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ICTs and Small Enterprise

A Motor of Economic Development in Africa

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Employing 20% of the African workforce, small and medium-sized enterprises are a real economic engine. Information and communication technologies (ICTs) can be a smart investment for African entrepreneurs, enabling them to boost productivity, tap into international markets, and offer better service to their customers. ICT and entrepreneurship expert Russell Southwood explains some of the ways in which ICTs and small business can combine to form a motor of economic development in Africa.

Productivity and quality ‘jumpstarts’

Whether you run a sole trader business or a 30-person company, information and communication technologies (ICTs) can help jumpstart your small business. From controlling cash flow (and chasing those who owe you money) to staying on top of inventory, technology provides better ways of managing internal business operations.

For all the massive obstacles that stand between African small- and medium-sized enterprises (SMEs¹) and Western markets, there are opportunities to make money – provided the company has something of quality to offer and delivers it reliably. ICTs can help companies achieve this. In relationships with clients, a company can improve the way it gets orders and offer better ways of interacting with the company.

Consider the case of a builder: supplying digital designs and using electronic templates for price estimates offers the customer more in terms of speed and quality than his or her competitors. Another example: because she kept in e-mail contact with customers and maintained a web site, a Jamaican baker was asked to fly to Cyprus to create a wedding cake!

Access to finance

Although used computers are now available for as little as \$200, ICT still represents a significant investment for many businesses, especially small

ones. All entrepreneurs know how frustratingly difficult it can be to access finance for capital investments. High Street banks are not in the risk business. As Daniel Osei-Yeboah of Empretec, a UN programme that supports SMEs, puts it, "Most banks do not consider SMEs to be responsible borrowers who follow agreed plans and repay on schedule. Some divert funds even when projected incomes are realised."

So in order to get launched, most potential entrepreneurs "beg, borrow or steal" from friends or relatives. It may seem harder but once you've done it, you're on your way. As Sammy Buruchara of NairobiNet remembers, "If I'd known how much money I really needed, I would never have got started." Work out how to keep your initial start-up investment small. Once you've started a business and got some real customers, it's easier for an investor to see the actual potential of the ICT investment.

Seizing opportunities

Not all SMEs will benefit from having ICT as part of their operations. But there are some opportunities worth considering.

Falling costs

With the development of consumer markets for hardware and software, the start-up cost of ICT has fallen drastically in the last 10 years. Professional accounting software that once cost \$10,000 now costs \$200. High quality digital cameras, printers, and associated software are becoming ever more affordable. As a result, some

¹ Often defined as non-farming formal-sector enterprises with 5 to 200 employees.

industries such as printing and media, which were once very capital intensive, have now become more accessible to the small-scale entrepreneur.

Service: the ultimate competitive advantage

Africa is full of “me-too” companies, all offering roughly the same thing within the same small market. But companies offering high quality and service are rare. On service alone, there are clear opportunities for businesses to differentiate themselves from the many mediocre operators. ICTs offer a number of different ways to provide a more professional level of service and build and maintain relationships with customers.

Selling internationally

In a world dominated by global brands, many African companies have demonstrated that it is possible to sell unique products in Western markets. A simple web site can connect a company with international markets; you don't need to be offering e-transactions. Tourism services can be greatly enhanced through the use of websites and other ICT applications. Some SMEs in Africa have made these steps but there are still many more who might follow.

Lessons from Jamaica

Jamaica is strategically located within reach of the US consumer market and has sizeable tourism and entertainment industries. But in terms of access to ICTs, Jamaican entrepreneurs share many of the challenges encountered by their African counterparts. The cost of getting online is high, and outside the main towns connectivity is limited or nonexistent. Computers and software are expensive. Sound familiar?

Two examples from Jamaica show how small businesses can effectively use ICTs to enhance their internal operations and to tap into new markets.

It is interesting to note that the companies providing finance to these businesses insisted that their clients accustom themselves to the idea of *saving*. So when the moment came to borrow, in order to finance a computer purchase or some other ICT item, customers were used to putting aside a monthly sum, rather than taking it out of the business. In addition, financiers accepted items of household furniture as collateral.



LESSONS FROM JAMAICA: Starfish Oils

Kynan Cooke's company, Starfish Oils, makes Jamaica-inspired candles and aromatherapy products. He started by putting his accounts, documents and filing onto a computer. The next step was going online. Soon, he found himself in chat rooms comparing notes about cheaper and better wicks for the candles.

Kynan: “[Online] you can ask a lot of questions without anyone saying ‘what are you asking that for, dummy?’”

ICT was the answer to managing the growth the company experienced: “So far it has proven relatively easy to manage twenty people using a computer network.” Stocktaking in each of his three shops now involves one hour behind a computer, instead of four hours and six to seven people. “If we wanted to open four more stores, we'd have the capacity to handle it.”

His biggest mistake? “Trying to do too much too fast. I said to myself ‘I'm going to spend real money and get the most expensive accounting system. I needed ten people to operate it and it cost thousands of dollars a year to run. It was too big for what we needed. I was advised against it but I over-computerised. But let's not be afraid of mistakes. That's how we learn.’”

SMEs an engine of growth for the IT sector

According to a 2003 survey of SMEs in South Africa, investment in information technology is having a major impact on their competitiveness.

Almost 6000 companies were interviewed on their investment in ICT, impact of this investment, factors influencing purchases, and their use of financial and business services. Key findings of the survey show that SMEs are spending a higher proportion of their turnover on ICT each year. In 2001, 47% of SMEs spent more than 1% of their turnover on IT and in 2002 this number had grown to 48% of SMEs; in 2003 the number had grown again to 49% of SMEs.

"This bears out the prevailing sentiment that SMEs represent a growth market for the IT sector even as large corporations are cutting back," says Arthur Goldstuck, Managing Director of World Wide Worx, which carried out the survey. The core of the project, measuring the impact of IT on the competitiveness of SMEs, examined four key components of competitiveness, namely:

1. Cost reduction, which is in turn a measure of organisational efficiency and financial controls
2. Turnover
3. Ability to retain existing clients and win new clients, which is in turn a reflection of SMEs' ability to grow market share
4. Profitability

The survey examined these four areas both in terms of perceived impact of past investment, and expected impact of future investment in IT. In terms of the *impact on cost reduction*, the overall findings were that SMEs were neutral (33% of respondents) to positive (59% of respondents), but exceptionally positive on the expected impact of future investment, in terms of cost reduction (69% of the respondents). Only a small number of the respondents expressed negative sentiment for both past (8%) and future (6%) investment.

These findings are generally similar to the findings for the other measures of competitiveness, except for *the impact of IT on turnover*, where a greater proportion of respondents are negative and neutral on the impact of both past and future investment. This reflects a realistic appreciation that IT cannot *generate sales*, although it can make a big difference to the impact of those sales on the overall *bottom line* of the organisation. The

results also represent a challenge to the IT industry to improve its offerings to SMEs with regard to sales tools, such as sales force automation.

In Africa, South Africa might be said to represent those running at the front of the race. So where's your country and your company?

Looking to the continent's future

Government and the larger private sector can encourage the growth of SMEs through outsourcing contracts, and they can also help raise the level of service of small companies by bringing them into contact with ICT systems. A major plank of the NEPAD programme is putting a million computers into schools. Imagine the impact of a similar scheme for African SMEs. A strong and vibrant African SME sector that uses ICT will add yet another pressure on African governments to raise their stake in the global game.

LESSONS FROM JAMAICA: JoJo's

Maxine Mitchell runs JoJo's Fashions, a dressmaking business. "I resisted introducing new technology until my eight-year-old told me that IT had passed me by." She used to be able to cut 6 dresses a day. Now she can cut dozens and produce them to a higher quality: "I now have a computerised machine to do the embroidery." With word processing, she can amend a previous price quotation and fax it to a potential buyer: "With a laptop and a mobile, the business continues, wherever I am."

IT has allowed Maxine to expand her horizons. "I used to supply a small market in Jamaica, now I'm able to supply a much larger market across the Caribbean. I'm currently looking at building a website and offering a clothing catalogue. Whenever I travel on business, customers ask me, "Are you on the web?" They want to be able to look up my contact details and browse a range of information about my company and its products."

Her biggest lesson? "Knowing the point where you can't do everything yourself."

Further reading

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www.iicd.org/publications/

Russell Southwood is the founder and Chief Executive of Balancing Act, publishers of *News Update*. News Update is a weekly e-letter on Internet and new media in Africa that goes out to over 5000 subscribers. It is not simply a passive information resource but actively networks individuals or organisations in different fields.

In 2002, Russell Southwood and Balancing Act ran a series of workshops for African ICT entrepreneurs, resulting in the CD-ROM *Entrepreneurship and ICTs: The Art of Making Things Happen*. The CD aims to help entrepreneurs who want to launch a business in the ICT sector or who are already running an ICT business and want to find ways of developing their business.

To find out more, visit:

www.balancingact-africa.com

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The International Institute for Communication and Development (IICD) assists developing countries to realise locally owned sustainable development by harnessing the potential of Information and Communication Technologies (ICTs). IICD realises its mission through two strategic approaches. First, Country Programmes bring local organisations together and help them to formulate and execute ICT-supported development policies and projects. The approach aims to strengthen local institutional capacities to develop and manage Country Programmes, which are currently being implemented in Bolivia, Burkina Faso, Ecuador, Ghana, Jamaica, Mali, Tanzania, Uganda and Zambia. Second, Thematic Networking links country and international partners working in similar areas, connecting local knowledge with global knowledge and promoting South-South and South-North exchanges. Thematic Networking focuses on sectors like education, health, governance, environment, livelihood opportunities - especially agriculture - and overarching issues such as training and evaluation. These efforts are supported by various information and communication activities provided by IICD or its partners. IICD is an independent non-profit foundation, established by the Netherlands Ministry for Development Cooperation in 1997. Its core funders include the Dutch Directorate-General for Development Cooperation (DGIS), the UK Department for International Development (DFID) and the Swiss Agency for Development and Cooperation (SDC). www.iicd.org

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