OBSTRACLES FACING SMALL AND MEDIUM ENTERPRISES IN AFRICAN MANUFACTURING INDUSTRY

Darlene K. Mutalemwa – Mzumbe University
Dar es Salaam Campus College (DCC), Tanzania

ABSTRACT
Small and Medium Enterprises (SMEs) are universally recognised as effective instruments for industrialisation and as a contributing factor to economic growth. Yet, despite the adoption of economic and institutional reforms in SubSaharan Africa (SSA) in the last two decades, the performance of the manufacturing sector in general and SMEs has not been that impressive. The contribution of SMEs in manufacturing industry has not been significant. Although a considerable amount is known about the poor record of SME progress on the African continent, this knowledge continues to be unsatisfactory in several areas or even defective in others. In fact, a large number of questions remain unanswered, implying that there is no clear identification of the most pertinent explanations to the essence of SME predicaments. Industrial clustering of firms,integration into global commodity chains, access to factor markets, and their attendant benefits help SMEs to overcome growth constraints and compete in distant markets. There is also recognition that these have been identified as problem areas for SME development in the SSA literature. The institutionalist literature can provide insights in these areas and also explain thriving interactions and relationships that give rise to unprecedented opportunities and benefits such that SMEs can overcome growth constraints. The findings from the reviewed literature highlight that the existing public sector and business environments in SSA have largely failed at facilitating SME and manufacturing industry development. Stumbling blocks encountered by this emerging private sector include: problems with finance, technology, information, inter-firm linkages, business regulations, ethnic and kinship networks and competitive pressures brought by globalisation . In order to allow the manufacturing sector including SMEs to play in a leading role in African countries' pursuit for strong economic and industrial development and ultimately poverty reduction as called for in the Millennium Development Goals, the policy environment needs to be substantially improved to minimise transaction costs and facilitate business transactions thus resulting in a richer set of interactions and relationships. Recommendations are provided to expand the possibilities of survival for Africa 's ailing manufacturing industries.

1.0 INTRODUCTION

Small and medium enterprises (SMEs) can contribute to a vibrant and growing industrial sector provided they can operate in a business and institutional friendly environment that will reflect SMEs well recognised advantages in employment creation, poverty alleviation as well as economic growth in a globalised environment.

One of globalisation's key aspects encapsulates the adoption of economic and institutional reform programmes by African countries previously within the framework of Structural Adjustment Programmes`(SAPs) and now within Poverty Reductions Strategies, which are guided and supported by the World Bank and the International Monetary Fund. The emphasis of these programmes is on enhanced private sector role in development that includes small and large firms and a market led economy, with the aim of increasing productivity generally and strengthening the industrialisation process in particular. Yet despite widespread application of these programmes, industrialisation seems like a distant and even unattainable dream in most African countries and the reasons for its failure are not well understood.

Earlier discussions of this problem have tended to assume that both the industrialisation process and the resulting systems of firms and their interactions would be the same everywhere. The experiences of the industrialisation process of Japan and a handful of other high-performing Asian economies as well as Western economies make it evident that this is not the case. Rather, different kinds of economic development processes appear to generate very different forms of business organisations and interactions. Underlying this notion is the recognition that in the more successfully industrialising countries many SMEs operate not in isolation but they rely on formal and informal interactions

and relationships to link them to a wider business community. These networks give rise to unprecedented opportunities and benefits such that SMEs can overcome growth constraints. The key to understanding how this occurs can be found in the institutionalist literature.

As one of the pioneers of this school of thought, North (2000:8) makes the following comment which is worth quoting : " There is a lack of empirical work on the subject; it is not sexy and is drudgery and hard work. When Lee Alston *et al* were working on a book of readings on empirical studies in New Institutional Economics, we had difficulty finding a sufficient number of case studies to use. The reason is that few have been done. We need many more to buttress what we are trying to do and to give us clues to understanding how good the theory is and where we have to improve".

Then the purpose of this paper is timely. However, it is quite narrow when measured against the significant gap that North points out. The purpose of this paper is quite simple. SME development and industrial experiences in SubSaharan Africa (SSA) can be examined under the analytical lens of the institutional literature. The paper concentrates on the manufacturing sector where the competitive threat is felt most directly at this time and where there is enormous export potential (Soderbom and Teal, 2001). Moreover, it is the only sector of the economy that appears to be able to act as a catalyst of economic development and modernisation.

Manufacturing as argued by Collier (2000) is a transaction intensive activity compared with agriculture, mining or services and is disproportionately disadvantaged relative to other parts of the economy if the environment is one of high transaction costs. Within this sector, transaction costs in SSA are high rendering the policy environment to be particularly hostile to manufacturing

activity. This in turn suggests that SMEs may face different constraints and opportunities than large firms, which have especially long enjoyed major advantages over SMEs, in export markets for example (Soderbom and Teal, 2001) and that SME needs may be underprovided in distorted and segmented markets. Therefore the frequent market failure and incomplete markets in SSA cannot only be explained by neoclassical economics and requires an institutional analysis.

Taking into consideration the above, it has now become evident that industrial clustering of firms, globalisation through its various features may shape and facilitate the spread and conduct of SMEs activities and operations, integration into global commodity chains, access to factor markets and their attendant benefits helps SMEs to overcome growth constraints and compete in distant markets. There is also recognition that these have been identified as problem areas for SME development in the SSA literature. The institutionalist literature can therefore provide insights in these areas.

The analysis of this paper focusses on SSA as well as it will draw on material from other parts of the world. This paper is organised as follows. Section two presents critical constraints characterising the manufacturing sectors in SSA and their SMEs respectively. Section three defines SMEs and also introduces key aspects of the institutionalist literature which not only provides a background to section two but will put sections four, five and six in perspectives as these sections focus on the problem areas for African SME development. The last section states the conclusion and policy implications.

2.0 CONSTRAINTS TO INDUSTRIALISATION AND SME DEVELOPMENT

2.1 Industrialisation

The weaknesses of African manufacturing industry are well documented. For example, available statistics indicate that Africa remains an insignificant actor in world trade of manufactured products, even in the post-liberalization era. In the period 2003–2006, developing Africa accounted for less than 1 per cent of world trade in manufactured products. Sub-Saharan Africa accounted for about 0.5 per cent of world trade in manufactured products, but the share was only 0.23 per cent if South Africa was excluded (UNCTAD, 2008) .

In many manufacturing industries in developing countries, a large number of SMEs and a handful of large firms co-exits. The distinctive and most striking and widely acknowledged constraints of the manufacturing sector in which this dualism operates among others have been reported in the SSA literature (e.g. Lall, (1992,1995) Collier(2000);Collier and Gunning (1999), Sachs and Warner(1997); Thoburn (2000); Tybout(1998). Due to these constraints, the development of the sector has been greatly affected. Some of the major ones include but are not limited to the following: a limited size of the domestic market, limited human capital endowments, poor physical and technical infrastructure, weak governance, agro-related constraints, weak financing, macroeconomic and relative price volatility, limited access to manufactured inputs.

It is useful to add here that many accounts of industrial development in Africa ascribe the stagnation and inefficiency of African industry to import-substitution policies which led to involution of manufacturing industries rather than evolution, and presently make their transformation to a global economy difficult. More specifically, many African countries took a public-sector rather public interest approach to industrial development which

appears to have closed down opportunities for building manufacturing industrial strength and technological accumulation. With globalisation deepening and the acknowledgement that it would prove difficult to remain outside, Africa must industrialise efficiently in order to achieve growth and competitiveness and reap the benefits of being an active player in a global market (Marti and Ssenkukuge,2009).

2.2 SME industrialisation

In both industrial and developing economies, it is often argued that SME development is important for employment creation, poverty alleviation as well as economic growth as mentioned in the introductory section. Berry and Mazumdar (1991:35-39) listed the common reasons for placing so much importance on SMEs for developing countries by including the following aspects:

(i) the high share of SMEs in economies in terms of the number of establishments, the number of employees, the value of output

(ii) the contribution of SMEs to the favourable conditions and utilisation of production factors (i.e. labour and capital) through the adoption of technologies appropriate to resource endowments and through this participation in an inter-firm division of labour

(iii) the contribution of SMEs to the establishment of bases for industrialisation; and

(iv) the advantages of SMEs in facilitating a more equal income distribution within a country when they assume an increasing share in labour earnings.

Other authors have supported the above-cited benefits as well. A case in point is the importance of SMEs in building a foundation for industrialisation. As the SME sector grows, it can contribute directly to the industrialisation process by serving as a seedbed for new entrepreneurs and growth into large firms (Kilby, 1988).

Other commentators have also simply stated that the real justification why developing countries should be interested in SMEs is because they account for a large share of industrial establishments and the source of employment; or in other words, because they "are there" (Little et al., 1987). In other circumstances, it is enough to recognise that SMEs are the [genuine] emerging private sector in developing countries and thus form the base for private sector-led growth (Hallberg, 2000:5).

In addition, several arguments have been advanced as to why smaller firms (SMEs) can face difficult competitive challenges. The competitive threat posed by accelerating technological change, liberalisation and globalisation will tend to favour those firms that have adopted what Best (1990) calls the new competition. Traditional modes of competition based on low costs and prices are being replaced and driven by new weapons in the new competitive armoury: quality, flexibility, reliability, technological competence and networking. These weapons are not just in advanced manufacturing but also mundane consumer goods like clothing, footwear and food products. Thus traditional SMEs characterised by low levels of productivity, poor quality products, serving small localised markets, little or no technological dynamism face closure or very difficult upgrading.

A review of the industrial organisation found three main groups of factors determining the size of an individual firm and thus the size distribution of firms in an economy(You, 1995). The first factor relates to economies of scale. Economies of scale of production along with diseconomies of scale of organisation technology determine efficient firm size. The second relates to transaction costs. In the first factor, firm size is ultimately determined by efficient allocation of given resources (including for example risk tolerance, managerial talent, knowledge, information) under given production and organisation technology.

In particular, the process of allocation is costless. If that were the case, however, there is no reason why the firm should exist.(Coase, 1937). The third relates to market structure. The size distribution of firms reflects the distribution of market power as well as segmentation and distortions in input and output markets that determine costs differentials between large and small firms. The size distribution of firms evolves over time within the broader context of economic development and the evolution of industrial production and other factors including resource endowments.

It follows from the above two sections that SMEs in general tend to face three sets of constraints which also prevent them from being competitive (Lall, 2000c) :

The first set relates to the disadvantages of small size *per se*. Where manufacturing, marketing, technological or other functions have inherent scale economies, small size imposes costs and innovative penalties on SMEs.

The second set relates to SMEs facing segmented factor markets. In other words, large firms may have greater or more privileged access to input, credit, labour infrastructure, information and technology markets. There are economic reasons for this: providers of productive factors find it easier, safer and cheaper to deal with few large customers than a range of small and dispersed ones. It is difficult to collect detailed information on the latter. They are more difficult to monitor and the cost of enforcing contracts may be disproportionately large in relation to the size of the transaction.

The third set is concerned with policies and institutions relevant to manufacturing that can be biased against SMEs. As Little, Mazumbar and Page (1987) reported for India, the large scale sector fed the higher end of the market with capital intensive technology and the small scale sector produced inferior goods for

the lower end of the domestic market with its lower capital intensity. Policy measures in India at the time created an environment in which the two sectors often viewed each other as adversaries, which prevented linkages from developing between them. In general, most developing countries tend to provide much weaker support systems for SMEs compared to developed or newly industrialised ones (Lall, 2000c).

Conversely, there are several good arguments as to why small firms can be "beautiful". In developed economies SMEs which have been active in manufacturing have flourished in niches where economies of scale are unimportant or where flexibility, customisation, location advantages, subcontracting can offset their importance. They have been able to reap external economies by cooperating actively with each other or clustering together at time to achieve international competitiveness. Their advantages have also been enhanced by several co-existing factors (and their risks), such as the liberalisation of trade and investment flows, the internationalisation of production, distribution and marketing of goods and services highlighted in the literature of global commodity chains and the rapid spread of technologies.

3.0 DEFINING SMES AND INSTITUTIONS

3.1 SMEs

It is apparent that definitions of small firms vary according to author and context, which depends on the heterogeneity of SMEs that has to be taken into account. SMEs operate in practically every sector of the economy and within specific economic, social, cultural and political environments. Consequently, they offer an immense range of topics to investigate. Moreover, there exists a continuum of enterprises types. From one end, there are essentially survival enterprises to the other hand one finds successful small and medium enterprises. African economies are also often considered to be composed of two sectors-the formal and informal.

Grosh and Somolekae (1996:1879) summarise the diversities of SME definitions: “ that there are as many definitions of the informal sector as there are people studying it and that legal definitions also differentiate between registered (formal) and non-registered (informal) enterprises .” The definitions of the informal sector in the case of Tanzania comprises different categories primarily based on size (interpreting the informal sector as equal to micro enterprises employing less than 10 workers) or where traditional crafts constitute the informal sector while modern small scale factories constitute the formal sector-or a combination of the two. Likewise the definitions can reflect how the sector accesses organised markets, credit institutions, degree of regulation and competitiveness of the market, family or non-family ownership, and access to formal schooling and training (Bagachwa, 1993b:107, Bagachwa and Naho, 1990:1388). The statistical definition of SMEs varies by country, and is usually based on the number of employees or the value of assets or turnover.

Whatever definition, which may be right or wrong or just more or less useful in distinguishing formal and informal status of firms, in reality, there is one category of enterprises that operate completely outside the legal framework. On the other side, there are firms, which operate completely within the legal framework. Then, in between there are enterprises that comply with a limited set of regulations. Nonetheless, the distinction along legal lines is essential in the analysis of how institutions and transaction costs affect SMEs in SSA as formal SMEs will operate within the parameters dictated by transaction costs influenced by the economic system itself.

It is useful to add here and as alluded elsewhere many SMES in SSA operate not in isolation but they rely on formal and informal institutions to link them to a wider business community. These

networks give rise to unprecedented opportunities and benefits such that SMEs can overcome growth constraints and compete in distant markets. There is also recognition that these institutions have been identified as problem areas for SME development in the SSA literature. The key to understanding how this occurs can be found in the institutionalist literature, discussed below.

3.2 Institutions

The interest in institutions and the attention that has been accorded in this paper is that institutions have a profound influence on economic, industrial and SME development. Economic and industrial development also result in a transformation in institutions

The most commonly agreed definitions for institutions is a set of formal (laws, contracts, regulations etc…) and informal or rules of conduct or tacit institutions (conventions, traditions, taboos, customs, norms of behaviour, self-imposed rules of conduct, individual habits, beliefs etc…) that facilitates co-ordination and govern relationships between individuals (North, 1990, World Bank, 2002). Furthermore, trust is an important category of institutions one requires to carry out exchanges among individuals and groups as it lowers transactions costs and has an enhanced capacity for collective actions (Coleman, 1988, Putnam, 1993).

Institutions together with the effectiveness of their enforcement provide a more certain framework in human interaction. Institutions have an influence on individuals' behaviour and therefore on outcomes of economic actors such as economic performance, efficiency, economic growth and development. On the other hand, organisations as tangible players such as firms, political bodies (the state), social bodies (associations) etc are bound by a common purpose to achieve objectives.

Thus in their continuous interaction, they are guided by certain norms or ethics in their individual actions that ensure stability of behaviour, consensus and common understanding in the context of information asymmetry, market uncertainty and knowledge limitations. The interaction of institutions and organisations is also a constraint on the general development of the country. Institutions can become firmly established such that they guide the path of development even though that path may be suboptimal. This is because the costs or difficulties of restraining institutions to pursue the desired course may be too great for anyone individual, groups or organisation to undertake (North, 1990).

3.2.1 Institutional Economics

Institutional economists are unanimous on the place and importance of institutions in economic as well as political life of a nation. They maintain that the approach of neoclassical economics is not realistic. Both old and new institutional economics explain the determinants of institutions, their evolution overtime and the value as well as their impact on economic performance, efficiency and resource distribution (Nabli and Nugent, 1989).

Some basic assumptions and criticisms of both new and old new institutional economics are next discussed.

New Institutional Economics (NIE) has been critical of Old Institutional Economics (OIE). NIE is “Economics”, “Institutional” and “New” or as Langlois (1986:5) succinctly puts it “the problem with many of the early institutionalists is that they wanted an economics with institutions without theory; the problem with many neoclassicists is that they want economic theory without institutions; what the New Institutional Economics tries to do is to provide an economics with both theory and institutions”

The new institutional approach is "Economics" or fits in with the neo-classical economics/theory as " it begins with the scarcity hence competition postulate; it views economics as theory of choice subject to constraints; it employs price theory as an essential part of the analysis of institutions; and it sees changes in relative prices as a major force inducing changes in institutions" (North, 1995).

It is "Institutional" as it modifies and extends the neo-classical theory in order to explain observable phenomena. "It modifies the rationality postulate and adds institutions as critical constraints and analyses the role of transaction costs as the connections between institutions and costs of productions. It extends economic theory by incorporating ideas and ideologies into the analysis, modelling the political process as critical factor in the performance of economies as the source of the diverse performance of economies and as the explanation for inefficient markets" (North, 1995:19). Stated differently, individuals are assumed to seek their own interest as they perceive them and to maximise utility subject to the constraints (consumer preferences, initial resource endowments of land, labour and capital as well as technology) established by the existing institutional structure.

It is "New" so as to distinguish it from OIE. Both the earlier theorists (e.g. Veblen (1919), John R. Commons, (1934), Mitchell and Clarence Ayers in Furubotn and Richter (1998) and the recent theorists (e.g. Hodgson (1988), Rutherford (1994) have been critical of neoclassical theory because of its narrow focus on rationality, choice, utility maximisation in explaining human behaviour.

Veblen (1919:239) defines institutions as the settled habits of thought common to the generality of man. This also helps to explain the old school incorporation of insights from sociology and psychology as well as the socio-economic framework that

helps form institutions, which then help determine individual behaviour. Individual behaviour is also path dependent and depends on previous circumstances and behavioural responses. In other words, individuals become accustomed to the way economies operate and are in the habit of using certain institutional forms (Hodgson, 1997). Replacing one institutional form with another, which does not take into account the habits of individuals is not likely to be successful, at least in the short run. In the longer run, new habits will evolve as adjustments are made to changing circumstances through learning and search process (Nelson and Winter, 1982).

Both NIE and OIE concur that standard neoclassical economics has avoided or denied the importance of institutions. It is useful to run quickly through some of the main criticisms, namely(Stein, 1995, Toye 2007):

(i) Institutionalists (in particular the old institutional economics) argue that the market is itself an institution, comprising of a host of subsidiary institutions and interactive with other institutional complexes in society. This means that different markets are characterised by different sorts of institutions. Institutionalists also try to explain how institutions come about.

(ii) Institutionalists have been critical of some neoclassical theorising because of its narrow focus on rationality, choice and maximisation motivations in a price-driven market in explaining human behaviour. Economic actions and activity are also influenced by social norms, habits, and culture and in some variations unequal political and economic power. Institutionalism in general sees the study of the behaviour of economic agents in markets as requiring an interdisciplinary approach that intrudes into the domain of political science, sociology, anthropology,

along with law and history[1]. It is important to remark in passing that some NIE scholars have produced a neoclassical institutional approach based on precepts of neoclassical economics and institutions.

(iii) The assumption that all economic decisions have perfect information and knowledge of anything in the past, present or future is flawed. Rationality and maximisation can become bounded by cognitive limited competence. Information and knowledge can be asymmetric. Uncertainty about price is not the sole means whereby costly information generates the use of non-market mechanisms. So too is uncertainty about the choices or intentions of other actors (e.g. opportunism or "self-interest seeking with guile”). For institutionalism, these limits are also guided by habits, culture and routinised behaviour.

(iv) Much of the neoclassical theory is concerned with understanding the conditions under which equilibrium exists and whether those equilibria are stable and or unique. There is nothing in the simple neoclassical model, which says that if the assumptions are changed and market imperfections are admitted, its welfare and policy conclusions remain the same Institutionalists admit that there are several market failures that confront firms attempting to industrialise. The nature of these failures is not general given the static neoclassical equilibrium model.

---

[1] In the introductory chapter in 1990, North (1990:5) states that an underlying purpose of his institutional analysis is " reconciling differences between economics and other social sciences"

(v) Neoclassical economics is ahistorical. It does not account for an economy's level of development and the particular structures and patterns of productions and exchange, which have emerged. Thus path dependence is also necessary if we are to explain why the industrialisation process and the resulting systems of firms and their interactions are not the same everywhere.

(vi) Neoclassical economic theory provides the theoretical underpinnings of SAPs pursued since the early 1980s, which were basically anti institutional and therefore ill-equipped to promote the development of market institutions in Africa (Stein, 1994, Stein, 1995). SAPs should have been designed and implemented in accordance with the evolution of each country's diverse economic systems within the context of their unique institutional characteristics. Further the aim of current economic and institutional reforms in Africa and elsewhere is to remove the impediments caused by state interference in the operation of markets. In reality, countries can improve their positions by intervening to remedy (or exploit) market failures.

4.0 AN INSTITUTIONAL APPLICATION

4.1 Interfirm relations

It is widely accepted that for many developing countries raising competitiveness requires building interfirm relationships. There are two broad categories of defining interfirm networks: horizontal and vertical networks.

Horizontal networks occur between and among competitors at the same level of the production process cooperating in many activities ranging from relatively weak to a strong joint activity. Horizontal networks are common among SMEs because they help them to improve performance and to overcome obstacles imposed

by size and reduce uncertainty. Vertical networks on the other hand occur both within and between firms as they attempt to coordinate and configure their production chains. Such networks facilitate the collaboration between SMEs and one or more large firms along production lines.

The typical economic logic of large and small firm cooperation lies in the fact that large firms can do some things better than small firms but other things less well. Where the smaller firms need assistance for such a mutually beneficial exchange to occur, other elements will be involved. The smaller firms' limitations, which make the assistance and collaboration of the larger partner important, typically include (i) access to technological information, and guidance on quality control (ii) access to finance (iii) assistance in purchase of materials or equipment, in workplace organization, in financial management or in other determinants of effective performance (iv) and market stability (security of demand over a period of time). Such vertical networks can be beneficial in SSA if for example local branches of multinational firms develop strong links with the local suppliers. This can, however, only be possible when many constraints facing local SMEs, such as product quality, delivery time and logistic infrastructures, can be overcome.

Some background factors and conditions encourage productive inter-firm cooperation more than others. These relate to the state of the physical and human infrastructure, the quality of markets and information, the degree of mutual interest and shared goals among firms, the firms' capacity to interact effectively and to undertake collective action, e.g. through business associations and industrial clusters. These factors determine both the degree of success of interfirm interaction and the extent and ways in which the government can be productively involved, including such background activities as setting the rules of the game in the market, providing relevant education and training and so on.

4.1.1 Industrial Clusters

Industrial clusters are relevant to African SME development as they increase efficiency through inter-firm cooperation, thus making SMEs more competitive.

Porter (1990) defines the term cluster as a group of firms engaged in similar or related activities within a national economy. Another use of the term of cluster is geographic and sectoral agglomeration of enterprises[2].

Cluster analysis focuses on institutional forms of collective actions with emphasis being placed on formal institutions and informal socio-cultural rules and norms. Thus the clusters can be seen as a transaction regime that guides relations between diverse and yet interlinked economic agents; as well as systems that can provide gains not easily available to dispersed enterprises. These gains have been termed collective efficiency defined as the competitive advantage derived from two interrelated factors, which underscore the importance of interfirm linkages: local external economies and joint action (Schmitz and Nadvi, 1999).

Local external economies or passive collective efficiency are the unintended or incidental by-products of economic action. Four main types of positive external economies are identified:

(a) market access by attracting buyers both from the immediate vicinity and more distant places thereby improving access to the overall market for a firm's products or services

[2] This view can be traced MARSHALL, A. (1890) *Principle of Economics,* London, Macmillan. discussion of local external economies of in industrial districts of Germany and France during the latter half of the 19 century-It has been elaborated in studies of highly successful industrial districts in various part of the world.

(b) labour market pooling which is the concentration of specialised skills that often develops within manufacturing clusters
(c) intermediate input effects that appear as externalities associated with the emergence of specialised suppliers and services and
(d) technological spillovers involve the diffusion of technological know how and idea.

Consciously pursued joint action or active collective efficiency involves the collaboration or cooperation between and among clusters firms. A well-functioning cooperative of firms can have a comparative advantage over large integrated firms owing to the benefits of flexibility(Piore and Sabel, 1984) and specialisation[3] which induces efficiency both individually and at the level of the cluster. The geographical boundedness of the cluster implies that local institutions and the cultural cohesiveness of the community can serve to strengthen the effectiveness of cooperative relationships.

In course of 1990s, analysis was made of small firms in the context of the widespread application of cluster frameworks in developing countries (Dijk and Rabellotti, 1997, Schmitz and Nadvi, 1999). The studies led to the distinction of three categories of clusters in developing countries, namely: groundwork clusters,

---

[3] SMITH, A. (1996) From The Wealth of Nations. IN PUTTERMAN, L. & KROSZER, R. (Eds.) *The Economic Nature of The Firm.* Second ed. Cambridge, Cambridge University Press. explains that the productivity of an economic system depends on the specialisation (he says division of labour) but specialisation is only possible if there is exchange- and the lower the costs of exchange (transactions cost if you will) the more specialisation there will be and the greater the productivity of the system . But the costs of the exchange depend on the institutional environment.

industrialising enterprise clusters and complex or mature industrial clusters.

The first category is groundwork enterprise clusters that are those at the incipient stages whose basic role is to improve producers' access to markets and joint action. The second category is industrialising enterprise clusters, which have much clearer signs of emerging collective efficiency. In terms of internal structure characteristics, majority of enterprises, which tend to fall in the first and second categories, operate with low-skilled manpower and exhibit weak inter-firm interactions. They also lack institutionalised systems of self-help.

These first two categories highlight the importance of factors that are outside the collective efficiency framework. The characteristics of many African countries with small size of markets, oversupply of labour and weak institutions mean that external economies and joint action do not always work in the ways predicted by the collective efficiency model. In this regard, Perdersen (1997) has stressed that poor distribution networks in East and Southern Africa are a major factor in accounting for the inferior growth performance of such clusters. With the notable exception of the Nwewi automobile cluster in eastern Nigeria, the Western Cape clothing cluster in South Africa and the Lake Victoria cluster, the relatively more advanced clusters are a limited occurrence in SSA (Oyelaran-Oyeyinka, 2001, McCormick, 1997, McCormick, 1999a, McCormick, 1999b, Brautigam, 1997).

In the third category, are found the complex or mature industrial clusters. These are diversified in size structure and inter-firm linkages. They also exhibit strong external economies, have a wide reached into national and global markets and demonstrate joint action in institutionalised professional associations. The clusters use the advantages of subcontracting and collaborative

arrangements quite well (Rabellotti, 1999, Knorringa, 1999, Nadvi, 1999, Schmitz, 1999).

Collective efficiency with its emphasis on the internal dynamics of clusters cannot fully explain Africa's lack of complex clusters. Four factors dictate this point (McCormick, 1999). First, clustering facilitates access to markets but if the market is very small, the access may still not bring about much growth. The problem is even worse where trading networks are underdeveloped. This is the situation faced by many small-enterprises clusters in Africa and may explain their inability to support a variety of producing, trading and service firms. Second, clustering has also taken place in the context of an overabundance of labour. This means that labour market pooling effects have not worked as expected. Instead of drawing a pool of specialised labour, cluster firms relied on unskilled labour and trainees. Since they are poorly paid, these often set up their own firms as soon as they can. This leads to the formation of many tiny, inefficient enterprises that compete with one another. Third, given that one of the major characteristics of developing countries is their weak technological bases, technological spillovers are weak of disabling. Lastly, intermediate input effects are also weak but can be of beneficial value automobile clusters which require a wide range of inputs.

More limitations of clusters which are relevant to African SME development are neatly summarised by Lall (2000b:11) .These are worth quoting at length:

> *"Some activities may be too difficult to manage on a cooperative basis: where valuable proprietary knowledge, marketing branded products, tapping particular markets or creating very specific skills is involved. Many agglomerations do not develop into genuine clusters but remain technologically stagnant, low productivity groups*

of traditional SMEs. This may be because of the larger environment in which they operate (say with policy constraints of growth or low levels of general skill and technological development) or because they are unable to undertake cooperative activity to competitiveness. This may in turn reflect a lack of trust between SMEs, cultural traditions of non-cooperation or the absence of an internal or external catalyst to collective action. Clustering can also have cost such as congestion excessive duplication, free rider problems or domination by a few members-that lead to inefficiency, lack of innovation or inflexibility. Clusters may breed inward-looking attitudes and deter members from seeking external alliances. "

4.1.2 Subcontracting

Contractual relations between large and small firms are sometime built up through flexible specialisation under subcontracting arrangements so as to maximise benefits to both parties. Subcontracting is usually defined as a form of relationship between firms that are involved in arrangements for complete or partial production of goods and services. A more formal definition of subcontracting would be "a situation where the firm offering the subcontract request another independent enterprise to undertake the production or carry out the processing of a material, component, part or subassembly for it according to specifications or plans provided by the firm offering the subcontract" (Holmes, 1986:84).

In Africa, subcontracting is not yet widespread. The general observation that many industrial firms lack significant forward and backward linkages within the economy is part of the explanation for this phenomenon. It is linked to the inability of local firms to properly locate potential and reliable customers and input suppliers (Bagachwa, 1993a) and maintain these connections. For example, subcontracting activities among

Tanzanian engineering and clothing firms, is limited partly as a reflection of both the simple level of production undertaken by most firms (thus with little need for subcontracting) and the lack of ‘competent’ firms capable of responding to requests for undertaking subcontracting work (Kweka et al., 1997).

Oyelaran-Oyeyinka (2001) reports that in Nigeria subcontracting in two industrial clusters of SMEs is also inadequate. According to his study, of the 50 firms interviewed, only 32.6% of the sample subcontract in for example packaging, labelling, printing and production of bulk materials, animal feed productions among others. The limited subcontracting in Tanzanian SMEs has also been reported (URT, 2002).

In a study of exporting firms in six African countries, little incidence was found of subcontracting or local procurement of manufactured inputs in the exporting firms (Wangwe, 1995). Large exporting firms do not frequently attempt such relations with small firms except they do so when in need of purchasing some repair and maintenance services. Information and technology diffusion among firms is minimal except for very informal channels. In SSA, limited subcontracting is sometimes reflected in import substitution industrialisation, but in the context of such activities that emphasise import-dependent assemblies. Thus import dependence over a long time has undermined the search for alternative local linkages.

4.2 Access to Factor Markets

4.2.1 Access to finance

For the private sector, access to financing means is regarded as one of the most important constraints to growth by entrepreneurs. This is especially crucial for small firms in African countries (Biggs and Srivastava, 1996, Liedholm, 1993) to enable them to undertake productive investment in order to expand their business, to introduce new products and to market them. A lack of access to

finance may result in profitable business opportunities remaining unexploited. It could lead to inability to buy necessary inputs, delays in investment and closing down the firm due to liquidity problems.

What has been the experience of SMEs in Africa? Virtually all studies on constraints on the growth of small enterprises point to the problems of finance. Empirical evidence shows that formal financial institutions in Africa have had a poor record in delivering financial services to the SME community. Steel and associates(1997) attribute the slow growth of credit to the private sector, especially to small enterprises,to a number of factors: the inertia of past practice whereby the ‘ the historical orientation of banking systems towards serving the import-export trade and the public sector limited their interest and experience in serving small indigenous firms. Goedhuys and Sleuwaegen (2000) analysed data on 230 Ivorian manufacturing firms and found significant evidence that high transactions costs and asymmetries in information in financial markets that cause resources to be allocated away from small firms towards larger firms. They (p.141) ascribe it to the ability of larger firms to be better able to keep records, fulfill tax obligations, respect labour and other regulations. Larger firms are also perceived by financial institutions to have easier access to inputs and foreign exchange.

SMEs in Africa have had to rely on their own savings and the generosity of family and friends as the main sources of enterprise finance. Under such circumstances, a thriving SME sector in is unlikely to maximise its enormous potential. Nonetheless, SME rely on informal institutions to facilitate transactions, but these institutions are relatively more important when formal institutions are less developed. Moreover, firms in developing countries are often ill-served by the limited formal institutions available. In poor countries, and poor regions in particular, informal institutions substitute for formal institutions. Countries and firms

can go a long way towards resolving information and enforcement problems without using their formal public legal systems.

Informal financial institutions have been important in supporting manufacturing industrial development and growth in SMEs in Asia. In Vietnam, a major source of capital for SMEs is trade credit from suppliers (McMillan and Woodruff, 1999). The lack of formal financial markets meant that credit from suppliers was even more important to private sector firms in this transitional economy. In 53 percent of the relationships between the manufactures surveyed and their customers, some portion of the bill was paid on credit. That suppliers were willing to offer credit in the absence of formal enforcement of contracts is noteworthy. What gave the suppliers confidence that they would be paid? The willingness to sell goods on credit depended upon repeated interactions, according to the managers they surveyed. Trading relationships most often began with cash transactions, as the partners "tested" each other. Firms got contractual assurance by dealing with firms they knew through having dealt with them before.

In Africa, Fafchamps (1997) reports that suppliers of trade credit in Zimbabwean manufacturing rely on trust, reputation and socialisation to screen debtors and handle contractual difficulties. They collect information about clients, by frequent interaction, inspecting the client's business premises or home and by asking friends and others about the client's reliability, maintaining relationships that transcend anonymity (that is knowing other attributes of the recipient of the trade credit such as the private residence of the recipient). Nevertheless, many small firms eventually benefit from trade credit once they have established a track record.

Further research evidence on contractual performance revealed that contracts between African manufacturers and their suppliers

and clients often are renegotiated: supplies occasionally arrive late or their quality is different from what was ordered, and clients sometimes pay late. In their dealings with Africans, for instance, foreigners are often taken by surprise by contractual delays and calls for contractual renegotiation, from which they are quick to conclude that African firms (and Africans in general) are unreliable and opportunistic (Fafchamps, 1996). This is true not only of the occasional traveller, but also of western foreign firms wishing to source products from Africa (Biggs et al., 1994)

There are other reported features of Africa that compound the problem of contractual performance (Fafchamps, 1999) and make market exchange costly, cumbersome, time consuming, and unpredictable for the SME community and their trading partners.. The quality of manufacturing goods produced is very uneven or poor, given the unsophisticated nature of production and transformation processes. Second, investment in name recognition through advertisement is missing, the myriads of firms that dot the African economic landscape are most of the time too small to even consider seeking market-wide name recognition. Third, given the imperfect coverage and dubious quality of personal identification (e.g., ID card) and business registry systems in many countries in SSA , it is fairly easy for delinquent actors to blend into the background of poor anonymous small enterprises and customers. Fourth, unlike in developed economies, agents can seldom rely on printed catalogues and phone calls to locate what they need with any degree of certainty. Finding goods is a complicated and time-consuming process.

Moreover, the poor quality of infrastructure in general and roads in particular translates into unforeseen transportation delays and storage losses. A lack of rural roads leads to wastage in fruit and vegetable production after harvesting and this is also true of many agricultural products. This deprives agro-industries of cost effective inputs. Poor functioning rail transport systems make

distribution costly and inefficient and retard agricultural productivity which can generate increased rural consumer spending on industrial products, and backward and forward linkages for industry. Inadequate telephone systems create problems for industries such as clothing, which depend on customer contact and where sometimes employees must be sent by road to settle matters which in other countries could be handles by telephone, fax or email. Deficient electricity and water supplies raise costs and thereby discourage investment. For example, in clothing, frequent power cuts leads to the use of dual manual/electric sewing machines, but manual operation produces lower quality and more expensive garments. Better power supplies would encourage investment in increased mechanisation of many informal sector activities. Privatisation of infrastructural facilities is an important potential way of raising investment. Intermittent power cuts cause heavy damage to machines and the cost of recoling engines constitute a major expenditure.

4.2.2 Access to information

The best known case of this is in the credit markets which are highly vulnerable to problems of informational asymmetries. There are similar tendencies in all other factor markets. The ability of African SMEs to enter and compete effectively in export markets is discouraged by the high fixed costs of acquiring information on foreign buyers, quality standard and new technologies. Similarly, SME demand for non-financial services or Business Development Services (BDS) may be low because they do not recognise that these services can raise growth and their productivity because of lack of information. As a result, SMEs tend to use fewer external sources of advice than larger firms.(Hallberg, 2000)

Barr(1999, 2000) analysis of networks suggests another dimension to the issue of access to information. Using manufacturing data from Ghana, she shows that larger firms in

non-traditional activities have large diverse sets of contacts which provide access to information about technologies and markets. In contrast, given the tendency for SMEs in SSA to have more restricted access to formal market supporting institutions than their larger counterparts, SME in traditional activities tend to maintain contacts primarily aimed at reducing uncertainty rather than enhancing enterprise performance.

4.2.3 Access to technology

To transit to the high road of competitiveness as demonstrated by the rise of East Asian economies (WorldBank, 1993) and most recently China and India-the "Asian Drivers"-(Goldstein et al., 2006), firms in SSA have to build and continuously enhance their technological capabilities. Technology development is a critical determinant of the ability of enterprise to compete in both domestic and global markets and even in labour intensive activities. Lall (1993) recommends conceiving technological activities by looking beyond the firm, as a single firm often does not have the necessary knowledge and/or information to introduce products and processes and thus needs to interact with domestic and international players in creating and improving the technology it uses. In other words, technological capabilities require firms to utilise efficiently the software (knowledge and/or information) and the hardware (equipment), which they purchase or obtain locally or from abroad.

A study by Levy et al (1999) found that SMEs build their technological capabilities by drawing upon international exhibitions and through licensing agreements (as in Korea), or from vertical links with large firms (as in Japan). By contrast, Columbian and African SMEs have exhibited low levels of technological efforts and linkages which constraint these firms' capacity in beating the new competition (McCormick, 1999, Levy et al., 1994). Moreover, in the case of SSA (Lall et al., 1994, UNCTAD, 2003, Lall, 1993), technology acquisition and

upgrading required at the individual and enterprise levels have tended to overstress the hardware and to neglect the software. In this context, in many developing countries characterised by low wages, small markets, and scarce technical skills, labour intensive, small scale, used capital and durable goods and low technology machines are more suited to these economies (Navaretti et al., 1998).

Over the past three decades, African governments have established a number of specialized technology-related institutions, mostly attached to ministries or state enterprises subsidised with donor support. They provide support services, mainly to State enterprises, in such diverse areas as technology selection, adaptation, innovation and assimilation, as well as productivity improvement, standard- setting, repair and maintenance, and training. Furthermore, the overall picture of these technology institutions is that of a small group of a largely ineffective infrastructure (Oyelaran-Oyeyinka and Sampath, 2007, UNCTAD, 2003) which has not succeeded in selling its products and services to SMEs. This is partly because of lack of confidence in the quality of goods and services provided by local support institutions, especially now that better technologies and services can be easily imported. The other reason is because the institutions themselves have little experience in marketing their services in an open and competitive environment.

5.0 SUPPORT FOR SMES

The government as an important institution, seeks to provide public goods and services which cannot be supplied adequately in private markets and it designs rules and regulations of the society that allow markets to flourish. It also seeks to put in place the necessary policies that will facilitate the efficient distribution and allocation of resources to enhance the welfare of the people. The government also provides important institutional infrastructures such as laws that protect property rights, as well as maintaining

public order, without which long terms investments and sustainable socio-economic development are impossible[4]. This section covers business regulations set by the State and highlights the role of other support players that include business associations and ethnicity and kinship networks.

5.1 Business Regulations

Business regulations are an aspect of government and private sector relations that matter immensely to the effectiveness of the private sector and to SMEs in particular. Business regulations are based on a broad range of legal instruments and decisions, including licenses, permits, codes, laws, decrees, and even informal measures such as *guidelines* and instructions e.g. Mead (1994). Some regulations are in the form of initial one-time obligations, while others are in the form of ongoing obligations. Regulations are an important aspect of the business environment since they represent the most direct expression of the government's attitude towards firms. They are also necessary for the good functioning of the economy as seen in the below box

[4] YU, T. F.-L. (2001) *Firms, Governments and Economic Change: An Entrepreneurial Perspective,* Cheltenham, Edward Elgar. interestingly argues that a government can act like an entrepreneur. Public agents are entrepreneurial when they are alert to change, discover and exploit opportunities. He also adds that the entrepreneurial process in the public sector also involves planning, learning, revision of plans and elimination of errors. When a government exhibits these entrepreneurial characteristics, the same author refers to it as an entrepreneurial state.

Benefits of Business regulation

Benefits for SMEs

- Avoidance of government penalties
- Ability to expand business without fear of government intervention
- Ability to conclude legally enforceable agreements with suppliers and customers
- Access to trade fairs and export opportunities*
- Access to new or lower cost sources of financing*
- Ability to limit personal liability
- Access to government support programmes*

Benefits for Government

- Expanded tax base
- Increased knowledge of economic activity

Benefits for consumers, employees and society

- Improved income distribution
- Improved health and safety standards
- Economic growth due to increased investment levels and economic efficiency gains*
- Enhanced coverage of the social security system

N.B * indirect benefits of regulations (author's comments)
Source: Jansson and Chalmers (2001:1)

Given the multiple benefits of business regulations, both direct and indirect, governments should try their best to offer a regulatory environment that encourages the voluntary formalisation of businesses. In particular, an important component of such an environment is a simple, fast, and inexpensive process for the initial registration of the business with the relevant government entities. The initial registration is a very visible "obstacle" and often constitutes the first encounter between the entrepreneur and the government. As such, it sets the tone for their future relationship. A rational business registration process will diminish any objection or hesitation on the part of entrepreneurs and encourage them to formalize their businesses.

Conversely, business regulations may inflict significant costs of various kinds on businesses when regulations are excessive, misguided or abused. For example, bureaucratic procedures can create an environment whereby bribery becomes necessary to get

thing done and where corruption among underpaid bureaucrats prevails.

African SMEs are adversely affected by unnecessary regulations and copious paperwork. As already noted elsewhere, they have less capacity to absorb unproductive expenditures because they tend to have fewer resources (both physical and human) than large firms. Most governments in SSA are aware of this, and of the economic impact of simplifying business registration procedures on the SME community. They however struggle to move from the reform proposal stage to actual implementation due to lack of leadership and commitment. Therefore, the execution of administrative reform has often been delayed and even bunged. In addition, the lack of transparency often masquerades rampant corruption. UNECA´s (2000) study acknowledged that although a good number of African countries adopted favourable laws, regulations and incentives for the SME sector, the political will was never there. Incentives and tax exemptions were given to influential firms that did not qualify for such schemes.

SMEs may operate in partial or complete informality, not complying with some or all regulations in the areas of taxes, labour, health and safety, social security and operational permits. Does this noncompliance mean that regulations do not matter or matter less to them?

One answer to this question was provided by Peruvian economist Hernando de Soto (1987) in his book, *The Other Path,* where he depicts the informal sector as the logical result of excessive and inappropriate regulation. Informal enterprises simply respond to "the impossibility of complying with the existing regulatory apparatus." In making the argument, de Soto documented a simulation that he and his researchers carried out in Peru, in which they attempted to legally register a fictitious small business (a rudimentary clothing factory). During this process they

experienced first-hand the many of steps and high cost of registration and regulatory compliance faced by Peruvian entrepreneurs in their daily activities. De Soto's view is based upon a fundamental assumption: that entrepreneurs in the informal sector, as rational business people, conduct some sort of cost-benefit analysis to determine whether or not formality is in their interests. The regulatory barriers and costs are the cause of the high level of informal sector activity, thus stifling economic growth in SSA.

In the opinion of Hirschman (1970), the normal response of economic agents to uncertainty created by formal rules is to pursue three types of strategy : exit, voice, and loyalty which means compliance to formal rules. Voice strategy is defined as public (political or legal) questioning of formal rules and ways of their enforcement. Exit strategy presumes silent avoidance of these rules.

Opponents of these views (Tokman and Klein (1996) and Lagos (1995) cited in Jansson and Chalmers, 2001) argue that the informal sector should rather be thought of as an outcome of the decentralisation and reorganisation of production and work processes at the global level. According to this view, not complying with legal regulations is a consequence of carrying out economic activity in the informal sector, not its cause.

To conclude, poor regulatory environments in Africa are characterised by the absence of laws and regulations for the whole business community. When these regulations do exist, they often are complex and irrelevant for the SME needs, hence increasing their transaction costs vis-à-vis those of larger firms. Lack of transparency and corruption create an environment of untrustworthiness in the SME community. Under this context, it is not surprising that informal economies in Africa have expanded and that a very high proportion of SMEs remain unregistered and

operating in untaxed activities. Although many governments have acknowledged the importance of streamlining and simplifying business registration procedures, few have actually got started with the reforms. Pro-active governments in Africa have seen major improvements in their regulatory systems over the last few years. They have learnt from successful experiences in Africa and elsewhere, involving the main groups of interest in the identification, design and implementation of SME policies.

5.2 Business Associations

When faced with increasing capacity constraints (e.g. budget constraints), the State may not be able to provide comprehensive scope of support services to SMEs. A consensus has emerged that business associations (local and regional) have the potential capacity to provide effective support and promote the interests of the SME sector, which together can alleviate some of the constraints faced by small firms. Support measures provided by these institutions are wide-ranging across sector and countries.

Business associations can be distinguished into several broad types, including trade associations, professional associations, associations of the self-employed or sole traders, and Chambers of Commerce (Bennet, 1998).

According to Moore and Hamalalai (1993) local business associations perform a wide range of functions including :

> political voices, provision of concrete business services such as seminar, information and library services, exhibition and trade fairs, foreign contact, contract adjudication, specialised legal service and assistance, certification of document and product quality; an arena for social contact between members; an arena and ‘cover’ for cartel arrangement; and participation in the framing and/or

implementation of public policy, including performance of regulatory duties.

Local business associations can also facilitate contacts with foreign associations and through them contacts with foreign firms. This can be done by direct search for such contacts by the associations or by organising participation in foreign exhibitions.

Business associations have existed for years in many African countries, but only recently have they started to establish themselves as an important feature of commercial activity in much of the region (Goldsmith, 2002). It has been an open question whether African groups would represent all their members' interests, or become captive to the state or be subordinate to the larger associations. A survey by Goldsmith (2002) finds that associations in Africa work reasonably well, keeping members updated on the policy environment and interceding on member's behalf with policy makers. Especially where these groups are seen as less dependent on government, they are perceived to be meeting their objectives.

Several studies point to the link between business association activity and enterprise performance in Mexico (Rabellotti, 1999), Pakistan (Nadvi, 1999) and in Brazil (Schmitz, 1999). McMillan and Woodruff (1999) cited in Doner and Schneider (2000) have found that in both Vietnam and Eastern Europe, trade associations are not only an important source of information on trading partners but frequently also supplement courts in facilitating dispute resolution and arbitration .

Another type of interfirm networking, which merits attention, is the range of linkages that have developed to increase small firms capacity to enter policy dialogue. A particular noteworthy example is the West African Enterprise network, which is based on local and regional cooperation networks. Borne out of the

process of political liberalisation gaining grounds in parts of Africa in the 1990s, private entrepreneurs have sought a greater influence over economic policy (Orsini et al., 1996).

African business associations have not escaped critical review. Particular weaknesses identified are: low membership, poor leadership, inefficient management and administration, non-acceptance as full partners by government and inadequate finance (Levitsky, 1993). Temu and Drue (2000) report that developing countries are full of business associations that exist mainly on paper. African business associations, they argue are sometimes accused of being underfunded, dependent of foreign aid donors and having little impact on policy-making. As a result of their being young and under-funded, associations have had little impact in influencing policy formulation or civil service behaviour. The end-results of such obstacles are a growing informal private sector and unregulated business practices. Even those enterprises that have made profits and grown, they deliberately refrain from graduating to formal businesses that can be taxed and regulated, as they expect unfavourable treatment.

5.3 Ethnicity and Kinship Networks

The ethnic and kin networks are often viewed as a vital element in the development of enterprises. In the absence of adequate state-provided enforcement mechanism, the appropriate social institutions can be the kin/ethnic group. The closed nature of these networks and trust gives them operational advantages (e.g. with respect to accessing finance, customers, labour within and outside the country) that are otherwise denied to non-members groups(Ramachandran and Shah, 1998, see other extensive RPED surveys conducted by the World Bank)

Both East and South-east Asia and SSA have strong ethnic business networks. Those in East and South-east Asia have been discussed extensively in literature, with most attention being given

to the Chinese business networks that knit together the export manufacturing success stories in Taiwan, Hong Kong, Singapore, and parts of South-east Asia. SSA also has extensive ethnic business networks, but, with the exception of the settler areas of South Africa and Zimbabwe, the East African case of Kenya, and the island of Mauritius, these ethnic networks do not seem to have stimulated significant industrial development (Brautigam, 2003).

Research on indigenous business networks in SAA suggests that they are less likely than European or Asian networks (in Africa) to provide resources such as credit or information, that can launch an entrepreneur such as a small firm into manufacturing (McCormick, 1998, Brautigam, 2003). Much of SSA business remains in the informal sector, and this would explain some of the limits of indigenous networks (McCormick, 1998, Bigsten et al., 2000).

Researchers also found that indigenous African business networks are segregated by ethnicity as well as socio-economic status, and that African businesses seem less likely to be linked to other groups outside the region that could provide ideas, and resources. For example, McCormick's (1997) work in Kenya's garment sector demonstrates that networks of Asian (generally, Indian) and African entrepreneurs in Kenya seldom overlap. In her study, mass producers of garments for export (with global linkages) were 100 percent Asian, while custom tailors (limited to the domestic market) were 95 percent African. McCormick argues that access to entrepreneurial networks helps explain why Asian manufacturers in Kenya produce more efficiently than others, and why they have more potential for growth. Networks among indigenous Africans may be less able to provide access to capital and credit. Fafchamps (2000, 1997) found that, in Kenya and Zimbabwe, only European and Asian networks offered their members significant, preferential access to supplier credit, primarily because non-indigenous groups had access to

information about the reliability of others in their network, but not those outside.

Lastly, Marris and Somerset (1971) refer to the traditional society of the indigenous entrepreneur in Africa and that of the modern capitalist. They mention the burden of kinship obligations, which potentially diverts resources from expanding a capitalist enterprise. Additionally, formal contracts with family and kin are notoriously difficult to enforce. For example, if a trader sells to a close relative on credit and this relative must take a child to the hospital, family solidarity dictates that payment be delayed. But the trader needs working capital to operate. Failure to collect from relatives translates into loss of earning and business disruption. For this reason, some African entrepreneurs keep family and business separate and firms do not buy and sell primarily from relatives and kin (Bigsten et al., 1998).

6.0 THE IMPACT OF GLOBALISATION ON SMES

Globalisation through its various features may shape, facilitate and or impede the spread and conduct of SMEs activities and operations. Globalisation engenders new competitive pressures on SMEs from within and beyond their national borders. The closer integration of economic activities that has resulted from rapid advances in technology, growth of world trade, competition and policy changes towards economic liberalisation emits positive signals generally to industry, for instance, it is expected to (i) increase the export orientation of industry by encouraging firms to enter challenging new markets; (ii) make imports more freely available in the domestic market; (iii) encourage the formation of new competitors through FDI or non-price competition. But these signals may convey conflicting effects on SMEs

6.1 Trade liberalisation: Competition, currency devaluation, imports

In the 1990s, many African countries with small domestic markets underwent a process of sweeping and rapid trade liberalisation with the belief that increased openness would work the way it did for East Asia. But it did not succeed due to four main reasons: first, because firms´ capabilities in Africa were much weaker than those of East Asian countries (legacy of past protective policies); second, the pace of liberalisation in Africa was fast and did not give firms the time to adjust; third, African firms operated in sectors more exposed to global competition; and fourth and most importantly, African governments, unlike East Asian, did not provide the institutional support required to help firms face new challenges and compete in international markets. On the contrary, the erosion of trade barriers brought new and more prepared competitors to African markets, resulting in many African firms having to shut down.

Trade liberalisation and currency devaluation measures have had positive results in two African countries. Dawson (1993) questionnaire survey of 672 small firms in the Suame cluster of Ghana (in metalwork, carpentry and vehicle-repair branches) and from a 1991 study of small-scale entrepreneurs in Tanzania revealed that devaluations of the Ghanean Cedi and the Tanzanian Shilling allowed small scale enterprise to compete with and in some cases displace imported goods. Ghana's small scale industries have been particularly successful in competing with products such as machine and tools parts specialised nuts and bolts and bulky-food processing equipment. Increased access to imports and new components also allowed small scale industries to diversify product lines, increase output for donors and large firms who pay high prices for quality products for example saw-milling equipment producers, animal feeds and food–processing enterprises producing for large firms and donors in Ghana.

As regards the negative impacts of trade liberalisation on SMEs, these have been largely seen in terms of stiff competition in the local product market for small firms. Steel and Webster (1992) report that in their Ghanaian study ,the stiff competition was characterised by the flooding of both finished goods and inputs for SMEs production. Osei, et al (1993) study on the impact of structural adjustment on small-scale enterprises in Ghana, revealed that with the policy of trade liberalisation, imports of all kinds including consumer goods have been allowed into the country, competing with products of local industries, causing some of them to shut down. This scenario was also witnessed in Tanzania, where Maliyamkono and Bagachwa (1990) found that import liberalisation led to excessive competition amongst small firms which had threatened their profit margins and lowered their volume of sales. They added that it also resulted in plant closures in less competitive small-scale activities such as soap making and tie and dye cloth making.

6.2 Foreign Direct Investment

The literature on the effects of FDI in developing countries provides a range of prospective benefits to local SMEs and the recipient country (Lall, 2000a, Pigato, 2000, Pigato, 2001, Dunning, 1993). At the macroeconomic level, FDI by definition brings new capital for investment, contributing to the balance of payments, adding to the country's capital stock, and potentially enhancing future economic growth. FDI is also cited in the literature as a more stable type of capital flow, and thus is arguably more appropriate and development-friendly for low-income countries than portfolio flows. There is also some evidence that foreign investment can contribute to raising exports and integrating into global economic networks. At the microeconomic level, there is also a range of purported benefits, especially higher productivity through new investment in physical

and human capital, increased employment, enhanced management, and the transfer of technology.

Foreign investment is also credited to have important positive spillover effects on local SMEs through supply and distribution chains, trading, and outsourcing. For example in several East Asian economies, intra-country measures to encourage subcontracting links and policies to attract FDI have proved beneficial in creating a wider network of interfirm linkages in several East Asian economies. In Singapore, Malaysia and Thailand, some TNCs have subcontracted activities to capable SMEs, thereby generating some backward linkages and enabling SMEs to learn from the TNCs (Meyanathan, 1994).

Many of the above purported benefits of FDI are frequently challenged, both on ideological and empirical grounds (Dunning, 1993, ActionAid, 2003, Ngowi, 2001) as SMEs can miss opportunities for linkages with foreign direct investors .There is a common critique that foreign investors crowd out local SMES and other firms that cannot compete because of size, financing, marketing power, or other unfair advantage. There are complaints that foreign firms merely exploit local labour and make no contribution to the wider economy, such as through creating jobs, training workers, or in using local suppliers. There is considerable concern that the interests of foreign firms will diverge from social development objectives or constrain governments' ability to promote economic development .The desire to generate employment may lead governments to favour labour-intensive, low technology investments, while the objective to promote technology development may favour more sophisticated investors.

On the other hand, the benefits of FDI, however, do not come automatically to developing countries, as there are market failures to reckon with. For example, SMEs in Africa function in an environment, which is not favourable to entrepreneurship or

private sector development and often, do not have the support services they require to be partnership-ready. There are also high transaction costs, deficient information in the potential of the host economy, and insufficient coordination between the needs of TNCs and those of the host country, inadequate information on the international investment process vis a vis the country's own investment process.

A study revealed that the South African FDI "invasion" in Tanzania[5] raised some concerns about local sourcing. Sourcing from South Africa and exporting to other African countries has created some tensions in particular markets where the competition is being felt especially by SMEs in the agroprocessing sector. Winter-Nelson (2002) cited in Weatherspoon and Reardon (2003:347) remarked:

> *"The emergence of multinational supermarkets has created anxieties among policy makers that domestic producers might be increasingly marginalized by imports. As Tanzania's Deputy Minister for Agriculture and Food Security, Pius Mbawala, recently noted, given the capacity for global sourcing and agricultural subsidies abroad 'Shoprite will find it easier to import something than to buy it locally' (IRIN news, 2002). Concerns similar to this led to regulations that supermarkets source at least 40% of their supplies from Tanzanian producers. Given the under-developed state of much of Tanzania's processing sector, such a goal may be difficult to achieve outside of the fresh produce category. However, the marketing manager for*

[5] The South African invasion or 'dar-burg' also includes South Africa's take-over of Tanzania Breweries. Its presence has also been felt in the banking sector, mining, telecommunications, tourism and aviation to name a few (BBC News World Edition Online, Thursday April 3, 2003 'Anger over Tanzania Sell-Offs'

Shoprite claims that 90% of the Arusha supermarket's stock is from local suppliers"

6.3 Export Opportunities

Small-scale production may not only be local in character. Much of it may be linked through commodity chains to highly commercial export and domestic mass markets within Africa and the rest of the world. So the potential exists for SMEs as producers in clusters or non-clusters to benefit from these chains (Humphrey, 2001). However, Keesing and Lall (1992) argue that producers in developing countries are expected to meet requirements that frequently do not (yet) apply to their domestic markets. This creates a gap between the capabilities required for the domestic market and those required for the export market. For example, Dolan and Humphrey (2000) demonstrate the influence and strict requirements of UK supermarkets over the manner in which Kenyan and Zimbabwean SME producers and exporters are integrated into global commodity chain for fresh vegetables. A more hopeful feature in the development of African SME exports is the possibility of selling to regional and subregional markets. In these markets, SME exporters may find demand patterns similar to those of their own domestic consumers.

The participation of SMEs in export markets also benefits from pre-existing private networks that lower the transactions costs of linking into export markets regardless of firm size. For example, despite major infrastructural and credit constraints, firms in the automobile cluster in Nnewi (Nigeria) succeeded in exporting to neighbouring countries because of close links that had been developed over a number of years with motor spare part producers and wholesalers in Asia. These links took the form of detailed advice and other technical assistance on technologies and skills needed to operate efficiently (Brautigam, 1997).

7.0 CONCEPTUAL FRAMEWORK

There are various kinds of constraints or issues that hamper the growth and development of manufacturing SMEs . These factors are categorised into two groups: formal and informal institutions. These institutions interact as they affect outcomes in four stylized ways (Helmke and Levitsky 2004):

- complementary : , informal institutions are complementary with formal ones when they converge and the formal institutions are effective.
- accommodating : informal institutions may accommodate the formal ones when they diverge and formal institutions are effective by not violating the letter of the law but violating its spirit. In other words, it coexists with the formal institution and drives the outcome that is not entirely intended by the formal rules.
- competing : informal institutions compete with formal ones when formal institutions are ineffective and the two diverge. This is true where formal law is poorly enforced, or simply ignored by authorities
- substituting: informal institutions can substitute for the lack of effectiveness of formal institutions. Like complementary institutions, these informal institutions are designed to achieve what formal institutions should be doing but is ineffective or ignored by official sources.

For the purpose of organising the reviewed literature, a conceptual framework which is depicted below, is appropriate for understanding obstacles facing SMEs in African manufacturing

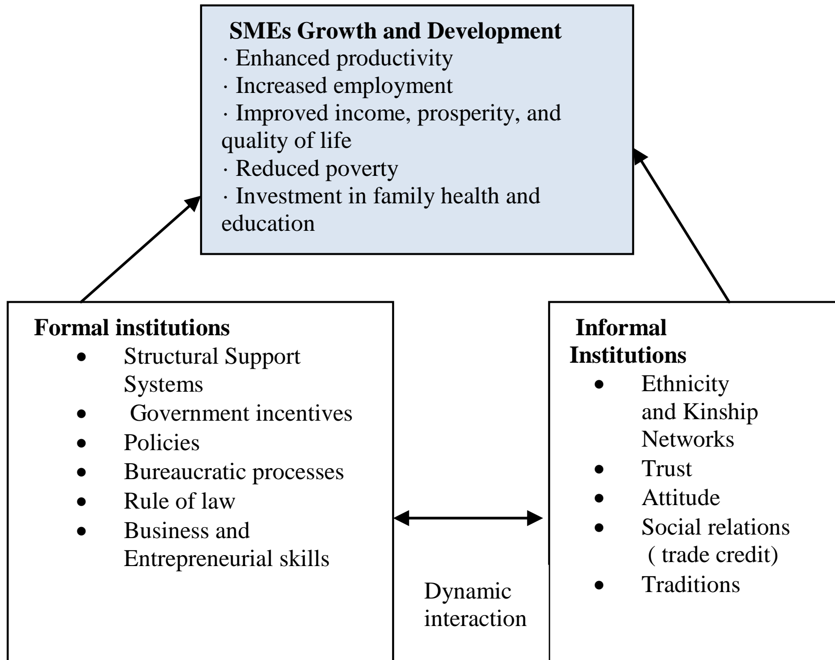

Figure 7.1: Conceptual framework

Source: Author's own construction

8.0 CONCLUSIONS AND IMPLICATIONS

This paper has used the institutionalist literature to help in understanding constraints facing African SME manufacturing development as well as thriving interactions and relationships that give rise to unprecedented opportunities and benefits such that SMEs can overcome growth constraints.

The private sector, of which manufacturing firms are part of, has become the central focus for economic and industrial development

in Africa following the adoption of economic and institutional reforms (post 1985). Two factors accounted for much of this emphasis: the failure of public sector in propelling economic development and the rise of globalisation. In addition, to understand the poor state of SMEs in manufacturing industry and the present industrial responses of firms and institutions, it is also important to bear in mind that the historic context carries forward implications of the present. That is the capacity for managing a free market economy differs substantially from the capacity for managing an administratively centralised and controlled economy. A free market economy has to contend with the dual task of making both the government and the free market function more efficiently.

SMEs in SSA had to survive the centrally planned regime and now in the opposite extreme have to face a ruthless market economy with little if wobbling support from outside. The poor record of SME development in African manufacturing under which SMEs fall must also be understood in the context of the failure of institutions of the state, first to perform in the 1970s and 1980s under state lead socialist management. The institutional framework could not match with the need to reorient SMEs towards improved services especially when the era of the private sector dominance came. The SME sector has neither been amenable for effective support or self-transformation. In this context, the picture that has been painted in the preceding sections suggest that firms that are growing, may integrate as many functions as possible (input supplies, services and even infrastructure) in their own organisation in order to free themselves from an undependable environment. The result is that productivity and growth remains low for slow growing SMEs and they are therefore unable to link up with the global economy. At the same time, these firms are unable to collaborate on strategies to extend their markets, upgrade their technology and overcome other growth barriers.

While it is now widely accepted that SMEs play an important role in the private sector, it should be more recognised that their contribution to economic development in general and in industrial development in particular is even more important in SSA where they often offer the only realistic prospects for increases in employment and value-added. As suggested by the recent *World Development Report 2005*, the investment climate is so important for growth and development of firms because " [it] reflects the many location specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand" (WorldBank, 2004b:2). Furthermore, *Doing Business in 2005* (World Bank, 2004a) places Africa low on business climate indicators and suggests Africa is sluggish reformer relative to other regions[6]. In this context, small-scale enterprises are hit hardest by a weak operating environment compared to large firms.

Notwithstanding the above, Africa has important underlying strengths that need to be taken into account. It is rich in natural resources. It also counts with an abundant and cheap labour force. These are important ingredients to compete in resource-based and low-tech manufacturing sectors. There are immense untapped opportunities here if SMEs' skill base and technology could be strengthened, and if they could be linked to large domestic enterprises or TNCs as suppliers or subcontractors. The official policy statement on SMEs in African countries can also be regarded as a sign of strength in that it points to the right direction of intentions to support the SMEs.

---

[6] While Africa performed well in reforming its business environment in 2005-2006, a more recent report of the World Bank, *Doing Business in 2007: How to Reform* highlighted that the continent still lags behind other regions in its overall rankings under the Doing Business Index. WORLDBANK (2006) *Doing Business 2007:How to Reform,* Washington, World Bank.

While the debate continues on how best to reform the business environment, government reform measures must be tailor-made to the circumstances of their own country and SMEs within them. The experiences of other countries can offer useful lessons on what works and what does not and so inform the design of robust latecomer SME development drive. However, wholesale copying of another country's strategy or relying on a generic one size fits all approach is likely to have limited effect on improving SME development in a given developing economy.

In order to allow the manufacturing sector including SMEs to play in a leading role in African countries' pursuit for strong economic and industrial development and ultimately poverty reduction as called for in the Millennium Development Goals, the policy environment needs to be substantially improved to minimise transaction costs and facilitate business transactions thus resulting in a richer set of interactions and relationships. Action is needed in six key areas to expand the possibilities of survival for Africa's ailing manufacturing industries:

- Improving the legal and regulatory framework and the capacity for its administration.
  It should be underpinned by these principles: (a) there is a set of rules known in advance; (b) the rules are actually in force; (c) there are mechanisms ensuring application of the rules; (d) conflicts are resolved through binding decisions of an independent judicial body and (e) there are procedures for amending the rules when they no longer serve their purpose.
- Promoting public and private investments in supportive infrastructure e.g. telecommunications, power, transportation, water and sanitation. The financial sector is just as important.
- Putting in place a comprehensive framework for the development of small firms and promoting linkages

between them and large scale operations. In this regard, the government needs to set a vision of the structure and orientation of the manufacturing sector to strengthen the economy and to contribute to the formation of effective states. This will require sharing its vision with the sector and winning its understanding and support. It must therefore collect accurate information on the needs, priorities and actions of the manufacturing sector to provide the right signals, incentives and support

- In an era of globalisation and increasing competition, Africa requires "smart" SMEs and as such there needs to be investment in the development of entrepreneurial and management skills.
- A key task for economic policy must be to increase effective participation in the global economy. Focus must be on building the capacity to tap opportunities offered by a liberalising regional and international regime. Policy makers will need to give priority to enhancing the capacity to interpret developments in the regional and global economy and enhance the capacity of private sector firms including SMEs to respond rationally to those developments.
- In the transition period from a state led to market led economy, relations between African governments and donors have improved substantially. Aid should focus on capacity building in supporting private sector development in terms of human resources, institutional development and capacity to compete (international competitiveness).

References:

ACTIONAID (2003) *Unlimited Companies: The Developmental Impacts of an Investment Agreement at the WTO,* http://websrv.actionaid.org/wps/content/documents/embargoed_1862004_155952.pdf.

BAGACHWA, M. S. D. (1993a) An Agenda for Sustainable Growth of Non-Traditional Exports in Tanzania. *Tanzania Economic Trends (TET),* 5.

BAGACHWA, M. S. D. (1993b) Impact of Adjustment Policies on the Small-Scale Sector in Tanzania. IN HELMSING, A. H. J. & KOLSTEE, T. (Eds.) *Small Enterprise and Changing Policies: Structural Adjustment, Financial Policy and Assistance Programmes in Africa.* London, Intermediate Technology Publications.

BAGACHWA, M. S. D. & NAHO, A. (1990) Estimating the Second Economy in Tanzania. *World Development,* 23**,** 1387-1399.

BARR, A. (1999) Do SMEs Network for Growth? IN KING, K. & MCGRATH, S. (Eds.) *Enterprise in Africa.* London, Intermediate Technology Publications.

BARR, A. (2000) Collective Action and Bilateral Interaction in Ghanaian Entrepreneurial Networks. *UNU/WIDER Working Paper,* No. 182.

BENNET, R. J. (1998) Business Associations and their potential to contribute to economic development: Reexploring an Interface between the State and Market. *Environment and Planning,* 30**,** 1367-1387.

BERRY, A. & MAZUMDAR, D. (1991) Small-scale industry in the Asian-Pacific region. *Asian Pacific Economic Literature,* 3**,** 35-67.

BEST, M. (1990) *The New Competition: Institutions of Industrial Restructuring,* Oxford, Basil Blackwell.

BIGGS, T., MOODY, G. R., LEEUWEN, J.-H. V. & WHITE, E. D. (1994) *Africa Can Compete!* Discussion Paper No. 242, Washington, DC: World Bank.

BIGGS, T. & SRIVASTAVA, P. (1996) *Structural Aspects of Manufacturing in Sub-Saharan Africa,* World Bank discussion Paper 346, Washington, DC: World Bank.

BIGSTEN, A., COLLIER, P., STEFAN DERCON, FAFCHAMPS, M., GAUTHIER, B., GUNNING, J. W., ODURO, A., OOSTENDORP, R., PATTILLO, C., SODERBOM, M., TEAL, F. & ZEUFACK, A. (1998) *Contract flexibility and conflict resolution:Evidence from African Manufacturing,* Oxford, Working Paper Series 98,CSAE.

BIGSTEN, A., KIMUYU, P. & LUNDVALL, K. (2000) *Informality, Ethnicity and Productivity: Evidence From Small Manufacturers in Kenya,*

Working Paper in Economics no.27, Goteborg University: Department of Economics.

BRAUTIGAM, D. (1997) Substituting for the State: Institutions and Industrial Development in Eastern Nigeria. *World Development,* 25**,** 1063-1080.

BRAUTIGAM, D. (2003) Local Entrepreneurship in Southeast Asia and Sub-Saharan Africa: Networks and Linkages to the Global Economy. IN ARYEETEY, E., COURT, J., NISSANKE, M. & WEDER, B. (Eds.) *Asia and Africa in the Global Economy.* New York, United Nations University Press.

COASE, R. H. (1937) The Nature of the Firm. *Economics N.S,* 4**,** 386-405.

COLEMAN, J. S. (1988) Social Capital in the Creation of Human Capital. *American Journal of Sociology,* 94 (Suppl.)**,** S95-S120.

COLLIER, P. (2000) Africa's Comparative Advantage. IN JALILIAN, H., TRIBE, M. & WEISS, J. (Eds.) *Industrial Development and Policy in Africa.* Cheltenham, Edward Elgar.

COMMON, J. (1934) *Institutional Economics: Its Place in Political Economy, Vol. I,* New Brunswick, Transaction.

DIJK, M. P. V. & RABELLOTTI, R. (Eds.) (1997) *Enterprise Clusters and Networks in Developing Countries,* London, Frank Cass.

DOLAN, C. & HUMPHREY, J. (2000) Governance and Trade in Fresh Vegetables: The Impact of UK Supermarkets on the African Horticulture. *Journal of Development Studies,* 37**,** 147-176.

DONER, R. F. & SCHNEIDER, B. (2000) *The New Institutional Economics, Business Associations and Development,* Geneva, Discussion Paper, International Institute for Labour Studies, International Labour Organisation.

DUNNING, J. (1993) *Multinational Enterprises and the Global Economy,* Wokingham, Addison-Wesley.

FAFCHAMPS, M. (1996) The Enforcement of Commercial Contracts in Ghana. *World Development,* 24**,** 427-448.

FAFCHAMPS, M. (1997) Trade Credit in Zimbabwean Manufacturing. *World Development,* 25**,** 795-815.

FAFCHAMPS, M. (1999) Networks, Communities and Markets in SSA: Implication for Firm Growth and Investment. *Journal of African Economies,* 10, AERC Supplement 2**,** 109-142.

FAFCHAMPS, M. (2000) Ethnicity and Credit in African Manufacturing. *Journal of Development Economics,* 61**,** 205-235.

FURUBOTN, E. G. & RICHTER, R. (1998) *Institutions and Economic Theory,* Michigan, The University of Michigan Press.

GOEDHUYS, M. & SLEUWAEGEN, C. (2000) Entrepreneurship and Growth of Entrepreneurial Firms in Côte d'Ivoire. *Journal of Development Studies,* 36**,** 122-145.

GOLDSMITH, A. A. (2002) Business Associations and Better Governance in Africa. *Public Administration and Development,* 22**,** 39-49.

GOLDSTEIN, A., PINAUD, N., REISEN, H. & CHEN, X. (2006) *The Rise of China and India: What's in it for Africa,* Paris, OECD.

GROSH, B. & SOMOLEKAE, G. (1996) Mighty Oaks from little acorns: Can microenterprise serve as the seedbed of industrialisation. *World Development,* 24**,** 1879-1890.

HALLBERG, K. (2000) *A Market Oriented Strategy For Small and Medium Scale Enterprises,* Washington, DC, IFC Discussion Paper 40.

HIRSCHMAN, A. O. (1970) *Exit, Voice, and Loyalty: Response to Decline in Firms, Organizations, and States.,* Cambridge, Harvard University Press.

HODGSON, G. (1988) *Economics and Institutions,* Cambridge.

HODGSON, G. (1997) The ubiquity of Habits and rules. *Cambridge Journal of Economics,* 21**,** 663-84.

HOLMES, J. (1986) The Organisation and Locational Structure of Production Subcontracting. IN SCOTT, A. J. & STORPER, M. (Eds.) *Production, Work, and Territory: The Geograhical Anatomy of Industrial Capitalism.* Boston, London and Sydney, Allen & Unwin.

HUMPHREY, J. (2001) *Opportunities for SMEs in Developing Countries to Upgrade in a Global Economy,* Mimeo, Brighton, Institute of Development Studies.

JANSSON, T. & CHALMERS, G. (2001) *The Case for Business Registration in Latin America,* Washingtion, D.C, Sustainable Development Department Best Practices, Inter-American Development Bank.

KEESING, D. & LALL, S. (1992) Marketing Manufactured Exports From Developing Countries: Learning Sequences and Public Support. IN HELLEINER, G. (Ed.) *Trade Policy, Industrialisation and Development.* Oxford, Oxford University Press.

KILBY, P. (1988) Breaking the Entrepreneurial Bottleneck in Late developing Countries: Is there a Useful Role for Governments. *Journal of Developing Planning,* 18**,** 221-249.

KNORRINGA, P. (1999) Agra: An Old Cluster Facing the New Competition. *World Development,* 27**,** 1587-1604.

KWEKA, J. P., SEMBOJA, H. H. & WANGWE, S. M. (1997) *Import Liberalisation, Industrialisation and Technological Capability in Sub Saharan Africa,* Dar es Salaam, ESRF.

LALL, S. (1992) Technological capabilities and industrialisation. *World Development,* 20**,** 165-186.

LALL, S. (1993) Understanding Technological Development. *Development and Change,* 24**,** 719-753.

LALL, S. (1995) Structural Adjustment and African Industry. *World Development,* 23**,** 2019-2031.

LALL, S. (2000a) *FDI and Development: Policy and Research Issues in the Emerging Context,* Working Paper Number 43, Queen Elizabeth House, University of Oxford.

LALL, S. (2000b) *Strengthening SMEs for International Competitiveness,* Egyptian Centre for Economic Studies, Cairo.Paper presented at a workshop on What Makes Your Firm Internationally Competitive. March 6-8.

LALL, S. (2000c) Strengthening SMEs for International Competitiveness. Paper presented at a workshop. *What Makes Your Firm Internationally Competitive.* Cairo, Egyptian Centre for Economic Studies.

LALL, S., BARBA-NAVARETTI, G., TEITEL, S. & WIGNARAJA, G. (1994) *Technology and Enterprise Development: Ghana Under Structural Adjustment,* London, Macmillan.

LANGLOIS, R. (1986) *Economics as a Process: Essays in the New Institutional Economics,* Cambridge, Cambridge University Press.

LEVITSKY, J. (1993) Private-sector organisations and support for small and microenterprises. IN HELMSING, A. H. J. & KOLSTEE, T. (Eds.) *Small Enterprise and Changing Polices: Structural Adjustment, Financial Policy and Assistance Programmes in Africa.* London, IT Publications.

LEVY, B., BERRY, A., ITOH, M., KIM, L., NUGENT, J. & URATA, S. (1994) *Technical and Marketing Support Systems for Successful Small and Medium-Sized Enterprises in Four Countries,* Washington, DC, World Bank Policy Research Working Paper 1400.

LEVY, B., BERRY, A. & NUGENT, J. (1999) *Fulfilling the Export Potential of Small and Medium Firms,* Massachusetts, Kluwer Academic Publishers.

LIEDHOLM, C. (1993) Small and Microenterprises Dynamics and The Evolving Role of Finance. IN HELMSING, A. H. J. & KOLSTEE, T. (Eds.) *Small Enterprises And Changing Policies: Structural Adjustment, Financial Policy and Assistance Programmes in Africa.* London, Intermediate Technology Publications.

LITTLE, I. M., MAZUMBAR, D. & PAGE, J. M. (1987) *Small Manufacturing Enterprises: A Comparative Analysis of India and Other Economies,* Washington, Oxford University Press.

MALIYAMKONO, T. L. & BAGACHWA, M. (1990) *The Second Economy in Tanzania,* Dar-es-Salaam, ESAURP.

MARRIS, P. & SOMERSET, A. (1971) *African Businessmen: A Study of Entrepreneurship and Development in Kenya,* London, Routledge and Kegan.

MARSHALL, A. (1890) *Principle of Economics,* London, Macmillan.

MARTI, **D.F.** AND I. **SSENKUBUGE** (**2009**). '**Industrialisation and Industrial Policy in Africa**: Is it a **Policy Priority**?' **Research Paper 20. The South Centre**

MCCORMICK, D. (1997) Industrial District or Garment Ghetto? Nairobi's Mini-Manufacturers. IN DIJK, M. P. V. & RABELLOTTI, R. (Eds.) *Enterprise Clusters and Networks in Developing Countries.* London, Franck Cass.

MCCORMICK, D. (1998) *Enterprise Clusters in Africa: On the way to Industrialisation?* Discussion paper, Institute of Development Studies, University of Sussex.

MCCORMICK, D. (1999) Enterprise clusters in Africa: linkages for growth and development. IN KING, K. & MCGRATH, S. (Eds.) *Enterprise in Africa.* London, Intermediate Technology Publications.

MCCORMICK, D. (1999a) African Enterprise Clusters and Industrialisation: Theory and Reality. *World Development,* 27**,** 1531-1551.

MCCORMICK, D. (1999b) Enterprise clusters in Africa: linkages for growth and development. IN KING, K. & MCGRATH, S. (Eds.) *Enterprise in Africa.* London, Intermediate Technology Publications.

MCMILLAN, J. & WOODRUFF, C. (1999) Interfirm Relationships and Informal Credit in Vietnam. *Quarterly Journal of Economics,* 114**,** 1285-320, November.

MEAD, D. (1994) The Legal Regulatory and Tax Framework and Small Enterprises. *Small Enterprise Development,* 5.

MEYANATHAN, S. D. (Ed.) (1994) *Industrial Structures and the Development of Small and Medium Enterprise Linkages: Examples from East Asia,* Washington DC, World Bank.

MOORE, M. & HAMALALAI, L. (1993) Economic Liberalisation, Political Pluralism and Business Associations in Developing Countries. *World Development,* 21**,** 1895-1912.

NABLI, M. K. & NUGENT, J. B. (1989) The New Institutional Economics and Its Applicability to Development. *World Development,* 17**,** 1333-47.

NADVI, K. (1999) Collective efficiency and Collective Failure: The Response of the Sailkot Surgical Instrument to Global Quality Pressure. *World Development,* 27**,** 1605-1626.

NAVARETTI, G. B., SOLOAGA, I. & TAKACS, W. (1998) Bargains Rejected? Developing Country Trade Policy on Used Equipment. *Labour,* 12**,** 353-362.

NELSON, R. & WINTER, S. (1982) *An Evolutionary Theory of economic Change,* Cambridge, MA, The Belknap Press.

NGOWI, H. P. (2001) Attracting New Foreign Direct Investments to Tanzania. *Tanzanet Journal,* 1**,** 23-39.

NORTH, D. (1990) *Institutions, Institutional Change, and Economic Performance,* New York, Cambridge University Press.

NORTH, D. (2000) Understanding Institutions. IN MENARD, C. (Ed.) *Institutions, Contracts and Organisations.* Cheltenham, Edward Elgar.

NORTH, D. C. (1995) The New Institutional Economics and Third World Development. IN HARRISS, J., HUNTER, J. & LEWIS, C. M. (Eds.) *The New Institutional Economics and Third World Development.* London, Routledge.

ORSINI, D. M., COURCELLE, M. & BRINKERHOFF, D. W. (1996) Increasing Private Sector Capacity for Policy Dialogue: The West Africa Enterprise Network. *World Development,* 24**,** 1453-1466.

OSEI, B., BAA-NUAHOH, A. & SOWA, N. K. (1993) Impact of Structural Adjustment on Small-scale Enterprises in Ghana. IN HELMING, A. H. J. & KOLSTEE, T. (Eds.) *Small Enterprises and Changing Policies; Structural Adjustment, Financial Policy and Assistance Programmes in Africa.* London, IT Publication.

OYELARAN-OYEYINKA, B. (2001) Networks and Linkages in African Manufacturing Cluster: A Nigerian Case Study. *UNU/INTECH Discussion Paper Series*.

OYELARAN-OYEYINKA, B. & SAMPATH, P. (2007) Innovation in African Development: Case Studies of Uganda, Tanzania and Kenya.

PEDERSEN, P. O. (1997) Clusters of enterprises within systems of production and distribution: Collective efficiency and transaction costs. IN DIJK, M. P. V. & RABELLOTTI, R. (Eds.) *Enterprise Clusters and Networks in Developing Countries.* London, Frank Cass.

PIGATO, M. (2000) *Foreign Direct Investment in Africa: Old Tales and New Evidence,* World Bank Africa Region Working Paper Series No.8, World Bank.

PIGATO, M. (2001) *The Foreign Investment Environment in Africa,* Africa Region Working Paper Series No.8, World Bank.

PIORE, M. & SABEL, C. (1984) *The Second Industrial Divide: Prospects for Prosperity,* New York, Basic Books.

PUTNAM, R. D. (1993) *Making Democracy Work: Civic Traditions in Modern Italy,* Princeton, Princeton University Press.

RABELLOTTI, R. (1999) Recovery of a Mexican Cluster: devaluation Bonanza or Collective Efficiency. *World Development,* 27**,** 1571-1585.

RAMACHANDRAN, V. & SHAH, M. K. (1998) *Minority Entrepreneurs and Firm Performance in Sub-Saharan Africa,* RPED Paper No. 86, World Bank.

RUTHERFORD, M. (1994) *Institutions in Economics: The Old and the New Institutionalism,* Cambridge, Cambridge University Press.

SACHS, J. D. & WARNER, A. M. (1997) Sources of Slow Growth in African Economies. *Journal of African Economies,* 6.

SCHMITZ, H. (1999) Global Competition and Local Cooperation: Success and Failure in the Sinos Valley, Brazil. *World Development,* 27**,** 1627-1650.

SCHMITZ, H. & NADVI, K. (1999) *World Development Special Issue on Industrial Clusters in Developing Countries,* Vol27, No.9, September.

SMITH, A. (1996) From The Wealth of Nations. IN PUTTERMAN, L. & KROSZER, R. (Eds.) *The Economic Nature of The Firm.* Second ed. Cambridge, Cambridge University Press.

SODERBOM, M. & TEAL, F. (2001) Can African manufacturing firms become successful exporters? Paper Prepared Third united Nations Conference on the Least Developed Countries, Brussels 14-20 May 2001, CSAE-UNIDO Working Paper No.4.

SOTO, H. D. (1987) *The Other Path,* New York, Harper and Row.

STEEL, F. W., ARYEETEY, E., HETTIGE, H. & NISSANKE, M. (1997) Informal Financial Markets under Liberalization in four African Countries. *World Development,* 25**,** 817-830.

STEEL, W. & WEBSTER, L. (1992) How Small Enterprises in Ghana have responded to Adjustment. *The World Bank Economic Review,* 6**,** 423-438.

STEIN, H. (1994) Theories of Institutions and Economic Reform in Africa. *World Development,* 22**,** 1833-1849.

STEIN, H. (1995) Structural Adjustment in Africa. IN HARRIS, J., HUNTER, J. & LEWIS, C. M. (Eds.) *The New Institutional Economics and Third World Development.* London, Routledge.

TEMU, A. & DRUE, J. N. (2000) The Business Environment in Tanzania under Socialism. *Journal of Modern African Studies,* 38**,** 683-712.

THOBURN, J. T. (2000) Finding The Right Track for Industry in Africa: Some Policy Issues and Options. *Discussion Paper.* Vienna, UNIDO.

TOYE, J. (2007) Prospects for a Theory of Institutions and development. Paper was prepared for Glasgow University's International Conference on Development Economics, June 26-7

TYBOUT, J. (1998) Manufacturing Firms in Developing Countries: How Well Do They Do and Why? *Working Paper No. 1965.* World Bank.

UNCTAD (2003) *Africa's Technology Gap: Case Studies on Kenya, Ghana, Tanzania and Uganda,* Geneva, United Nations.

UNCTAD (2008) *Economic Development in Africa 2008- Export performance and trade liberalisation: some patterns and policy perspectives*, UNCTAD.

URT (2002) *Final Report,* Report submitted on subcontracting and industrial clusters from Masaaki Hanai JICA Expert, Dar es Salaam, Ministry of Industry and Trade.

VEBLEN, T. (1919) *The Place of Science in Modern Civilisation adn Other Essays,* New York, Huebsch.

WANGWE, S. (Ed.) (1995) *Exporting Africa: Technology, Trade and Industrialization in Sub-Saharan Africa,* London, Routledge.

WEATHERSPOON, D. D. & REARDON, T. (2003) The Rise of Supermarkets in Africa: Implications for Agrifood Systems and the Rural Poor. *Development Policy Review,* 21**,** 333-355.

WORLDBANK (1993) *The East Asian Miracle: Economic Growth and Public Policy,* New York, Oxford University Press.

WORLDBANK (2002) *World Development Report 2002: Building Institutions for Markets,* Oxford, Oxford University Press.

WORLDBANK (2004a) *Doing Business in 2005,* Oxford, Oxford University Press.

WORLDBANK (2004b) *World Development Report 2005: A Better Investment Climate for All,* Oxford, Oxford University Press.

WORLDBANK (2006) *Doing Business 2007:How to Reform,* Washington, World Bank.

YOU, J. (1995) Small Firms in Economic Theory. *Cambridge Journal of Economics,* 19**,** 441-462.

YU, T. F.-L. (2001) *Firms, Governments and Economic Change: An Entrepreneurial Perspective,* Cheltenham, Edward Elgar.