



*Africa Development*, Vol. XXVII, No. 3, 2002, pp. 130–156  
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(ISSN 0850-3907)

## **Enhancing the Competitiveness and Productivity of Small and Medium Scale Enterprises (SMEs) in Africa: An Analysis of Differential Roles of National Governments Through Improved Support Services**

Asmelash Beyene\*

### **Abstract**

Small and Medium Scale Enterprises (SMEs) are universally acknowledged as effective instruments for employment generation and economic growth. Even in countries with large corporations such as the United States, SMEs contribute a very substantial percentage to the employment generated. In Africa, where the private sector is not well developed, SMEs could play a critical role in stimulating development and alleviating poverty. This paper tries to look at the role SMEs can play in the continent's development, their current predicament characterized by numerous constraints that prevent them from realizing their full potential as instruments of development and highlight the kind of measures that need to be taken to enhance their effectiveness and competitiveness so that they can become effective players in regional and global markets. The study draws on empirical studies undertaken in selected Africa countries and measures proposed for dealing with the constraints by entrepreneurs and government officials in different fora.

### **Résumé**

Les Petites et moyennes entreprises (PME) sont connues universellement pour leur rôle efficace dans la création d'emplois et dans le processus de croissance économique. Même dans les pays regroupant de grandes sociétés commerciales, tels que les USA, les PME présentent un fort pourcentage de création d'emploi. En Afrique, où le secteur privé n'est pas aussi développé, les PME pourraient jouer un rôle clé dans l'accélération du processus de développement et la diminution de la pauvreté. Cette contribution se penche sur le rôle que peuvent jouer

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\* International Team Leader, the Maastricht School of Management project on Support for Capacity Building and Civil Service Reform, Rwanda. Formerly Regional Advisor on entrepreneurship and private sector development, Economic Commission for Africa and Vice President, Addis Ababa University.

les PME dans le processus de développement du continent; elle examine également leur difficile situation actuelle, caractérisée par un certain nombre de contraintes, qui empêchent les PME d'utiliser pleinement leur potentiel en tant qu'instruments de développement. Cette communication propose les diverses formes de mesures qui pourraient permettre d'améliorer leur efficacité et leur compétitivité, afin qu'elles puissent devenir des acteurs déterminants des marchés régionaux et mondiaux. Cette présentation est basée sur des études empiriques entreprises dans certains pays d'Afrique; elle s'inspire également de précédentes mesures proposées par les entrepreneurs et les responsables gouvernementaux lors de divers fora visant à gérer ces contraintes.

### **Introduction**

For some time now, Africa's overall economic performance, with few exceptions, has not been that impressive. The results have been mixed, sometimes with performance showing improvement, and at another times going down. High population growth, declining per capita income, crushing external debt, fragile democracy and a political climate characterised by civil unrest and strife have not provided an environment conducive to development.

Countries that have made economic breakthroughs in the last two decades demonstrate beyond doubt that the development of entrepreneurship has been the *sine qua non* of economic growth and development. African governments have also started to acknowledge the conventional wisdom that to promote growth they should provide a conducive macro-economic environment within which the private sector can flourish. The private sector which in the past played a modest role in development is now being recognised as an engine of growth and encouraged to spearhead the development process. The importance of small and medium-sized enterprises as well as the upgrading of the informal sector is in particular being advocated as a strategy for enhancing development and growth. The case for nurturing and supporting SMEs becomes obvious when one considers their potential for development as manifested in their labour-intensive nature, income-generating possibilities, capital-saving capacity, potential use of local resources and reliance on few imports, flexibility, innovativeness and strong linkages with the other sectors of the economy.

The significant role SMEs play in development is acknowledged universally. Even in countries such as the USA, where big corporations dominant, SMEs still play enormous role in the country's economy. In the United States, of the 6,200,000 small businesses, 5,400,000 employ less than 20 employees each (Schell 1996). Small businesses employ 72,000,000 people. In Asia, small enterprises make up more than 90 per

cent of the industries in Indonesia, Philippines, Thailand, Hong Kong, Japan Korea, India and Sri Lanka. They account for 98 per cent of the employment in Indonesia, 78 per cent in Thailand, 81 per cent in Japan and 87 per cent in Bangladesh (Fadahunsi and Daodu 1997).

Africa's ability to break out of its current non-impressive economic performance would, to a large extent, depend on its ability to harness the entrepreneurial potential visible in its streets, market places and small and medium scale enterprises. Entrepreneurship is a function of opportunities, technical and commercial skills, entrepreneurial spirit, finance, infrastructure and the overall environment within which the enterprises operate. However, because of its marginalisation during the colonial period and further isolation in the period after independence, the private sector in Africa is hardly in a position to rise to the challenges ahead. It is therefore imperative that special efforts be made to strengthen the private sector so as to enable it function as an engine of growth.

In spite of repeated public announcements about their assumed importance as instruments of development, SMEs in many African countries enjoy a lukewarm support. They lack effective organisation and knowledge of modern management techniques. Organisations created to promote SMEs are not sufficiently prepared for the task and the interface with policy-makers leaves much to be desired.

In the discussion that follows, we shall examine what is meant by SMEs, the constraints they face in Africa, what needs to be done in terms of support services if they are to be made effective instruments of development. With globalisation deepening and the acknowledgment that it would prove difficult to remain outside it, African SMEs will have to be prepared adequately if they were to become active players in the global market. While it is true that globalisation creates opportunities for SMEs to be beneficially involved in global markets, it also poses numerous challenges and problems. SMEs' flexibility and adaptability promise their success. However, as things stand now, most SMEs are far from meeting the conditions for taking advantage of the promise of globalisation. They need to upgrade their management, quality and delivery capacity before they can start to enjoy the benefit that globalisation promises. That would require an appropriate strategy to help SMEs become successful competitors. This paper examines how African SMEs can be made competitive in global and regional trade while at the same time meeting domestic demands.

This paper draws heavily on a survey undertaken by ECA staff and local consultants between May and July 2000. The empirical studies were

carried out in 13 African countries representing the North, West, East, Central, Southern Africa and the Indian Ocean. The studies were undertaken mostly by ECA staff with two local consultants used for the Nigerian and Tunisian studies. The author of this document covered Mauritius, Namibia and South Africa. The studies were conducted between May and July 2000. Materials for the studies were collected through document review and interviews with various stakeholders from the public sector and the private sector. In the case of the studies conducted by this author it involved interviewing 19 individuals representing entrepreneurs, government officials and UNDP officials in Mauritius. The study in Mauritius was conducted between 29 May and 2 June, 2000. The Namibia mission that was conducted immediately after the Mauritian visit involved interviewing representatives from 21 agencies including UNDP, government, private sector and NGOs and review of documents made available by respective agencies. In South Africa the study was conducted from 3 to 7 July 2000 and involved interview with 11 officials from government and the private sector.

### **Definition of SMEs**

There is no universally accepted definition of SMEs in Africa. Even definitions in other countries lack uniformity and reflect the relative development of the respective economies. For instance in the USA, the small business administration defines 'small business' as any business with less than 500 employees. The latter figure may represent medium to large enterprise in the African context. In Mauritius, SMEs are defined as manufacturing enterprises which use production equipment with an aggregate CIF value not exceeding ten million rupees. Unlike other Africa countries, South Africa uses an elaborate categorisation of survivalist, micro-enterprises, small enterprises, medium enterprises and large enterprises. The micro and small are further sub-divided into small micro and very small enterprises. Survivalist enterprises represent activities by people unable to find paid jobs or get into the economic sector of their choice. Small enterprises, which constitute the bulk of established businesses, have from 5 to 50 employees. They are often owner-managed or family-controlled businesses and are likely to operate from business or industrial premises, are registered and satisfy other formal registration requirements. Medium enterprises often employ up to 200 persons and have capital asset, excluding property, of about 5 million Rand (Beyene 2000a) In Namibia, the government defined small businesses in the manufacturing sector as those with employment of less than 10 persons, turnover of less

than N \$1,000,000 and with capital employed of less than N \$500,000. In all other businesses, small business is defined as one which employs less than 5 persons, whose turnover is less than N \$250,000 and capital employed less than N \$100,000. Thus, as could be surmised from the foregoing examples, which represent more the rule than the exception in many African countries, there is hardly a uniform definition for SMEs (Beyene 2000b).

Differentiation is also often made between SMIs (Small and medium scale industries) and small enterprises with the former representing the manufacturing-sector enterprises, while the latter is broadly conceived of being comprised of manufacturing, trade and service enterprises. In this paper we will use the latter conception.

### **Constraints to SME development in Africa**

A government that is genuinely committed to the development of SMEs needs to ensure a support strategy that judiciously combines entrepreneurial, technological and managerial competence with real market opportunities and access to resources. However combining the foregoing elements in a business concern can be assured and facilitated by a favorable political and economic climate, by a policy and regulatory environment that does not discriminate against small enterprises and by a set of institutional mechanisms (private, governmental and non-governmental) that helps to upgrade managerial and technical competencies and facilitates access to markets.

In what follows, we will review the state of African policy and regulatory framework, infrastructure, access to finance and non-financial services namely, technology skills development and marketing to determine the extent to which they support or hamper the development of SMEs, and drawing on best international and African practices recommend ways and means for providing a support system that can strengthen and enhance the effectiveness of SMEs in their quest to meet local demands as well as become competitive in the global market.

#### ***The policy and regulatory environment***

Whether they cater specifically to the domestic market or operate in the global market, SMEs can immensely benefit from a conducive policy and regulatory environment. Absence of such an environment can force SMEs to early exit from the market. Governments genuinely committed to the promotion and developments of SMEs have to make sure that an enabling policy and regulatory framework is in place. According to a study

undertaken by the Economic Commission for Africa (ECA),<sup>1</sup> such framework should include:

- Stable fiscal and monetary setting with reasonable interest rates, a system of financial markets that provides incentives to save, and mechanisms to channel savings into investments. For instance, a lower tax rate on initial profits allows firms to retain some earnings and to increase investment as appropriate.
- Policies that minimise the cost of business licensing and registering while safeguarding public interests.
- Policies that facilitate business transactions such as infrastructure development (ECA 2001: 13).

A survey undertaken in 13 countries in the different sub-regions of the African continent revealed that the policy and regulatory environment in many African countries were wanting in many respects. While in a few countries there existed a good policy and regulatory environment, many of the countries surveyed still suffered from a disabling environment.

**Table 1: The regulatory environment in African countries**

	Current State			Recent Changes		
	Enabling	Variable	Disabling	Improved	Same	Deteriorated
Cameroon			*			*
Côte d'Ivoire		*		*		
Ethiopia			*			*
Gabon			*			*
Kenya		*		*		
Mauritius	*			*		
Morocco		*		*		
Namibia		*		*		
Nigeria			*			*
Senegal			*	*		
South Africa		*		*		
Tunisia	*			*		
Uganda			*			*

*Source:* Economic Commission for Africa (UNECA), 2001.

From the foregoing table, it is obvious that the policy and regulatory framework leaves much to be desired. With the exception of Mauritius and Tunisia, the environment is found to be either disabling or variable suggesting mixed results. Many of the countries lacked a legal and regulatory framework that supported SMEs development and growth. The study for example revealed that in Ethiopia the customs system and the very many forms and declarations tended to divert entrepreneurs' efforts from productive tasks. It was also discovered that custom duties and tariffs discriminated against local producers. In Nigeria in spite of favourable rules and regulations on contracts, leasing and corporate tax as well as export and fiscal incentives, enforcement of these conditions were lacking due to weak political will. Support programmes were diverted to unintended parties due to corruption. As a result, no appreciable impact was made on the original target groups who were supposed to benefit from the support measures instituted.

In South Africa, the legacy of apartheid has seriously compounded the constraints that the black-owned and controlled enterprises faced. During the apartheid era, the majority of South Africans, non-whites, were deprived of viable business opportunities. A recent study identified various business laws and regulations affecting business growth and the intensity of the barriers they face. There are a number of laws, regulations and bylaws governing conservation, mining, commerce and industry. The laws relating to commerce and industry have proven barriers to business. It is stated that agricultural land cannot be used for developing industrial activities. This creates barrier of entry for the development of farm crafts, agricultural produce processing and other related activities. Title deeds covering tribal land ownership also affect entrepreneurs who could not get access to credit as the banks do not accept these as collateral. The law prohibits use of agricultural land to other uses as well without official permission. According to the Agricultural land Act of 1970, agricultural land cannot be sub-divided without the permission of the Minister. With changes in technology, it is possible to increase output in small plots, but the law does not allow any sub-division no matter how convincing the cause might be. Farmers are not allowed to let part of their land to tenants for more than 10 years without the express permission of the Minister. Emergent farmers therefore find it difficult to acquire additional land thus creating a barrier. SMEs have difficulties obtaining the required licenses as the capital requirements to reach the required standards are high. Other constraints experienced relate to the areas of taxation, labour law, busi-

ness trade, property and land ownership and town planning schemes and access to credit. Amongst these the most serious are:

- Inadmissibility of tax deduction on outlays made by an investing taxpayer who provides funds to an SME by way of loan capital;
- SMEs are not provided tax incentives of a kind which would encourage the creation of new SMEs and the expansion of existing SMEs;
- The complexity of the tax system which increases the compliance costs for the tax payer and the administrative cost for the revenue authorities; and
- SMEs complaints that the costs of complying with their tax obligations (including record-keeping, calculation, withholding of VAT and employer's tax, completing and submitting the returns) are tantamount to an additional tax (NTSIKA Enterprise Promotion Agency 1999a).

SMEs also believe that the basic conditions of employment create problems for them in the following respects:

- The increase in the minimum overtime rate—from 133 per cent to 150 per cent of the normal rate—is too costly;
- Leave provision: increasing annual leave to three weeks and providing for three days family responsibility leave per annum is costly;
- The organisation of working hours: the fact the averaging of working hours is not permitted limits flexibility in smaller firms where unions do not exist commonly; and
- Reduction in normal working hours—to 45 from 46 hours per week—is difficult to afford (NTSIKA 1999a).

An ECA study also reported that in Senegal entrepreneurs complained about the complex administrative procedures for trade transactions and lack of transparency in the processing of administrative matters, even though efforts are underway to overcome these problems.

While the foregoing examples show some of the constraints faced in the policy and regulatory environment, it should be indicated that there are some countries that have taken necessary measures to improve the environment. For instance, Morocco has taken measures to simplify legal and accounting procedures for registering companies. There are still complaints that the procedures put in place are too complex for small businesses but at least the need to improve had been recognised and appropri-

ate steps have been taken. The Namibian government policy paper admitted that there were many cumbersome procedures, which often resulted in long delays in processing permits, licenses and approvals and took the necessary measures to eliminate regulatory constraints. In its 1999 white paper, the government of Namibia declared that it would: introduce the establishment of a one-stop facility for the processing of all permits, licenses and approvals which would guide and connect entrepreneurs through the process; set the targets for maximum permissible time to process applications; require local authorities to publish annually their plans for the provision of sites, premises and other infrastructure to support small business; develop long term plans for each municipality and township requiring that specific provision be made for small businesses. The government also committed itself to simplifying the reporting requirements for small mining claims and operations; harmonising and streamlining the approval procedures between the Ministries of Trade and Industry and Finance for granting manufacturing status and incentives; simplifying the currently excessive registration requirements that hinder small scale investment activities in the tourism industry, requirements including mandatory grading and registration of hotel managers; and relaxing the stringent control of imports of grains, protecting the existing milling industry by the Agronomic Board against new entrants into the industry (Beyene 2000b ).

Kenya, with the help of DFID, has managed to improve the legal and policy environment. It introduced a single business permit contributing to lowered costs of operating business. Mauritius and Tunisia can be cited as providing an appropriate and conducive regulatory environment.

In Mauritius, the manufacturing sector, including the SMEs, is provided with numerous incentives, which by other African countries' standards are considered generous. The government has by and large been proactive in creating a conducive policy environment for the effective operation of SMEs, particularly for those in the export sector. However, entrepreneurs still believe there are some areas that require improvement. In spite of the relatively more conducive policy environment in Mauritius, SMEs still complain about many policy-related constraints. A letter to the Minister of Finance by the chairperson of the Small and Medium Enterprises Federation of Mauritius states:

there is an urgent need for an SME-oriented and SME-friendly policy. The productivity and growth of SMEs will depend especially on the policy of creating an enabling environment and a level playing field for all manufacturing sectors. Incentives in favor of the EPZ sector should be extended

to the SMEs to help them to stay competitive and face the world market (Farzan Nahaboo 2000).

The letter then enumerated the measures that should be introduced ranging from VAT exemption on production equipment and spare parts to reduction of interest rate for loans for the purchase of equipment; to extending loans for working capital; to no additional collateral to be demanded when contracting a loan for the purchase of new equipment or for the construction of industrial building if an entrepreneur has already contracted a loan at the bank and given the necessary guarantees for such; to labor law for the SMEs workforce to be at par with EPZ companies, etc.

As the box below demonstrates, Tunisia seems to have taken a number of positive measures aimed at creating a conducive a policy and legal environment.

#### **Box 1: Best practice in the policy environment**

The case of Tunisia is particularly interesting. The Tunisian textile industry comprises 2000 firms, which employ 50 per cent of the active population in manufacturing, and provide over 50 per cent of export revenues. In order to prepare the industry for increased competition following the WTO agreement, the Tunisian government adopted several measures to support SMEs. They included substantial tax and financial advantages such as payment by the government of the employer's contribution to social security. Formal administrative procedures were centralised in a one-stop shop (the head office of the Agency for the Promotion of Industry) to reduce transaction costs. All administrative steps are now carried out in less than 48 hours. The favourable legal, financial and administrative system has not only benefited Tunisian SMEs, but also contributed to attracting foreign investors.

*Source:* ECA (2000: 22).

#### ***Infrastructure policy***

The availability of good infrastructure facilities provide a conducive environment for productive activities to take place and facilitates the generation of economic growth. There is no way production processes and

locational advantages can be optimised in the absence of adequate power, water, transport and communication facilities. Successful competition in the regional and global markets hinges on the availability of an adequate and efficient infrastructure. Low cost and high quality infrastructure service tends to improve price competitiveness. As pointed out in a recent study:

The importance of this function has increased in recent years, because of the changing nature of the competition in regional and global markets. Speedy and punctual delivery of manufactured goods has become a major parameter in the new competition. A well-developed infrastructure—for moving goods from factories to ports and far rapid international communication—air cargo space and high charges feed into non-competitive pricing, missed deadlines, poor reputation and cancellation of orders. Long delays in obtaining telephone and electricity connections raise production costs and waste scarce management time (ECA 2001: 22).

As could be surmised from the table below, while the state of infrastructure in Mauritius, Morocco, Namibia, South Africa and Tunisia is relatively good, the infrastructure in the other countries surveyed were considered disabling.

**Table 2: Infrastructure in 13 African countries**

	Current State		Changes			
	Enabling	Variable	Disabling	Improved	Same	Deteriorated
Cameroon			*			*
Côte d'Ivoire		*		*		
Ethiopia			*			*
Gabon			*			*
Kenya		*		*		
Mauritius	*			*		
Morocco	*					*
Namibia	*					n.i.
Nigeria			*			*
Senegal		*		*		
South Africa	*			*		
Tunisia	*					*
Uganda			*	*		

Source: ECA (2001: 23).

Mauritius has a network of 1,880 km of bituminised roads. Over 93.1 per cent of the roads in Mauritius were paved in 1996 and the normalised road index was 110. The latter is the total length of roads in a country compared with the expected length of roads, where the expectation is conditioned on population density, per capita income, etc. A value of 100 is normal; anything under 100 is below average. This score compares favorably with the scores given to developed countries. According to the Economic Intelligence Unit 'The Island's road network is excellent in comparison with that of most developing countries' (See Beyene 2000c).

From the interviews carried out by the author with entrepreneurs and their partners, there were no complaints about the standard of infrastructure in the country. The quality of roads, power, port, water and communication facilities are more than satisfactory.

In the area of telecommunications, Mauritius has a highly developed postal, fax and telex services and an extensive telephone network. The total installed capacity has expanded by 150 per cent from 104,000 in 1992 to 265,514 lines in 1998. As a result the number of connected subscribers has increased from 70,000 to 242,505 in six years. Telephone density (i.e. the number of connected lines per 100 inhabitants) improved from 7.2 to 22. This puts Mauritius ahead of the rest of Africa whose telephone density was 1.67 per 100 inhabitants in 1994.

It is recognised that international competitiveness crucially depends on successful adoption and diffusion of information technology (IT). It is a tool for achieving quick response, just-in-time management and other modern practices. A number of organisations that aim to promote the use of IT had been established in public and private sectors. It has been identified as a key sector for industrial diversification. In 1995, Mauritius established an Informatics Park to provide physical and telecommunication infrastructure to both foreign and local operators. Very recently the government has embarked upon a cyber city development. In spite of the good IT infrastructure available in the country, SMEs are not principal users yet. But as more SMEs get involved in the global market, they will find it necessary to resort to that tool and when that happens they will not as such experience any problem as there will be a well-developed infrastructure to accommodate their needs.

In South Africa, the legacy of the apartheid regime is evident in all sectors of the economy. The economy is characterised by a duality of services. The white cities have adequate infrastructure while the places where the majority of the people live and are the natural hosts of small businesses lack basic infrastructure

In general South Africa has good transport infrastructure and is considered the best in Africa. It has sizeable and efficient ports, a good road network and good air links. As the Economic Intelligence Unit of 1999-2000 observed, 'because of apartheid, the transport network was almost exclusively designed to connect white cities and areas (indeed, few African areas appeared on maps). As a result, the network of rural feeder roads is very poor, as are road and rail links with African townships and homelands'. However, the government is using its Spatial Development Initiative to develop the economic potential of specific regions in South Africa, using public resources to leverage private-sector investment. In telecommunications, attempts are being made to redress the current profile of roughly 60 telephones per 100 whites and only 1 per 100 blacks. Around the year 2000, South Africa had approximately 5.3 million installed telephones and 4.3 million installed exchange rates. By January 1998, more than 21,000 community telephones have been installed and over 620 villages in previously under-served rural areas have been connected. The IT infrastructure is the most advanced in Africa, and by November 1998, more than 1.5 million were using the internet with service providers, increasing their customer base by 10 per cent per month. (See Beyene 2000c).

Namibia has a well-maintained network of 5,000 km of tarred and 27,000 km of gravel roads. It also has efficiently operated rail, harbor and air services. According to the Economic Intelligence Unit the economy is largely free from transport bottlenecks. Namibia's telecommunication system is modern and efficient. 90 per cent of the network is on digital lines. Telephone penetration was one per 20 inhabitants in 1996. The consensus that emerged from the interviews the author conducted with SME operators on the state of infrastructure in Namibia is that they are by and large more than adequate and pose no serious obstacles to the operation of SMEs.

In spite of the relatively good state of infrastructure in the foregoing countries, many countries in Africa lack the kind of infrastructure that can facilitate industrial development. For instance, Nigeria lacks a good road network in the rural areas, necessary for transporting agricultural produce to markets. According to the ECA study: 'Only about 40 per cent of the country has pipeline-borne water, the provision of electricity is inadequate and very limited in rural areas and telecommunication facilities are almost non-existent' (ECA 2000: 23). In Ethiopia it was found that the scarcity and high cost of land was prohibitive, seriously affecting industrial use. Also the absence or inadequacy of waste disposal services

and inappropriate administration for infrastructure services were equally a serious concern. Unreliable telecommunication services were found a major obstacle to SME development in Uganda. Power outages and fluxes were an equally serious problem, disrupting production. In Cameroon and Gabon, road and railway transport were also found wanting in many respects.

### *Access to Finance*

Access to finance tops the list of constraints faced by small enterprises everywhere. Although most often SME entrepreneurs acquire their capital from their own savings or from family members, they also resort to traditional banking sources to meet their capital requirements. However, because of their weak financial base, SMEs are regarded as high-risk

**Table 3: Availability and access to loans in 13 African countries**

	<u>Commercial and Development Banks</u>						NGO Finance		
	<u>Availability</u>			<u>Accessibility</u>			<u>Availability</u>		
	High	Medium	Low	High	Medium	Low	High	Medium	Low
Cameroon			*			*			*
Côte d'Ivoire			*			*			*
Ethiopia			*			*			*
Gabon			*			*			*
Kenya		*				*	*		
Mauritius		*			*			n.i	
Morocco		*			*				*
Namibia		n.i				*		n.i	
Nigeria		*				*			*
Senegal			*			*			*
South Africa	*				*			n.i	
Tunisia	*				*				*
Uganda			*			*	*		

Source: ECA (2000: 26).

areas and as such do not succeed in attracting enough loans. Because of the high transactional cost involved and inability of small enterprises to provide the collateral banks require, SMEs find themselves starved for funds at all stages of their development ranging from start-up to expansion and growth. Table 3 shows the availability and accessibility of SMEs to finances in commercial, development and NGO funds.

Among the major constraints identified by the ECA survey are:

• *High interest rates and collateral requirements*

As small businesses are considered riskier ventures, they are often subjected to higher interest rate charges than large enterprises. They cannot get long-term finance and do not have the same access to finance opportunities as large enterprises. The SMEs' interest increases the cost of doing business and thus reduces competitiveness. In Gabon and Cameroon, interest rates can go as high 25 per cent. In Uganda, interest rates range between 22 and 27 per cent and between 30 and 40 per cent in South Africa. Again in South Africa, high collateral and deposit requirements for loans from commercial banks, community banks, and building societies prevented them from getting access to loans. As the apartheid laws did not permit blacks to own property in cities, they were unable to provide collateral.

• *Inadequacy of financial services in support of SMEs*

In South Africa, small businesses, particularly those owned by blacks are constrained by the narrow range of market opportunities and limited access to finance. In the past, South African financial institutions catered mainly to the modern white sector of the economy. Even though black entrepreneurs are no longer explicitly excluded from the financial system, the practice on the ground shows that even now they are not benefiting from the new dispensation. The following are examples on how they are excluded in practice:

Restrictions on lending by state-owned agricultural banks to black farmers in specific agricultural areas. Very few blacks own property or land in specific farm areas. This is particularly acute for black businesses in communal areas which do not hold title deeds for the land as it is communally owned (NAFCO 1995a).

In Senegal, the ECA survey found out that the private sector remained handicapped by the fact that most financial institutions were ill-equipped to serve the SME sector. Often such institutions were further constrained by serious internal management weaknesses and lack of qualified staff. Findings from Cameroon and Gabon point to similar problems. Apart from the inadequacy of the human resources in the financial institutions, the quality levels of their staff left much to be desired.

In Mauritius, SMEs can obtain credit from the Development and Commercial Banks of Mauritius, provided they meet their requirements. The Development Bank of Mauritius (DBM) has an array of financial schemes

for the SME sector and finances all development activities, with the exception of purchase of land. DBM also makes finance available to SMEs in the manufacturing sector at a concessionary interest rate. However, according to the findings of the studies conducted by the Commonwealth Secretariat Group as well as De Chazal Du Mee (1998), the SMEs are dissatisfied with the cumbersome and bureaucratic nature of the DBM loan procedures. An aggregated response of 23 companies by the Commonwealth survey revealed that the uptake of its financial facilities is low and many reported that they took loans from commercial banks at much higher interest rates i.e. 16 per cent instead of 10 per cent. Criticisms of the bank revolve around: 'the lending criteria, fairness in granting funds, the slow processing of applications, and the refusal to lend against second hand machinery' (Wignaraja and O'Neil 1999)

- *Concentration of finance in urban areas*

With poor road networks between major cities and rural settlements, delivery of credit becomes expensive, discouraging banks from offering services outside the major cities. In South Africa, bank branches are concentrated in central business districts and other white areas.

- *Misuse of government sources*

Where governments made financial assistance available, they often ended up benefiting groups they were not intended to serve. A study on Nigeria revealed that financial support from government sources ended up benefiting political loyalists, who often received the loans as rewards for political support.

- *Lack of information on sources of finances*

In the absence of umbrella institutions offering information on financial services, many SMEs are unaware of the facilities that exist. There may be many institutions, each advertising its service separately, but may not be known to many potential SMEs who could have used the services. It is reported that in Kenya the lack of an information center and appropriate channels constitutes a major handicap for the collection of relevant information for SME development.

Table 4: Technology and marketing support services in 13 African countries

	Support Services for Technology and Skills				Support Services for Marketing				Institutional Coordination			
	Existence		Effectiveness		Existence		Effectiveness		High	Medium	Low	
	Yes	No	High	Low	Yes	No	High	Low				
Cameroon	*				*				*			*
Côte d'Ivoire	*		*		*		*		*			*
Ethiopia	*		*		*				*			*
Gabon	*				*		*		*			*
Kenya	*		*		*		*		*			*
Mauritius	*		*		*		*		*			*
Morocco	*				*		*		*			*
Namibia	*				*		*		*			*
Nigeria	*			*	*		*		*			*
Senegal	*		*		*				*			*
South Africa	*		*		*		*		*			*
Tunisia	*		*		*		*		*			*
Uganda	*		*		*		*		*			*

Source: ECA (2000: 30).

***Non-Financial Support Services: Technology, skills development and marketing***

Support services can assist SMEs in performing well and being competitive. Although such services may exist in many African countries, their effectiveness may be doubtful. Surveys undertaken in 13 African countries show the extent of prevalence, effectiveness and the nature of institutional coordination in technology, skills and marketing services. From the findings it is clear that even though non-financial support services are available, their effectiveness is doubtful.

**Technology and skills development**

In South Africa, the technopreneur programme strives to create sustainable enterprise through quality training and support services. Its specific objectives are to: promote access to technology and appropriate skills transfer; establish appropriate support systems; facilitate business start-up; and create sustainable enterprises through quality training. The Technopreneur programme involves a number of strategic partners in the provinces. During 1998–1999, the programme was carried out by 14 institutions in 7 provinces. The Technopreneur programme involves:

Needs analysis	Institutions identify gaps in their Local community and business markets to customise the business training spheres
Orientation process	Potential students are given an overview of the courses and their objectives
Selection process	Successful applicants are given career guidance in choosing viable courses that are suited to their abilities and desires
Training process	Access to technology and appropriate skills transfer integrated with business and entrepreneurial skills training
Cocoon phase	After successful completion, the students are placed in small businesses under the guidance of the training institutions. Each student is afforded the opportunity to apply the skills and knowledge acquired during the training phase.

**Mentoring phase** Students in this phase start up their own businesses with diminished support from the institution until the student becomes independent.

*Source:* Ntiska Enterprise Promotion Agency, Fact sheet, Technopreneur Programme.

To provide the trainee easy access to the market, the training institution negotiates contracts such as supply, repair, etc, within the vicinity. Once the trainee has gone through the training process, s/he participates in a production operation to complete a particular contract in their field of training with support in the cocoon phase. Once the student has completed the last phase of the training, the future entrepreneur is introduced to the Technopreneur Start-up procedures.

The Manufacturing Advisory Centres (MACs) in South Africa are established at regional levels to assist small-, medium-, and micro-enterprise (SMME) manufacturers to improve their productivity and competitiveness in the market place.

Recently, The Agricultural Research Council (ARC) has also started to assist, facilitate and guide the process whereby the small-scale farming sector, processing entrepreneur, and related-industry entrepreneur are serviced with appropriate new or existing technology. It also aims to assist in the creation of awareness of both producers and consumers of the various products, services and new opportunities. The areas of possible assistance are product development, market analysis, feasibility studies and business plans and implementation assistance.

The Centre for Industrial and Scientific Research (CISR) has recently launched initiatives in support of SMMEs which include:

- The incubator for Empowerment and Job Creation, which helps to develop SMMEs to implement CSIR-developed technologies to empower entrepreneurs from previously disadvantaged communities;
- The Entrepreneurial Support Centre which was launched in the North-West Province to support both prospective and existing SMMEs in the area of technical extension, training, technology demonstration, administration and mentorship services; and
- Its partnership with Ntiska Promotion Enterprise and the National Productivity Institute in Launching Manufacturing Advisory Centres pilot programme aimed at assisting SMME manufacturers to upgrade their performance and competitiveness in both local and international markets.

Mauritius has developed a sophisticated research infrastructure for its sugar industry, but there has not been much progress in R&D in other areas. Investment in R & D has been nearly non- only 0.01 per cent of GDP compared to 0.6 per cent in Singapore and 1.8 per cent in Korea.

The Small and Medium Industries Development Organization (SMIDO), the Export Processing Zone Development Authority (EPZDA) and the Industrial and Vocational Training Board (IVTB) are major players in extending support services in technology and skills development.

SMIDO aspires to create a strong and modern SME sector that is efficient, competitive, integrated and increasingly export-oriented. Only SMEs in manufacturing have access to SMIDO. It has mapped out seven key thrusts to support its mission: productivity and export promotion, entrepreneurship development and start-up services, technology application, quality development, training and consultancy, incentive management and regional SME development. The center's technical services center is based on the concept of the common facilities workshop. It is equipped with a variety of workshop machinery to undertake the various operations to help small enterprises in the repair and maintenance of their production system wherever possible. It also provides among other things Product and Process Development Grant which covers up to 50 per cent of the nominal cost associated with consultancy, production equipment and investment costs on prototypes, in relation to the development of either new processes or products.

SMIDO gives short duration training programme to upgrade technical skills of entrepreneurs in such areas as workshop organisation and machine operation (lathe, milling, drilling, gear cutting, welding etc.). The centre also disseminates new technology and helps in modernising SMEs by providing advice as to the best technology available for their specific business. It helps to fabricate parts for SMEs and to provide repairs and maintenance service. Between June 1997 and 1998, the centre manufactured 225 parts for 130 enterprises

The EPZDA, established in 1992, provides a range of services to EPZ firms so as to enable them to improve their competitiveness. It primarily focuses in the smaller exporter and its services are targeted at the textile sector. Its service offerings include: Consultancy Services, services through the Clothing Technology Centre (CTC) which has 'state of the art' equipment, constantly being updated to ensure that the latest world-wide developments are available to be seen and used by the center; and trend forum which occasionally organises seminars and workshops, exhibitions and buyers/sellers meetings in the area of textiles, etc.

IVTB compliments the activities undertaken by SMIDO and EPZDA. There is a government training levy of 1 per cent on the wage bills of enterprises and is administered by IVTB. When enterprises engage in any type of training, they are refunded 80 per cent of the cost provided the training is carried out in the context of approved programmes and institutions. Even training given at SIMIDO gets refunded when the enterprises send their employees for approved training course at SMIDO. IVTB and other commercial training organisations run the training courses. IVTB has training centers and is assisted by 90 private training institutions. In addition to the training services it provides, IVTB renders technical advice and runs library and information services.

### **Support services for marketing**

SMEs face serious market constraints which include inability to sell products and services and lack of access to appropriate, relevant and understandable information and advice. With globalisation opening up potential opportunities to access global markets, SMEs are increasingly being encouraged to position themselves to take advantage of the emerging opportunity but find themselves unable to benefit because of the many constraints they face, including poor marketing infrastructure. According to a recent report:

Support services for marketing also required to connect companies' products and services with regional and international markets. In Africa the experience is variable, with some countries having a good and relatively efficient network of institutions providing marketing services (Mauritius, South Africa and Tunisia), whereas some others have none (Cameroon, Gabon, and Senegal). In other countries such as Ethiopia, Kenya and Uganda the network of institutions is somewhat inadequate. All in all, it seems that marketing services are more widespread in Africa than technological-related ones, but the overall effectiveness tend to be low in both cases (ECA 2001: 29).

In South Africa, NTISIKA is mandated to provide marketing-related services. It helps SMEs to benefit from tenders in the public service, facilitates their access to international markets, buys raw material on bulk at lower prices and participates in national and international exhibitions. The Department of Trade and Industry provides compensation of costs incurred in developing new export markets and participating in foreign exhibitions. This is an incentive that extends to all companies irrespective of their size

The De Chazal Du Mee survey (De Chazal Du Mee 1998) of 58 SMEs, 43 members of SMIDO and 15 non-members in Mauritius revealed interesting findings about the state of marketing in the country. The survey covered those items from the food and beverages, textile, wearing apparel, leather, wood products, publishing, chemical, rubber, plastic, jewelry, ceramics, metal products, workshop and other sub-sectors.

According to the findings: 55 per cent of the members and 73 per cent of the non-member enterprises have a good product mix. 78 per cent of the members and 60 per cent of the non-members seek to improve the quality of their products. But only in 50 per cent of the members and 47 per cent of the non-members are efforts made to change the design of the products. Among the registered members 45 per cent attempt to develop new products while only 47 per cent did among the unregistered. 58 per cent of the registered enterprises have brand names.

While 46 per cent of the members among the registered SMEs believed that packaging is very important, only 20 per cent of the unregistered SMEs believed so. The survey revealed that 26 per cent of the registered SMEs have good quality of packaging with those in the food and beverages having the best quality packaging; 80 per cent of members and 92 per cent non-members sell their products directly to customers; 18 per cent of the members and 27 per cent of non-members export. While 38 per cent of members intend to export, only 20 per cent of the non-members have such intention.

SMEs in Mauritius lack information regarding their competitors and market share. According to the survey result, only 20 per cent of the members have a good appreciation of their competitors. Also only 54 per cent of the members were able to estimate their market share, while only 18 per cent gave a fairly good estimation. Only 38 per cent of members and 53 per cent of non-members advertise their products. It is also reported that advertising is done without any defined advertising plan.

In Namibia, the government initiated the vendor development programme to address the market problem and is designed to contribute to:

- Improvement of market access for small businesses;
- The capture, within Namibia, of a great proportion of what the Namibian consumer, large businesses and government spend. The programme will also be used to establish new small businesses, and to expand and diversify existing businesses;
- Improvement of the structure of and trading relationships within the Namibian economy by linking large businesses with small suppliers; and

- Improved sector linkages (Republic of Namibia 1999).

Through the above initiative, it was possible to match buyers to suppliers, helping them to establish on-going relationships between them. So far, a number of small businesses have been linked with the large buyers through this arrangement.

The Nigerian Export Promotion Council carries out market studies and other promotional activities. The different national associations of chambers of commerce, industry, mining, agriculture are in some ways involved in providing marketing support services but “the system seems to lack information on international markets for inputs and sales, and on domestic suppliers, purchasers and market trends’ (ECA 2001: 36)

As in the case of the other services, Mauritius, South Africa and Tunisia appear to have good support services. In Mauritius there are two major marketing support service institutions extending assistance to manufactured and agricultural export products. These institutions are the Mauritius Export Development and Investment Authority (MEDIA), which has recently been restructured, and the Agricultural Products Export Promotion authority (APEPA).

MEDIA provided the operators in the export sector with services such as trade information; buyer/seller meets and contact promotion programmes; annual organisation of the Mauritius International Trade Exhibition in Mauritius and the Mauritius International Apparel and Textile Exhibition held in Paris and London; market surveys on export opportunities in specific international markets; and up-to-date advice and information on Mauritian products, services and investment opportunities.

APEPA was established in 1995 by an act of Parliament as a parastatal body under the aegis of the Ministry of Agriculture, Food Technology & Natural Resources. Its role is to facilitate and co-ordinate the activities in the agricultural export sector ranging from production to export. The agency is also involved in the investigation and study of both potential new products and new markets to be tapped. It is entrusted with the responsibility to set up strategies to accommodate and encourage any new profitable export avenue.

Another development worth mentioning in the area of marketing is the establishment of the Sub-Contracting and Partnership Exchange–Mauritius (SUBEX-M) in 1997. It promotes sub-contracting arrangements between large, small and medium enterprises at national, regional and international levels. Its specific objectives include: creating a data bank on potential sub-contractors and customers; providing information

outsourcing possibilities in response to enquiries; and providing technical assistance to improve manufacturing capabilities in SMEs on occasional basis. It also organises annual trade exhibitions with a view to promoting sub-contracting.

### **Concluding remarks**

From the foregoing analysis, it is obvious that in spite of the potential role African SMEs can play in their respective economies, they are beset by numerous obstacles that adversely impact their contribution. The policy and regulatory environment, with few exceptions, leaves to be much desired. Although one notices increasing acknowledgment of the problems and attempts to take steps aimed at ameliorating the situation, a lot more need to be done if African SMEs are to play an effective role in meeting the domestic demand as well as accessing global opportunities. The ECA study sums up the challenges in this area which constitute poor regulatory environments characterised by

the complexity of such regulations, which substantially increase transaction costs of SMEs putting them at a disadvantage vis-à-vis larger national companies and foreign enterprises; and lack of transparency in implementing SME support programmes, which deliberately benefit other actors rather than targeting SMEs. However, a substantial number of Africa countries have seen major improvements in their regulatory systems over the last few years (ECA 2001: 22).

Infrastructure is another area where SMEs encounter formidable problems. Good infrastructure is critical for fostering economic performance and competitiveness of SMEs. Optimal physical and IT infrastructures comprised of, among other things, a good, well-maintained network of roads, airports and ports, a stable power supply and an extensive telecommunication network, are vital for the effective functioning of enterprises. As one report remarks:

Major improvements in infrastructure have become an imperative for three reasons: (a) the internal market of most African countries is too small and exports to neighboring and distant markets are essential to deepen the division of labor and reap efficiency gains; (b) the new competition puts a premium on product quality and speed of delivery, which are impossible to achieve without adequate infrastructure; (c) e-commerce will further raise the need for better infrastructure, both in telecommunications and transport of goods (ECA 2001: 41 ).

Finance still poses a major obstacle to SMEs in Africa. They lack access to long- and-short term capital. They are considered risky and banks are

reluctant to take chances on them. None of the Africa countries in the survey seem to have an efficient structure of financial institutions even though some may be relatively better than others. Alternative financing like micro-credit has started to appear in some countries, but the loan size is barely enough to meet the needs of the small entrepreneur.

Non-financial institutional support in that area of technology and skill development and marketing are hardly satisfactory. So if African SMEs are to become vibrant and contribute to the economy, as in many European countries and even the USA, they need to be provided with adequate support that will sufficiently enhance their capacity to play the role expected of them.

### Note

1 The ECA survey was undertaken in 13 African countries from the different sub-regions. Based on the studies as well as other international practices, Prof H. Schmitz of IDS, University of Sussex and Mr. M. Albaldadejo, University of Oxford, were commissioned to prepare a strategy document on 'enhancing the competitiveness of SMEs in Africa: A strategic framework for support services'. The report was then used as a working document in various workshops where participants from Africa discussed and endorsed it.

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