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**MAJOR CONCLUSIONS AND
RECOMMENDATIONS OF THE SENIOR POLICY
WORKSHOP ON ASSESSMENT OF PUBLIC
SECTOR MANAGEMENT REFORMS IN AFRICA
(AFRICA HALL, ADDIS ABABA, 5-9 DECEMBER 1994)**

POLICY FRAMEWORK FOR THE DEVELOPMENT OF SMALL AND MEDIUM ENTERPRISES IN AFRICA

I. Introduction

1. African nations possess great human and physical resource potentials for the development of Small and Medium Enterprises (SMEs). Africa has had a long tradition of entrepreneurship in trading as well as an ancient and historical capability in technology development. However, a history of colonialism and other forms of domination (both internal and external) have stifled the entry of African nations into the modern era of entrepreneurship and business development.

2. Yet, there exists today in Africa, a critical mass of interest, awareness, knowledge, skills and motivation in the area of small and medium enterprise development which could be articulated, mobilized and developed in order to alleviate poverty and raise employment and the standard of living of her peoples.

3. The group has accepted as a working definition that small and medium enterprises are defined as those which employ between 5 and 500 people with capitalization between \$3000 and \$2 million dollars but excluding those businesses in the informal sector.

4. The potentials for development can be realized only through good governance, commitment and political will that establish an enabling environment to support a rapid promotion and development of SMEs.

5. There exists, however, several policy constraints, stated below, which have hindered the development of SMEs and the entry of African nations into the modern world of industrial development. These constraints can be categorized as legal, institutional, socio-cultural, political economic, human resource development, infrastructural, lack of information and poor development of science and technology policy. These categories will be highlighted below:

PART I

II. CONSTRAINTS ARISING FROM THE POLICY FRAMEWORK

(i) Poor Institutional Support

6. The absence or inadequacy of support institutions for:

- Extension services
- Training and
- Common services

has hampered a sustainable SME development in Africa.

(ii) Socio-cultural factors

7. The existence of discriminatory practices based on:

- Gender
- Religion or
- Ethnicity

in the provision of opportunities as well as in the application of regulatory procedures has not been addressed by policy in many African nations. The seminar had noted in particular, discriminatory practices against women, where, in some African countries husbands must approve or stand in as proxies to obtain loans and other facilities for SME development.

8. In addition, there are other traditional practices and taboos which obstruct the entry of African entrepreneurs into the modern world of industry.

(iii) Political constraints

- The absence of political stability has not made the sustenance of a dynamic policy environment possible. Frequent personnel changes as well as changes in types of government do not encourage continuity.
- In many instances the absence of democratic practices have not permitted the development of viable, independent, non-governmental associations capable of generating trust and accountability to move the development of SME's forward.
- Lack of political will and commitment to SME development arising, in part, from poor understanding of the role of SMEs, have not given the necessary impetus to SME development.
- Poor regional integration and cooperation among African countries have not permitted free movement of goods, ideas and of labour, all of which are necessary for the creation and growth of a viable African domestic market.

(iv) Economic Factors

9. These are:

- Macro-economic factors such as
 - the effects of world-wide recessions
 - inflation
 - problems arising from international agreements (GATT, Commodity Pricing etc..)
 - regulation of international foreign exchange measures,

all of which have practical and direct effects on micro-economic policies for SME development.

10. Since the early 1980s, almost all African countries have embarked on structural adjustment programmes (SAPs). While most of the research has shown that, with very few exceptions, none of these programmes have so far succeeded in restoring external and internal balances as well as sustainable economic growth, the results with regard to SMEs is unclear.

11. On the positive side it might have been possible in some countries that economic liberalization affected large protected monopolies more. This is because since SMEs have never been the beneficiaries of government policies, they are unlikely to be the main victims. Secondly, the liberalization is likely to improve the access of SMEs to raw materials, foreign exchange, imports and export markets.

12. On the negative side, it has been remarked by the participants of the workshop that the devaluation in the SAPs have had deleterious effects on the costs of production and net profits of SMEs. Evidence from some countries also shows that there have been dramatic rises in the interest rates which have effectively aggravated the access of SMEs to bank loans. Thirdly, a cut in government expenditures and an increase in tax, and utility rates in some countries might have reduced services and the revenues of SMEs. Finally, trade liberalization and the competition of the external producers are likely to adversely affect SMEs.

- Micro-economic factors such as:
 - the opportunities which exist for the provision of raw materials;
 - the relationship between large enterprises and SMEs are improperly provided for in national policies. Where they are provided for, effective implementation and monitoring procedures have not been put in place.

III. CONSTRAINTS ARISING FROM THE LEGAL FRAMEWORK

13. In many African countries business laws are archaic, too complex and too general in relation to SMEs, most of whom tend to be ill-informed about these laws. Laws regarding licensing, taxation, factories, zoning, availability of land, are either inadequate, punitive or non-existent. Those governing leasing, credit sales, mortgages and lien negatively affect the financing and acquisition of equipment by SMEs. The laws create immense difficulties and sometimes cripple the establishment and development of SMEs.

14. Furthermore, in most African countries patent centres and domestic patent rights do not exist. This has undermined the potential for domestic technological innovation.

IV FINANCIAL CONSTRAINTS

15. Financial problems have emerged as one of most serious constraints of SMEs in Africa. Without a conducive financial environment SMEs are unlikely to succeed and make significant contributions to economic development.

16. The participants identified a number of constraints on the financial side that need to be addressed as a matter of urgency. The constraints and measures needed to alleviate them are enumerated below.

17. Appropriate financial frameworks have not been effectively put in place to assist SME development. Those considered to be major constraints are:

- monetary policies which discriminate against SME development
- inadequate fiscal measures
- monetary issues which constrain development include
- high interest rates
- unavailability of credit

- poor access to credit
- inadequacy of financial structures

18. High interest rates which are sometimes higher than the rates of returns on investment have discouraged entrepreneurs from borrowing or crippled the businesses of those who borrowed but were unable to repay.

19. Funds have not been available to banks and hence for onward lending to entrepreneurs because of inadequate liquidity policies of governments and central banks. Even where funds are available, it has been difficult for entrepreneurs to have access to them because of the poor attitudes of bankers or inadequate intermediate channels. Most banks are not inclined to grant credit facilities. The main reasons attributed to this are:

- the high risk involved in financing SMEs
- the high cost of administering a large number of small loans.
- lack of working capital, which is the result of problems related to obtaining loans from financial institutions, pressure to lend to low-risk large enterprises and shortage of internal funds due to low profitability and savings. New SMEs and those at the stage of growth are likely to be more prone to the problems associated with the shortage of capital.

Fiscal measures

20. Incentives (through tariffs, custom duties, taxes etc.) that are being provided in reform programmes have not facilitated SME development. In some cases those provisions have discriminated against SMEs.

V. PROBLEMS OF HUMAN RESOURCES DEVELOPMENT

21. Africa lacks managerial, technical, entrepreneurial skills and techniques for a rapid take-off of SME development.

22. Training opportunities and institutions are lacking or inadequately provided for.
23. Many SME also lose their staff to larger enterprises as a result of the better conditions of service and working environment of the large enterprises. The rapid turn-over of trained staff in the SMEs does not make for accumulation of experience and continuity in skill development for SMEs.

VI. INFRASTRUCTURES

24. Infrastructures such as industrial estates, technology incubation centres, transportation, telecommunications, road network etc., are often inadequate or nonexistent. Poor infrastructures often result in high costs to entrepreneurial. Supply of raw materials and intermediate inputs is unstable in quality, quantity and prices.

25. SMEs in rural areas suffer from shortage of energy sources and bottlenecks in transport adversely affecting availability of both inputs and distribution of their products.

VII. LACK OF INFORMATION NETWORK

26. Centres for providing information on finance, marketing, technical and service information are poor, inadequate or nonexistent.

VIII. SCIENCE AND TECHNOLOGY POLICY

27. A good proportion of African nations have not evolved a science and technology policy in such areas as research and development, technology transfer and appropriate technology focused on the development of SME's.

28. Neither have properly linkages been developed between Science & Technology Research centres and entrepreneurs.

PART II**IX. RECOMMENDATIONS****1. On the legal/regulatory aspects**

29. Participants in the Workshop recommend that laws should be passed in specific relation to SMEs and SME associations in every African country. Where such laws already exist, they should be reviewed and implemented effectively.

30. With particular regard to laws and patents and property rights, it is recommended that these should be reviewed in order to facilitate the application procedure and acquisition of land by SMEs and guarantee property rights in general.

31. It is recommended that laws on leasing, credit sales and mortgages and lien should be simplified in order to facilitate the acquisition of equipment by SMEs.

4. In order to promote domestic technological innovation and availability of local technology in SMEs, it is recommended that laws on domestic patents and trade marks should be passed and local patent centres set up.

32. The Workshop recommends that relevant public agencies should pass appropriate legal codes and disseminate information on these codes with the specific intention of promoting legal awareness in SMEs, professional business practices and an entrepreneurial spirit.

33. The Workshop participants recommend that laws on leasing and development of industrial estates should be modified with a view to increasing the numbers and facilities on these estates.

34. To facilitate the process of licensing, alleviate the capital constraint in most African countries and boost investment, particularly in SME, the prerequisites for and hurdles to investment should be simplified through investment codes. In this regard, the formation of banks, stock markets and other financing institutions should be

promoted. The establishment of one stop investment centres should also be encouraged.

35. The Workshop participants recommend that African governments institute laws that eliminate all forms of discrimination based on gender, religion or ethnicity.

2. *On institutional support*

The workshop participants recommended:

- That African Governments should create institutional capacity for linkages within governments to foster policy coordination.
- That the Economic Commission for Africa (ECA), in collaboration with other regional Agencies, should actively promote the establishment of a common forum for policy preparation and dialogue among private sector actors, similar to the National Planning Association of the United States.
- That existing non-governmental organizations and African Governments should cooperate to foster the development of new, independent and relevant associations where they do not exist and make efforts to strengthen those that are already in existence. These groups will perform the duty of disciplining erring members particularly loan defaulters; they should also serve as lobby groups to negotiate better terms and conditions from government.
- That the government and the forum of Non-Governmental Organizations should meet regularly to discuss policy issues affecting the development of SME.
- That African governments, business Associations and NGO should cooperate to establish and strengthen institutional capacities through the

establishment of extension and training centres to undertake feasibility studies and business plans, record keeping, financial management, project preparation, implementation monitoring and evaluation.

- Governments should establish small industries service units and entrepreneurial training institutions.
- That African Governments, business associations and NGO should cooperate in the establishment of Umbrella National Organizations such as the Small Industries Development Organization (SIDO).
- For trade unions it is recommended that in-house expertise and external linkage to national resources should be developed for national trade union centres and their affiliates.
- That assistance should be extended in mobilization of resources (material, financial, etc. for trade unions);
- That training of trade union cadres in project formulation, monitoring and evaluation should be supported.

3. On social & Cultural Issues

36. • That African Media Organizations should be strengthened to create and promote awareness and conscientization of the entire nation regarding the roles and promotion of SME. In this regard, the effort should be undertaken jointly by the Government, Business Community and Non-Government Organizations:

- That joint efforts be made by Governments, business Community and other NGO's to study, review, analyse all social and cultural barriers to

entrepreneurial development such as TABOOs, and GENDER RELIGION OR ETHNICITY based discriminatory practices.

Specifically, that institutional capacity building for training in entrepreneurship development for women should be jointly undertaken by the public and private sectors.

- That African Governments should evolve new curricula or amend old ones at both the secondary and university levels to encourage entrepreneurship development.

4. On Political Issues

- That African societies, governments and the private sector should strive to encourage democracy, political stability and good government which will promote an enabling environment for the promotion of private sector development in general and SMEs in particular.
- That African governments should build institutional capacity for regional integration and cooperation aimed at an open African domestic market.

5. On Economic Policies

The workshop participants recommended that:

- Government, in consultation with the private sector, should build sound monetary and fiscal policies which encourage the development of SMEs (for example, fiscal policies that are geared to the promotion of SME).
- Government policy should be geared towards the development of market systems (for example the stimulation of local demands through the development of local financial services).

- African governments should make policy provisions which break down trade barriers between nations and between localities in each nation.
- The public and private sector should cooperate to develop institutional capacity and make policies geared towards the export of SME products (e.g. the establishment of EPZ, the elimination of tariff and duties).
- Policies which encourage government purchase of SMEs products should be provided for.
- In order to ease the adverse effects of SAPs on SMEs the participants further recommend to all parties in the design of adjustment programmes to:
 - (i) facilitate selective liberalization measures in favour of SMEs and infant industries;
 - (ii) replace import quotas and licensing with the tariff system with relatively low duties on capital good imports;
 - (iii) subsidise or manage interest rates where possible or explore other mechanisms of countering the inhibiting role of high interest rates to the access of SMEs to bank loans; and
 - (iv) set up social funds or the protection of SMEs and vulnerable groups during adjustments.

6. On financial recommendations

- African governments should establish specialized financial institutions which promote SME development through the administration of credit preferential interest and the provision of other services.
- Commercial banks should also be encouraged to charge preferential rates.

- African governments should reinforce Development Banks where they exist and rehabilitate them where they are weak by making adequate funding available to these banks for on-lending to SME, particularly to targeted establishments that promote the developmental objectives of the country.
- Governments should establish appropriate mechanism for setting up of venture capital funds.
- Banks and other financial institutions should be encouraged to move away from rigid collaterals but encourage other forms of loan security (e.g. diploma certificates of entrepreneurs or their insurance policies, approval of associations of entrepreneurs which guarantee loans.
- Special windows/Financial institutions should be created for women by African governments.
- Banks should be trained to focus more on the viability of proposed projects and managerial/technical skills rather than on collaterals.
- The participants call on the ECA to look into:
 - (i) the possibility of training bankers across Africa on their roles and attitudes towards SMEs (on a training-of-trainees basis)
 - (ii) the possibility of organizing training seminars for central Bank officials across Africa in order to sensitize them properly on their roles and relationships with other financial institutions in SME development.
- The ECA is mandated by this group to make efforts jointly with African governments and donor agencies to examine the possibility of

encouraging the establishment of model credit guarantee institutions in one or two selected African countries.

- The public and private sectors should jointly establish stock exchange markets where they do not already exist for mobilization of capital. ECA is called upon to assist member states with the capacity building in the setting up of capital market.
- African public and private sectors should, as a matter of urgency explore the possibility of establishing an unlisted securities market (USM) which will make capital available to SMEs. In this regard, the ECA is mandated to make exploratory studies.

7. On infrastructures

- The participant call upon the public and private sectors to establish national information and data base systems for SMEs as well as intra- and inter- regional network systems.
- The ECA is mandated to start a series of field level studies and surveys on a unified thematic structure to serve as status studies of SMEs in selected African countries.

8. Science and Technology Policy

- The public and private sectors should jointly:

(i) create conducive science and technology the policies for SME development

(ii) create research and development centres for the development of SMEs. In this regard, the ECA is mandated to make preliminary base line studies.

- Set up quality testing and standardization centres.
- Encourage sub-contracting and an ancillarization between large enterprises and SMEs in order to promote technological development. In this regard, the ECA is mandated to commission studies on the present status of subcontracting in Africa.
- Encourage the development of linkages between research centres, SME associations, etc., in order to promote commitment to SME development.
- The business community and other NGOs should form themselves into special groups in order, among other things, to protect their intellectual property rights.

9. *Other Follow Ups*

- Deliberations and recommendations of this workshop should be translated into action plans at country level. A seminar or conference or similar meeting to evaluate common action plans with the help of the ECA could bring positive results in the required direction.

Finance and marketing are the major component in the development of SMEs. A seminar on finance and marketing with the objective of evaluating institutional capabilities, their shortcomings, and strength would be a logical follow-up to the present seminar.