervisor: Prof. S. M. Kapunda

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DECLARATION

I declare that this dissertation is my original work and has never been presented anywhere. Where quotations are made in the contents of the work, it is done with due reference to the author. This dissertation shall not under any circumstances be presented to any other institution for an award of any degree.

[Signature]

Student

25/09/2011

Date
ACKNOWLEDGEMENTS

I would like to acknowledge the following people without whose contributions; the study would not have been successful.

Firstly, I would like to extend my heartfelt gratitude to my supervisor Prof S. M. Kapunda who worked tirelessly with me until the study was completed. Secondly I would like to thank my daughter, Diana M. Shiripinda who helped in the distribution and collection of questionnaires.

Last but not least, I would like to thank all the business owners who took their time to answer questions and completed the questionnaires.
ABSTRACT
This study examines the contributions of SMMEs to employment creation in Botswana, specifically in Gaborone. My own data survey of October/November (2010) and secondary data have been used. It has been revealed that SMME indeed contribute significantly to the employment of the urban population of Gaborone and this helps in the reduction of poverty, unemployment, crime reduction and also to improve government revenue, gross domestic product and the general well being of a society hence overly economic development. Since Gaborone is the major city in Botswana and forms the proxy of the role of SMMEs in employment creation in Botswana. The policy implications and recommendations are as follows. With the realisation of the fact that SMMEs contribute significantly to employment creation, there is need to provide a conducive environment that ensures the growth of SMMEs in the country. To ensure the growth of SMMEs, there is need to develop the culture of entrepreneurship in the nation, business owners also need training on management issues and the monitoring of such programmes is critical. SMMEs because of their small sizes, cannot win in the competitive environment in which they operate, they are therefore encouraged to form cooperative groups and pool resources together and work together, to make stronger units that can compete efficiently on the global market.
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CHAPTER 1

INTRODUCTION

1.1. Background information

One of the significant characteristics of a flourishing and growing economy is a booming small, micro and medium enterprise (SMMEs) sector. Small, micro and medium enterprises play an important role in the development of a country. They contribute to economic development in various ways by creating employment for the rural and urban growing labour force. Most of the current larger enterprises have their origin in small, micro and medium enterprises. SMMEs have significant effect on the income distribution, increased tax revenue, and efficient utilization of resources and the stability of family income. They have a propensity to employ more labour intensive processes than large enterprises. Consequently, they contribute significantly to the provision of productive employment opportunities, the generation of income and eventually the reduction of poverty. SMMEs are the major growing force behind the fastest growing economy of China in terms of contribution to the national Gross Domestic Product, diversification of products and the creation of employment. The role of SMMEs is well acknowledged in countries such as Japan, Korea and all other industrialized economies in terms of creating employment, reducing poverty and increasing the welfare of the society. (Fida, 2008).

The contribution of SMMEs is recognized in economies all over the world, irrespective of the level of development achieved in each country. The contribution of SMMEs towards growth, job creation and social progress is valued highly and small business enterprises are regarded as an important element in a formula for the achievement of economic growth Vosloo, cited by (Sunny and Babikanyisa, 1994). The development and performance of SMMEs have been of great interest to entrepreneurs, government venture capital firms, financial institutions and nongovernmental organizations (Baker, 1992). Over the last two decades there is increased feeling that SMMEs should grow and increase their contribution in developing countries. SMMEs are believed to make substantial contribution towards employment creation poverty alleviation and ownership of the productive sectors. (Duncan, 1993). Governments encourage industries to enhance production to satisfy internal and external demands. This study intends to take a closer analysis of the SMME sector in Gaborone in generating employment.
1.2: Statement of the problem
The SMME sector's contribution to GDP in Botswana is estimated at 30-45% and accounts to 50% of formal employment. It is a proven fact that job creation is one of the most important contributions made by SMMEs. (Government of Botswana 1999). Gaborone is the largest city in Botswana with a population of about five hundred thousand people. It probably has the most diversified SMMEs in Botswana. Total employment in the city is an indication or proxy for the general trend in Botswana. However, very few comprehensive studies have dealt with the employment trend in Botswana particularly in Gaborone. The government of Botswana has been seriously involved in promoting the growth of SMMEs in the country since its independence in 1966. A lot has been invested in this sector since then as a way of encouraging self-sufficiency among its citizens. However, the results of such investments particularly in relation to employment generation are not known. This study intends to find out more about such results. In particular, it seeks to answer the following questions
- What numbers SMMEs employ in Gaborone?
- What activities are they involved in?
- What are the growth trends of SMMEs?
- What are the growth prospects of employment?
- What can be done to improve SMME employment generation?

1.3: Objectives of the study
1. To examine the contribution made by SMME in employment creation in Gaborone
2. To examine the SMMEs growth and prospects.
3. To suggest strategies that would improve the survival and growth of SMME in a global economy so as to help in employment creation.

1.4: Hypotheses
The following hypotheses are tested in this study.
- The contribution made by SMMEs in Gaborone is great and employment growth prospects are positive
1.4: Significance of the study
This study is important in that it will review the different types of SMMEs in Botswana, their economic activities and their importance to policy makers, researchers and others interested in employment issues. Another important aspect of this study is to come up with proper strategies that will help the small businesses to be able to compete globally. Globalization has changed the way in which businesses should be conducted as companies are competing for international markets. Standards are now set on the international scene as goods are no longer produced for the local market only.

Economic growth can be achieved through economic diversification as all sector of the economy will participate to achieve the country’s total performance. Already there are many small businesses operating in the country but not much information is known about the numbers being employed and what percentage of the whole country’s employment population this number represents. This study will bring to light more information about the numbers of small businesses in Gaborone and the percentages they represent. The existing state of affairs does not indicate that there exists timely and reliable information on employment creation in Botswana which is of course one of the justifications for carrying out this study.

1.5. Format of the study
The rest of the study is organised as follows. The second chapter provides an overview of SMME in Botswana with special reference to employment creation. The third chapter outlines the theoretical literature review behind SMMEs and their contribution to poverty alleviation, economic development and in particular their contribution to employment creation in the world. This chapter also highlights the conceptual framework of the study, empirical evidence available about what others have researched and found on the same topic. It also explains how the study differs from other researches that were carried out. Chapter 4 outlines the methodology used in the study including the different instruments used. Chapter 5 presents and discusses the findings of the study. The last chapter gives the conclusion, policy implications and recommendations for future research.
CHAPTER 2

OVERVIEW OF THE ROLE OF SMMEs IN BOTSWANA

2.1. Introduction

Small, Micro, and Medium Enterprises (SMMES) have emerged as an engine of growth in several developed and developing economies of the world. In Botswana, also they have emerged as a vibrant and dynamic component of the Botswana economy because of their significant contribution to Gross Domestic Product (GDP), industrial production and exports. The SMME sector also creates employment opportunities that provide a source of living to millions of people. Botswana like any other developing countries faces the challenges unemployment and unequal distribution of income among its citizens. As a result, it has realised the importance of SMMEs in solving these major issues and has embarked on the promotion of SMMEs.

This chapter gives an overview of how the government of Botswana is helping the SMMEs in order to help them generate maximum employment to its citizens. It explains why a dynamic SMME sector is important to an economy such as that of Botswana’s. It also attempts to provide a theoretical perspective as to how the SMME sector can be specifically used to reduce unemployment and the productivity problem in Botswana. Every country aims at achieving self sufficiency through producing what it needs. Governments do encourage industries to enhance production to satisfy internal and external demands and to achieve considerable improvement in entrepreneurship performance. Just like any other government Botswana follows suite. The chapter also highlights the steps that Botswana has taken after realising the importance of SMMEs in order to create a conducive environment for SMMEs to operate efficiently and reduce the problem of unemployment.

2.2. The Significance of SMMEs to an economy

Firstly SMMES as enterprises have some economic roles to fulfil to an economy. They contribute to a countries' product by either manufacturing goods of value or through the provision of services to both customers and other enterprises. From an economic perspective however, enterprises are not just suppliers, but also consumers which have an important role to play if they are able to position themselves in a market, their demand for industrial or consumer
goods will stimulate the activity of their suppliers, just as their own activity is stimulated by the demands of their clients. Demand is important to income generation potential of SMMES, and their ability to stimulate demand for both consumption and capital goods. (Al Berry et al 2002.)

Most importantly and from a Botswana context, SMMES have at least in theory the potential to generate employment and upgrade human capital. Economic historians have demonstrated the importance of this phenomenon in Europe's industrialization and the subsequent development of other emerging economies. As technological progress in agriculture liberated the agrarian labour force, this unskilled excess labour force was absorbed into small manufacturing industries and exposed to business experience thereby encouraging a learn by doing effect. This combination of the employment of a vacant labour force and the improvement of their skills through business exposure, strongly characterized the process of industrialization and development. (Al Berry et al 2002.)

Botswana's current economic situation is comparable to the above scenario, the excess labour force is released not so much from the agricultural sector but rather large enterprises in the secondary and tertiary sector. Generally, these enterprises are not necessarily facing economic recession, but are rather growing and transforming themselves in such a way that their demand for unskilled labour is decreasing. This results in abundant pool of unskilled labour that SMMES can possibly employ and upgrade.

From a Botswana perspective SMMES are vital in achieving industrial and economic development objectives. The development of this sector contributes to poverty alleviation, employment generation and the generation of potential entrepreneurs. The government of Botswana has come to the realization that SMMES require a favourable environment to prosper and expand to meet the challenges of the competitive global economy. With this realization there is need to put in place a policy framework in support of this sector's development. The ministry of Trade and Industry is the key institution mandated to lead the in SMME development. The most important argument in favour of SMMEs is that they create sustainable job opportunities as they use relatively labour intensive technologies. Since they employ more people per unit of investment as compared to large firms. A given amount of money will create more jobs, if it is
spread over a large number of small firms than if it is focused on few large companies. (Abdullah and Baker, 2000). Small firms also promote the culture of saving and investment in a society. The money invested in small firms would have been allocated to consumption expenditure if small businesses have not been established.

The development of small firms also help spread income to more people because large firms normally tend to produce an elite number of high wage income earners, where as small firms produce a significantly large number of relatively low income earners enhancing sustainable development and poverty alleviation potential of SMMEs will eventually reduce dependency on foreign markets.

2.3. SMMES in Botswana
Botswana has long realized the importance of SMMEs in fostering economic growth and creating jobs. This led to the introduction of targeted financial support as well as advisory programmes to help Botswana establish their own enterprises.

2.3.1. Background information
Since its independence in 1966, Botswana has achieved a remarkable growth in economy, sociopolitical stability and education. Its current political administration, which is one of the leading democratic systems in Africa, is based on equity in the distribution of resources and services. Although the discovery of mineral wealth (that is diamonds) has propelled Botswana into the middle income category, the country still faces the problem of economic diversification, employment creation, income distribution and poverty alleviation. The country’s economy is highly dependent on the mining and beef sectors for its income and on foreign markets for the import and of basic goods and services. (Government of Botswana, 1997).

Although the Government of Botswana has designed various diversification programmes and policies, the main focus has been the promotion of the development of small enterprises. (Government of Botswana, 1998). The most common argument in favour of small businesses is that they create substantial job opportunities as they use relatively labour intensive technologies. Small firms employ more people per unit of investment compared to larger
firms. Thus a given amount of money will create more jobs if it is spread over a large number of small firms than if it is focused on few large companies (Asri and Baker, 2000).

The major and immediate challenge for Botswana is providing employment for low skilled labour. The declining jobs in South African mines for Batswana, the prevalence of low-skilled and unskilled labour force in the economy and the tendency of the government to reduce its role as the primary employer made the promotion of small firms a primary source of employment creation. Large firms normally tend to produce an elite number of high wage income earners whereas small firms produce a significantly large number of relatively low income earners. The development of small firms would therefore help to spread income to more people. Since the majority of Batswana (over 65%) are living in the rural areas, the promotion of the development of small businesses should continue to be a priority to narrow the gap between urban and rural development and to monitor social inequalities and rural migration.

Small firms also promote the culture of saving and investing in society. The money invested in small firms would probably have been allocated to consumption expenditure if small firms have not been established or sought for it. This nature of propensity to save and invest, induced by the development of small firms, can directly contribute to the overall savings ratio of the population of Botswana. Enhancing the poverty alleviation potential of small firms through financial, regulatory and managerial assistance will eventually reduce dependency on foreign markets. The promotion of the development of small to medium enterprises will therefore have a long run effect of economic independence and sustained sovereignty and autonomous development.

Government agencies and small business support providers have long been concerned with designing and implantation of effective small business assistance schemes and interest in this issue seems to be growing. Several writings and presentations in international conferences continued to find ways of solving the small business problems (Theodore, 1972).

The SMME sector in Botswana is extremely diversified. At one end is the micro enterprise sector often referred to as the informal sector which is made up of entities which employ one or two persons including the owner? Their focus is often to the small locality in which they are located. Small enterprises have somewhat broader scope and may operate on a more structured basis. Small, Medium and Large Enterprises have the capability to cause sustainable employment generation and economic diversification, but timely information on the activity sectors of the economy can influence policies that have the potentials to fast track both employment
opportunities and economic diversification. The specific contribution of each category of
type of enterprise to the economy as a whole is different.

One of the national strategies for realizing income redistribution and social injustice is through
the support of SMMEs. The government of Botswana appreciates the importance of this sector in
meeting national development objectives of rapid economic growth, social justice, economic
independence and sustainable development. Such recognition is a bold step indeed for a nation
whose citizens have always depended on formal sector employment and government support in
times of natural crisis such as droughts. In response to the high costs associated with the AIDS
scourge, the central government is increasingly emphasizing cost recovery and self reliance in its
provisioning of opportunities for growth. The SMME sector is ideal for skilled workers who
have been retrenched from the formal sector; it also provides apprenticeship for illiterate adults
and the young school leavers with no skills to sell to the labour market.

The republic of Botswana has a population of 1.68 million and an annual growth rate of 0.2% in
spite of the HIV/AIDS pandemic. Only 3.5% is over 65 years of age, 40% of the population is
below 15 years of age. Because of the youthfulness of the population, the momentum for future
growth remains relatively high. (Sanderson, Hellmuth, Strzepek 2001)

Economically, Botswana has emerged as a global success story, with a sustained annual
economic growth rate of over 5 percent. In terms of the Human Development Index, it ranks
higher than almost all the African countries, in spite of the high prevalence of the HIV/AIDS
scourge. Because of an honest bureaucracy and political stability. Transparency International
ranks it among the least corrupt countries in the world. However, Botswana has to address
HIV/AIDS, income inequalities and unemployment in order to meet its national development
goals and vision for a healthy, just and productive society (Government of Botswana 1999).

There continues to be uncertainty over the numbers of units and the significance of the SMME
sector to the national economy. Dithato, referring to the recent study, claims that SMMES are
the country's largest employer (Dithato 2003: 11). Self-employment has increased steadily from
3.1% in 1981 to 7.5% in 1991 and 9.6% in 2001 (CSO 1987, 1995, 2001). It has been estimated
that there are 56 000 small, medium and micro enterprises (SMMEs) in Botswana (Briscoe 1998), which employ about 125 000 people.

Unfortunately, little is known about the conditions in which SMMEs projects succeed or fail. There has been little systematic collection of data on new entrants in each category of enterprises, their survival and growth, numbers of business failures and job creation potential. The available evidence shows that a majority of SMMEs in Botswana are of recent origin because most are less than 10 years old (Briscoe 1993, Daniels and Fiseha 1992. There seems to be a high failure rate among start up businesses. 80-85% disappear within five years of start-up. (Rob 1998:4). Substantial proportion micro enterprises however neither disappear nor grow. They survive because the proprietors have no alternative or other potential source of income. It has been estimated that although many small business owners try to expand, only about 2% actually succeed in significantly expanding the business beyond their marginal existence. (Rob 1998:11)

2.3.2: Concepts and Definitions
There are no standard definitions of small, medium and micro enterprises; they vary from country to country. These variations depend on the size of the economy and the levels of development. The Small, Medium and Micro Enterprises Task force (April 1998), has developed definitions of three categories of business enterprises. The Task Force categorized the entrepreneurial entities as micro, small and medium, mainly on the basis of their labour force size and annual turnover (ROB 1998: 9-10).

Micro enterprises: A micro enterprise has less than six workers including the owner and an annual turnover of less than P60 000. About 50 000 of these operate in Botswana. Functionally, 65% of micro enterprises are involved in trading whereas 25% are small scale manufacturers. According to the task force, close to 70% of these are located in the rural areas and women own about three quarters of them. Most lack formal registration and operate from residential premises. Micro enterprises play an important role in addressing the issue of meeting basic needs of people; they provide employment to female heads of households, rural population who do not have access to urban facilities, young generation of Botswana who are unemployed. Micro
enterprises provide space to absorb increased labour supply of the country, which the formal sector is unable to accommodate.

Small enterprises, employ less than 25 paid employees, and have an annual turnover of between P60 000 and P1.5 million. A small business can be defined in various ways. Despite their differences, all definitions agree on the common idea that small and micro businesses employ few people and are characterized by small amount of capital and turnover. According to the United States Committee for Economic Development, A small business will have at least two of the following characteristics

- Managers are also owners
- Owners supply capital
- Area of operation mainly local
- Small in size with industry

Small business enterprises also help to achieve the country’s economic and social objectives. They have higher labour absorption capacity, improved technological skill, better exposure to market opportunities. There is a rapid growth trend of the small scale businesses in the country over the past few years.

Medium Sized Enterprises: employ less than 100 paid employees and have an annual turnover ranging between P1.5 million and P5 million. About 300 medium-sized enterprises are found in Botswana. Most are involved in manufacturing. According to the Task Force findings, a majority of these have no particular need for government assistance. SMMEs employ single youthful persons below 25 years of age. Proprietors have low levels of education, at most five years of primary schooling. This implies that most operate on the basis of informal and self-learnt skills. Working hours are longer for fewer wages relative to the formal sector. The wage differential between the two sectors is as high as 58% (Anand, Sunny 1993).

Medium sized enterprises in the country also contribute to employment generation by creating jobs to the skilled and unskilled workers. The level of production of such firms allows them to enter the export market and compete internationally.
The Government of Botswana has accepted the criteria proposed by the SMME Task force for defining the three categories of enterprises which are based on annual turnover and the number of people employed. (Policy on IN Botswana, Government Paper 1, 1999). Small, Medium and Micro Enterprises in Botswana are relatively young. (Sunny & Babikanyisa, 1994.) Although this is the case, the Government has long recognized the importance of developing the small businesses and all efforts are made to encourage them through various assistance programmes. Rapid economic growth, economic independence, Sustained development and Social justice are the four important objectives that guide the government of Botswana in planning national development.

2.3.3. Before the Development of the SMME Policy
Botswana had in place targeted financial support and advisory programmes to support SMMEs. The programmes were uncoordinated, due to lack of policy and institutional framework that time. Up until 1999, there was no comprehensive policy on SMMEs. Several programmes that supported SMMEs were set up more in reaction to specific problems encountered, other than based on a comprehensive policy framework. There was a prevailing misconception that the provision of financial support was the solution to SMME problems as it created a dependency syndrome amongst SMMEs towards government funding.

2.3.4. The Government initiatives towards SMME Policy Development

Economic diversification is a major policy objective of the Government of Botswana and has been a key determinant of both macro- and micro-economic policy. It is so important that the Ninth National Development Plan (NDP9) covering the period, April 2003 to March 2009, adopted as its theme “international competitive sustainable economic diversification”.

Recognizing the numerous problems faced and being-conscious of the need for a comprehensive policy framework, the Ministry of Commerce and Industry established in May 1997, a private sector led Task Force to address comprehensively SMME issues and to steer the development of a policy for this sector. The Task force held extensive consultations with business owners and
other interested parties throughout the country. It presented a final report to the Minister of Commerce and Industry in April 1998. A working group comprising members from both the public and private sectors was set up by the Ministry of Commerce and industry to review the report and further considerations to the Taskforce recommendations. Out of this a policy framework was developed which focused on the development of SMMEs in Botswana, including guiding principles as well as an outline of the overall objectives of the SMME policy.

It was also realised that due to the above-mentioned problems, there was need to establish an SMME policy framework, this was proposed in 1999. This would help to achieve efficiency. In this, the Government would play a facilitator role of policy formulation and monitoring and allow programme implementation to autonomous agencies. It was recommended that there was need to ensure that appropriate regulatory environment which does not stifle SMME growth is in place and that access to finance was crucial for the sector.

2.4. Small Medium and Micro Enterprise Policy
The underlying principles of the SMME policy are to create an environment in which these enterprises will find themselves comfortable to flourish and grow. To provide an integrated and comprehensive move to the development of SMMEs which will ensure appropriate linkage between the various programmes designed for these enterprises, to discourage as much as possible dependence on the government for assistance. (Policy on Small, Medium and Micro Enterprises in Botswana, Paper, 1 of 1999, 10-11)

The objectives of the SMMEs policy are

- Achieving economic diversification which is one of the main targets of National Development Plan 8.
- Fostering citizen entrepreneurship and empower them with the ability to run businesses, thereby increasing economic activity.
- Encouraging exports by these enterprises. This would lead to tapping of export potential of small and medium enterprises in the country.
- Encourage the development of competitive and sustainable Small, Medium and Micro enterprises community.
• Encourage harmonious blending and establishment of linkage between SMMEs and primary industries in agriculture, mining and tourism.
• Improve the effectiveness and efficiency of support or delivery services to business enterprises.

Creation of employment opportunities. This is one of the main objectives and it has been proved that these enterprises have played a major role in employment creation in the country. (Government Paper No 1. of 1999, Policy on Small, Medium and Micro Enterprises in Botswana) This study will concentrate more on this particular objective in ascertaining employment levels of SMMEs in Gaborone.

2.5. Challenges faced by SMMEs in Botswana

However, for SMMEs to realise their full potential as an engine of growth, it is important to create a favourable environment that allows them to expand and prosper. In Botswana, it is said that SMMEs contribute 75% of formal sector employment.

The performance of these firms has been hindered by a number of problems encountered by these enterprises. While all efforts are being made to alleviate them, some of them continue to exist. The following major problems are identified by various studies.

The SMME Policy document identifies the following as constraints
• Payment difficulties, highly indebted society
• Economy is still largely cash driven
• HIV and AIDS, drought and foot and mouth disease
• Lack of skilled labour
• Lack of access to finance
• Lack of entrepreneurial skills
• Bias of the education system against self employment
• Lack of business start up training
• Business premises
• Excessive government laws and regulations
• Lack of information on government assistance programmes
• Inadequate marketing skills
• Inherent biases against SMMEs
2.6. Conclusion

The SMME sector is not very well researched and documented in Botswana. This can be surprising because the government and other policy advocacy groups have identified it as an important sector in the economic wellbeing of the country partly due to its employment creation potential as well as its impact on reducing poverty. (GOVB, 1999). There has been however some effort to document and streamline efforts to support this sector since the adoption of the Policy on SMMEs in 1999. (GOVB).

The government of Botswana has accordingly recognised the important role of the SMMEs sector for the overall development, given that the formal economy is unable to absorb the increasing labour supply. As a result the policy is geared towards supporting their growth through a variety of programmes, which range from financial assistance, technical assistance regulatory provisions, training and other types of business development services. This shows that the government has given great priority to SMMEs through various assistance schemes and incentives’. Arising from this, one of the key issues is to identify the current information practices and needs as well as the obstacles that SMMEs face in their daily business activities and to provide guidance that will lead to more economic growth and employment growth.

The SMME policy is a clear indication that there is a future for SMMEs in Botswana. The government has in the policy document recognized the problems encountered by SMMEs. Financial assistance schemes supported by appropriate and timely training programmes will go a long way in solving the problems face by SMMEs in the country and this will ensure continued growth of these enterprises in the country.
CHAPTER 3
LITERATURE REVIEW

3.1. Introduction
This chapter presents both the theoretical and empirical aspects of the literature review.

3.2 Theoretical background and conceptual framework
The contribution of SMMEs towards growth, job creation and social progress is valued highly and small business enterprises are regarded as an important element in a formula for the achievement of economic growth, Vosloo cited by Sunny and Babikanyisa. The development and performance of SMMEs have been of great interest to entrepreneurs, government's venture capital firms, financial institutions and nongovernmental organizations (Baker, 1992).

Over the last two decades there is increased feeling that SMMEs should grow and increase their contribution in developing countries. SMMEs are believed to make substantial contribution towards employment creation poverty alleviation and ownership of the productive sectors. (Duncan, Rondinelli etal, 1993.

In this study informal sector and micro enterprises are used interchangeably and are considered to consist of small economic activities consisting of small economic activities essentially characterized by unregulated markets, low capital inputs, intensive labour, self employed

3.3. The importance of SMME in job creation the world over
The relevance of SMMEs in employment creation the world over cannot be overemphasized. SMMEs are the major growing force behind the fastest growing economy of China in terms of contribution to the national Gross Domestic Product, diversification of products and the creation of employment. The role of SMMEs is well acknowledged in other countries such as Japan, Korea and all other industrialized economies in terms of creating employment, reducing poverty and increasing the welfare of the society (Fida, 2008).
There are approximately 23 million small businesses in the US and these altogether employ more than 50% of the private workforce. In Latin America politicians are beginning to realize that SMMEs are the true job creators, as well as important players in technology supply chains. The majority of Chile’s enterprises are micro, which is defined as having a turnover of less than $75 000. The number of SMMEs has increased by 50 000 since 2001. This equates to 95% of total employment. (Chilean Economic Development agency, 2005)

Some of the world’s best performing economies notably Taiwan and Hong Kong are heavily based on small enterprises. In Hong Kong, a total of almost 270 000 SMMEs accounts for over 50% employment, providing job opportunities to almost 1.2 million people in 2005. (Government of Hong Kong Trade and Industry Department, 2006).

An International Labour Organization (ILO) World Employment report of 1999, noted that the lack of jobs in the formal sector of the economy as well as the lack of skills among a large part of the labour force has resulted in the growth of a substantial informal sector in which most workers are engaged in low paying employment. According to the ILO report, among the different categories of the informal sector, small, micro and medium enterprises represent the economically stronger and more dynamic element. Part of the sector is connected to the formal sector through subcontracting arrangements. Santos has conceptualized these linkages and itemized some of the key elements of flexibility which makes the informal sector strategic for creating employment in developing countries. (Santos 2000:22).

The ILO has initiated various programmes to help improve the formulation of employment policies and to facilitate the creation of small and micro enterprises throughout the continent. Such programmes conceived within the framework of the United Nations system wide Special initiative on Africa, seek to ensure that employment generation is given central importance in national macroeconomic policies and that smaller enterprises realize their job creation potential. Mary Chinery-Hesse, ILO Deputy director – General for development and technical Cooperation has observed that in South east Asia , with the right types of policies and institutional support, the
informal sector can expand and develop to generate large numbers of productive and remunerative jobs from those micro enterprises and self employment activities. (ILO; 96/7).

Case studies on the significance of this sector has been noted in Thailand, where micro and small enterprises served as a major employer for the unemployed during the Asian crisis of the late 1990s. (Dickhoven, Bucherieder 2000). Wallace shares these views and affirms that SMME enterprise development has been considered key to economic development throughout the so-called third world for several decades. He remarks that with unemployment ranging from 25 to 45 percent in most developing countries, self employment and micro enterprise development is seen as the only way to reach “the poorest of the poor. He also feels that without strong private enterprises in the form of SMMEs developing countries cannot hope to enter international trading. He sees SMME development as central to social and economic development on a continent plagued by exceedingly high levels of unemployment and poverty.

Governments around the world have come to recognize the vital role played by small and micro enterprises in helping achieve industrial and economic development objectives of an economy. Create jobs, generate wealth and provide satisfying careers for entrepreneurs, to realize their full potential as engines for growth.

3.4. Importance of SMME in job creation in Africa

SMMEs are also flourishing in Africa. In Nigeria SMMEs are the backbones of the economy. The SMME sector on average provides 50% of Nigeria’s employment and 50% of industrial output. In many cases they are the only realized employment opportunities for the communities. Nigerian Investment Promotion Commission (NIPC) presented at a seminar in Dubai in 2007). The employment generating capacity of the SMMEs in the country is reflected in the fact that they have effectively served as stimulus for indigenous entrepreneurship, and according to Olorunshola (2003), they have consistently created greater employment opportunities per unit capital investment than any other sector of the economy.
In Zimbabwe, the fast growing informal sector is the largest employer, in a country with spiralling poverty and unemployment, there is very little hope of finding a job in the formal sector. (Mpofu, 2004)

In Kenya, the SMME sector contributed over 400,000 jobs annually and contributes over 70% of the total employment. This sector has a significant contribution to GDP. The overall goal of the SMME policy in Kenya is to develop a vibrant SMME sector capable of promoting the creation of decent and productive employment opportunities, stimulating economic growth. (Sessional Paper No. 2 of 2005)

In Lesotho the SMMEs are involved in a wide range of activities including small scale manufacturing, retailing, wood and metal work sewing and knitting, horticulture, handicrafts and food sales to the benefit of all stakeholders. SMMEs can make an enormous contribution to economic development and poverty reduction because their start up costs are often low allowing individuals to engage in productive activities even if they have limited access to capital. Most importantly they provide a means of livelihood to a significant portion of the economically active population. Many of the SMMEs are run by women and youth, providing an important means for them to participate in the economic development of the country.

The SMME sector has an important role to play in the present and future economic development, poverty reduction and employment creation in developing countries (Hallberg, 2000). According to Stern (2002) the SMME sector largely exceeds the average economic growth of national economies in many countries and contributes significantly to employment creation. Botswana is one of the developing countries in Africa.

3.5: Empirical evidence
Empirical studies on self employment in Africa are scarce and in Botswana in particular are very scarce. Many of the studies analyze self-employment under the informal sector employment concept or entrepreneurship. Many of them tend to show that informal sector a proxy for micro enterprise sector employment has been increasing in the past three decades or so (Davies 1978;

In this study informal sector and micro enterprises are used interchangeably and are considered to consist of small economic activities consisting of small economic activities essentially characterized by unregulated markets, low capital inputs, intensive labour, self employed workers with the possibility of unpaid family members and a few hired workers. This definition is in line with the categorization by ILO (2000), Sunny et al (1994) and Rakowski (1994), Moser (1994). The International Labour Office, ILO for instance, categories the informal sector as “Consisting of very small scale units established and operated by self employed persons for the purpose of creating their own employment and generating income. They are mostly operated by persons working alone, with the help of unpaid family members and possibly with a few hired workers on apprentices”

However, some of the self employment activities may be formal in the sense that they are registered and recorded in the official statistics (not parallel on second economy activities) and are registered and pay taxes to the governments.

The informal sector has been a major provider of urban jobs in Africa for a long time. By 2000 it was accounting for over 60% of the total urban population in Africa as a whole (ILO2000). On average the informal economy was estimated to have been 42% of Gross Domestic Product (GDP) in 1999/2000 in Africa. Zimbabwe, Tanzania, Nigeria were at the high end with 59.4, 58.3 and 57.9 percent respectively. At the lower end, it was Botswana and Cameroon with 33.4 and 32.8 percent respectively. Mwamba 2004:28). Despite globalisation and fierce competition the informal sector or small and medium enterprises have recently a major role in poverty alleviation through and income generation especially in rural area of Africa where the majority of the people live (Kapunda 2006). Similar views were given by Mukras (2003) and Mwamba (2004).
Between the past two labour force surveys 1990/1991 and 200/01 informal sector employment in Tanzania grew by about 56%. Self-employment grew by around 73% while paid employment declined by 100%.

The informal sector in Tanzania had been growing rapidly due to the restructuring of the economy and the process of retrenchment in the government and parastatal sectors. Thus the limited ability of the formal sector to create adequate job opportunities led to the growth of the informal sector and self-employment activities. Poor people especially women took advantage of the growing informal sector. Mwamba (2004:32; Teal 2006; 41 has also noted that the surveys carried out in Tanzania and Ghana indicate that an increasing number of people, including the young and the women are finding work in the self-employment sector.

It is estimated that employment in the informal small enterprises in Kenya rose more than threefold between 1981 and 1991 and the growing trend is positive. Most of the enterprises are carried out on self-employment basis managed by both men and women. (Kapunda 2006; 556). Even in more developed countries, self-employment has been increasing over time. In England for example, self-employment as a percentage of total labour force grew from 6.6 percent in 1996 to 12.4 percent in 1996. In New Zealand, it rose from 13.9% to 19.1 percent while in Portugal it increased from 24.1 percent in the same period. (Blanchflower 1998; 27).

The existing state of affairs does not indicate that there exists timely and reliable information on the SMMEs in Botswana. Reliable, consistent and up-to-date official statistics on SMMEs in Botswana is lacking. The first ever and most comprehensive nation-wide household survey of micro and small-scale enterprises (MSEs) were conducted by Daniels and Fisseha (1992). The study estimated the MSE sector to consists of 48,000 enterprises, employing over 88,000 people. This was followed by another estimate in 1998 by the Task Force Report on the Policy on SMMEs in Botswana, indicating that there were approximately 56,300 Small, Micro and Medium Enterprises (SMME) businesses operating in Botswana, employing 125,000 people including business owners (Task Force Report on the Policy on SMMEs in Botswana, 1998). The report also estimated the SMME sectors contribution to be in the range of 30-45% of GDP.
The Central Statistical Office (CSO) conducted a survey of the informal sector in 1999/2000, which identified 28,726 household enterprises employing 222,611 people.

In Botswana, the National Development Plan 5 (NdP5) formally spelt out the role of self-employment and non-formal employment as follows. ‘In the long run higher incomes for Botswana will depend on the availability of more productive work for Botswana. This means that not only formal employment must be expanded, but also that new opportunities for non formal employment and self employment must be provided’ (Government of Botswana, NDP5:1980:67).

However, today, the unemployment problem and the poverty incidence among the youth including young women are still great. Considering the national vision’s goals of eradicating absolute poverty and attaining full employment by the year 2016 (Rob 1997:8) there is a great need to find a solution to the problem.

Sunny et al (1994) noted the following observations
- Women with low education (never attended school and primary) tend to dominate marginally ownership of the enterprises.
- Men entrepreneurs with technical education outnumber women entrepreneurs with such education.
- Women dominated in managing micro and small enterprises (MSEs) in Botswana.
- Women entrepreneurs were mostly concentrated in trade (almost three quarters concentration) followed by manufacturing and services.

Mosotho (2003) analysed employment creation of specific subsectors of the informal sub sectors of the informal sector, food vendors and barbers in Botswana. The study found that
- Half of the informal business owners were self employed.
- Females constituted a larger proportion of self employment persons and unpaid family work than males.
- The informal sector is no longer confined to uneducated persons only those educated are also joining the informal sector.
However, the study focused only on food vendors and barbers with very small sample size and it also focused mainly on poverty alleviation. This study will focus more on employment generated by the informal sector. At this point, it is worth noting that studies on the contribution of the informal sector and self-reliance activities in employment creation are very scarce in Botswana.

Some empirical findings have shown that stiff competition is a major problem especially to smaller enterprises. The proposition is supported by many authors. Examples include Aikaeli -2007 (Tanzania); Isaac, W. J. (Uganda), Kapunda, Magembe and Shunda -2007 (Botswana) Mukras -2003 (Botswana, Kenya, Mauritius and Zimbabwe); Ibeh and Young -2001 (Nigeria; and Viviers, Kroon and Calof-1996 (Southern Africa. Most of these studies point to the observation that the majority of SMMEs are constrained by the availability of funds and the ability to produce products of high quality. Their products are perceived as of low quality by the local consumers.

Regarding availability of funds, many authors support the proposition that lack of funds is a big problem for SMMES especially smaller enterprises. Examples include; Acquah and Mosimanegape-2007 (Botswana); Chipeta and Mkandawire, 1991 (Malawi, Isaac -2007 (Uganda): Ibeh and Young -2001 (Nigeria); Kapunda, Magembe and Shunda-2007), Mukras-2003 (Botswana, Kenya, Mauritius and Zimbabwe) and Viviers, Kroon and Calof 1996 (Southern Africa).

Regarding the gender dimension, empirical evidence supports the proposition that lack of funds, stiff competition and lack of markets are more serious to SMMEs owned or managed by women than those led by men. Examples include, Euro chambers-(2005), and Kapunda, Magembe and Shunda (2007). The first study indicate that in Canada, nearly 50 percent of women entrepreneurs quoted financial problems as the most important obstacle when starting and when running a business. The system used by banks in rating a borrower’s creditworthiness using information from financial statements, annual reports, business plans or tax returns is an important factor for the price of a loan to an SMME. This could explain why in 2004 women entrepreneurs in Canada were less likely to approach financial institutions for financing than their male counterparts. Six
percent felt their applications would be rejected and so avoided approaching financial institutions. (Euro chambers 2005).

The second study (Kapunda, Magembe and Shunda 2007) also supported the proposition that stiff competition, lack of funds and lack of markets are the more serious problems to SMMES led by women. This is because of their relatively limited access to finance and markets. Consequently, SMMES owned by women tend to be smaller and their performance in terms of employment and profitability for example is lower than those owned by men (Kapunda, Magembe and Shunda: 2007). However, it should be noted that women entrepreneurs with high level of formal education and great experience are more likely to embark on large projects that can perform equally well with those owned by men.

Another study carried out by S. M. Kapunda, B. Magembe and J. Shumba examined the problems faced by SMMEs in their operations. The problems found included intense competition, lack of funds and lack of market. The study established that

- SMMEs in Botswana do not consider the availability of funds as major problems because personal savings, loans from commercial banks and subsidized loans from Citizen Entrepreneurial Development Agency (CEDA) are easily available as sources of funds.
- While SMMEs are globally dominated by men, the number of female owners has increased. In Botswana the ownership of SMMEs in the informal/self employment has been dominated by women. Kapunda and Mmolawa, 2007).

It also examined the problems faced by SMMEs with special gender considerations in Botswana. The study established problems faced by female owned or managed enterprises. The study highlighted that

- While SMMEs are globally dominated by men, the number of female owners has increased. In Botswana the ownership of SMMEs in the informal/self employment has been dominated by women. Kapunda and Mmolawa, 2007).
- 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.
• 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 SMMEs owners in creating and developing their business was financial.

• Female owned SMMEs suffered more acute competition than their male counterparts due to the fact that female SMMEs 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.

3.6. Constraints limiting SMMEs growth potential and employment generation

Although SMMEs are regarded as fundamental to employment generation, innovation and improved standards of living, serious challenges continue to confront these business ventures. These include the unfavourable regulatory environment in which they operate such as complicated registration/licensing procedures (Janssen, Sedaca 2000), restrictive zoning, crippling taxes, complex company laws, lack of marketing and managerial skills including record keeping, inventory control and tendering procedures, negative customer relations (Rwigima, Kerunju 1999), weak backward and forward linkages (Havers 1999), and precarious support financing. There is moreover an overall need for them to develop a culture of entrepreneurship (Ndoozie 2000). In spite of the ongoing efforts to promote this, the school system has continued to nurture the development of an employee rather than a self-employment culture. The concept of education with production therefore needs to be assimilated and internalized in schools to promote entrepreneurship among the pupils’ recent study on the service trade, manufacturing and construction industries in Botswana, for example, revealed that most of the enterprises that had such problems mentioned labour deficiency features including laziness of workers, theft and frequent absconding from work. (Dithato 2003)

• Lack of adequate credit for SMMES, traceable to the reluctance of banks to extend credit to them owing among others to poor documentation of project proposal as well as inadequate collateral by SMMEs owners. Weak demand for products arising from low and dwindling consumer purchasing power and lack patronage of locally produced goods. Incidence of multiplicity of regulatory agencies and taxes which has resulted in

24
high cost of doing business and poor management practices and low entrepreneurial skills arising from inadequate educational and technical background of many SMME owners. Regulatory compliance which ordinarily reduces the cost of doing business for private sector and incurs costs—time and money, adverse effects. Under capitalization, difficulty in gaining access to bank credits and other financial markets, corruption, lack of transparency, very high bureaucratic costs. The most worrying of all these challenges is funding. Most business enterprises are not attractive prospects for banks as they minimize their risk profile. In Botswana the situation is not very different.

- In Lesotho the situation is not different and the SMMEs had the following constraints. The process of licensing a new investment can be unnecessarily long and complex. There are currently many Government departments involved in the process. In Zimbabwe the main constraint to expansion of small scale enterprises is the limited range of products and a general perception of low quality and value by the general local customers. These problems have negative effects that have hindered industry from reaching its full growth potential and therefore generating more employment.

- Zimbabwe the main constraint to expansion of small scale enterprises is the limited range of products and a general perception of low quality and value by the general local customers. These problems have negative effects that have hindered industry from reaching its full growth potential and therefore generating more employment.

3.7. Conclusion

The SMMEs sector has an important role to play in the present and future economic development, poverty reduction and employment creation in developing economies. They play an important role in the development of a country; they contribute to economic development in various ways by creating employment for the rural and growing labour force, providing desirable sustainability and innovation in the economy as a whole. In addition to that a large number of people rely on SMMEs directly or indirectly and most current larger enterprises have their origin in small and medium enterprises. For developing countries, integration into the global economy through economic liberalization is seen as the important way to triumph over poverty and inequality. Important to this process is the development of a private sector, in which small. Micro and medium enterprises can play a central role.
However all these studies have concentrated mainly on other aspects of how SMMEs contribute to economic development and none of them has researched on employment issues. This study however focuses on SMMEs contribution specifically to employment creation and attempt to add value to the topic. Furthermore the study will provide useful inputs to policy makers, researchers and others who have a keen interest in the informal sector and employment creation.
CHAPTER 4

METHODOLOGY

Data sources

4.1: The study made use of both primary and secondary data.

4.2. Data collection and sampling procedure

As part of the research a survey was carried out to establish the activities of SMMEs. The Questionnaires was designed and personally administered to various small and medium scales business operators in Gaborone. A total of 60 questionnaires were distributed randomly to small business owners who were randomly sampled in Gaborone. The survey was meant to establish employment numbers in small businesses. The survey was carried out in the months of October and November 2010. In some instances the personal interview was also used to get further clarity of the information sought.

4.3. Data analysis

The information collected from the interviews and questionnaires was analyzed by reducing quantitative data into numerical values and or the use of frequency tables. Qualitative data was categorized into themes and or reduced into numerical values.

4.4. Ethical considerations

Confidentiality: The researcher made sure that all information collected through the research would be treated with strict confidentiality and all participants were assured of this before they supplied the information.

Informed consent: The researcher first got the consent of each participant before getting them involved in the research.

No coercion: Each participant was free to take part in the research without any one forcing or influencing them to do so.
Preconceived bias: The researcher ensured that no preconceived bias existed before administering the interviews or the questionnaires.

Generalizing: The researcher would not over generalize information during the administering and collection of information from interviews or questionnaires.

No manufacture of information: The researcher would not manufacture own information from what was provided by the participants.
CHAPTER 5

FINDINGS AND THEIR INTERPRETATIONS

5.1 Findings on SMME contribution in employment creation and the numbers employed by SMMEs in Gaborone

The study revealed that out of the 60 enterprises sampled, a total of 860 people are employed by small, medium and micro enterprises. 57% of total employment consisted of males while 43% were females for details see table 1. From this it can be observed that the SMMEs that were sampled employ close to a thousand people, thereby reducing unemployment levels, poverty reduction, reduction of the social ills like crime rates and the general well being of the community. This can be encouraging after one considers the total number of all the SMME Existing in the city and more on all SMMES in the country. There is a possibility that if all SMMES had been included in the sample, the total number of people employed country wide is great. This information is similar to what was given in the literature by (ILO) that SMMES are a major provider of urban jobs in Africa. The numbers in this table seem to suggest that SMMEs generated substantial employment. One of the issues to be investigated in the study was to answer the question of the numbers that SMMES employ in Gaborone. And to examine the contribution made by SMMEs in employment creation. With the results of this research it is not easy for one to answer this question but some inferences can be made that if 60 enterprises sampled employed close to a thousand people, it might mean that the whole Gaborone SMMEs employ quite a large number of people with the results of this study as our basis. One can also infer that considering the fact that Botswana's population is estimated to be about 1.8 million people and that SMMEs employ thousands of people one can safely assume that the contribution made by SMMEs in employment creation in Gaborone is great.

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>488</td>
<td>57%</td>
</tr>
<tr>
<td>Female</td>
<td>372</td>
<td>43%</td>
</tr>
<tr>
<td>Total</td>
<td>860</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 1. Total Employment
5.1.1. Enterprise ownership

Regarding ownership of the enterprises, as shown in table 2, most of the enterprises are owned by males 62% compared to 38% owned by females. It can be observed that female ownership is almost half of that of males. This can be compared to Kapunda and Mmolawa’s findings that SMMEs are globally dominated by men.

Table 2: Enterprise owners

<table>
<thead>
<tr>
<th>Gender</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>37</td>
<td>62%</td>
</tr>
<tr>
<td>Female</td>
<td>23</td>
<td>38%</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100%</td>
</tr>
</tbody>
</table>

5.2. Findings on activities that SMMEs in Gaborone are involved in

Most enterprises were involved in the provision of services. A large variety of services were offered examples being car wash, hair dressing, business consultancy, accommodation, internet cafes and estate agents to name a few. For details see table 3. Professional services like lawyers, hair salons, panel beaters, mechanics, doctors, primary schools and tailoring accounting for 72%, about a fifth of the enterprises were involved in trading which included food ventures, clothing items, shoes, chickens books and furniture. The remaining 8% was involved in manufacturing and construction. Manufacturers mainly dealt with garment making, chicken farming, furniture making, kitchen and roof fittings as well as wood and timber manufacturers. Construction activities were mainly involved in maintenance of drainage systems, painting, plumbing work and electric fittings. Construction and manufacturing activities were dominated by males with no females at all. This is due to the nature and type of work involved which is mostly physical and most females are not good at. Generally all activities were dominated by males although females participated more in trade and service activities such as lodges offering accommodation and food vending, selling chickens, cosmetics and shoes. This information helps me to answer the second research question that seeks to find out the activities that SMMEs in Gaborone are involved in.
### Table 3: Types of businesses activities

<table>
<thead>
<tr>
<th>Gender</th>
<th>Economic activities</th>
<th>Manufacturing &amp; construction</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Trade</td>
<td>Service</td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>7 (58%)</td>
<td>26 (60%)</td>
<td>38 (63%)</td>
</tr>
<tr>
<td>Female</td>
<td>5 (42%)</td>
<td>17 (40%)</td>
<td>22 (37%)</td>
</tr>
<tr>
<td>Total</td>
<td>12 (100%)</td>
<td>43 (100%)</td>
<td>60 (100%)</td>
</tr>
</tbody>
</table>

#### 5.3: Employees by ages

In the study employees were also analyzed according to their ages. See figure 1 for details. From this figure it can be observed that the SMME sector employs more youth than adults. The youth is defined as those employees aged between eighteen and thirty years while adults refer to those employees above the age of thirty. The labour force of the enterprises is comprised of 61% youth and 39% adults. The adult employee population is almost half that of the youth. This may be due to unemployment in the country where the young graduates fail to secure jobs in the formal sector and thereby end up being absorbed in the informal sector of the economy. This is similar to what was given in the literature that the limited ability of the formal sector to create adequate jobs, led to the growth of the informal sector. Mwamba (2004:32)

![Employee ages](image)
5.4: Findings on SMMEs growth prospects

This figure gives an outline of when the enterprises were started. From this table it can be observed that only 20% of the enterprises were started in the nineties, while 30% were started between 2000 and 2005 and 50% between 2006 and 2010. In 1995 only 12 enterprises were operational from those that were sampled, by 2000 this number had risen to 18 and by 2010, it had grown to 30. This shows a positive growth trend of SMMEs which were very few in the nineties and grew by more than half in the twenty first century. This information is similar to what is given in the literature that the informal sector has been growing rapidly due to the restructuring of the economy and the process of retrenchments in the government and parastatal sectors and that the young and the women are finding employment in the informal sector (Mwamba (2004:32); Teal 2006:41). The information shown on this table can also help us to answer the question about growth trends of SMMEs in the country. We can see that there was a positive growth trend of SMMEs. This would mean that as more SMMEs are being started, the number of people employed will also rise, thereby reducing unemployment in the country. The information on this table also suggests that it is in line with the given hypothesis of the study that employment growth prospects are positive. This leaves the possibility that total SMME employment in Gaborone may have been rising. However, this view is only viable when one only considers the available information, when other factors are considered the picture will be different. For example, if one considers the information given in background literature about Botswana SMMEs given by (Briscoe, 1993, Daniel 1992 and Robb 1998) that the majority of SMMEs fail in their first five years, this may also explain the fact that most SMMEs sampled are of recent origin with a sharp positive growth trend between 2000 and 2010. It may also mean that employment in some firms may also be falling as it is possible that some firms do not survive the first five years of their establishment. It would require reliable aggregate data to answer this question satisfactorily, especially if the rate of firm mortality and the levels of employment of the disappearing firms are also taken into consideration. Considering the results of the study alone one can safely conclude that the growth trend of SMMEs is positive.
5.5. Findings on employment growth prospects

As shown in Figure 3, the majority of enterprises intend to hire between 6 and ten employees while about 9 intend to hire up to 5 more employees and about 8 of the enterprises intend to hire about fifteen more employees. And about 18 of them intend to hire more than 15 employees in the next three years. This shows that the number of employees is likely to grow in future as the businesses also grow. However most enterprises will hire between 6 and 10 employees. This information is similar to what was provided in figure 1 that there are more small enterprises employing between 6 and 25 employees. The fact that each firm intends to recruit more employees in the next three years on its own, gives a clear indication that most of the SMMEs will be growing and hence a general positive growth trend of employment numbers. It can be assumed that as each firm employs more people whether as a micro, medium or small makes a difference in employment growth. The future growth prospects of employment are promising.
5.6: Employee skills

Figure 4 gives an outline of the employee's skills. It can be observed that only 15% of the employees have degrees, 30% have diplomas and another 15% have certificates while others representing 40% are not without any qualification at all. Others are those without any qualification at all ranging from informal to junior certificate. This means 40% of the labour force has no qualifications at all. Confirming the information contained in the literature that the informal sector provide employment to the unskilled and semi skilled population. These unskilled labour forces get employment in SMMEs as a source of their livelihood. With the small wages gained from SMMEs they can earn a living. This information is also in line with Mosotho studies that established that the informal sector is no longer confined to uneducated persons; those who are educated are also joining the informal sector. Mosotho (2003). This information also points to the importance of SMMEs to an economy in that SMMEs provide employment to the unskilled, the women household heads as well as the youth. Thereby eradicating poverty, income redistribution and improving the general well being of a society in the long run.
5.7: Owner’s level of education
As shown in figure 4, 7% have secondary school qualification 22% have informal education and 72% have tertiary education indicating that the educated people are also joining the informal sector possibly because the educated graduates are increasingly failing to find employment in the formal sector and hence end up being involved in self-employment activities and thereby create employment for others. This information is similar to what is in the literature. (Republic of Botswana, NDPS: 1980; 67). This shows that business community is made up of the skilled and unskilled with the skilled occupying the larger share. The informal owners are those who never went to school, have no skills, cannot be employed because of lack of skills and ventured into entrepreneurship to earn a living. The information also indicates that the educated labour force cannot find employment in the formal sector after graduating and therefore start own enterprises for self-employment and create employment for a few others in a nation where unemployment is a major problem. This information is similar to what was given in the literature that the problem of unemployment and the poverty incidence among the youth including young women and children is still great (Rob 1997:8). This also points again to the importance of an SMME sector in creating employment for both the skilled and unskilled population who cannot find any alternative employment anywhere else. This also means that the contribution of an SMME sector to an economy is great as outlined in the literature review.
5.8. Business owners' ages

As shown in figure 6, the majority of the owners are aged between 41 and sixty years, and 32% within the ranges of between 26 and 40 years and only 10% are 25 years and below. This means that most owners are middle aged while a smaller percentage is youthful. This is in line with the information in the literature that Botswana has a youthful population. This also points to the fact that the youth are more affected by the problem of unemployment and will therefore end up starting their own businesses and get self-employed and also help to employ others.
5.9: Types of Enterprises
From figure 7, small enterprises occupy the largest portion 53% followed by micro 40% and very few medium enterprises comprising only 7%. The definition of enterprises is given in the literature and it states that the enterprises were developed and categorized based on their labour force size and annual turnover (Rob 1998; 9-1. This is also in line with the fact that they operate within the parameters of a local market within the confines of a national market because of their size. This information is also in line with what was given in the background literature that

Figure 7: Types of enterprises

![Types of Enterprises](image)

5.10: Employee experience
Figure 8 outlines the employment experience of the most senior employee in the enterprises that were sampled. From this figure the majority of employees had between 5 and 10 years experience, about a fifth has 11 years and above while about a sixth had between 0 -4 years experience. This shows the fact that SMMEs are still young in Botswana.
5.11: Findings on ways that would improve the sustainance of SMMEs
Table 3 gives an outline of suggested ways of improving SMMEs. From this table the majority suggested increased government funds, followed by SMMEs joining to form bigger units so as to get bigger tenders, 10% suggested that the government to provide training to business owners, 10% also suggested that SMMEs must go international. Most people feel that SMMEs need more government funding to create more Employment.

Table 4: Suggested ways Improving SMME sustainance

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>More funds from the government</td>
<td>50%</td>
</tr>
<tr>
<td>Join to form bigger units to win bigger tenders.</td>
<td>25%</td>
</tr>
<tr>
<td>The government to give training to business owners</td>
<td>10%</td>
</tr>
<tr>
<td>SMMEs to go international</td>
<td>10%</td>
</tr>
<tr>
<td>Others</td>
<td>5%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

5.12: Findings on the hypothesis

The findings of the study have confirmed that the contribution made to employment creation by SMMEs in Gaborone is great and that employment growth prospects are positive.
CHAPTER 6

CONCLUSION AND RECOMMENDATIONS

6.1. Conclusion

The general objective of the study was to examine the role of SMMEs in creating employment in Gaborone. It has been found that the number of new SMME businesses have been increasing in the past decade or so. Furthermore a strong SMME sector is important in poverty alleviation especially among women and youth who are mostly unemployed. The SMMEs tend to generate further employment to workers who are employed by the owners of such activities. On average the study has shown that the employment numbers of the SMME sector in Gaborone has improved greatly.

This study outlined the contribution of SMMEs contribution to general economic growth with special emphasis to employment creation. SMMEs have a major role to play in the Botswana economy, in terms of employment creation, income generation and output growth. The promotion of SMMEs is a key element in the government strategy for employment creation and income generation; however SMME development is hampered by a number of factors including finance, lack of managerial skills, equipment and technology, regulatory issues and access to international markets. There is need for more investment into SMMEs sector, so as to create capacity for labour absorption and output growth as well as to improve income generation and redistribution.

The predominance of SMMEs, both in terms of numbers and employment opportunities generated, demonstrates that SMMEs form an important part of the Botswana economy. The government has been quiet active in promoting SMMEs. The new SMMEs policy is an indication that the future of SMMEs in Botswana is going to be bright. The government has in the policy shown that it has recognized the problems encountered by small and micro enterprises. and the financial and non financial assistance schemes supported by timely and appropriate training schemes will definitely go a long way in not only solving the problems and constraints faced by SMMEs in the country, but also continued growth and success of these enterprises in Botswana and hence more employment creation.
It has now been acknowledged that a large majority of business units are small, and even a conservative review of the job generation literature suggests that SMMEs account for at least a proportional share of employment creation in Botswana. The net jobs created however result from a very dynamic process of expansion and contraction. While some small businesses start and remain small throughout their existence, others experience stages of growth. This study revealed that although only Gaborone SMMEs were included in the analysis information learnt from them can go a long way in helping decision makers of the country on SMMEs contribution to employment generation in the country.

6.2. Policy implications and recommendations

With the information gained from the study SMMEs indeed contribute significantly to employment generation and given the right environment and direction the country can achieve its goals of economic diversification and sustainable development. However, a number of areas can be improved ensure that SMME increase the employment generation

- There is need to develop a culture of entrepreneurship in the nation by introducing education programs in schools that are biased towards self employment in which craft training is given to the young people in schools.
- In order to alleviate the problem of too much competition, SMME are advised to form cooperative groups so that they can pool resources and work together towards looking for external markets. SMMEs are also advised to produce and market goods that can be exported to other countries, rather than to depend on domestic market.
- Business owners need more training on issues of business management and record keeping skills.
- Furthermore the government should encourage the SMME sector activities especially when they show good performance. Special attention should be given to the vulnerable groups such as women and the youth.
- Efforts must be made to change and implement the education system towards more practical and entrepreneurial system. Education should be made so that there is a balance between technical /vocational education since many schools and university graduates lack self employment skills. The educated and those with entrepreneurial skills who would
like to venture into self employment activities which create employment to others especially the poor, women and the youth should also be supported by the relevant government and nongovernmental agents.

However SMMES due to their small size and resulting peculiarities are far less capable of adjusting and carrying on successful businesses. There are also some hidden and apparent obstacles on the path of growth of small and medium enterprises. What it requires is to pursue the policies and regulatory reforms to turn SMMEs into effectual instruments for the enhancement of economic growth and employment creation in particular. Furthermore the environment in which SMMES operate is constantly changing especially in the scenario of globalization and openness of the economies. Therefore, the course of action of SMMES should be set for the long run period.

6.3: Limitations of the study

The study will be limited to Gaborone because of lack of funds and time. The sample concentrated mainly on small business owners who are mostly involved in domestic trade.

6.4: Recommendations for future research

- Due to the limitations the research could not extend to other parts of the country in terms SMMEs and their employment generation, it is recommended that future research will cover all areas of the country.
- Very little is known about the conditions under which SMMEs succeed or fail, this is another area that may need further research.
- Some research also need to be done as to the implementation of the SMMEs policy and its monitoring programmes in place.
- How the SMMEs employment numbers were affected by the recent global recession is also another area for future research.
- How the employment numbers are affected by the HIV and AIDS.
REFERENCES


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APPENDIX
SMMEs CONTRIBUTION TO EMPLOYMENT CREATION QUESTIONNAIRE

Date: ---------------------------------- Questionnaire No -----------------------------

SECTION 1: BACKGROUND INFORMATION

1.1. Name of enterprise

1.2. Location

1.3. Name of business owner (optional)

1.4. Owner's particulars (Tick the appropriate item)

| 1.4.1. Gender | 1. Male |
|              | 2. Female |

| 1.4.2. Age  | 1. 18-25 |
|            | 2. 26-40 |
|            | 3. 41-60 |
|            | 4. 60+   |

| 1.4.3. Education | 1. Informal |
|                  | 2. Primary  |
|                  | 3. Secondary|
|                  | 4. Tertiary |

| 1.4.4. Marital Status | 1. Single |
|                       | 2. Married |
|                       | 3. Widowed |
|                       | 4. Others (specify) |
SECTION 2: ENTERPRISE PARTICULARS

2.1. When did you start your business?

2.2. Type of business
   1. Trade
   2. Manufacturing
   3. Service
   4. Others (specify)

2.3. Describe main business activity

2.4. How many employees work for your company?

2.5. Specify their gender
   males females

2.6. Employee ages and numbers
   below 30
   31-40
   41-50
   Other (Specify)

2.7. Employee qualifications and numbers
   Form five
   Certificate
   Diploma
   Degree
   Other (Specify)

2.8. How many years of experience does your most senior employee have years.

2.9. How many people to do intend to be employing in the next three years

2.10. Indicate your employment numbers for the past three years on the table below

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of employees</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.11. What do you recommend for the improvement of SMMES ability to employment creation?