

Levelling the SME playing field

Enabling success and scale through technology





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Foreword

by Shameel Joosub,
CEO of Vodacom Group

Over the course of the Africa.connected campaign, we have unpacked and explored how connectivity coupled with digital services, tools and platforms can support Africa's transformation. We launched the campaign back in 2021 and have partnered with so many incredible institutions and agencies to tell these incredible and interesting African stories. Across healthcare, education, financial services, agriculture and business, Africa.connected has showcased the important role these tools play in improving outcomes, expanding reach, promoting innovation and transforming lives and livelihoods.

And throughout the campaign, we've heard many first-hand accounts about the powerful effect technology can have on people's lives across the continent. For the many entrepreneurs who have leveraged these digital assets to start or grow their businesses, the impact is significant. People like Elizabeth from TamTam's Fresh Seafood delivery service, a small business that sources fresh fish from across Kenya and delivers it to your doorstep. And Isaac, who developed a platform called Zeraki, which boosts education, improves teaching and makes it easier to handle the administration associated with running educational institutions.

In this paper, you can also read about businesses like Book Thirst, an online bookstore and mobile library that aims to transform the lives of children one storybook at a time. And Femme Logistics, a Kenyan errands and delivery company. With services provided exclusively by female riders, this startup looks to empower women by giving them the opportunity to make their own money.

It is business owners and businesses like these that provide job opportunities for so many of the 1.4 billion people who call Africa home. These individuals and ventures are vital to the region's development and serve as an important driver of economic growth. Determined to understand what these SMEs need to succeed and thrive, our latest Africa.connected report, which is the final report in this campaign, explores the many challenges SMEs face across African markets and unpacks what needs to be done to help these entrepreneurs overcome these obstacles.

The report also highlights the significant role partnerships and technology play in helping small businesses tap into new opportunities, better access finance, up productivity, reduce costs and enhance their competitiveness. Additionally, these digital solutions and tools open possibilities for entrepreneurs and small businesses owners to connect and discuss best practices so that they can learn from each other's experiences, mitigate common hurdles and maximise their potential. Because, let's face it, they cannot do so alone.

As Apple founder Steve Jobs once said: "Great things in business are never done by one person." We at Vodacom are keen to partner with small businesses and support them on their journey to success. Furthermore, Vodacom is always looking for creative and innovative ways to build solutions that are carefully crafted to address their specific needs. As a purpose-driven business, our goal is to utilise our networks and our technical capabilities to help SMEs innovate so that together we can create a more resilient, inclusive, and sustainable future for Africa.

Executive Summary

Setting African SMEs up for real success

Small and Medium Enterprises (SMEs) play a pivotal role in both the global and African economy, contributing to job creation, innovation, economic growth, and regional development. In fact, the World Bank reports that SMEs are responsible for more than 80% of Africa's employment and 50% of the GDP.² With 99% of respondents in our research echoing this sentiment, this paper should serve as a starting point for a far more pressing discussion around how to best support and nurture these small businesses in an effort to further their success.

But SMEs in Africa face a number of distinct challenges, which include access to finance and markets, regulatory barriers, inadequate technology adoption and limited management capabilities. To address these stumbling blocks, strides must be made to promote financial inclusion, simplify regulation, enhance technological infrastructure, and encourage innovation. The technology pieces of this puzzle – as our research shows – are incredibly important.





In a fast-paced global business environment, SMEs must embrace modern technologies to stay relevant. These technologies enhance efficiency, productivity, and customer engagement. By leveraging e-commerce platforms, for example, SMEs can expand customer bases, access valuable data insights, and reduce customer engagement. Additionally, technology solutions can boost efficiency, increase costs and enhance competitiveness while also enabling these businesses to expand their reach. Similarly, social media platforms serve as a useful brand awareness tool; enabling these businesses to engage with customers and gather valuable customer feedback. And digital payment solutions streamline payment processes, providing a quick, convenient, and secure way to make and receive payments.

While more developed markets can tap into these innovations with ease, SMEs in Africa must first overcome technological challenges and infrastructure limitations. This requires an intentional, albeit gradual, approach to technology adoption; prioritising investments in training and collaboration, while also leveraging government support. Furthermore, through collaboration with other SMEs, small ventures can tap into their collective strengths and learnings for greater success. These will help African SMEs make a greater contribution to their countries' economic development.

This report, the final in our six-part Africa.connected series, is based on conversations with 400 SMEs across eight African countries (South African, Kenya, Egypt, Ethiopia, Mozambique, Tanzania, the Democratic Republic of the Congo and Lesotho), ranging in size from 1 - 200 employees. These surveys were run in partnership with World Wide Worx, a South African market research business that focuses on trends in information technology and telecommunications and looks to better understand the specific challenges facing businesses wanting to adopt technology on the continent.

Before embarking on the research project to identify challenges and success factors among SMEs across Africa, we examined some of the best practices globally, versus in developing and emerging markets. This was done to better understand how different markets are using technology to improve their resilience and boost their contribution to the economy.

So what's holding SMEs in Africa back?

When it comes to technology use and adoption, our research reiterates that SMEs work relentlessly to secure finance to address the high costs of technology and the associated implementation. But the initial startup costs are just the beginning. Our findings equally showcase how the costs associated with upgrades and renewals hinder many SMEs. Inadequate infrastructure to support technology usage and an inability to integrate new technologies with existing systems is another hurdle. African SMEs are also hamstrung by limited internet connectivity and access, as well as inconsistent and unreliable electricity supply.



Can 2Africa address Africa's connectivity challenges?

The GSMA's Mobile Connectivity Index (MCI) measures the performance of 170 countries against the four key enablers of mobile internet adoption. These indicators include: infrastructure; affordability; consumer readiness; and content and services. Scores fall within a range of 0-100. As of 2022, the average MCI score across Sub-Saharan Africa was 40. This does represent an improvement from 2017 – when the average score across Sub-Saharan Africa was 34. But when we compare these rating with those from other emerging economies, like Brazil (76.2) or Turkey (74.7), it's clear that a lot of work needs to be done to get Africa connected. This is where the 2Africa project can help. Launched in May 2022 and stretching 45 000 kilometres in length, 2Africa will be the largest subsea cable system in the world once complete in 2024. This project aims to boost the capacity, quality and availability of internet connectivity between Africa and the rest of

the world. According to Kobus Stoeder, Executive for International Connectivity and Services at Vodacom, projects like this reduce the cost of connectivity, which benefits businesses and consumers alike. "SMEs rely heavily on being able to connect to the internet and access certain tools and functionalities. By bringing content, services and applications closer to users – in this case small businesses – the 2Africa project opens up exciting opportunities for these SMEs to expand their reach and connect with their customers in new ways. There is a direct correlation between connectivity and internet access and the economy. Some predict that the positive economic impact of 2Africa will be around US\$50 billion," he says. "In a market like the DRC, for example, where about 77% of people still don't have access to the internet, SMEs are directly affected because most of the population can't access digital solutions and important payment platforms.

Regulatory and compliance issues, limited access to new and broader markets and difficulty in attracting and retaining talent, also add to the laundry list of challenges.

Unfortunately, the workforce is often resistant to digitisation, especially those working for SMEs with strong human relationships. A lack of digital skills and knowledge, support and training for employees and executives around the values and use of specific tools and technologies, compound this sentiment. Added to this, SMEs can no longer ignore the threat of cybersecurity-related concerns as criminal attacks or breaches do not discriminate against business size.

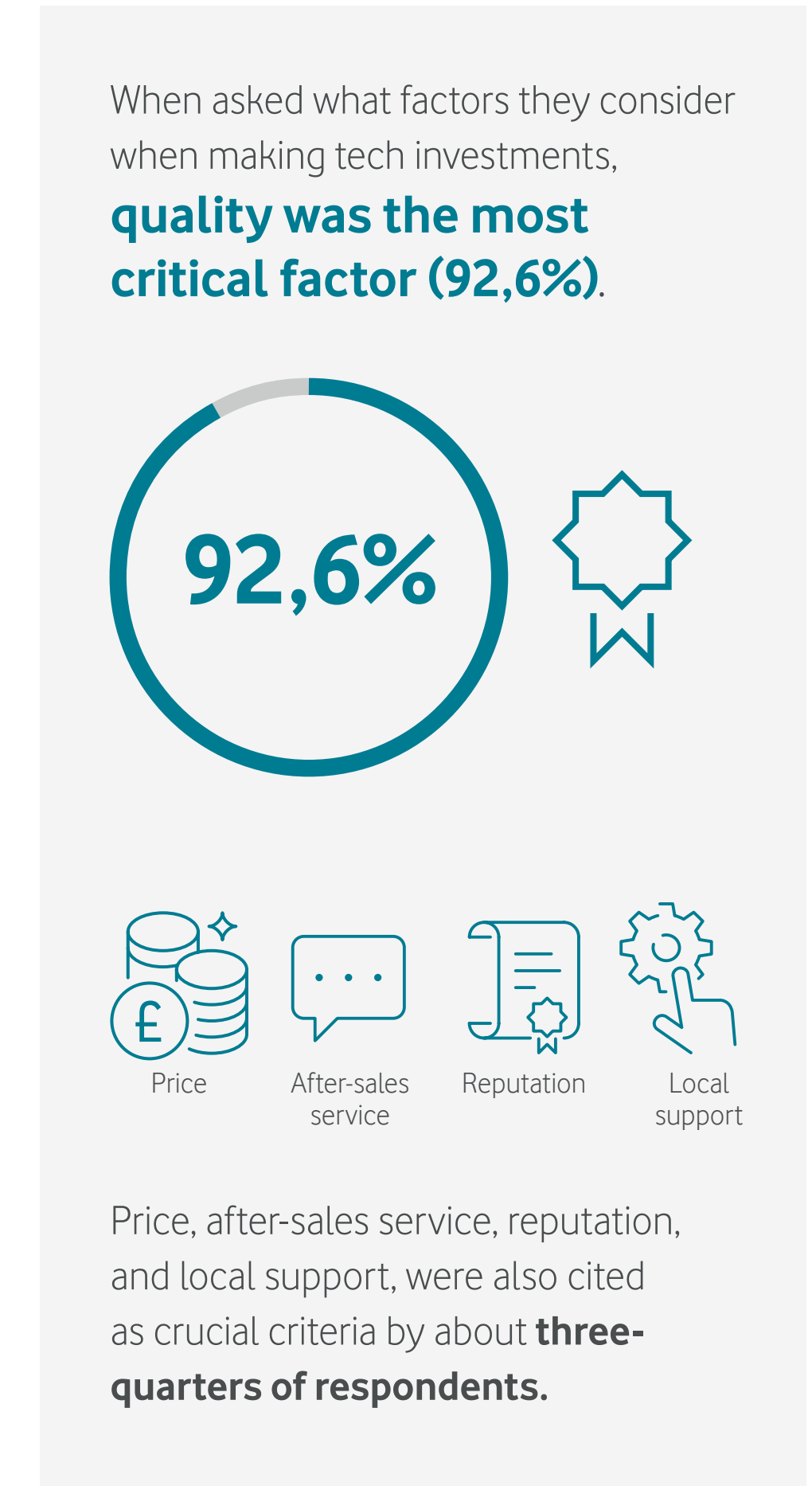
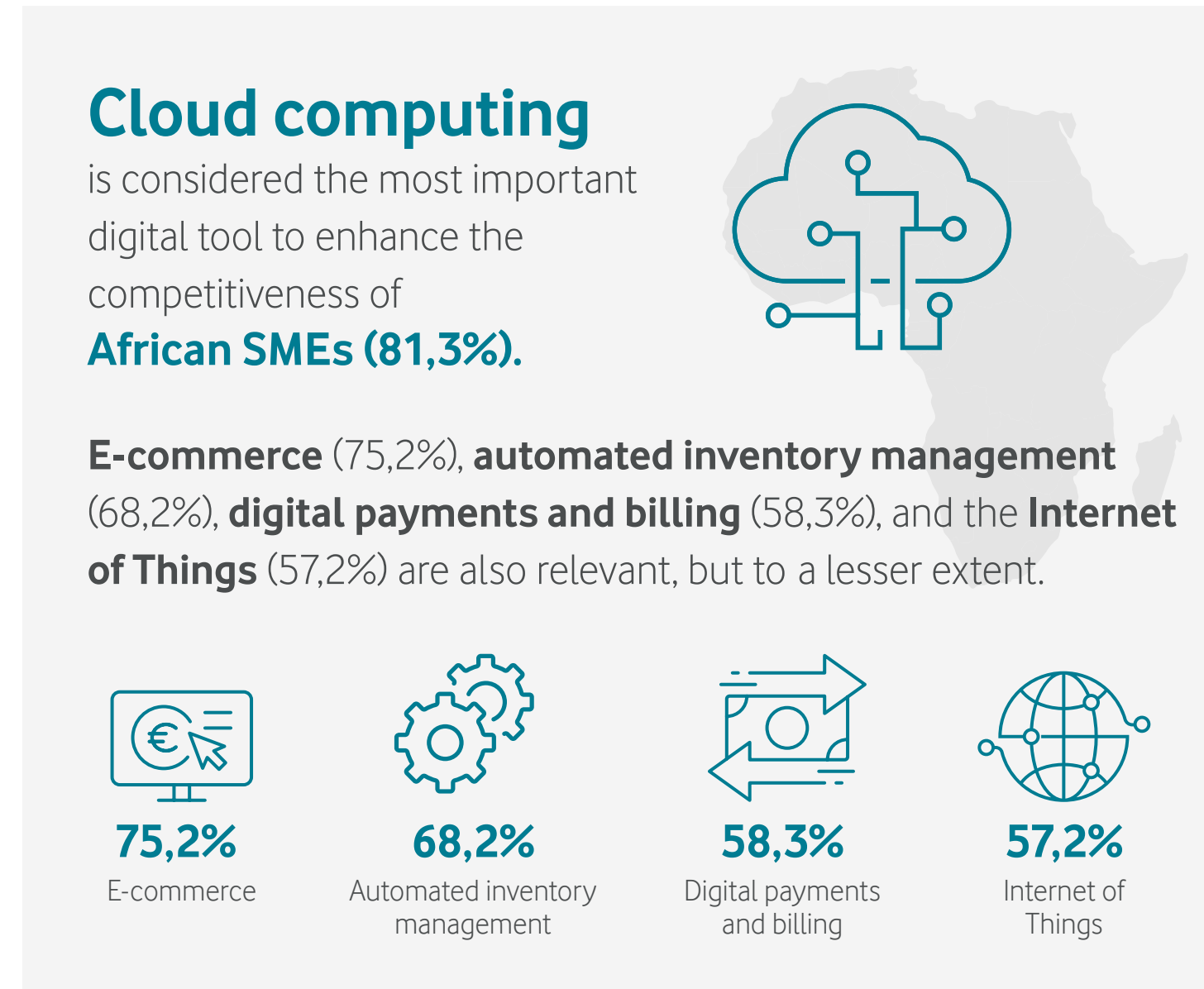
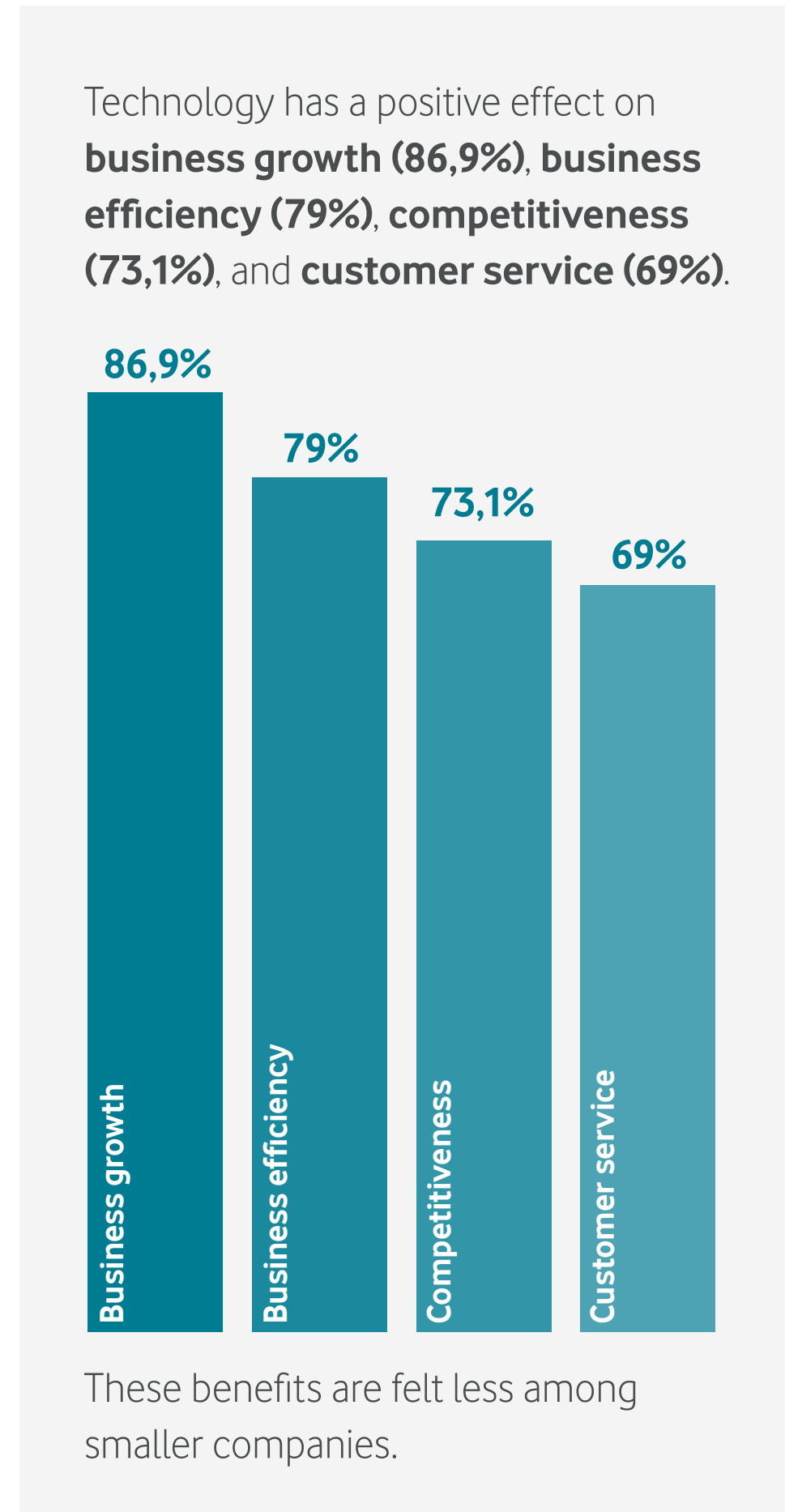
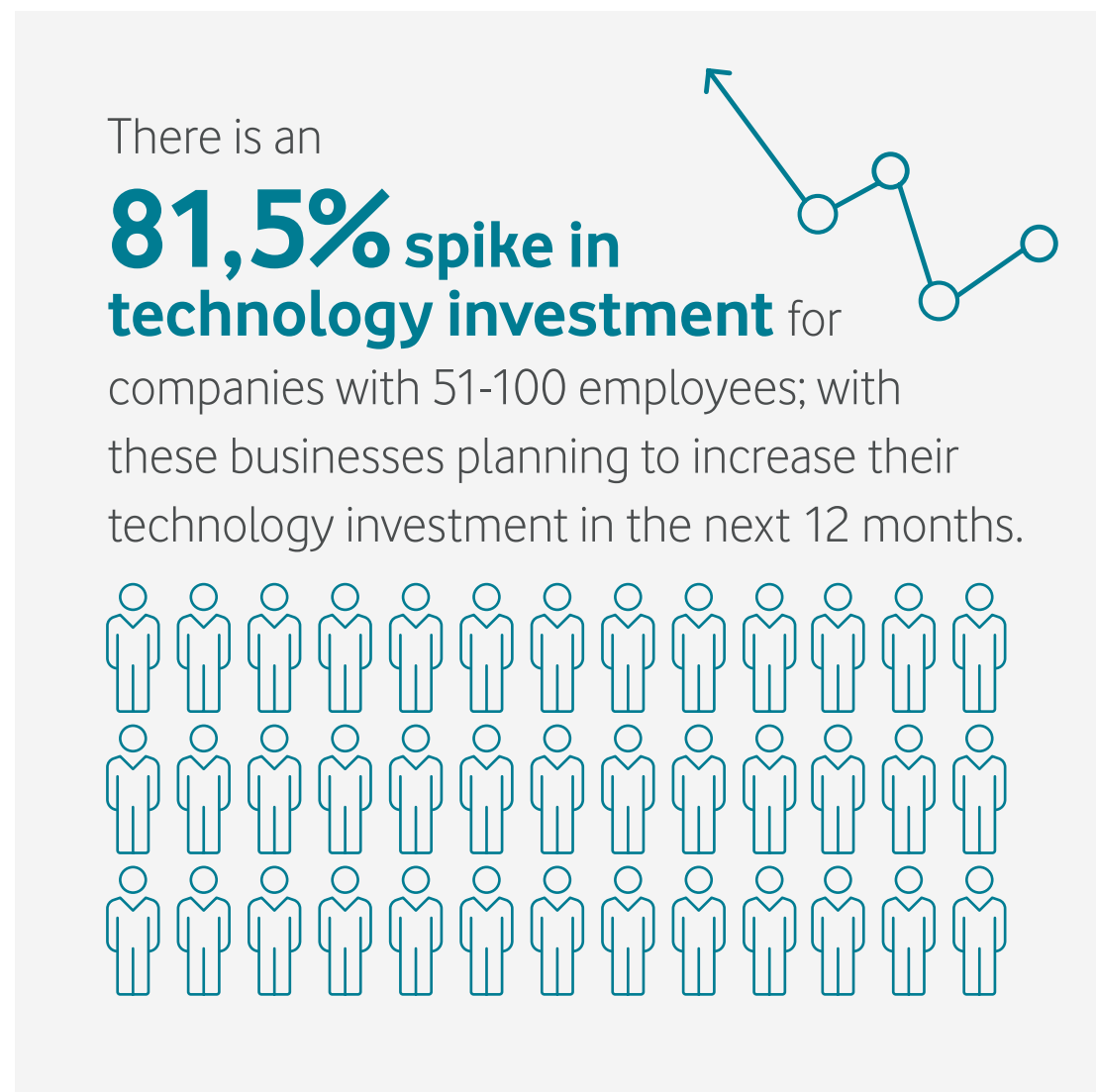
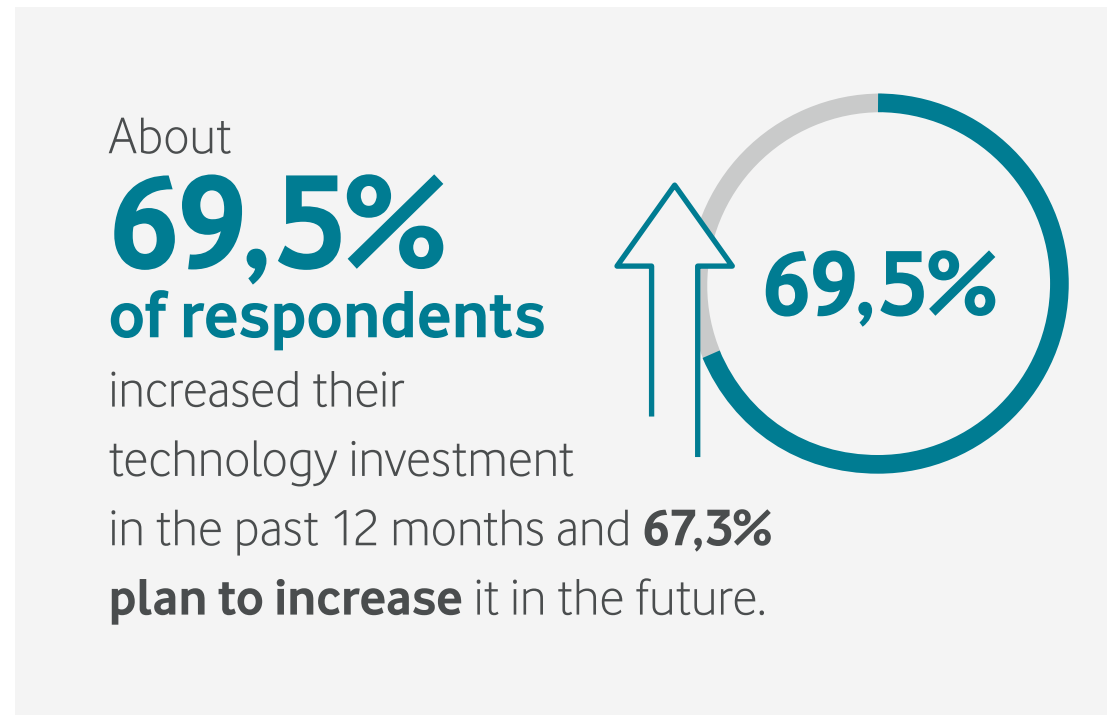
SMEs in developing markets can overcome technological challenges by taking a gradual, albeit intentional, approach to technology adoption. But in order to reap the many benefits that technology brings, laying the right foundations is key.

This starts with investing in training for employees, either through online resources, hiring IT consultants, or partnering with local technology firms to equip teams with the skills and knowledge needed to manage the challenges of the digital landscape. In addition, when SMEs collaborate with other SMEs (say via joint marketing initiatives, knowledge sharing, strategic partnerships or partnering on specific projects) they are empowered to leverage each others' strengths and resources to achieve greater success. Finally, government support in the form of policies, funding, and incentives can provide SMEs with the necessary resources to become more competitive in the global marketplace.



Fortunately, progress has already been made

For those already using new and emerging technologies, particularly larger SMEs, the impact is significant. Some of our findings include:





When looking at broader concerns — around issues like climate change and gender diversity — our research shows varied adoption.

About 33% of SMEs have specific environment-related initiatives in place, 28,2% are mindful of their environmental impact and 30,8% have not yet addressed this issue. While there are many more immediate issues for SMEs in Africa, especially when compared to European or American businesses, SMEs that table sustainability as a business priority and communicate a commitment to environmental best practices, unlock many financing opportunities. Apart from the much-needed access to finance there is a growing risk of even less finance being available for businesses that do not work towards improved sustainability. For example, international banks and investors increasingly have to fulfil sustainability criteria in their loan portfolios.

Gender diversity initiatives have been implemented by just over half of the respondents (54,3%). Positive gender diversity initiatives stand out in Ethiopia (90%), Egypt (82%), Kenya (77,9%), and the DRC (68%), where it appears that SMEs are enjoying the complementary skills, different perspectives and ideas that are brought to the table when your teams are diverse. But the larger the organisation, the less likely it is to prioritise gender diversity initiatives.



Empowering SMEs through technology, best practices

Digital transformation has become a necessity for SMEs to thrive and remain competitive. By embracing digital technologies such as cloud-based services, mobile applications, online marketplaces and digital marketing strategies, SMEs can improve efficiency, productivity, and customer engagement. Similarly, when SMEs leverage e-commerce platforms to expand their customer base, they can access valuable data insights and reduce their operating costs. What's more, social media platforms can help SMEs to build brand awareness, engage with customers, and gather feedback.

Furthermore, by adopting digital payment solutions — like M-Pesa — SMEs can provide their customers with a quick, convenient, and secure way to make and receive payments. This enables SMEs to streamline their payment processes and expand their business beyond local markets.

Overall, SMEs that embrace digital technologies and strategies can position themselves for greater success.

How this motorcycle errand and delivery service is empowering Kenyan women

Amanya Kuchio is a social worker by training, a mother and a biker. She started riding a motorcycle to avoid traffic when she lived far away from where she was working. “There is crazy traffic in Nairobi, so I wanted to make my commute as quick as possible,” she says. “When I started riding a motorcycle, I connected with an entire community of bikers who ride bikes on their daily commute but also who ride for recreation.” It is because of this network that she is now the vice chairperson of The Private Bikers Association of Kenya, a group that brings together private bikers to advocate for greater safety measures and to petition for their needs when it comes to legislation and policy. It was through these experiences that Amanya got the idea to get involved in the courier and delivery service space. She took the idea to her business co-founder, Njeri Mbogo, but before the pair actually launched the business, they knew that they first needed to learn the ropes. While working as a courier for another company, Amanya noticed that there were major gaps around professionalism and reliability. “My partner shops a lot online and she wasn’t happy with how her packages arrived or how the drivers treated her. We wanted to change this by giving customers a good experience so that they want to use the service again and again.” And in 2020, Femme

“Technology makes running a business simpler. Not only does it make tracking easier in terms of our finances, but it also allows us to track our bikes and check up on rider performance. If we had to do these things without technology, it would take much more time.”





Logistics was born – an errands and delivery company with services provided by female riders. But starting a business during a pandemic isn't easy. "Before Covid, people dealt a lot in cash. But, in the height of the pandemic, people didn't want to touch money or anything else for that matter," she explains, noting that M-Pesa was a game changer for her business during this time. Not only does M-Pesa make payments so much easier for Amany's clients but it also provides greater transparency for her business. According to Amany, M-Pesa simplifies the process of monitoring the business accounts, so that she can keep better track of how much money is coming into the business over a particular period – be it a week or a specific day. "When riders are handling cash, it's inevitable that money will get lost or will get forgotten in someone's pocket and then washed in their laundry. The M-Pesa platform makes business flawless for us," she says. "When you have money on your phone, it's so much simpler for our customers to procure our services." According to Amany, it also gives her customers greater flexibility – if a client has cash and wants to make a payment using this cash, they can still do so but if they'd prefer to go the digital route, they can. Technology also makes running a business simpler, explains Amany. "Not only does it make tracking easier in terms of our finances, but it also allows us to track our bikes and check up on rider performance. If we had to do these things without technology, it would take much more time. Technology frees up my time to be more productive doing something else and even gives me the freedom to go home and spend more time with my daughter." Describing the business's growth as slow but steady, Amany asserts that her mission remains a key focus – that is to create opportunities for women and to empower them to make their own money and to give them a chance to do something for themselves.



The importance of SMEs to the economy

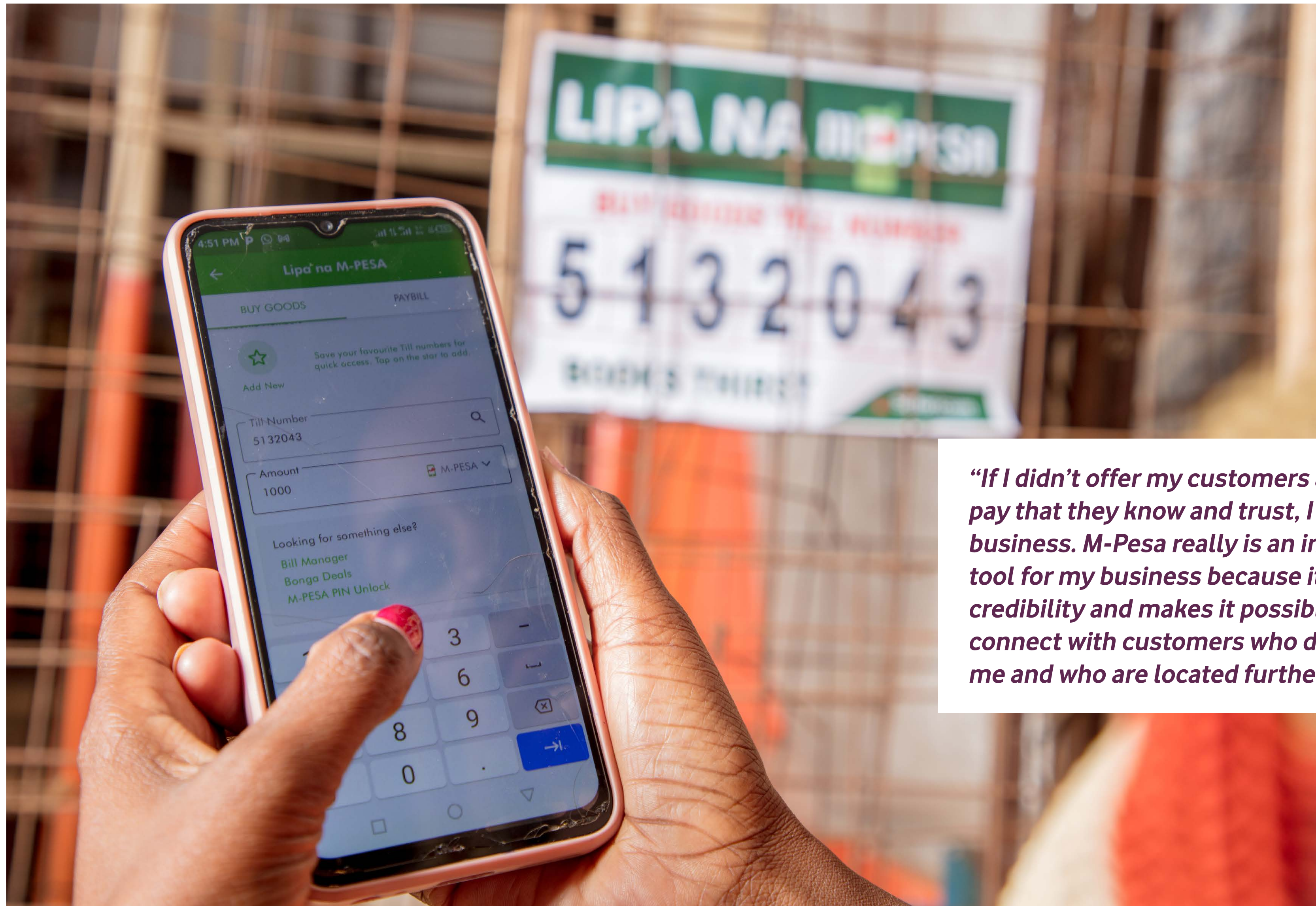
SMEs are vital cogs of economic growth and development around the world. According to the World Economic Forum, SMEs are responsible for more than 80% of the continent's employment and as much as 50% of GDP. There's no doubt that these businesses play a crucial role in various aspects of economic development. Firstly, SMEs create jobs and promote local and regional development. Additionally, they are responsible for generating new wealth and contributing to the overall GDP of a country. These benefits have positive knock-on effects.

SMEs are often at the forefront of innovation, developing new products and services that benefit society, and finding new ways to operate. This is because small businesses and startups have the freedom and flexibility to come up with something new without too many constraints. SMEs are typically more agile than their larger counterparts, allowing them to make real-time decisions based on what they see happening around them at any given time.

M-Pesa helps take a love of reading

Caroline Ndilo's small business was born out of a hobby. Growing up in Nairobi, Kenya, her father instilled in her a love of reading and she wanted to pass this passion on to her four kids. But books weren't easy to find and when she could access them, they weren't affordable. Realising that there must be others experiencing similar challenges accessing reading material, she began buying books from vendors on the streets of Nairobi and then selling them online. Caroline started a page on Facebook, bought some books and immediately started selling them. Something she confesses would not have been possible without M-Pesa. Book Thirst, an online bookstore and library, aims to transform the lives of children one storybook at a time. Running an online business, Caroline knew she needed to offer her customers a convenient and secure way to pay. M-Pesa was the perfect fit, she says. "If I didn't offer my customers a way to pay that they know and trust, I'd lose business. M-Pesa really is an important tool for my business because it gives me credibility and enables me to connect with customers who don't know me and who are located further away. This visibility is so important for a small business like mine because it means that I am no longer limited to my geographical location." This reality made it possible for her to grow her business because she was able to reach, and secure payment from, more customers. Caroline's small business seeks to build a reading culture among young people – both academically and for leisure. "What started out as a hobby and as something I could do with my own kids has transformed into a very important cause for me,"





“If I didn’t offer my customers a way to pay that they know and trust, I’d lose business. M-Pesa really is an important tool for my business because it gives me credibility and makes it possible for me to connect with customers who don’t know me and who are located further away.”

she says, noting that by making it easier for more Kenyans to access affordable books, she can play an important role in addressing poor education outcomes and improving literacy levels. As part of this, Book Thirst offers an online library for customers who can’t afford to buy books but who can pay a small amount of money to borrow books. But starting this small business hasn’t all been smooth sailing. She confesses to experiencing two major hurdles on her entrepreneurship journey – supply and perception. Starting a business in February 2020, just before the entire world went into lockdown because of Covid-19, she has often had to deal with delays in receiving stock because of supply chain disruptions. Luckily for entrepreneurs like Caroline, M-Pesa put in various measures to help SMEs

survive the pandemic, like increasing daily transaction limits for small-business customers so that they could do more business during this time. And when it comes to ideas and perceptions around reading, she has had to spend a fair amount of time convincing parents that recreational reading is important. “Many have this idea that you should only really be reading when you have to take a test and so I’ve had to find ways to show them the value of reading for recreation,” she says. “I’ve had parents who think that their child has learning difficulties but when they start reading our storybooks regularly, they see them develop a love for reading, which translates into improvements on the academic side too.”

Why best practices matter for SMEs

Best practices — being the tasks and procedures proven to lead to optimal efficiency and results — should be seen as a roadmap for SMEs to do business and deal with common problems and issues that arise. Sharing best practices has become increasingly important for SMEs as it enables better decision-making, boosts efficiency, and reduces costs. From a knowledge sharing perspective, these standards foster a learning culture by helping to identify gaps in understanding and making it easier to generate creative and innovative ideas, while also providing employees with an internal knowledge base and reducing the loss of know-how. This can be done via social networks and knowledge sharing tools to ensure that employees are up-to-date with the latest trends and developments affecting the industry.



Introducing V-Hub

For nearly a third of South African SMEs, digitisation is a challenge. This is why Vodacom Business launched V-Hub, a free advice platform that entrepreneurs can use to grow their small businesses. This online resource portal was designed in collaboration with industry experts to provide actionable advice that helps SMEs unlock their full potential as they embark on their digital transformation journey. It's no surprise that the right digital solutions enable SMEs to become more agile and resilient by allowing them to easily adapt to their customers' evolving needs. With a wealth of knowledge and expertise at our disposal, Vodacom Business is perfectly poised to support these small businesses on their journey to a digitally-enabled future. The platform brings digital-advisory services to the table in two ways. Firstly, small business owners that happen to be Vodacom Business customers can request free one-on-one advice, over the phone, from a local specialist. These specialists have expertise around everything from IT decision-making to tech set-up and troubleshooting. Secondly, any SME owner can access the V-Hub digital Knowledge Centre via Vodacom's website. The Knowledge Centre is broken up into various topic categories, including financial and business tips, as well as advice around cybersecurity and data analytics best practices. Across these categories, the platform houses various helpful articles, videos and webinars. And the portal is continuously expanding and evolving; tackling more and more topics of interest over time.

Visit the V-Hub portal here: www.vodacombusiness.co.za/business/v-hub



For SMEs, implementing proven practices and technologies is far quicker and safer than testing new ones (McKinsey & Co).⁶ This reduces the adoption gap, which refers to the difference between the current state of technology adoption and the potential state of adoption. Given the challenges outlined in this report, SMEs traditionally have a large adoption gap to close, meaning they have a lot of room to improve when it comes to what technologies they decide to bring in and how they plan to use these assets.

For example, a sluggish approach to accounts management and a failure to keep timeous records prevents business owners and managers from staying up-to-date with the current state of their business and can limit their ability to properly compete with their larger counterparts. Bad accounts management also limits decision-making and prevent small business owners from understanding their strengths and weaknesses. In today's highly competitive, knowledge-based economy, this can be the difference between success and failure.

Cloud-based accounting software provides real-time information to the business, which they can use to work smarter, scale up and identify new opportunities. But this is only true when implemented correctly. Careful planning and best practices are necessary. Conducting a needs assessment, selecting a reliable vendor, implementing proper security measures, and training employees effectively are non-negotiables if the business is to enjoy positive growth.

Benefits of sharing best practices



Sharing best practices fosters a learning culture in the organisation.



Sharing best practices through social media networks and knowledge sharing tools improves employees' performance.



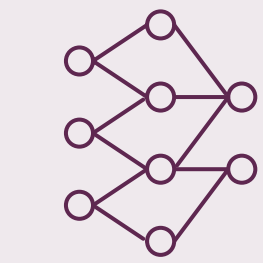
Best practices help identify knowledge gaps and generate creative and innovative ideas.



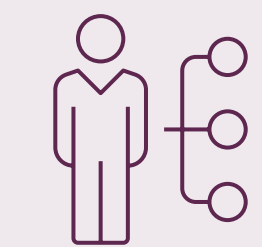
Adopting proven practices and technologies is faster and safer than testing new ones.



Adopting best practices enables better decision-making, boosts efficiency and competence.



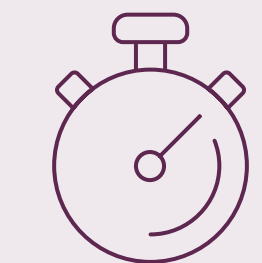
SMEs have a large adoption gap, meaning they have a lot of room to improve their technology adoption.



Best practices construct a supportive corporate community and provide employees with an internal knowledge base.



Improving productivity through understanding and adopting best practices is a worthwhile endeavour.



Best practices reduce the loss of know-how.



Sharing best practices can help businesses reduce the costs and amount of time spent searching for information.

Key research findings across markets

The foundation of this research is a survey made up of various questions, which we posed to business owners and other strategic decision-makers to get a sense of everything, from how SMEs are perceived and what tech investments they are making to how they are responding to broader issues like climate change and gender diversity.

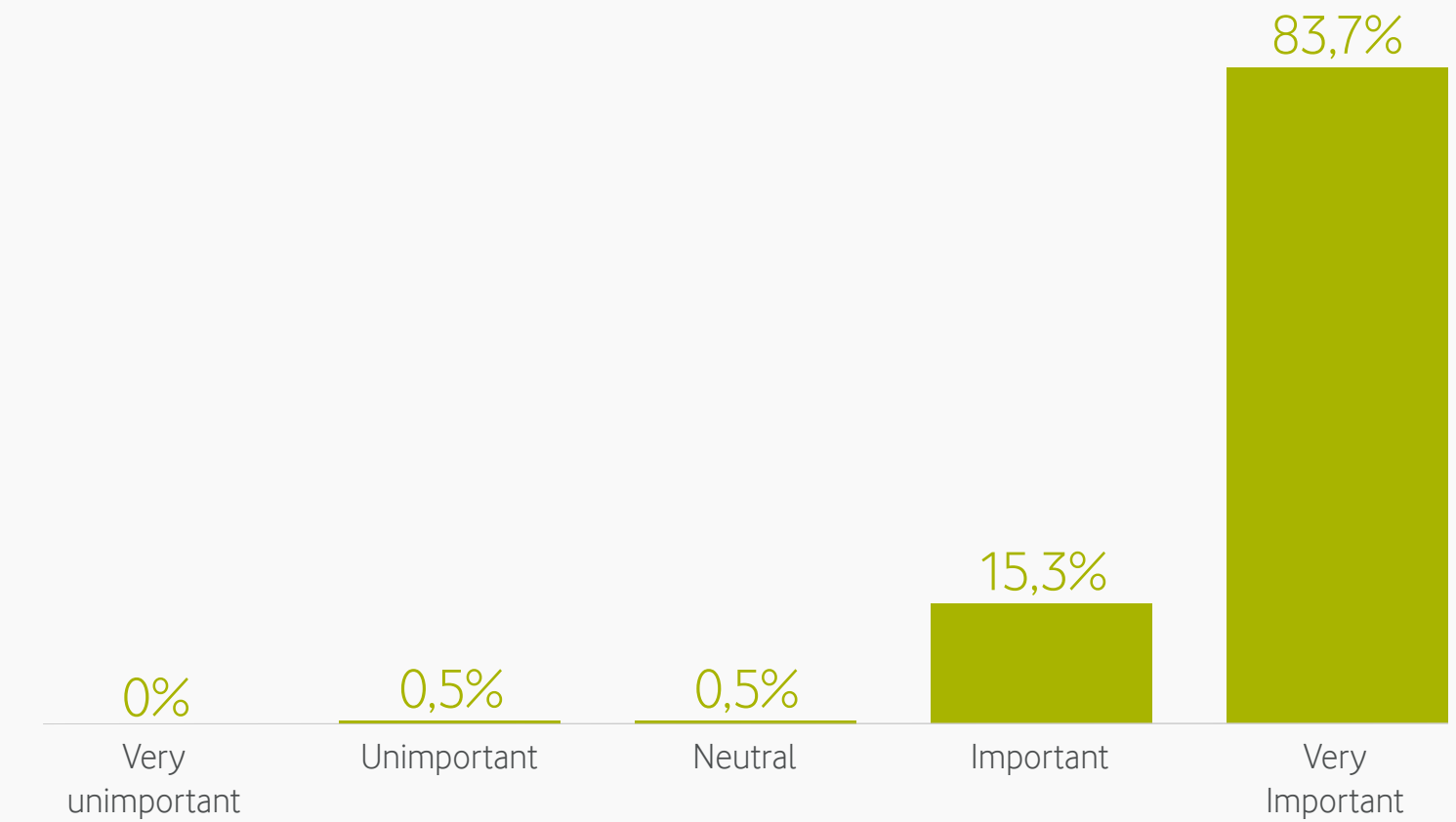
How SMEs are perceived

These conversations revealed that 99% of respondents recognise the importance of SMEs to the economy (as shown in Figure 1) and the pivotal role SMEs play in contributing to economic growth. While these businesses might be small, Figure 2 illustrates that this does not diminish perceptions around their ability to compete, with 98,2% of respondents labelling SMEs as competitive or highly competitive.



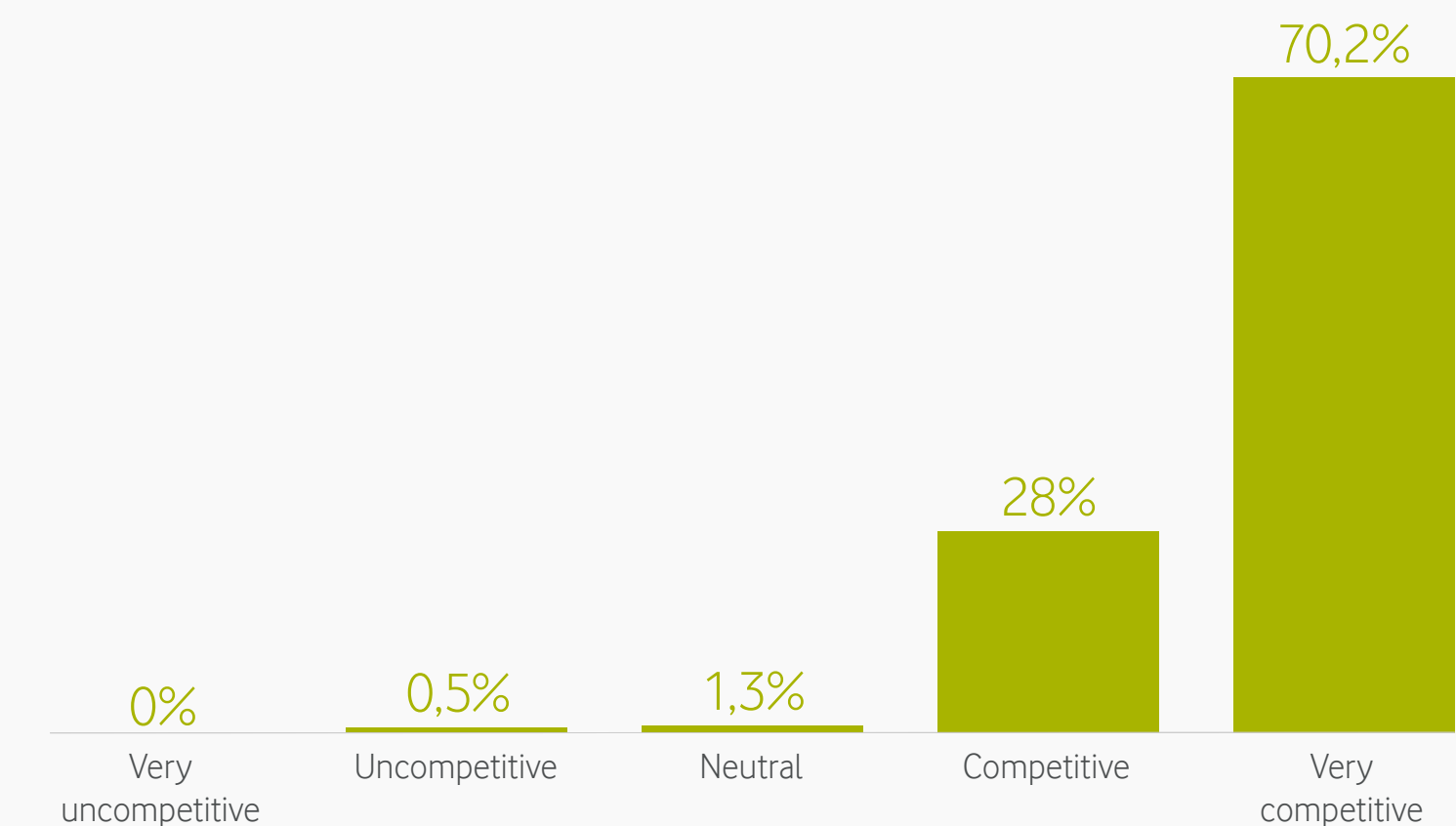
Importance of SMEs to the economy

Figure 1



Competitiveness of SMEs

Figure 2

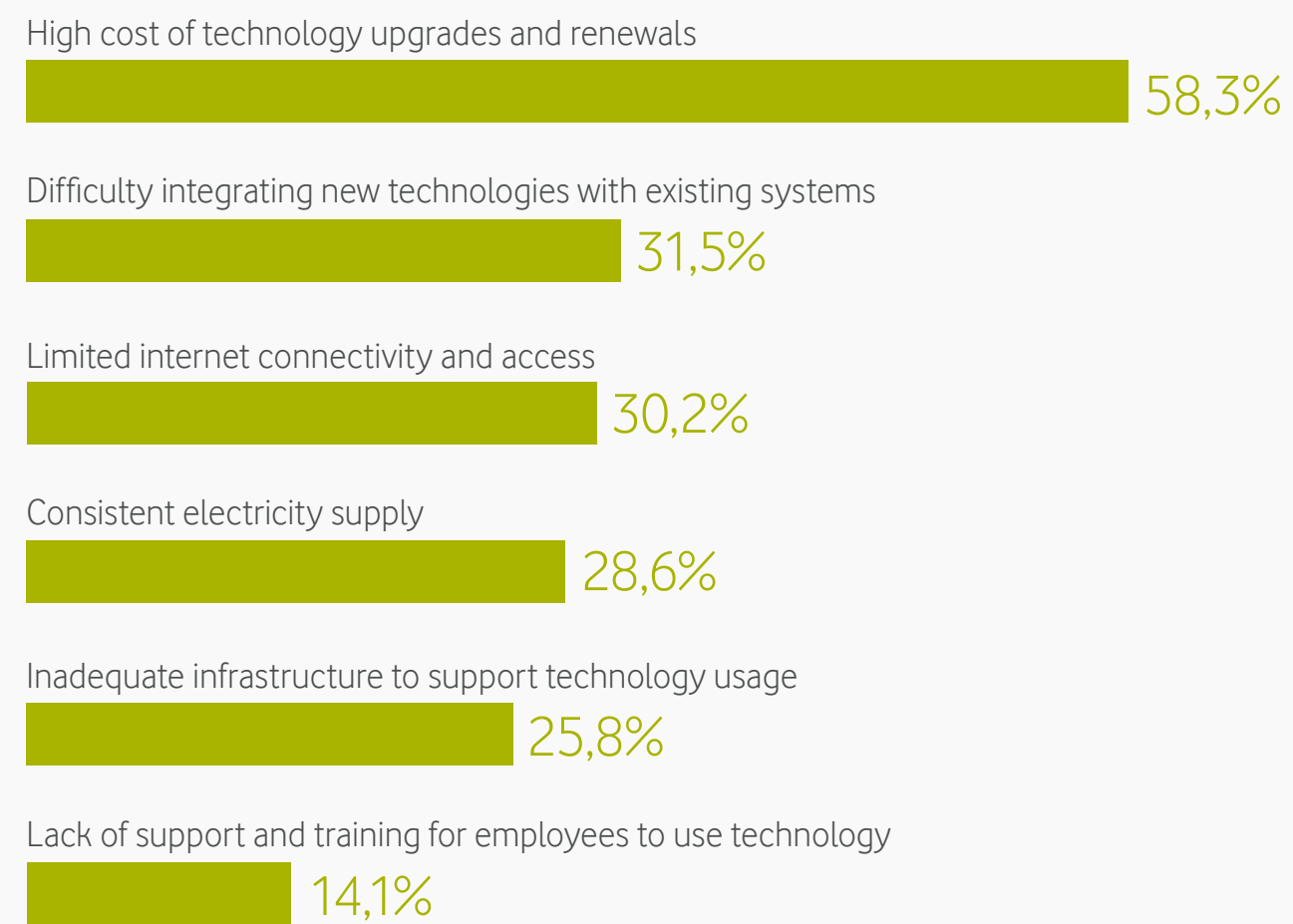


The challenges SMEs face

As unpacked in earlier sections of this report, small ventures are hindered by a number of challenges. According to our research (see Figure 3), the greatest challenge affecting SMEs is the high cost of technology upgrades and renewals (58,3%), which can prevent small businesses from keeping up with the latest technological advancements. As Figures 4 & 5 show, this was, however, less of a concern for businesses in SA (38,9%) and Egypt (30%) and among SMEs with a larger workforce. Other challenges highlighted by the respondents include difficulties integrating new technologies with existing systems (31,5%), limited internet connectivity and access (30,2%), inconsistent electricity supply (28,6%) and inadequate infrastructure to support tech adoption and use (25,8%).

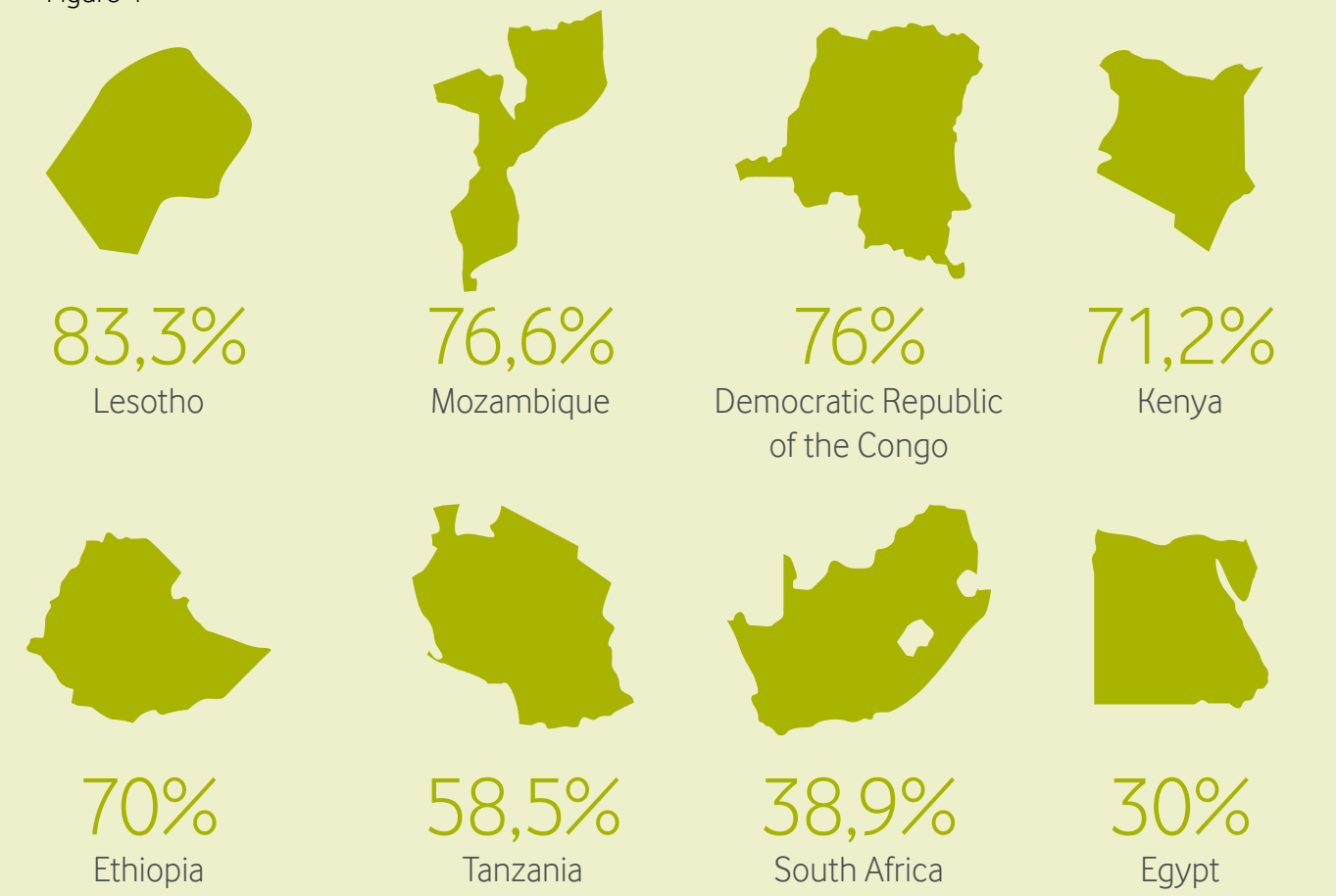
Challenges facing SMEs

Figure 3



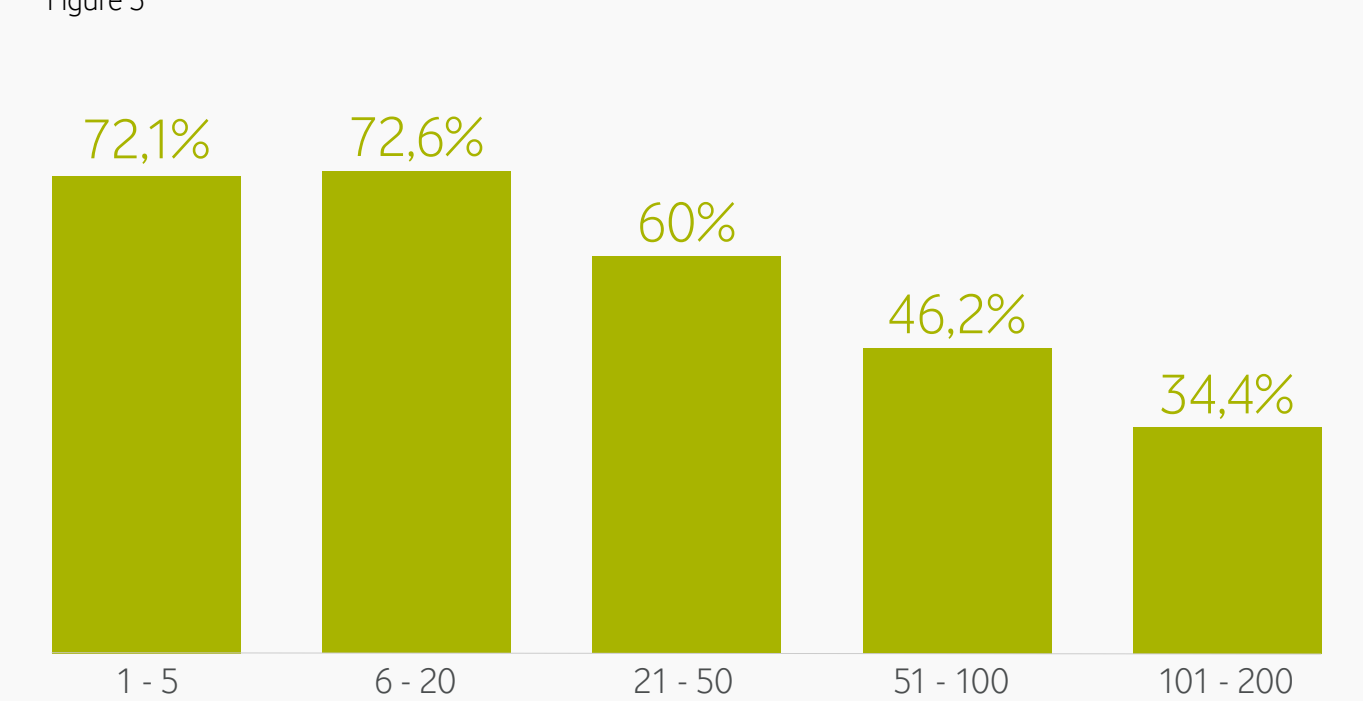
High cost of technology upgrades and renewals is a significant challenge

Figure 4



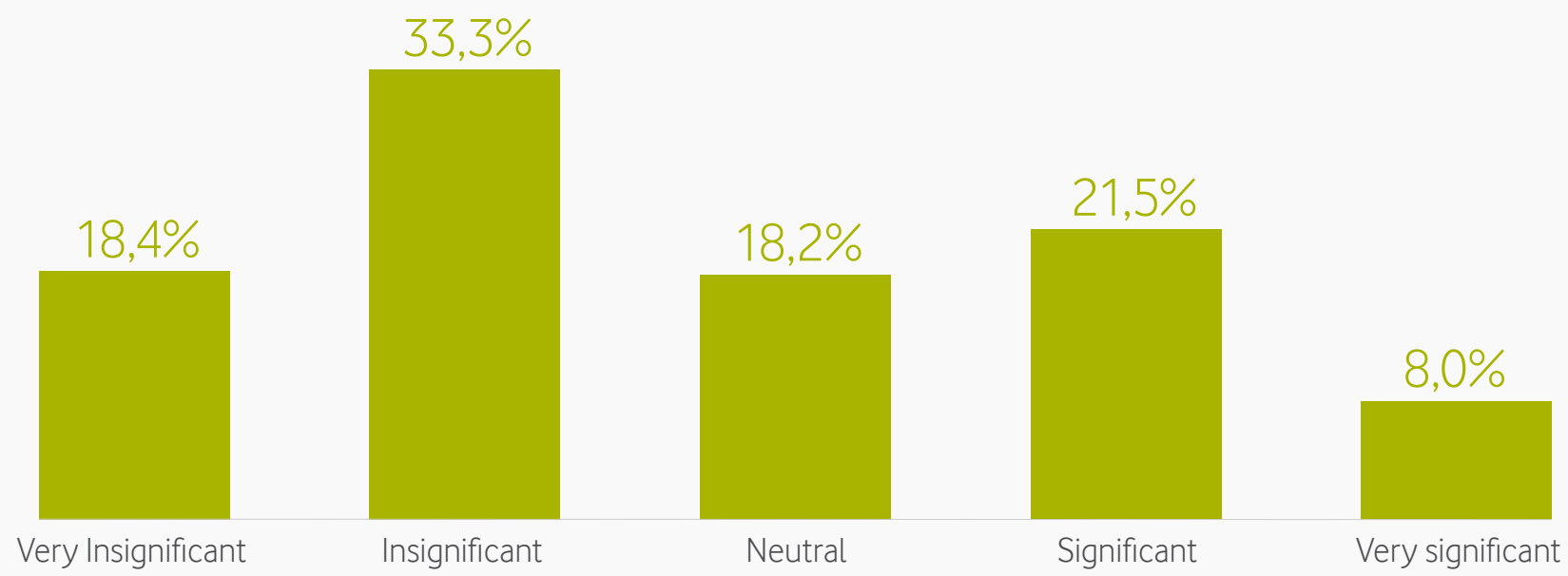
High cost of technology upgrades and renewals is a significant challenge

Figure 5



Challenge significance: Limited internet connectivity and access

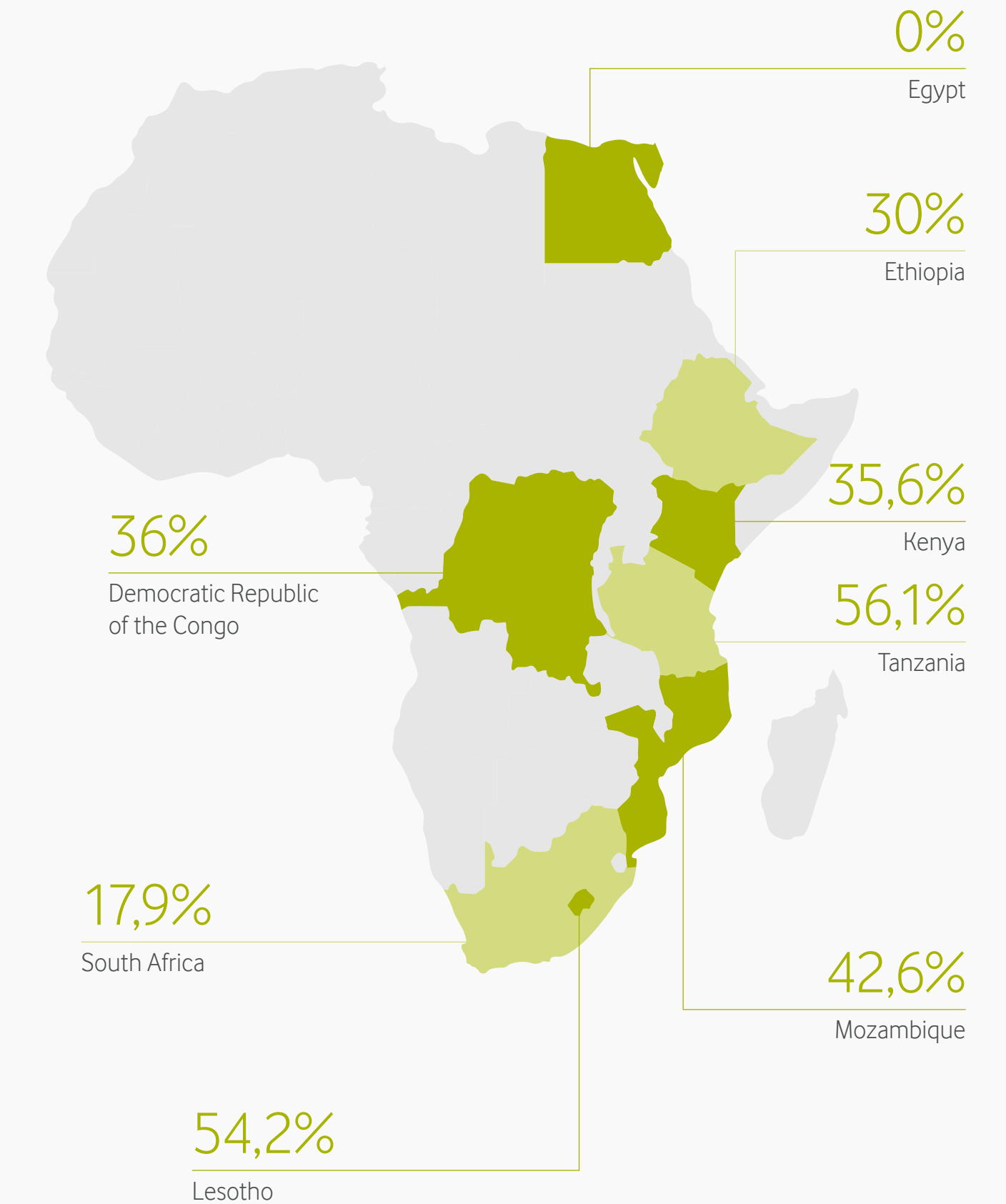
Figure 6



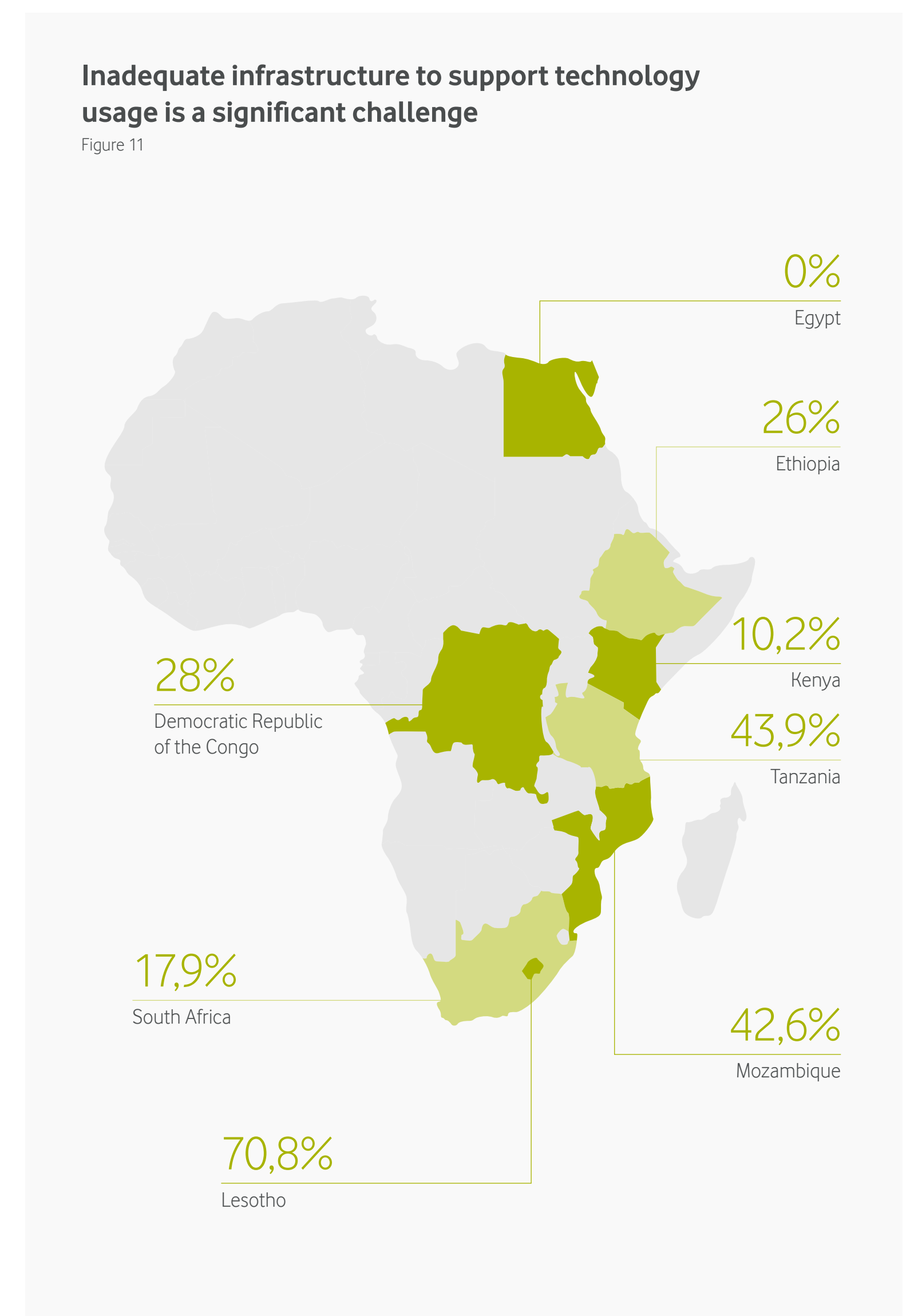
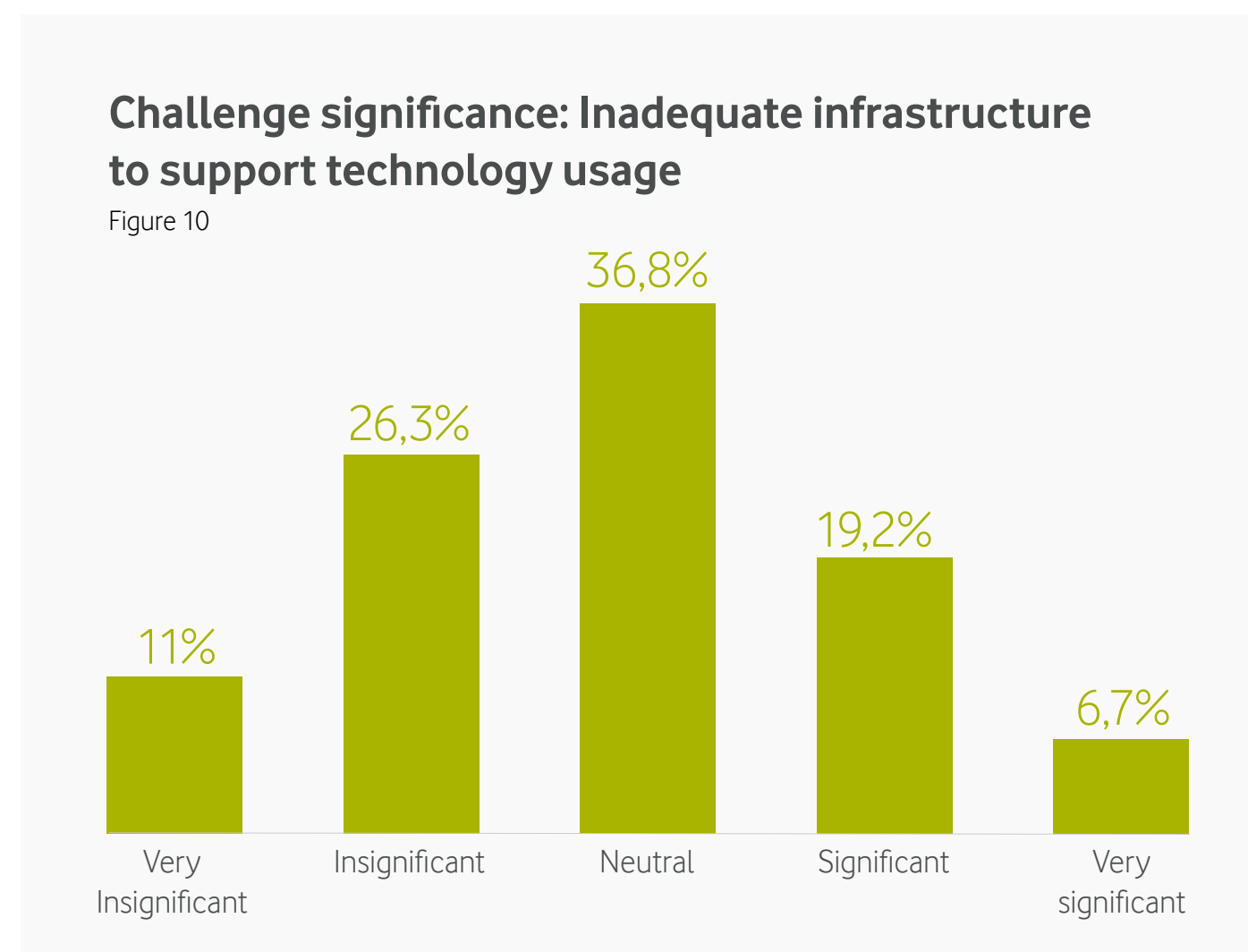
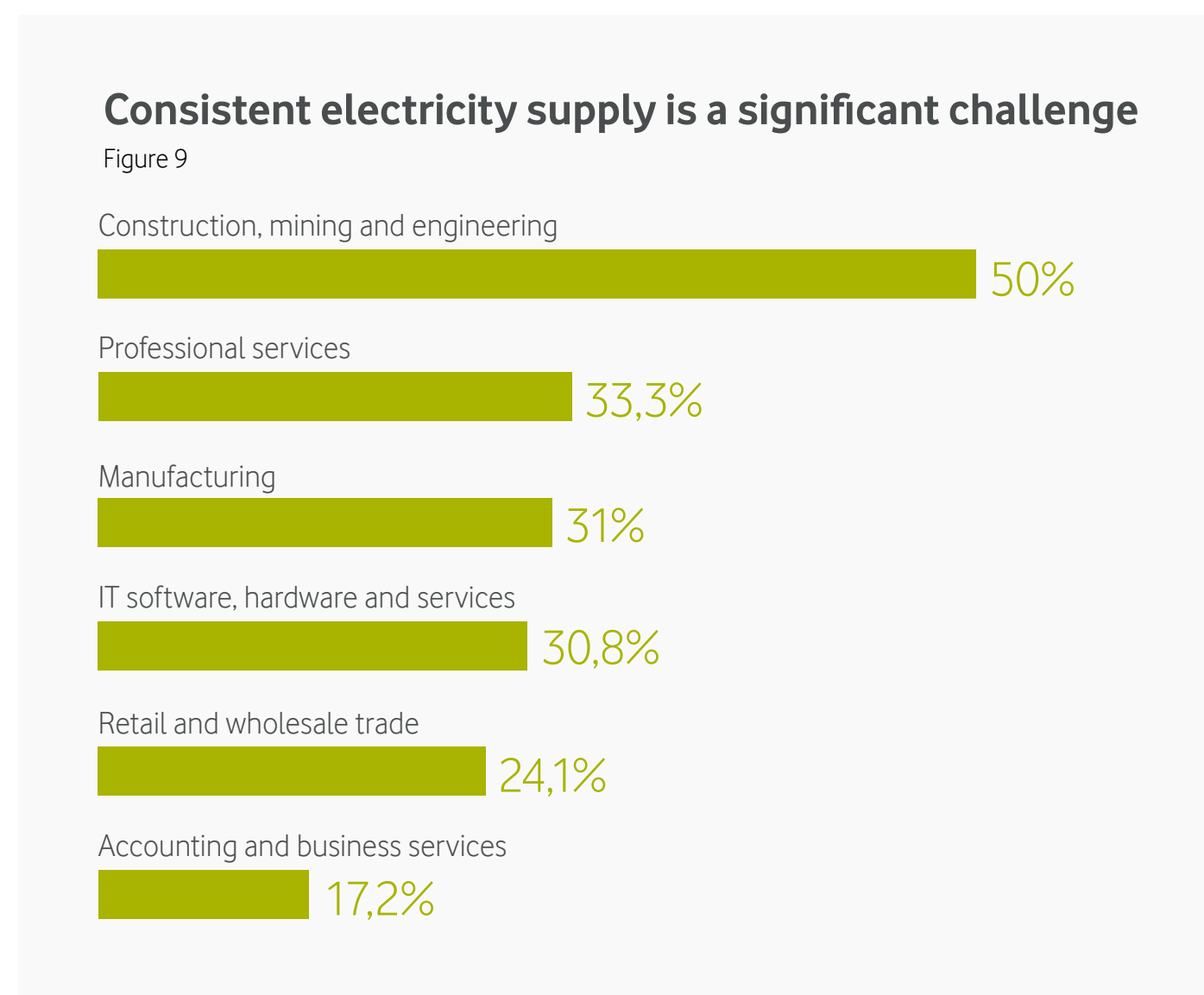
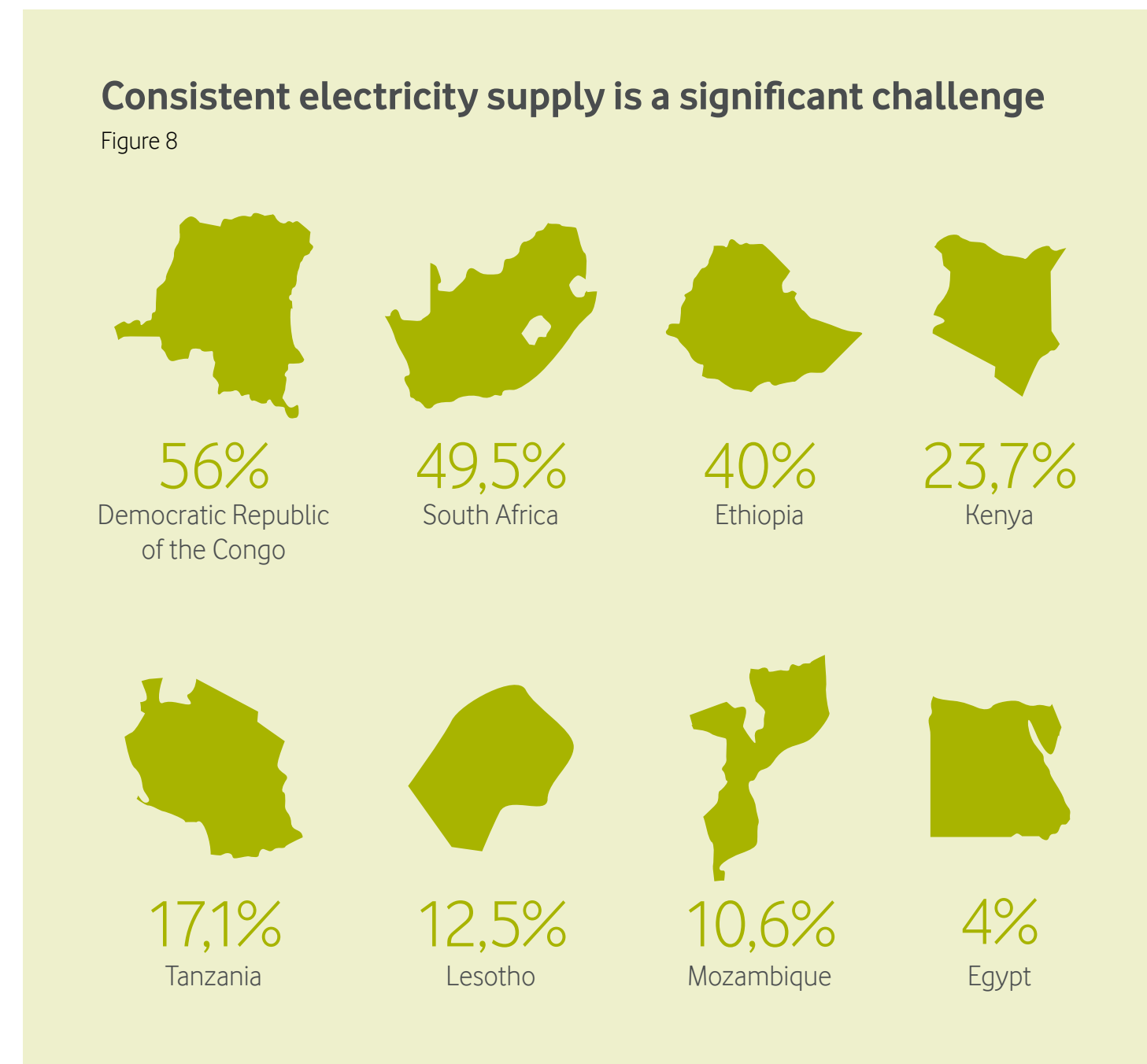
When unpacking some of these challenges in more detail, there were a number of interesting findings. For example, the impact of limited internet connectivity and access was widely spread between being very insignificant and very significant, as illustrated in Figure 6. Also, as Figure 7 shows, this is most likely because of variations in access from one country to another. In Tanzania (56,1%) and Lesotho (54,2%), for example, limited internet connectivity and access are cited as significant challenges. Conversely, in Egypt not a single respondent reported this as being a significant challenge.

Limited internet connectivity and access is a significant challenge

Figure 7



Similarly, as Figure 8 shows, consistent electricity supply is only a minor challenge for Egypt (4%) but proves to be a substantial challenge for small businesses in countries like the DRC (56%), South Africa (49,5%), and Ethiopia (40%). And, unsurprisingly, this is felt most across sectors like construction mining and engineering (50%) and less so among accounting and business services companies (as shown in Figure 9). While investing in and improving infrastructure is often hailed as an essential step in Africa's digital journey, Figure 10 shows that only 6,8% of respondents thought this to be very significant. In countries like Lesotho (70%), Mozambique, and Tanzania (just under 50%), inadequate infrastructure emerges as a significant challenge for SMEs (See Figure 11).

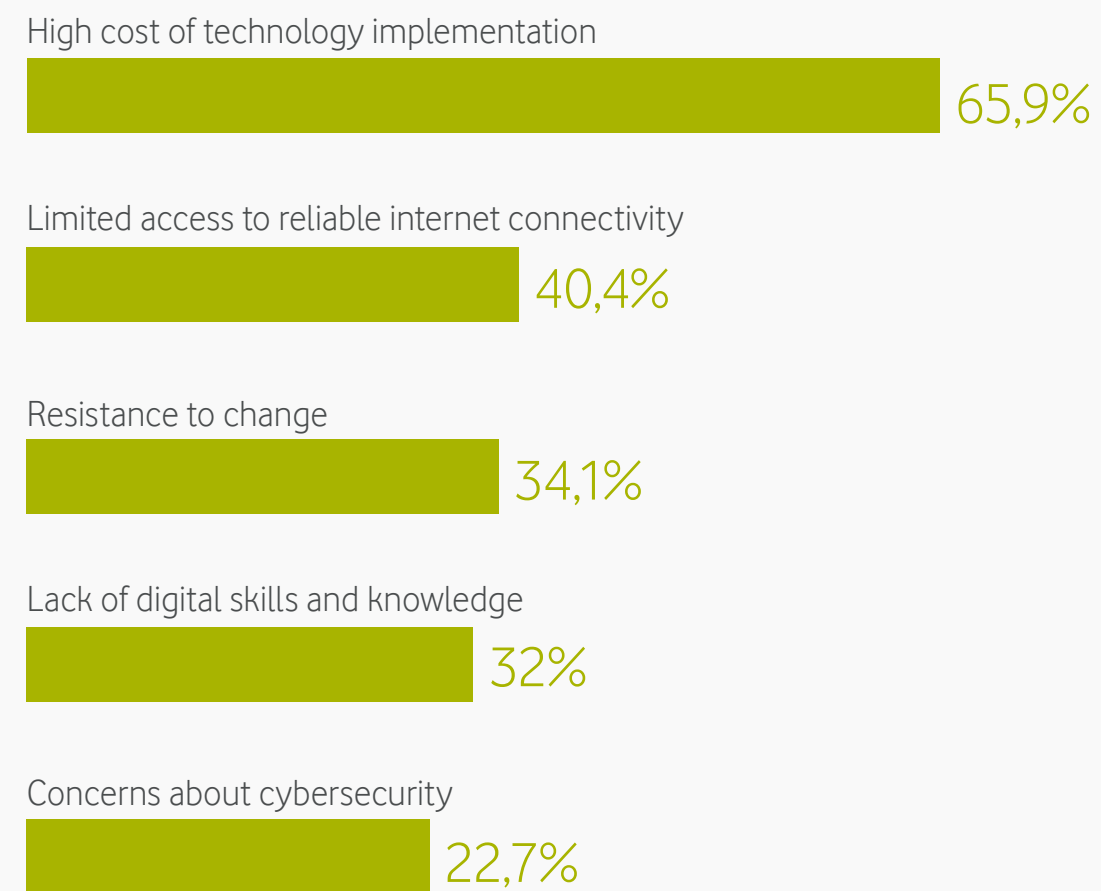


Other factors preventing adoption

As Figure 12 shows, the two most significant barriers preventing SMEs from adopting digital technologies are the high cost of implementation (65,9%) and limited access to reliable connectivity, which has been unpacked earlier. Resistance to change is another notable obstacle for about a third of respondents (34,1%). A lack of digital skills and knowledge is another worry for about a third of respondents (32%). Cybersecurity concerns, despite being the least significant barrier, are relevant for 22,7% of SMEs.

Significant barriers in preventing SMEs from adopting digital technologies

Figure 12



High cost of technology implementation significantly prevents SMEs from adopting digital technologies

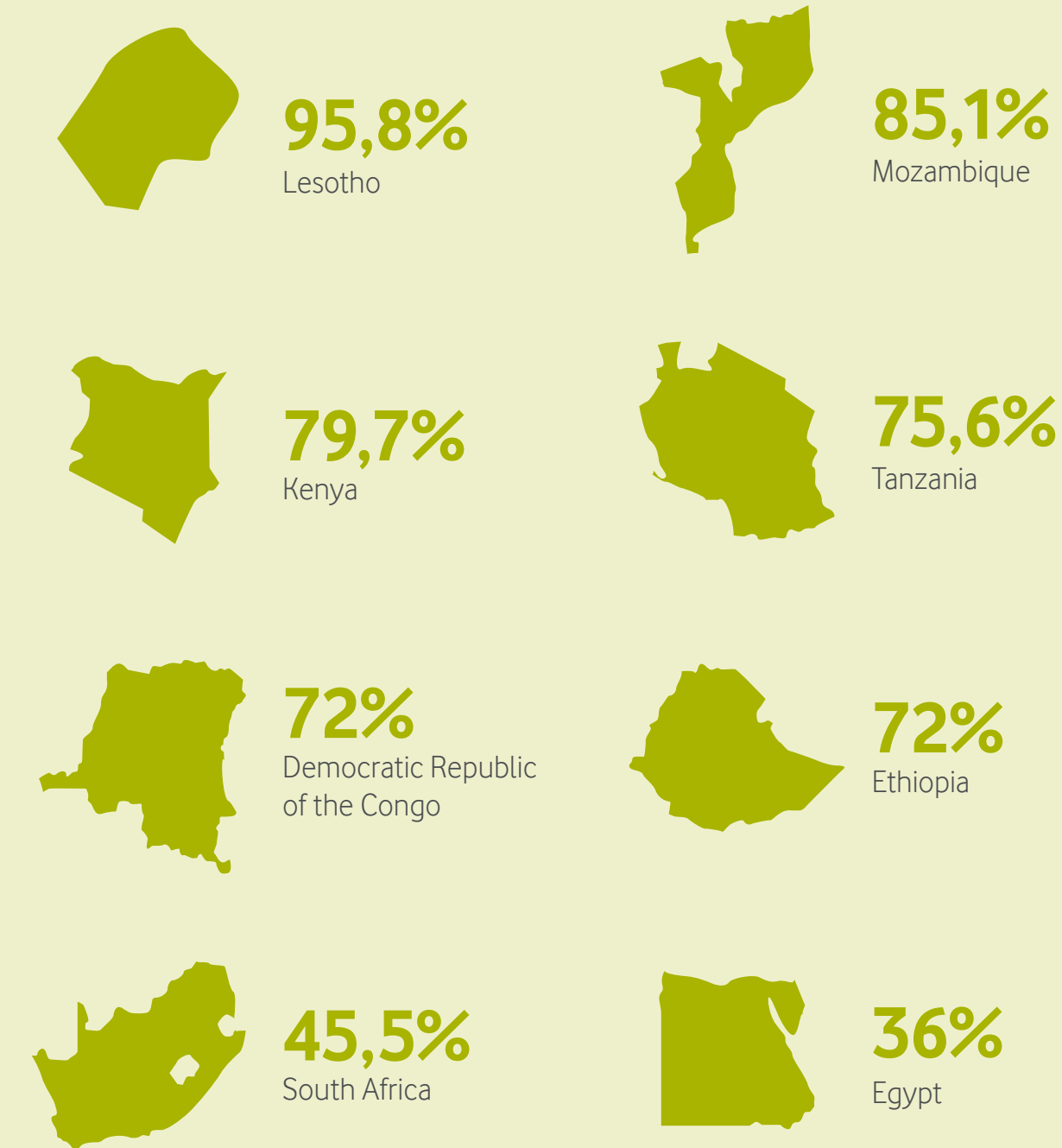


Figure 13

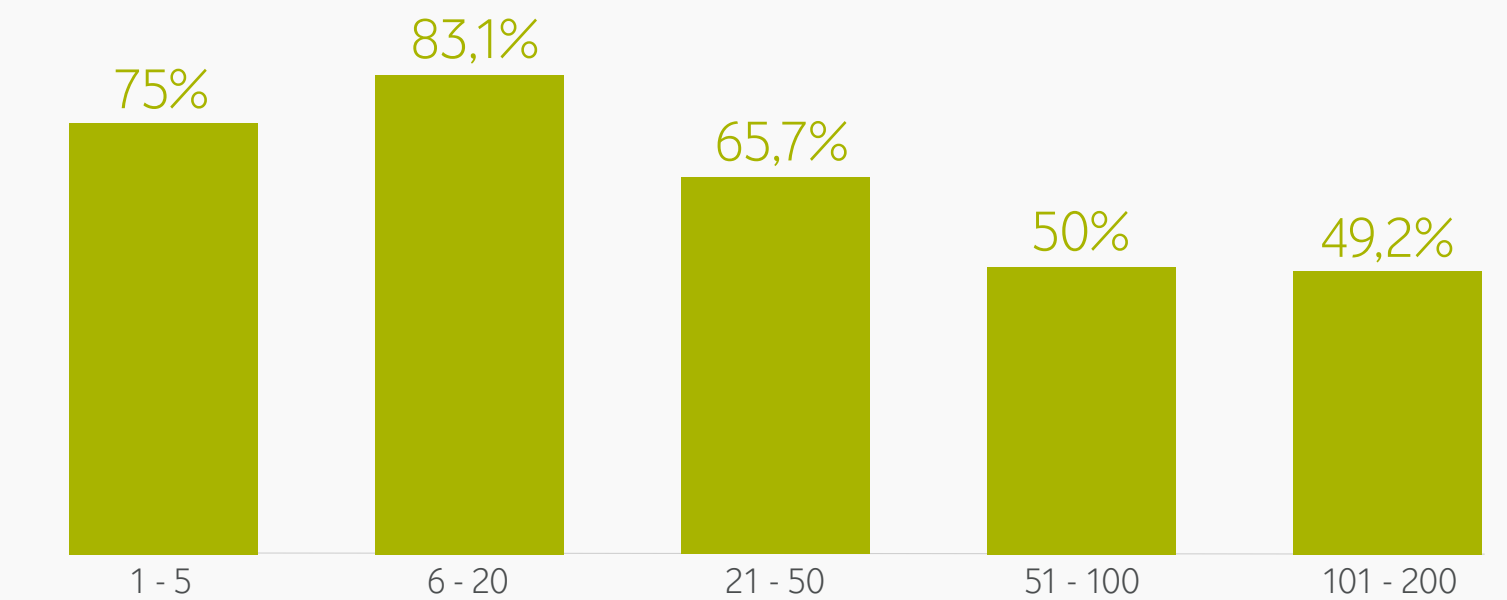
Looking at the data around barriers to adoption more closely, there are notable variations from country to country and depending on the size of the business. As Figure 13 shows, the high cost of implementation is a significant challenge in Lesotho (95,8%) and less so in Egypt (36%).



The cost challenge is particularly pronounced for smaller SMEs – with 75% of businesses with just 1-5 employees and 83,1% of businesses with 6-20 employees identifying this as a major barrier (Figure 14).

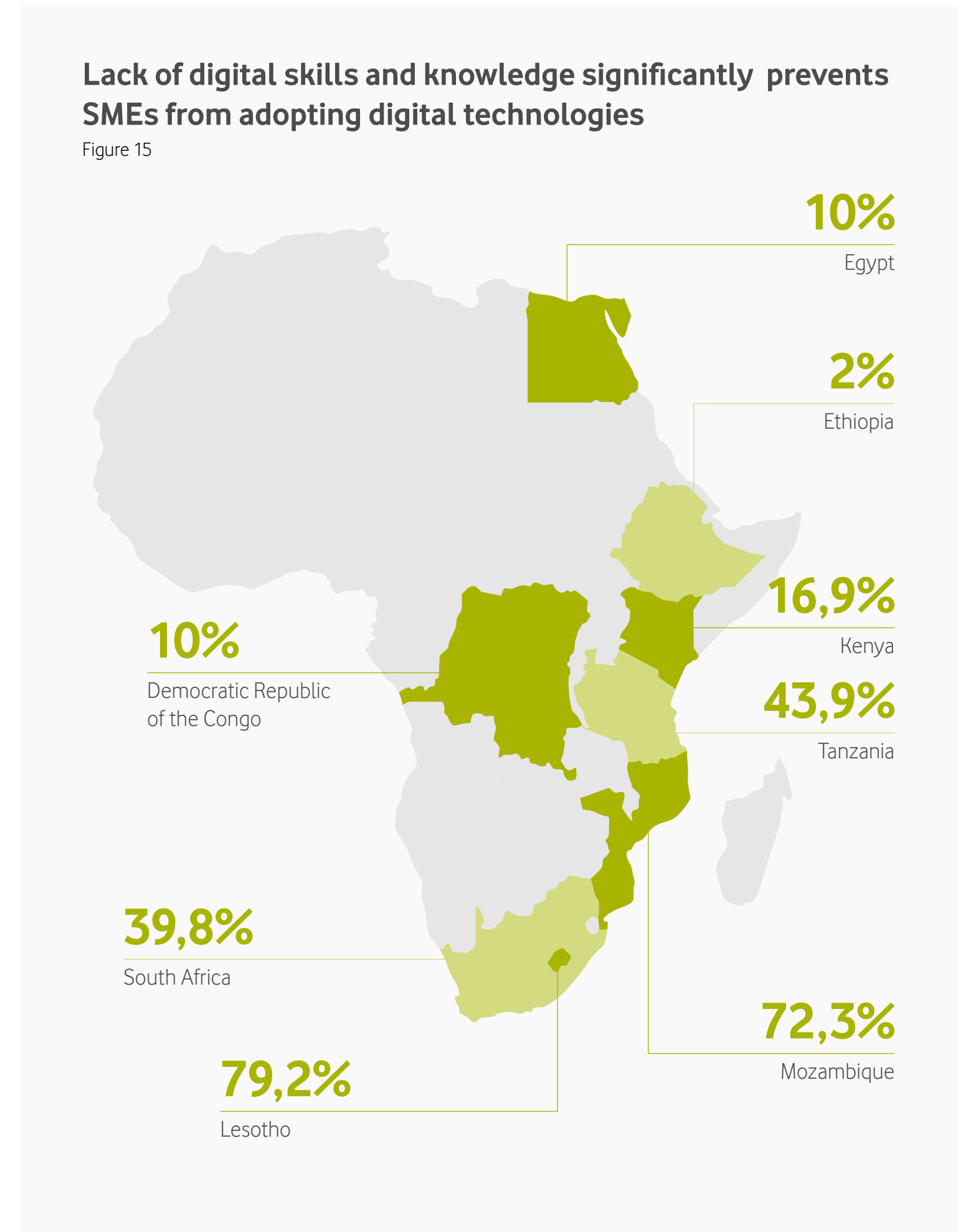
High cost of technology implementation significantly prevents SMEs from adopting digital technologies

Figure 14

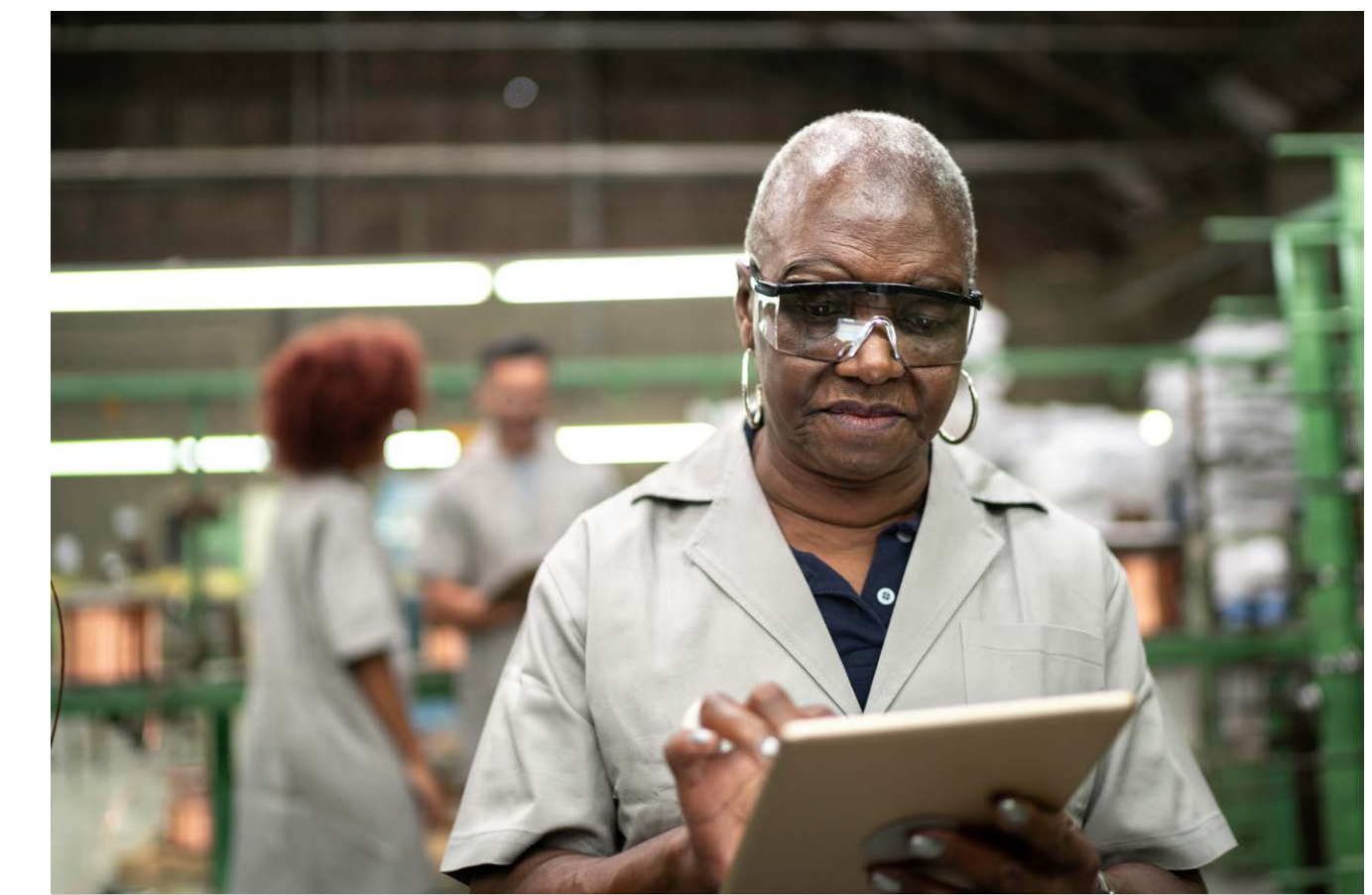
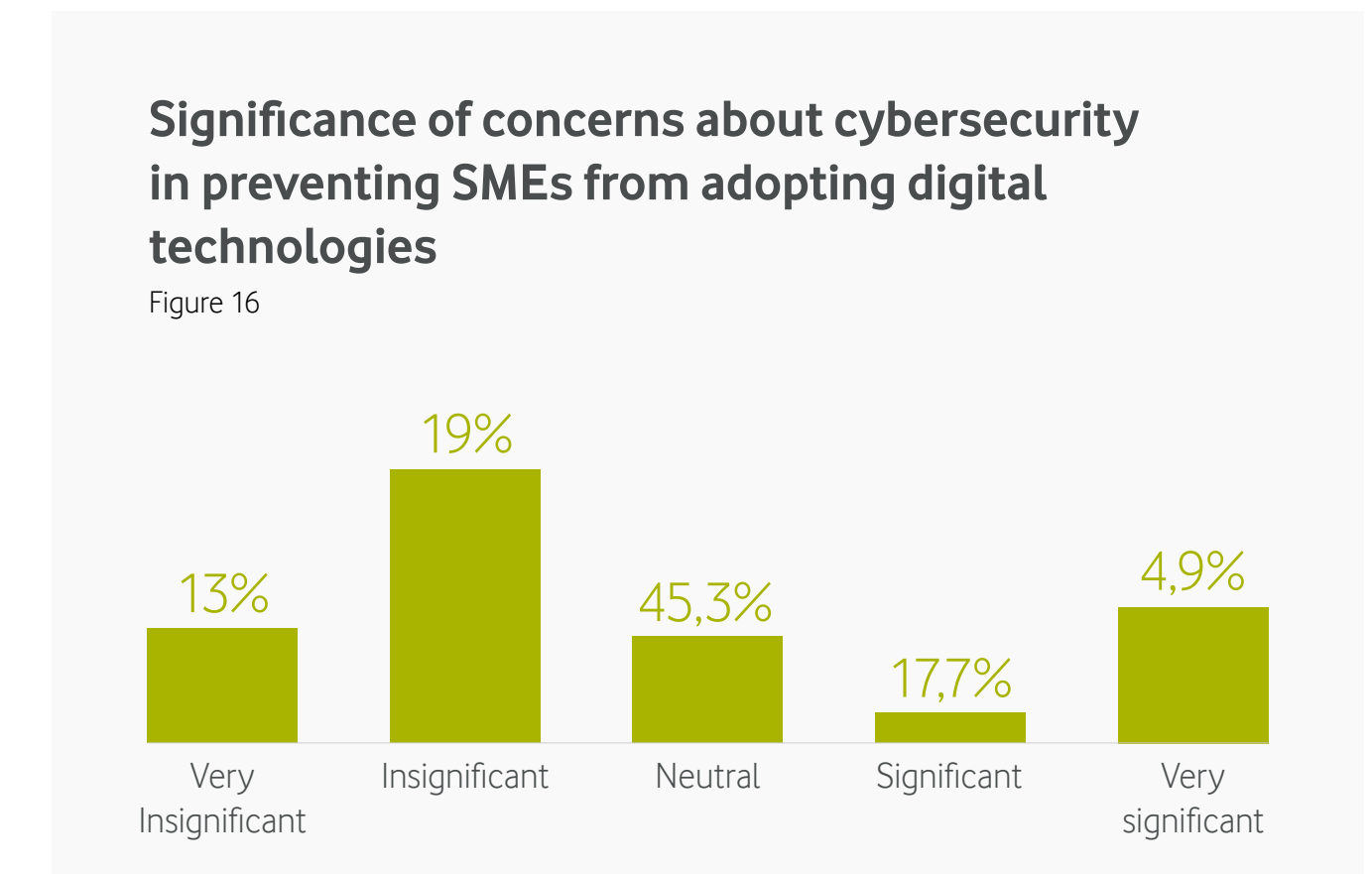




When it comes to skills and tech know-how, the data (see Figure 15) shows that businesses in Lesotho (79,2%) and Mozambique (72,3%) are most concerned about this, while those in the DRC (4%) and Egypt (2%) are unaffected.

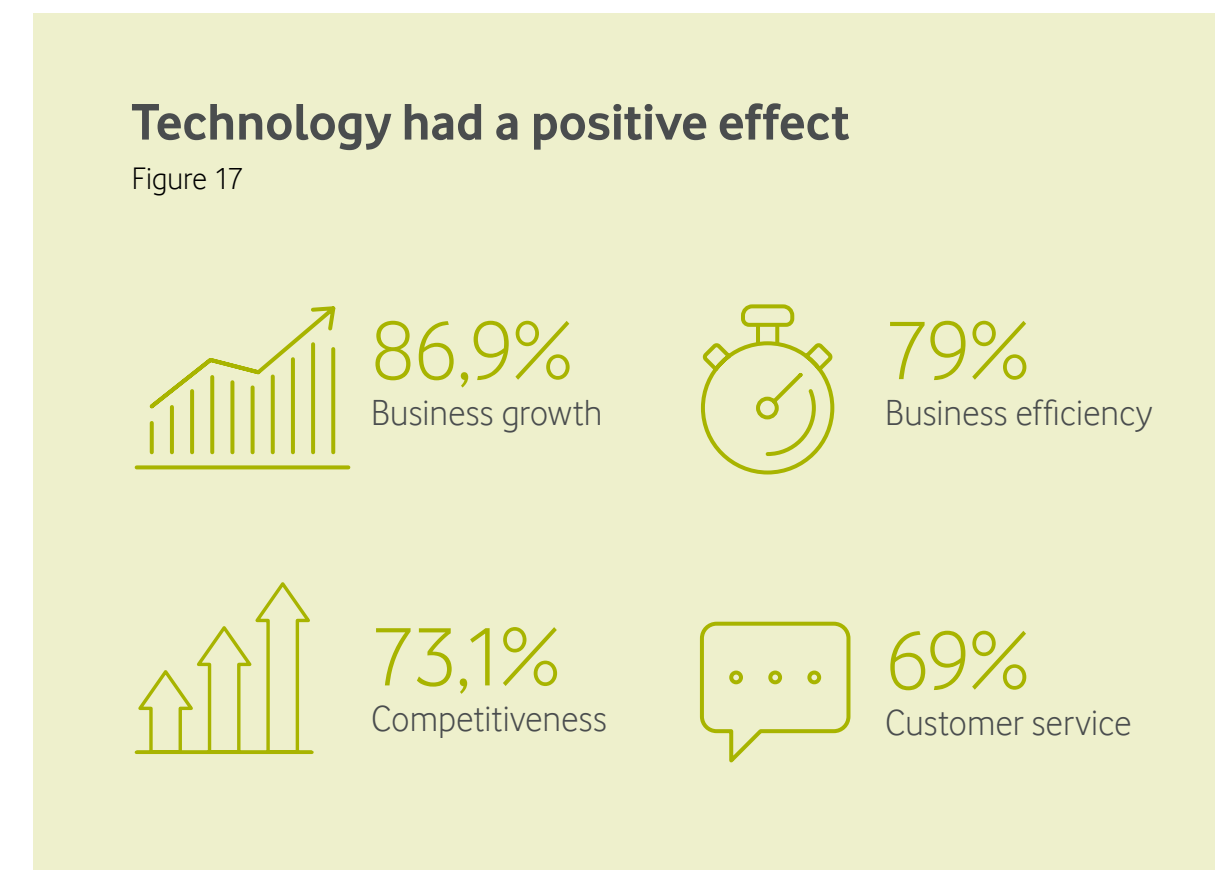


Cybersecurity concerns ranked fifth in significance among the barriers surveyed (22,7%). Figure 16 illustrates that the majority of respondents were neutral around its significance (45,3%), demonstrating that hacking and cybercriminal activity is not a factor that is considered when adopting new technologies.

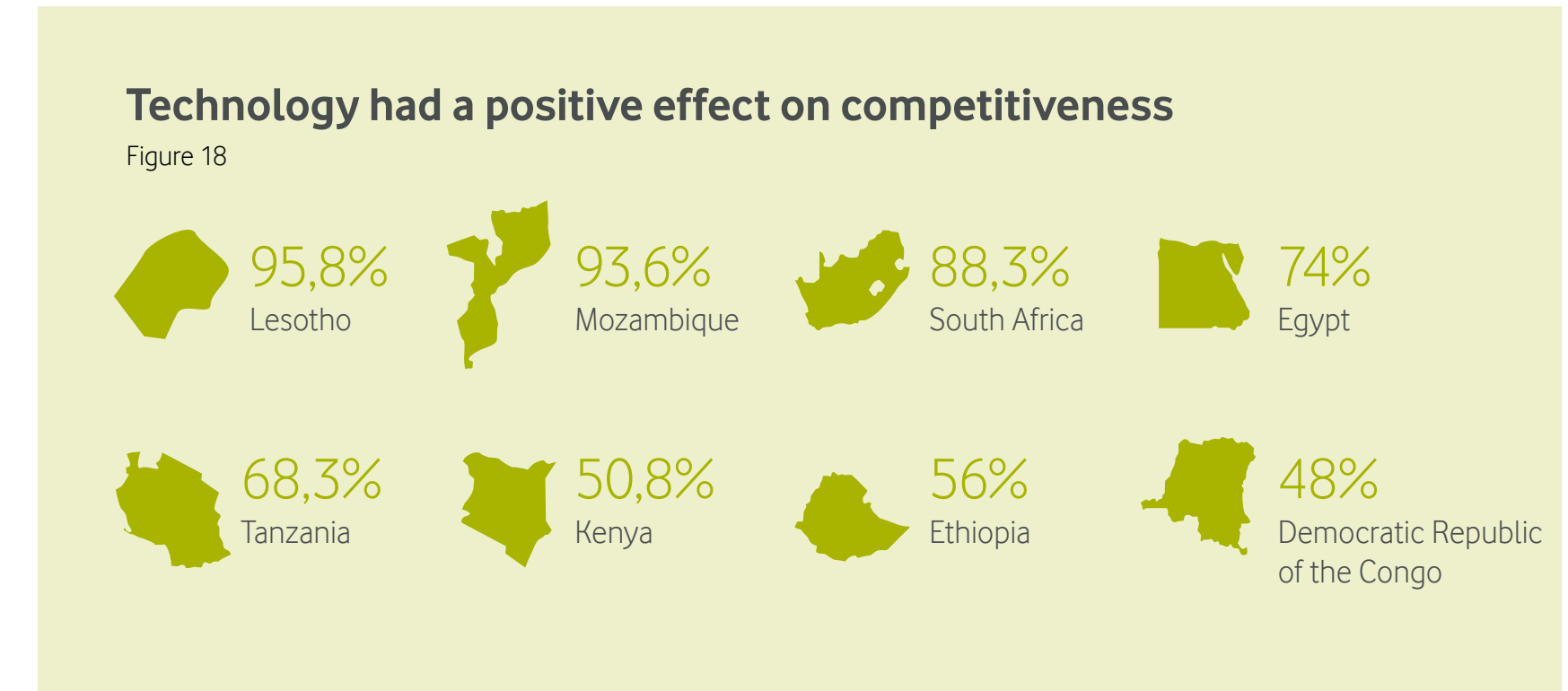


How tech is improving the work SMEs do

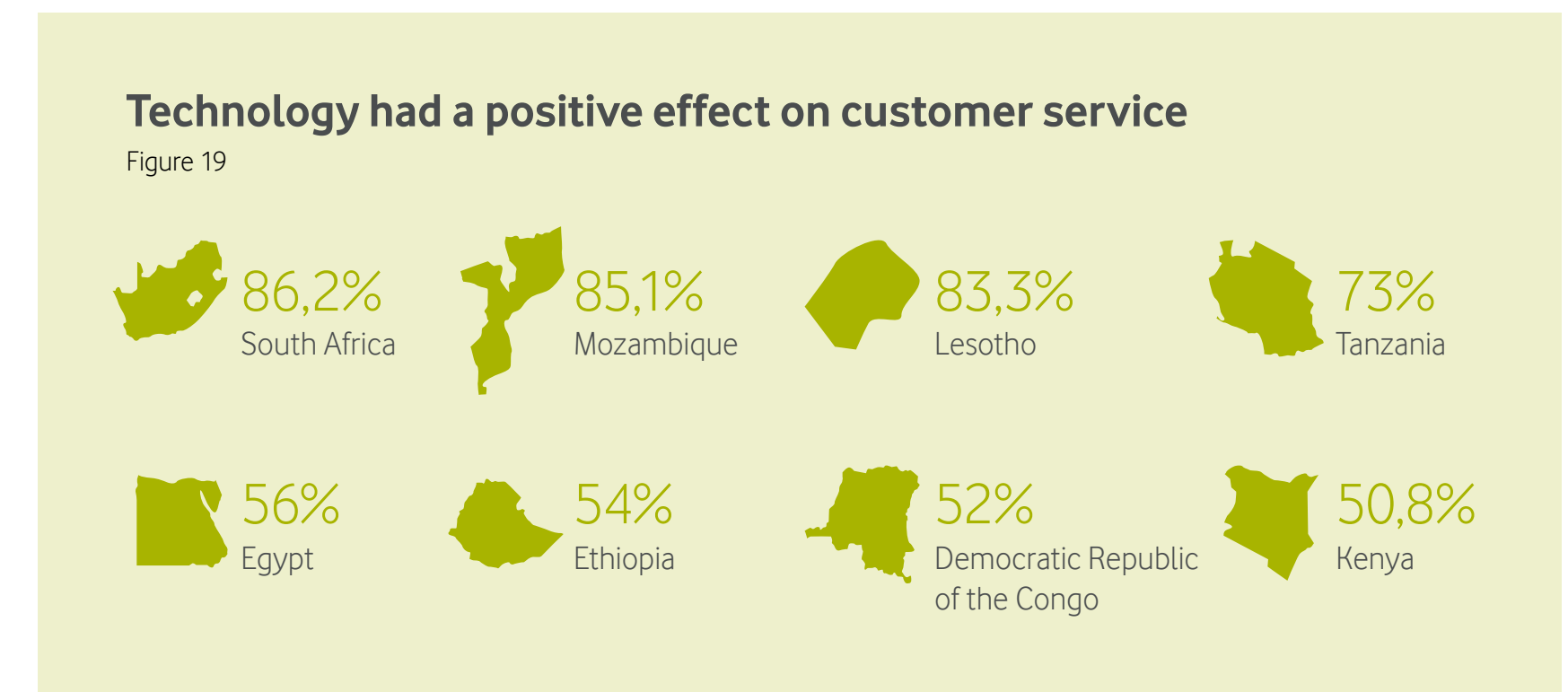
The transformative influence of technology is abundantly clear across various business dimensions, as indicated by the overwhelmingly positive responses from the survey. Most respondents acknowledge its role in fostering business growth (86,9%) (see Figure 17).



In addition to growth, respondents believe that technology plays a substantial role in enhancing business efficiency (79%). Our research shows that technology's positive effect on competitiveness is also substantial (73,1%) and that technology improved customer service (69%). Again, when unpacking some of this data in more detail, there were a number of interesting findings.



For example, while 95,8% of SMEs in Lesotho say that technology has boosted competitiveness, only 48% of businesses in the DRC believe it has had a positive effect (see Figure 18). Similarly, some 82,6% of South African SMEs acknowledge that technology has had a positive impact on customer service, compared to just 50,8% of Kenyan SMEs (see Figure 19).

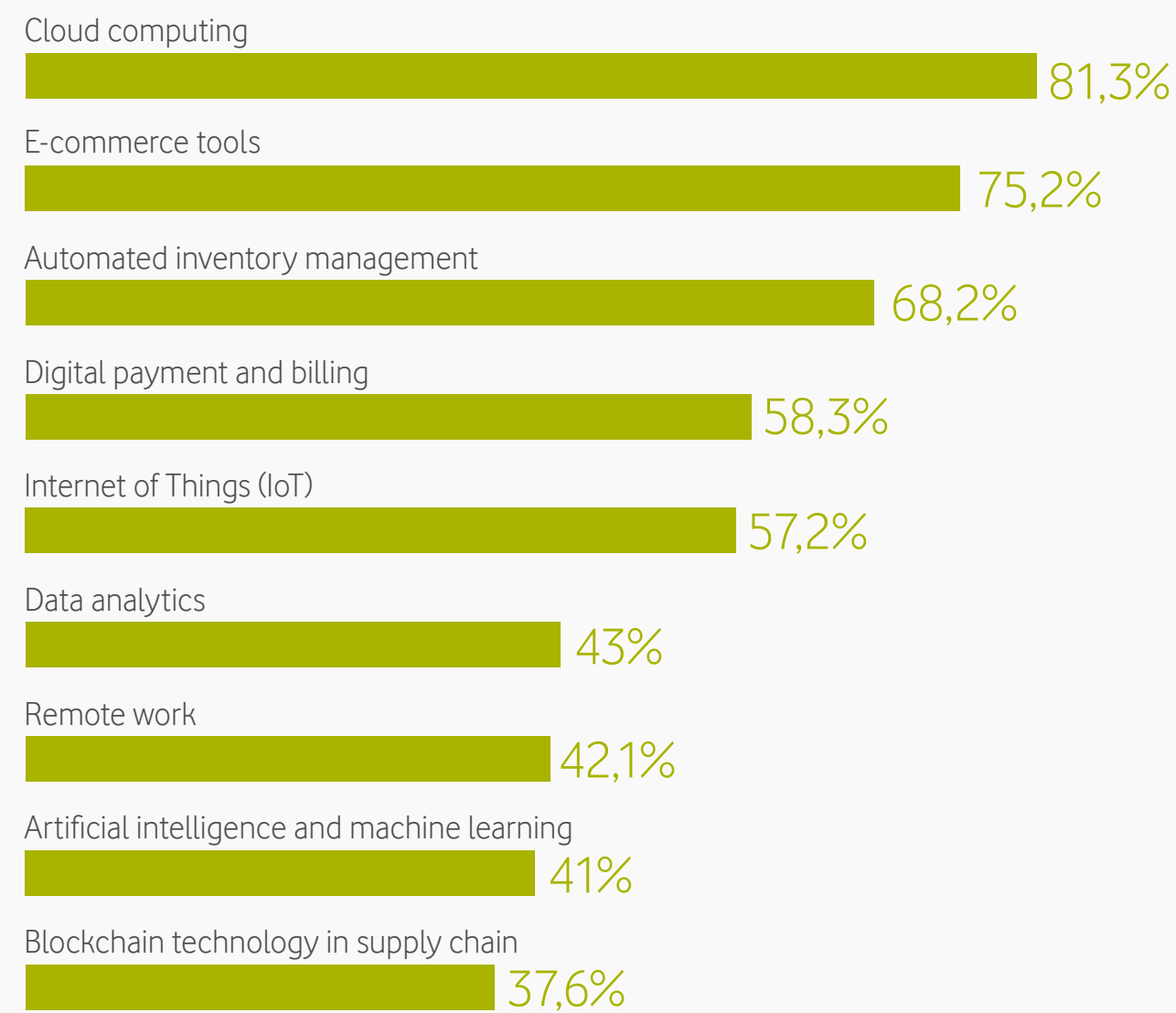


What tech is empowering SMEs most

Cloud computing stands out as the most critical digital tool for enhancing the surveyed participants' competitiveness (81,3%) as shown in Figure 20. E-commerce tools were also recognised in terms of importance (75,2%). Other technologies that made the list of useful digital tools for modern SMEs include automated inventory management tools (68,2%), digital payment and billing tools (58,3%) and IoT or the (IoT) (57,2%). Data analytics, remote work, artificial intelligence (AI) and machine learning (ML), and blockchain technology were also cited. Here, some of the most significant variations in responses can be seen across different industries.

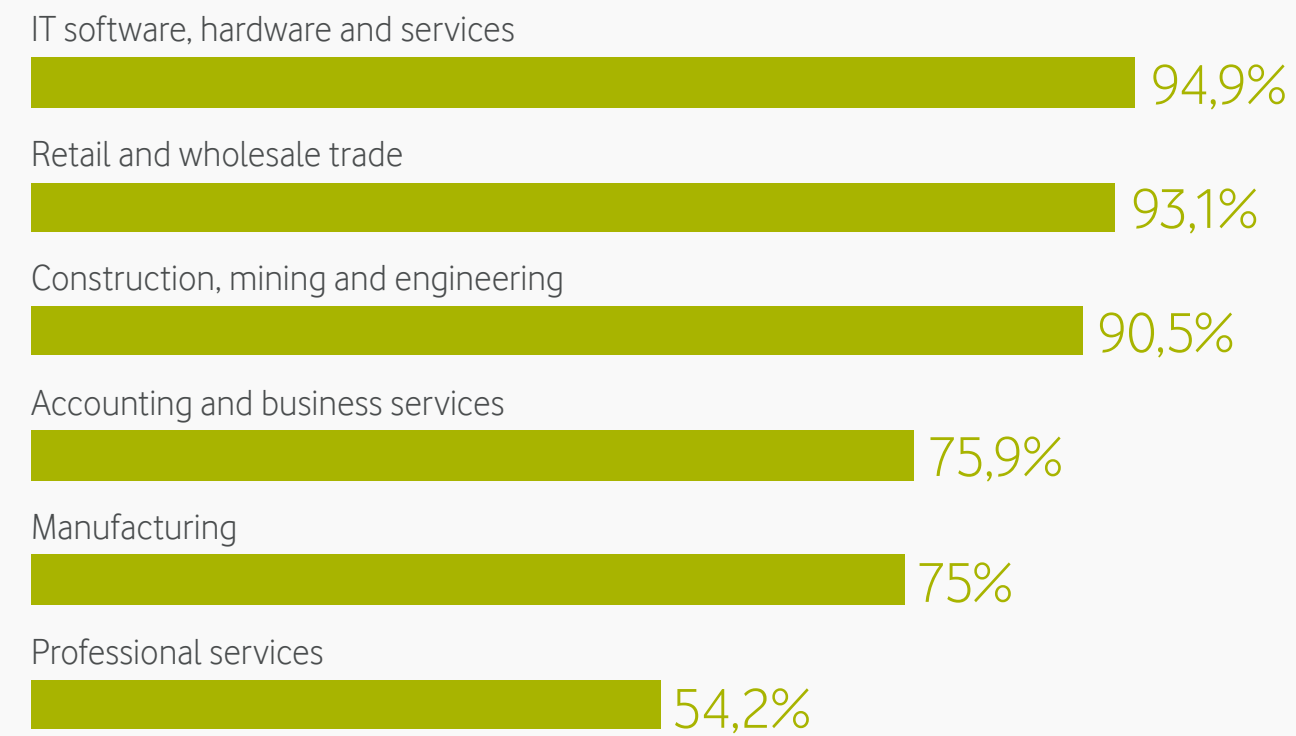
Important digital tools in enhancing competitiveness of African SMEs

Figure 20



E-commerce tools are important to enhance competitiveness, by sector

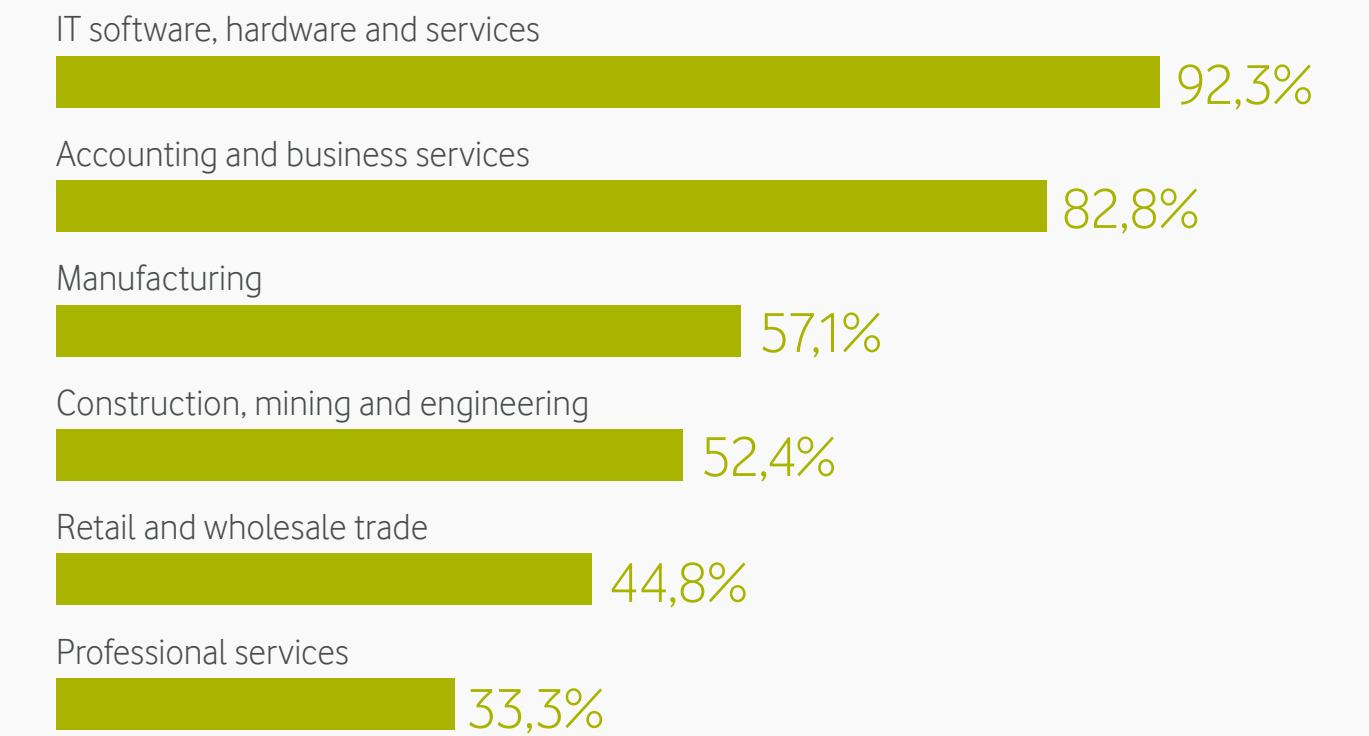
Figure 21



As Figure 21 shows, where e-commerce tools are important for 94,9% of IT software and hardware brands, only 54,2% of professional services businesses think e-commerce is important. Similarly, Figure 22 shows that only 33,3% professional services businesses think IoT is important, while 92,3% of IT software and hardware SMEs do. And despite all the hype around artificial intelligence, our survey found (as illustrated in Figure 23) that just a third of respondents from SA and Egypt say that AI and ML are important. This is interesting as these two countries are arguably some of the most developed in the group of countries featured in this report.

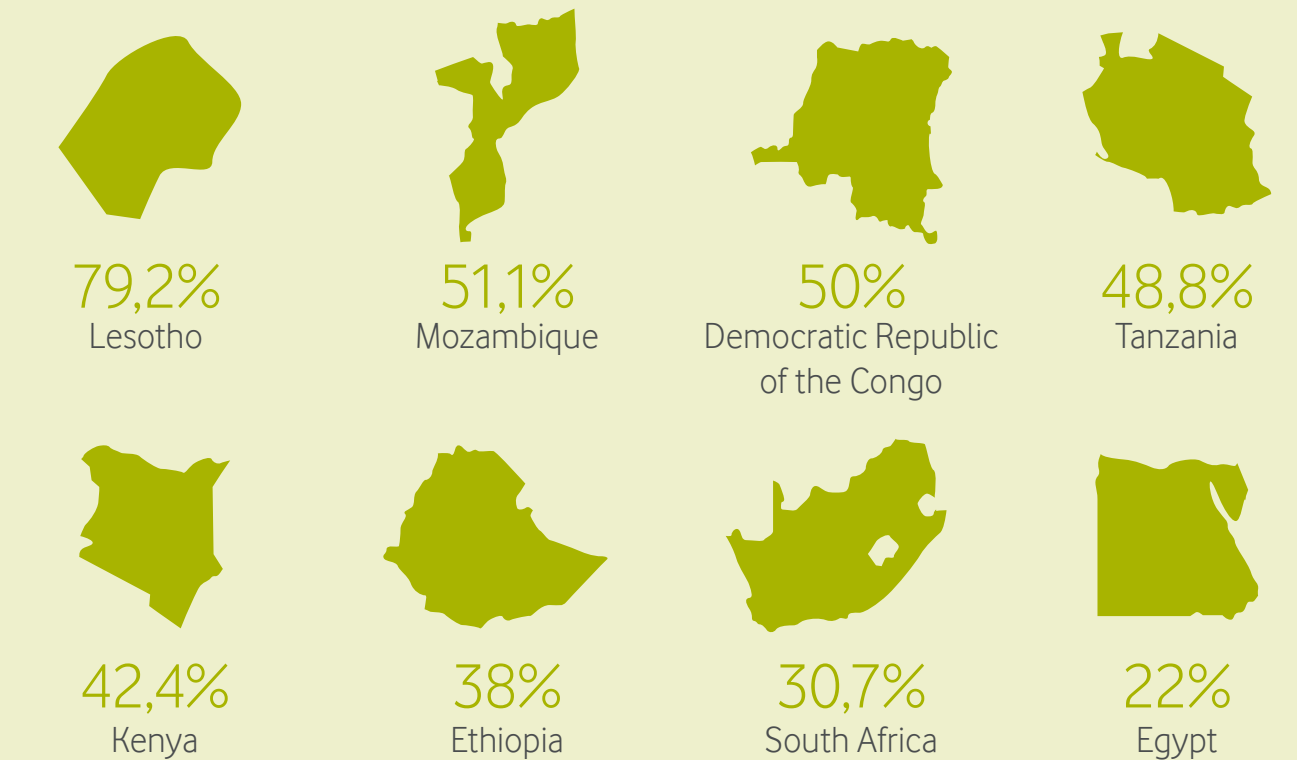
The Internet of Things is important to enhance competitiveness

Figure 22



Artificial intelligence and machine learning are important to enhance competitiveness

Figure 23



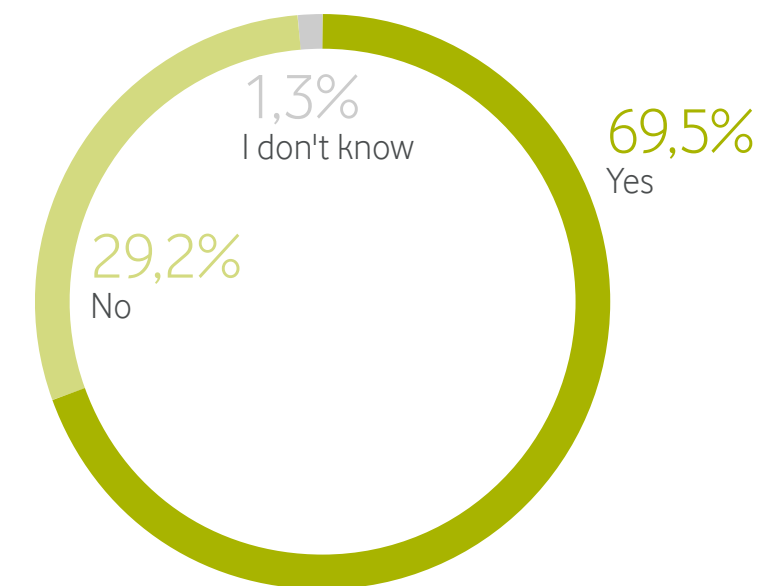
Tech investments

As illustrated in Figure 24, 69,5% of SMEs have increased their technological investments over the past 12 months. And over the next 12 months, 67,3% of respondents plan to further boost their technology investments (see Figure 25).

Over the past 12 months, the majority of respondents (83%) indicated that their enterprises had experienced positive growth (see Figure 26). And most (88%) expect their business to grow in the next 12 months, as shown in Figure 27.

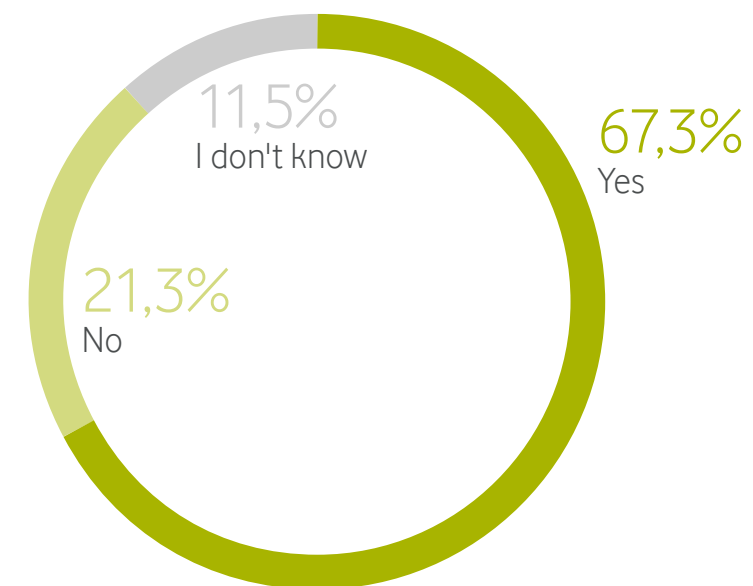
Increased technology investment, last 12 months

Figure 24



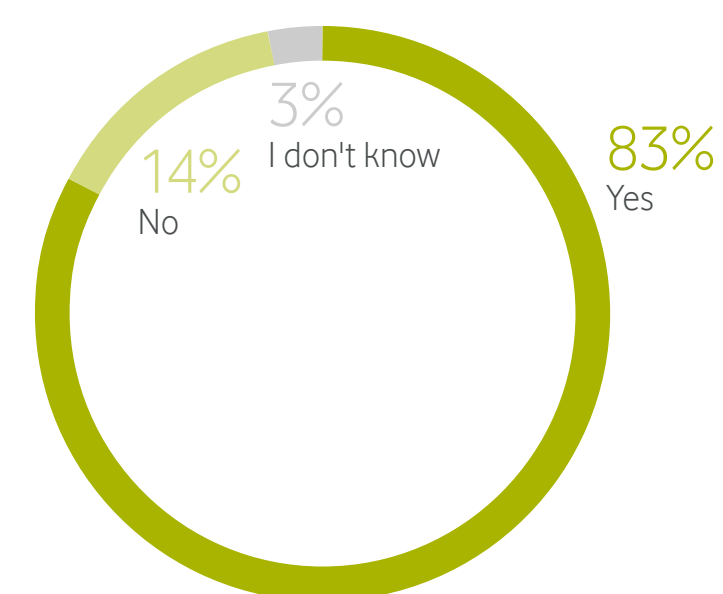
Plans to increase technology investment, next 12 months

Figure 25



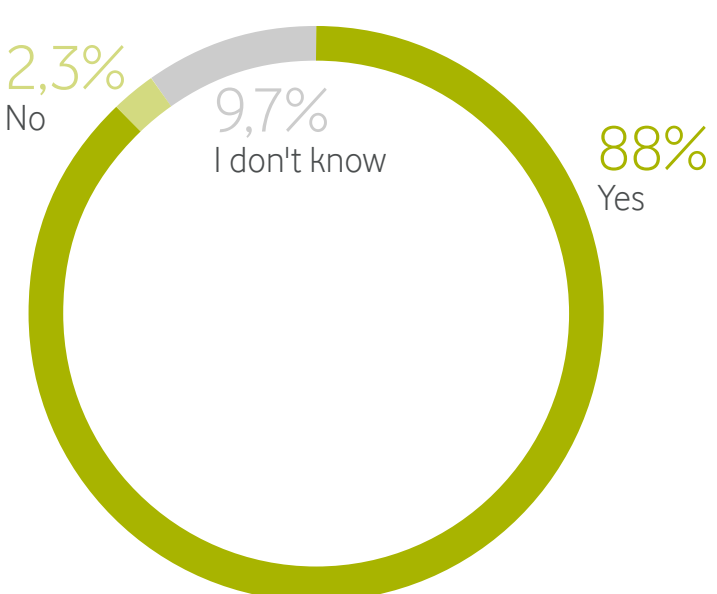
Business grew in last 12 months

Figure 26



Business expected to grow in next 12 months

Figure 27



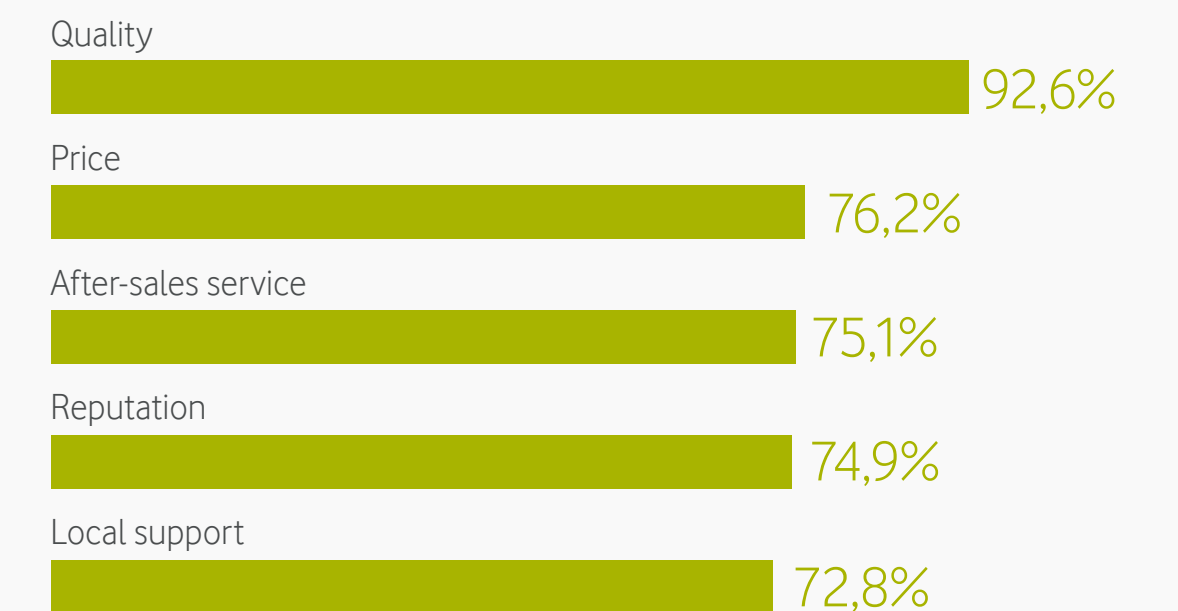
What factors SMEs consider when making investments

When asked about the factors they consider when making tech investments, the participating SMEs noted that quality was the foremost consideration when choosing technologies or a communications service (92,6%), as shown in Figure 28.

The remaining factors all carry significant weight, with roughly three-quarters of the respondents considering them important. Price (76,2%), after-sales service (75,1%), reputation (74,9%), and local support (72,8%) were other noteworthy considerations.

Important aspect when selecting a technology or communications service

Figure 28

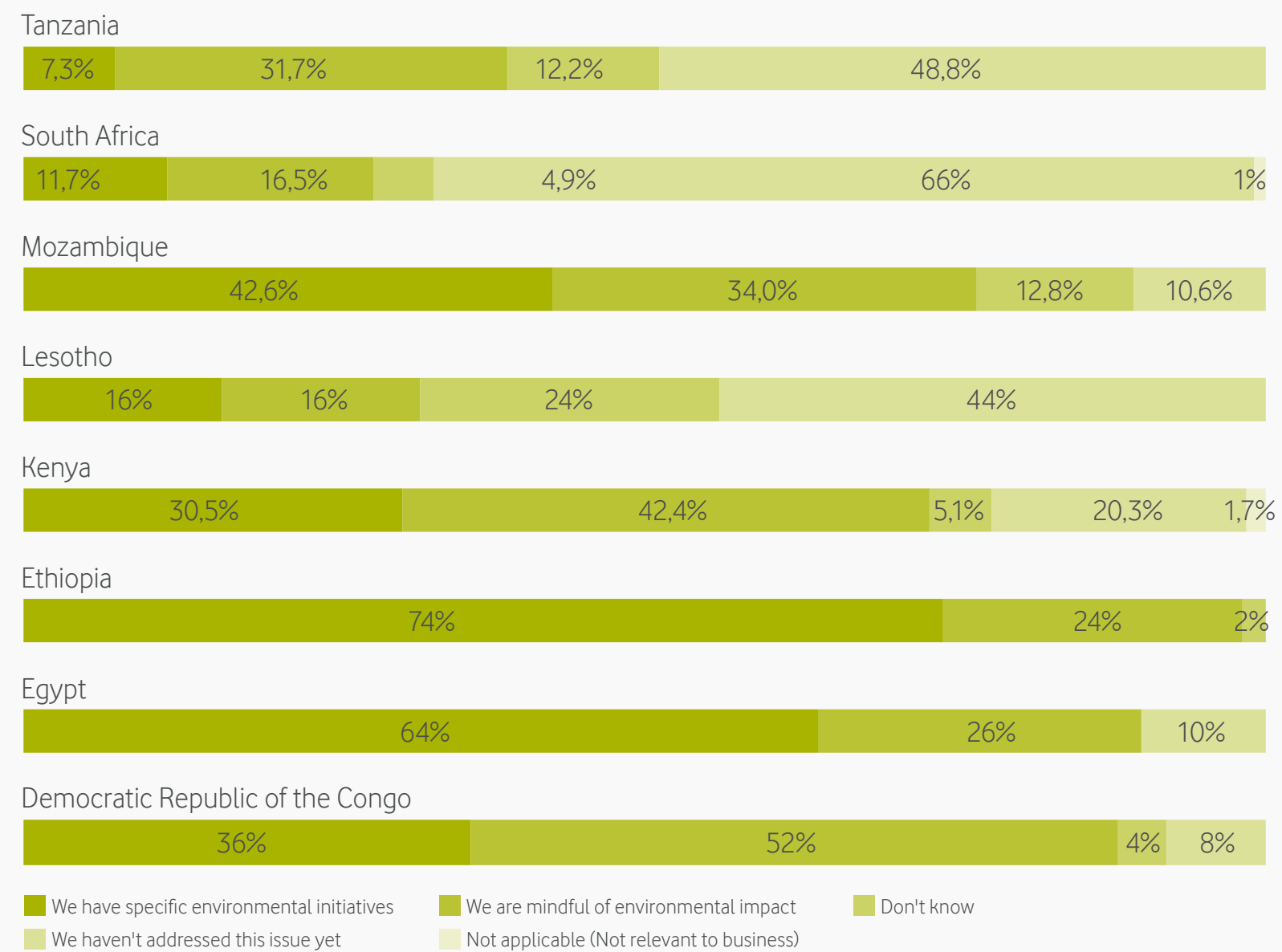


How SMEs are responding to broader issues, like climate change

Typically, smaller businesses are less resilient than their larger counterparts and, thus, something like climate change is a complex and dynamic challenge that affects these businesses in different ways. According to our survey, perceptions around climate change are mixed. As shown in Figure 29, just under a third of respondents have yet to address climate change and environmental sustainability concerns (30,8%) and just over a third are actively working to address these concerns (33,8%). Less than one third (28,2%) are aware of the environmental issues and climate concerns.

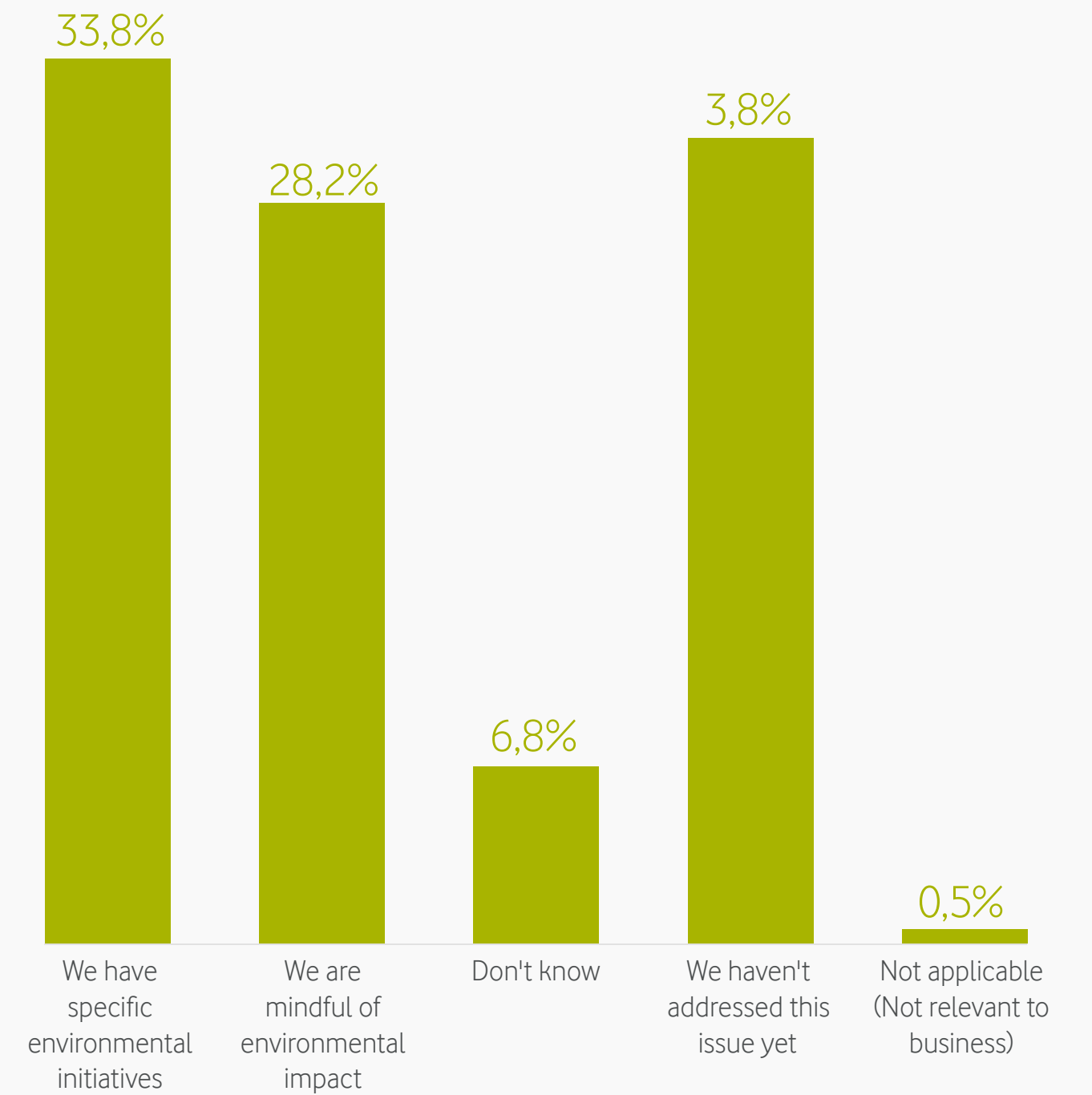
Climate change and environmental sustainability concerns

Figure 29



Climate change and environmental sustainability concerns

Figure 30



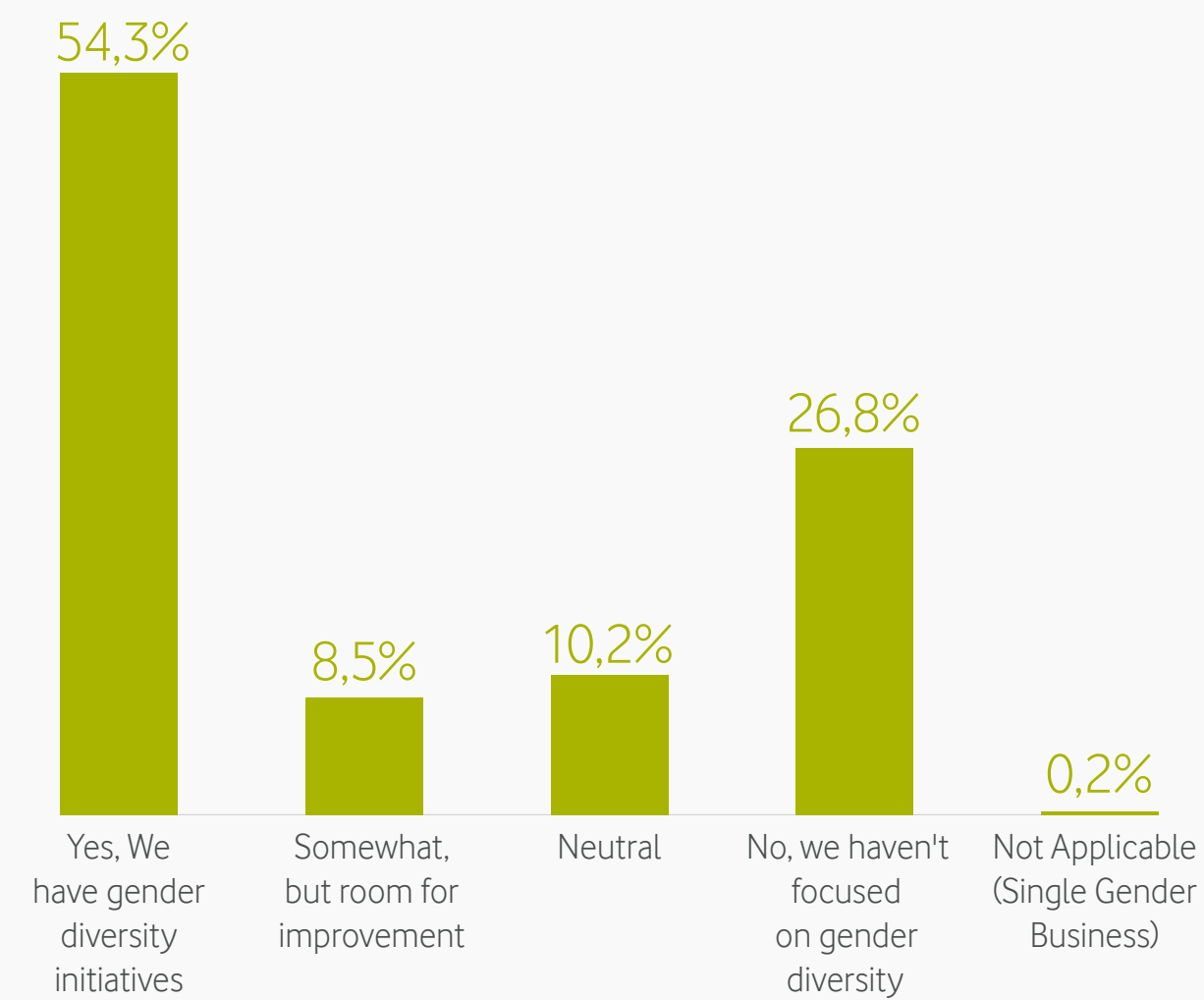
Breaking this down by country, Ethiopian (74%) and Egyptian (64%) SMEs are ahead of the curve when it comes to implementing climate-related initiatives (see Figure 30). On the other end of the spectrum, in Tanzania (7,3%) and South Africa (11,7%), the number of SMEs that have prioritised environmental initiatives is much lower.

What SMEs are doing about gender diversity

Across the globe, evidence shows that equal participation for men and women, is better for business. As such, improving gender diversity is key for success in small businesses. Our survey found that more than half of the participants have established gender diversity initiatives (54,3%), while about a quarter have no such initiatives (26,8%) - as shown in Figure 31.

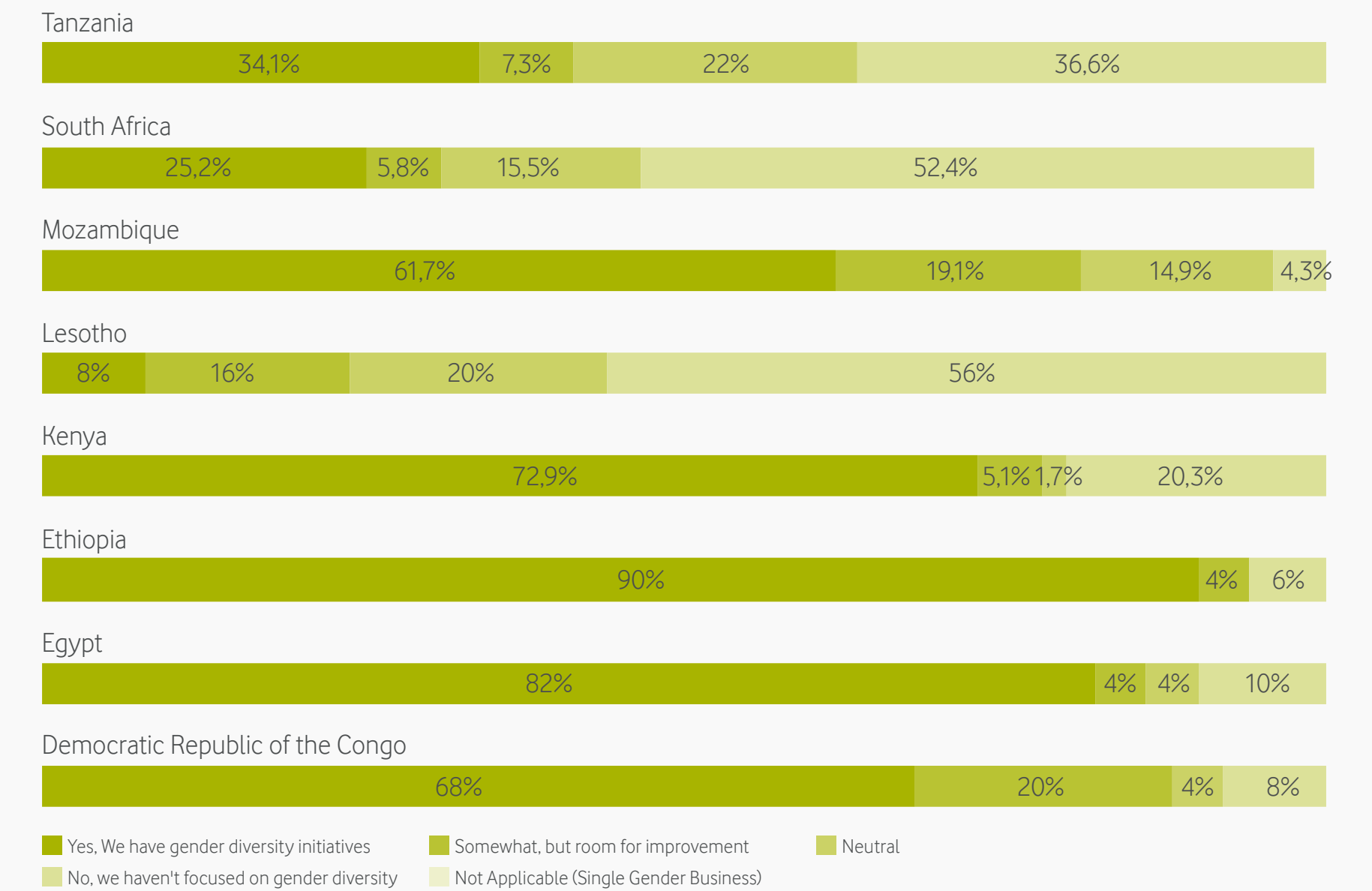
Business actively promotes gender diversity and inclusivity in its operations

Figure 31



Business actively promotes gender diversity and inclusivity in its operations

Figure 32

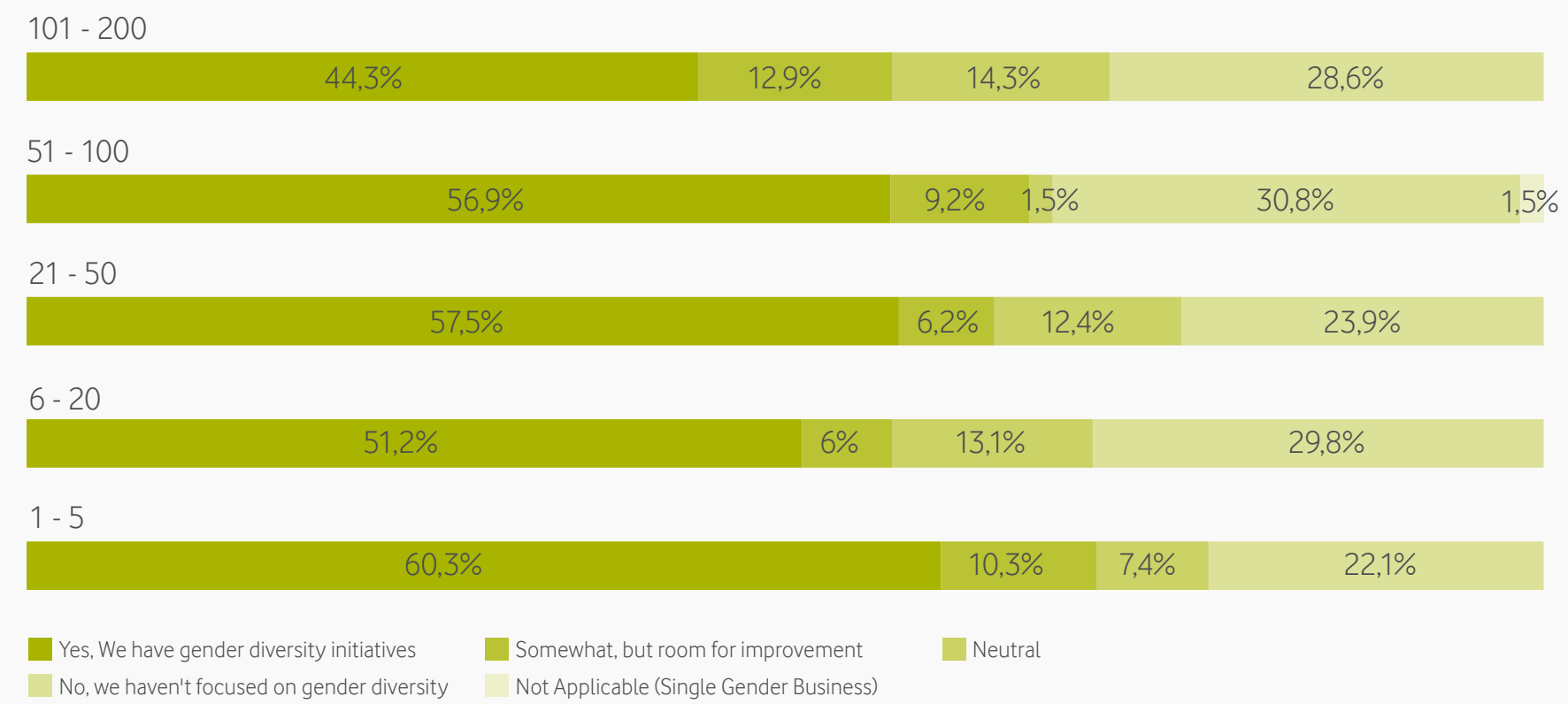


In Ethiopia, notably, the majority of companies have initiatives in place (90%), as shown in Figure 32. Followed by Egypt (82%), Kenya (77,9%), and the DRC (68%). Conversely, more than half of SMEs from Lesotho (56%) and SA (52,4%) do not have any initiatives in place.

Breaking down the data by company size, shown in Figure 33, the smallest bracket, 1-5 employees, displays a commendable 60,3% adoption of gender diversity initiatives. Within the 101-200 employee bracket, 44,3% of companies have prioritised gender diversity.

Business actively promotes gender diversity and inclusivity in its operations

Figure 33



Policy recommendations

Recognising their potential, it is imperative to create a business environment that is conducive to small business success. Achieving this requires two key actions – the development of effective policies rooted in a deep understanding of the myriad of constraints SMEs face and implementing targeted programmes that empower these small ventures to succeed. Based on our research, we propose the following:

Improve access to finance

Accessing finance is a significant challenge for SMEs. While SMEs can develop new financial products that cater to their requirements, like crowdfunding, there is a genuine need to pinpoint potential areas of improvement around regulation and that could increase responsible lending to SMEs. While it is incredibly important to help SMEs when they are starting, it is equally essential to offer SMEs financing options as they scale up their operations. This is where something like designing and implementing SME-specific credit guarantee schemes, for example, can effectively facilitate and bolster SMEs as they expand and diversify their operations. Additionally, exploring alternatives to traditional collateral-based lending can capacitate SMEs to secure the financial resources necessary to launch and sustain their businesses.



Overcome major barriers to digital adoption

As our research shows, the cost of implementing new technologies, and later paying for upgrades and renewal of these technologies, are significant hurdles to digital adoption. While improving access to finance, as detailed above, represents a big step in the right direction, it is also essential to make these tools and technologies more affordable. Negotiating special packages with technology providers, and exploring subsidies and tax incentives to make digital technology adoption economically viable for SMEs is one solution to this problem. The ITU's Partner2Connect (P2C) coalition (of which Vodacom is a participant) serves as a prime example of how facilitating partnerships between governments, the private sector and other stakeholders – all of whom jointly invest in affordability-related programmes and initiatives – can effectively reduce costs for businesses that would otherwise be unable to leverage new and emerging technologies to streamline and grow their operations.

Champion essential infrastructure development

In situations where larger businesses can potentially absorb the additional costs associated with mitigating the impact of poor infrastructure – be it unreliable electricity or limited connectivity – SMEs are less able to do so. Fundamental and large-scale interventions, along with supportive policies are needed to address infrastructure-related hurdles. To help small businesses in overcoming these challenges, grants and loan schemes focused on energy are essential. These initiatives can assist SMEs in financing energy-efficient business practices and funding renewable alternatives, thereby making the installation of more sustainable energy solutions economically viable. Furthermore, offering tax incentives and rebates enhances the business case for those that would otherwise find it challenging to adopt modern tech solutions.



Build strong relationships with regulators

For SMEs, regulatory and compliance issues can be a significant hurdle. While these businesses might be “small”, their impact is significant, which is why it is essential that regulatory bodies are willing to engage in discussions with SMEs regarding compliance requirements. Regulators should also assist smaller firms in navigating different regulatory frameworks. This is crucial when it comes to data and its utilisation. For SMEs, much like any other business regardless of size or industry, the ability to access the right data can provide a critical competitive edge and enable them to better fulfil customer needs.

Public-Private Partnerships for more holistic support

In addition to building strong relationships with regulators, it is also vital to foster collaboration between the public and private sectors in a way that creates a more supportive ecosystem for SMEs. But, unfortunately, these small businesses often find themselves “crowded out” by the bigger players or are unable to participate in Public-Private Partnerships (PPPs) because of the costs and time constraints associated with complying with complex pre-qualification requirements or bidding criteria. PPPs have potential to promote the development and growth of SMEs by improving access to resources, enabling them to tap into fresh expertise and providing funding for mutual growth. To do so effectively, policies and legislation around the awarding of PPP contracts must be shifted to include specific clauses around the use of competitive local suppliers, including SMEs.

Prioritise skills and training

Attracting and retaining talent poses a challenge for businesses across all industries but is particularly pronounced for smaller businesses. Implementing programmes and initiatives that help SMEs to provide skills development opportunities and training to their employees will allow these businesses to overcome their talent-related challenges. Cost-sharing initiatives, wherein partial funding is derived from government grants, can support SMEs in enhancing their core competencies and capabilities.



Conclusion

SMEs play an integral role in the global economy, given their contributions to job creation, innovation, economic growth, and regional development. For small business owners, investing in new technologies not only boosts business growth and efficiency, it also increases their competitiveness and empowers SMEs to deliver a better service to their customers.

However, these small businesses face a wide range of challenges when it comes to adopting new technologies – one of the most significant being costs. Beyond the high cost of tech implementation is the cost of tech upgrades and renewals, which is a significant hurdle. Other barriers include training, a lack of infrastructure and technology upgrade costs, as well as unreliable internet connectivity and electricity supply. These challenges are more prevalent in specific regions and across particular sectors.

Despite this, a significant proportion of SMEs have increased their technology investments in the past year and many plan to increase them in the future. This demonstrates a recognition of technology's importance in driving growth and competitiveness.

So what tools are they using? Cloud computing is considered the most important for enhancing competitiveness among African SMEs, followed by e-commerce, automated inventory management, digital payment and billing, and the Internet of Things. These tools have the potential to significantly improve efficiency and competitiveness for SMEs.

Looking beyond technology, small businesses also need to be cognisant of how other societal issues can, and do, affect their bottom line. For example, climate change and environmental concerns should be on every SME's radar. Our research shows that approaches to this are mixed. Some have specific environmental initiatives in place, others are mindful of their environmental impact and then there are those that are yet to prioritise climate-related business strategies.

Along a similar line, gender diversity initiatives have been implemented by slightly over half of the respondents, which shows a positive trend towards addressing gender imbalances in the SME sector.

The findings of this study underscore the need for tailored strategies to support SMEs in overcoming their technology-related challenges and enabling them to embrace the digital tools needed to enhance their competitiveness. Additionally, addressing environmental hurdles and prioritising sustainability is becoming an increasingly important consideration for SMEs. Quality remains the primary selection criterion for technology and communication services, emphasising the importance of reliable and efficient solutions for SMEs.

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Appendices

Research methodology and demographics

This report presents data collected from a sample of 400 respondents across eight African countries, with a particular emphasis on South Africa (SA), which accounts for about a quarter of the total respondents, due to it representing the majority of SMEs on the continent. The other countries include: Kenya, Egypt, Ethiopia, Mozambique, Tanzania, the Democratic Republic of the Congo and Lesotho.

Businesses were selected using random sampling from a database of more than 100 000 SMEs from across the eight countries. Businesses were contacted telephonically, and interviews were conducted with business decision-makers. The variation in the number of businesses per country was based on the difficulty in contacting both businesses and their decision-makers in those countries with smaller response bases.

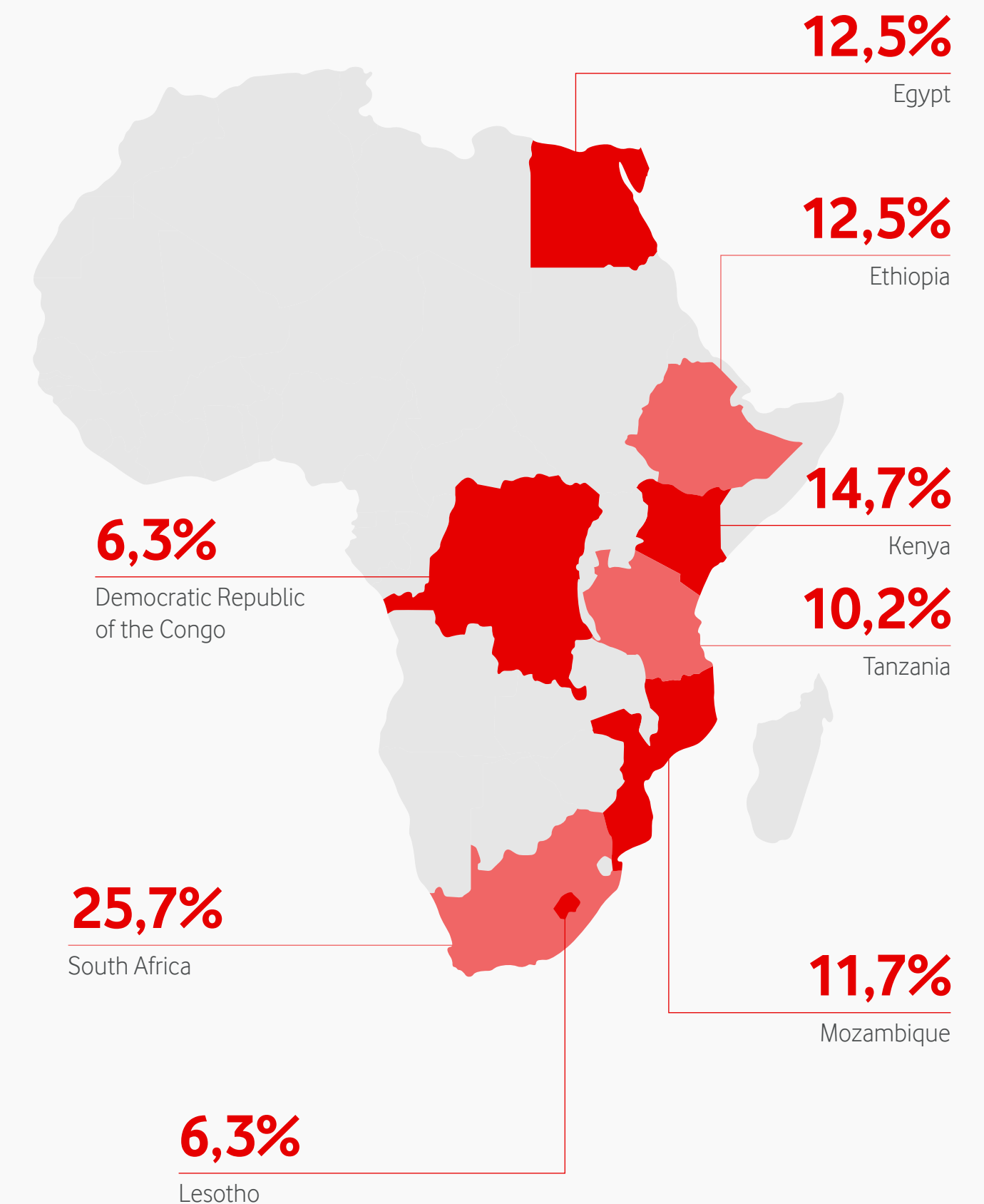
The definition of an SME used in this report is based on the National Small Business Act 1996, as amended in 2004, which stipulates varying definitions for each industry sector, including number of employees, turnover, and value of assets.

For each sector, the definitions differ, except in the case of number of employees, where all sectors except agriculture have an SME size-limit of 200 employees (in Agriculture it is 100). Companies with up to 20 staff members are defined as very small enterprises. A small enterprise is generally defined as having up to 50 employees. A medium enterprise from 51 to 200. Consequently, the size bands used in this report are intended to illustrate the difference in responses between very small, small and medium enterprises. To give a clearer picture of changes in response within officially-defined size groups, these size bands have been split up even further picture to give a clearer picture of changes in response within officially-defined size groups. In most countries on the African continent, companies with more than 100 employees are regarded as large enterprises or corporates, compared to the South African definition which defines any business with more than 200 employees as a large enterprise. To provide consistency in insights, we have interviewed only companies with up to 100 employees.



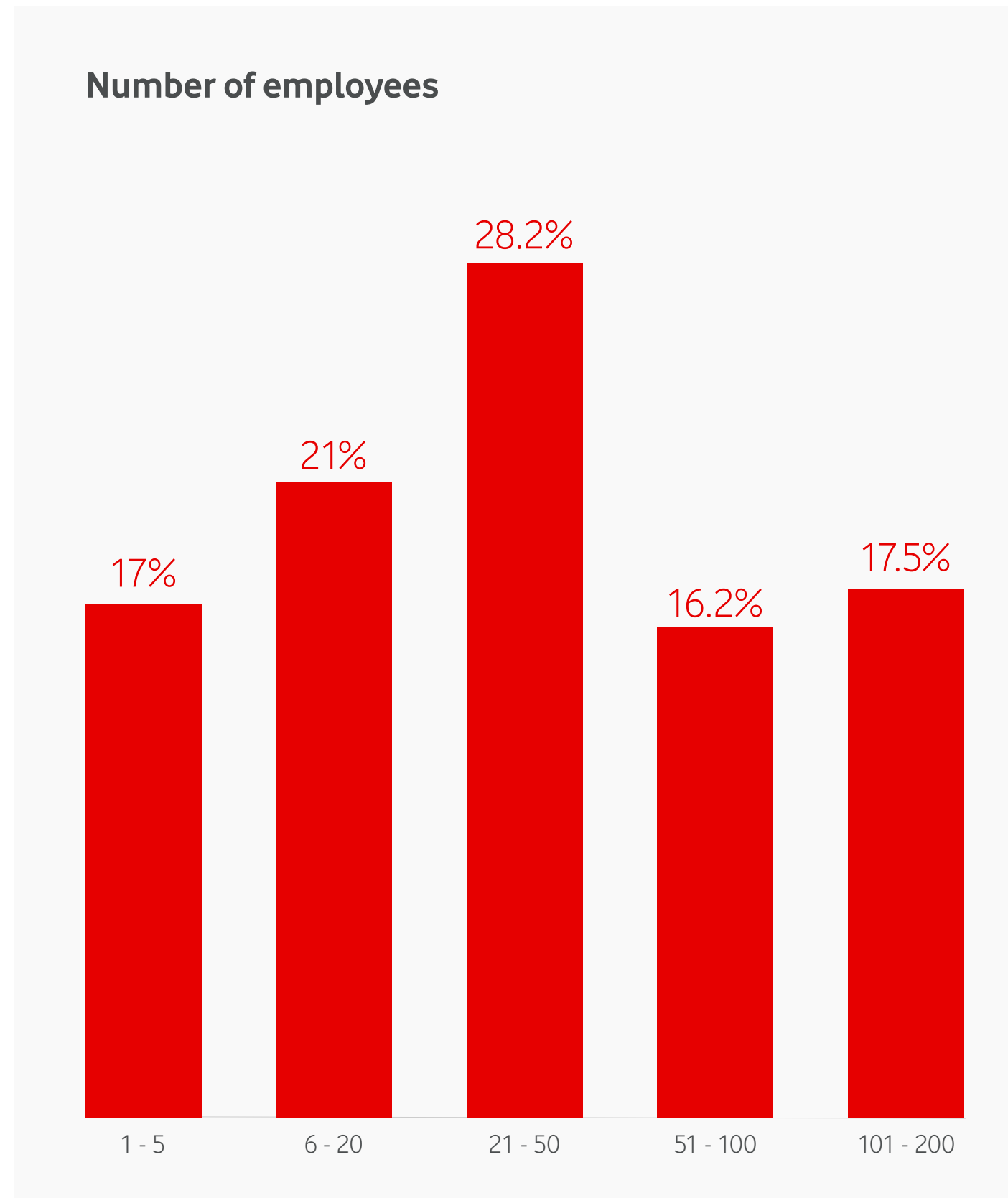
Business location

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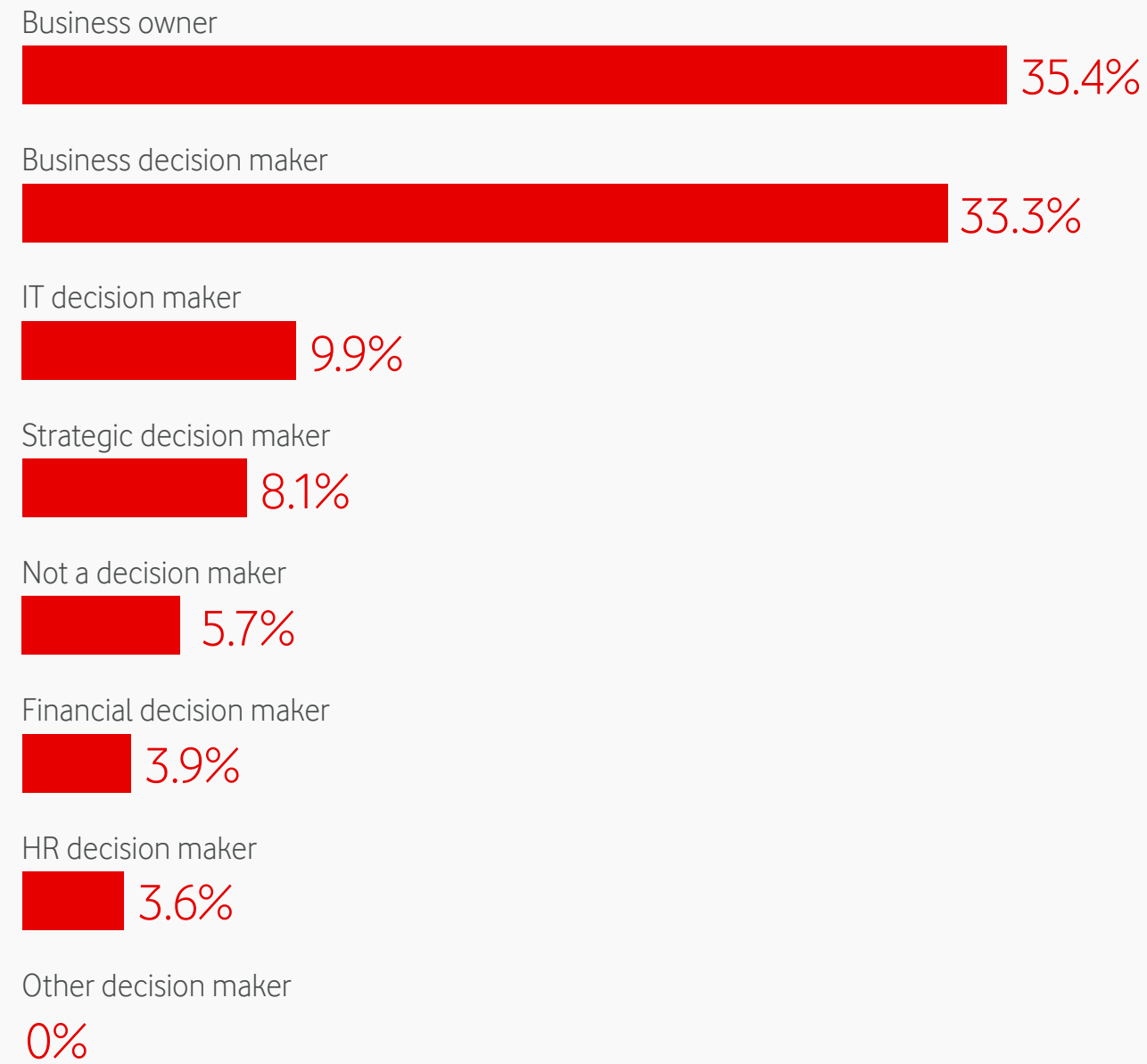


Number of employees

The distribution of employees in the company shows a concentration within the 21-50 range, constituting 28,2% of the respondents' companies. The second-largest segment is the 6-20 range, representing 21% of employees. Companies with 1-5 employees make up 17%, closely followed by those with 101-200 employees at 17,5%. The 51-100 employee range accounts for 16,2% of respondents.



Role



Role in business

The dataset comprises decision-makers, with a focus on the top two roles being business owners (35,4%), and business decision-makers (33,3%). These key positions play a significant role in shaping and influencing organisational strategies.

Business sector

Within the sectors surveyed, IT software, hardware, and services (9,7%), manufacturing (7,8%), retail and wholesale trade (7,5%), accounting and business services (7,2%), construction, mining and engineering (6%), and professional services (6%) constituted the top six.

Sector

