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Workshop on the Impact of Structural Adjustment
Policies on the Small-Scale Enterprise Sector
in English-speaking African Countries

Nairobi, Kenya, 13-16 December 1993

REPORT*

* This document has not been edited.

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INTRODUCTION

1. The Workshop on the Impact of Structural Adjustment Policies on the Small-Scale Enterprise Sector in English-speaking African Countries was held in Nairobi, Kenya, from 13 to 16 December 1993. It was organized by the United Nations Industrial Development Organization (UNIDO). The meeting was attended by 21 participants from 7 African countries in which structural adjustment programmes had been implemented and 1 international organization (see annex I).
2. The Workshop addressed the central issues related to the implementation of structural adjustment programmes and their implications on the existing small- and medium-scale enterprises in the concerned African countries. The aim was to develop a policy framework for the development and growth of small- and medium-scale enterprises within the new network of conditions in which these enterprises will have to operate.

I. CONCLUSIONS AND RECOMMENDATIONS

Policy level

3. New strategies, policies and programmes are required for small-scale enterprise development following the liberalization of economies.
4. The role of the governments should be significant in creating a conducive environment for private sector initiatives and especially for the small-scale and micro-enterprise sector to grow and prosper. Since this sector is recognized as an integral part of the entire economy, the legal and regulatory framework, and the system of tariffs should be reviewed with special focus on various elements of the structural adjustment programme and its implications on the sector to achieve trade liberalization. Special mechanisms should be put in place to review and monitor the implementation of policies and, where necessary, adjust them to the prevailing circumstances.
5. In developing new strategies and policies, there should be a dialogue between the government and the main actors in the sector to facilitate cross fertilization of information about the structural adjustment programme. This dialogue should provide an opportunity to convey to the government the problems, needs and concerns of the sector.
6. As a result of the implementation of the structural adjustment programme, retrenchment programmes should go hand in hand with training and retraining of affected people with a view to redirecting resources into sectors with development potential. Special attention should be given to entrepreneurship development supported by funds to set up private enterprises.
7. Concerted effort focusing on both long- and short-term training and human resource development is needed. This calls for review and orientation of the education system to match the new requirements and needs of private sector development.
8. With regard to privatization of public enterprises, due consideration should be given to the structure of ownership through the capital market. If it does not exist, alternative mechanisms should be put in place to involve more nationals.

9. National priorities should be set, taking into consideration the comparative advantages of each individual country and/or sector, based on the availability of local resources such as raw materials, skills, infrastructure etc. Small- and medium-scale enterprises should be identified as one of the priority areas in view of their potential for employment generation, rural development, innovation etc.

10. In order to implement the structural adjustment programme with a "human face", its social dimension should be highly considered. In that connection, governments should provide safety nets to reduce the negative impact on the society and reallocate resources to more productive sectors.

11. The government is in itself a big market. Any drive to promote the growth of small- and medium-scale enterprises should give special preference to goods and services from the sector. In addition, specific policies should be developed to support the marketing of its goods and services.

12. As part of technology transfer, and in view of the need for utilizing more local resources, subcontracting between the large- and small-scale enterprise sector should be encouraged through special government incentives and policy measures.

13. As part of government inducement to increased production and project performance by the sector, national enterprise award schemes should be introduced to cover various aspects of industry, e.g. exports, turnover, employment, innovation etc. National small- and medium-scale enterprise exhibitions and fairs would be part of the incentive efforts.

14. Development finance institutions for small- and medium-scale enterprises should be encouraged and induced to channel a portion of available funds to women enterprises.

Institutional level

15. As one of the requirements of the structural adjustment programmes, African countries are shifting from public to private sector-led development strategies with more emphasis being placed on the development of small- and medium-scale enterprises. Whereas the government should encourage the growth and functioning of private institutions, it should at the same time retain existing useful public institutions; however, these institutions should be restructured and strengthened to enable them to be run efficiently and professionally without political interference. Furthermore, they should be able to sustain themselves by commercializing their services. However, in cases where the services such as research, training etc. are for promotion purposes, the costs should be borne by tax payers. In countries where there is no existing institutional framework, such a framework should be set up to support the development and growth of the small-scale enterprise sector.

16. Networking and coordination between all actors involved in the sector should be enhanced to contribute to solving problems of overlap and duplication of responsibilities and activities. Actors, especially NCOs, should set acceptable, clearly defined goals and objectives and be encouraged to implement growth-oriented activities.

Financing

17. In a period of economic transition, national governments should initiate a survey of credit needs of the small- and medium-scale enterprise sector based on defined objectives and priorities with a view to formulating appropriate policies and strategies to meet the needs of the sector including financing.

18. Some of the procedures used for access to credit by small- and medium-scale entrepreneurs, especially those in the lower segment of the sector, are time-consuming, cumbersome and frustrating. In the interest of speedy disbursements, these procedures ought to be reviewed and simplified, as appropriate.

19. National governments should review the burden on collateral requirements, since it is a major obstacle inhibiting the development of small- and medium-scale enterprises. There should also be a review of the role of the Central Bank for the development of small and medium-scale enterprises, since in most African countries they are silent spectators rather than active participants.

20. Lending to the sector by credit cooperative institutions such as savings and credit cooperative societies (SACCOs) should be supported in order to assist entrepreneurs of small- and medium-scale enterprises in rural areas. Such cooperative credit might include mutual guarantee schemes. Furthermore, credit to the sector, especially micro-enterprises, by non-conventional national institutions should be encouraged.

21. Technical assistance for the preparation of feasibility studies for project development is needed. Such assistance requires special pre-investment study funds. It would be desirable that part of the proceeds of privatization be channelled to a special fund devoted to finance both pre-investment studies and selected bankable projects in order to help create more entrepreneurs of small- and medium-scale enterprises. This might include support to equity investments on terms and conditions to be agreed upon. These projects should be subject to effective post-finance monitoring and evaluation by the relevant governmental agencies and/or NGOs.

22. The creation and support of national associations for small- and medium-scale enterprises should be encouraged as far as possible. Such associations should be made aware of loans being disbursed to the sector so that they may influence the performance of projects in regard to repayment development of management training programmes, information on available technological alternatives etc.

23. National governments, through their central banks, ought to consider special incentives for the commercial banks and other financing institutions to provide special windows to small- and medium-scale enterprises in their lending.

Cooperation

24. National apex bodies and small- and medium-scale enterprise associations should initiate fora, supported by UNIDO, to foster regional and interregional cooperation and networking and facilitate exchange of experience and ideas.

25. In view of the significance of the micro-enterprise sector, UNIDO and other concerned agencies should consider facilitating another forum to address the needs and concerns of the sector.

26. Realizing that in the past implementation of recommendations of meetings, workshops and seminars on the small-scale enterprise sector was poor or lacking, UNIDO is requested to address the report of the Workshop to the relevant national offices. This ought to be followed up by UNIDO's country representatives in conjunction with participants from each country or the concerned apex bodies/associations.

II. ORGANIZATION OF THE WORKSHOP

Opening of the Workshop

27. The Chief of the Unit for Common Topics of UNIDO's System of Consultations Division expressed a warm welcome to the participants and thanked the Government of Kenya for hosting the Workshop in Nairobi. He underlined the importance that UNIDO attached to the development and growth of small- and medium-scale enterprises including micro-enterprises. He stated that the decision to hold this Workshop was in recognition of the fact that the small-scale enterprise sector was the backbone of the economy in most developing countries in general and in African countries in particular. He reminded the participants that the Workshop was a follow-up to the recommendations of the First Consultation on Small- and Medium-Scale Enterprises including Cooperatives organized by UNIDO at Bari, Italy, in October 1989. He underlined that one of the overriding conclusions of the Consultation was to call on national governments supporting institutions charged with the development of individual small-scale industry units to share their responsibility with the private sector. Although, at present, the private sector is recognized as the "wave of the future", national governments should pursue their necessary and indispensable role of creating the proper environment by designing and implementing the required policy framework for the development and growth of small- and medium-scale enterprises in response to the prevailing new network of conditions in which these enterprises will have to operate.

Election of officers:

28. The following officers were elected:

Chairperson:	Alfred M. Shikhule (Kenya), Managing Director, Highland Paper Mills Ltd.
Vice-Chairperson:	Robinah L. Sabano (Uganda), Senior Industrial Officer, Ministry of Trade and Industry
Rapporteur:	Robert Kalomho (Namibia), Head, Economic and Regional Development Department, Namibia National Chamber of Commerce and Industry

Adoption of the agenda

29. The Workshop adopted the following agenda:

- (a) Opening of the Workshop
- (b) Election of Chairperson, Vice-Chairperson and Rapporteur
- (c) Adoption of the agenda and organization of work
- (d) Present situation, problems and prospects of small- and medium-scale enterprises under structural adjustment programmes in English-speaking African countries
- (e) Discussion on key issues: Policy and legal framework; institutional infrastructure; financial policy; international, regional and national cooperation
- (f) Adoption of conclusions and recommendations of the Workshop
- (g) Closure of the Workshop

III. SUMMARY OF DISCUSSIONS

30. During the introduction of the subject, the UNIDO consultants presented their views on the impact of structural adjustment policies in five selected countries of the target group, namely Ethiopia, Ghana, Kenya, the United Republic of Tanzania and Zambia. The case studies, which were based on the practical experience gained during their visits to the respective countries, focused on three major problem areas:

(a) Policy and legal framework for developing the target sector; creation of the framework and its implementation;

(b) Institutional environment required to enable the growth of individual units; type and functions of institutes to support small-scale and micro-enterprises; required change from government to private institutional support; role of the Government, NCOs, associations etc.

(c) Provision of finance to small-scale and micro-enterprises to satisfy their needs for investment/working capital; practical obstacles in obtaining access to sources of finance from banks and other financial institutions.

31. After the introductory presentations, other participants gave a summary of the potential and factors inhibiting the development of small- and medium-scale enterprises in their countries. The problem of the impact of structural adjustment policies on national economies as a whole was also mentioned. Some participants alleged that so far the policies had not produced the expected results. On the contrary, instead of restoring the conditions of sustainable growth, these adjustment policies had indeed depressed the economy of most countries. In many cases, the consequences had been relatively high rates of unemployment and of inflation.

32. Since the small- and medium-scale enterprise sector was an effective agent for industrial transformation, almost all participants emphasized the need to review the existing legal and regulatory framework, including the

fiscal and financial policies, in order to create the much-needed healthy climate for the development and growth of small- and medium-scale enterprises.

33. It was noted that in many African countries industrial policies were undergoing profound changes in favour of the private sector. The trend towards economic pragmatism was very encouraging, among others, since it offered vast opportunities for cooperation in the development of small- and medium-scale enterprises with a view to increasing national economic output and employment generation. The new policy measures being pursued and/or enacted in some countries had been a good sign. The renewed interest in promoting private small- and medium-scale enterprises was a cornerstone in those efforts.

34. Some participants were of the opinion that liberalization of economies without a "human face" would not survive in the long run. Following the implementation of structural adjustment programmes, services had been made more expensive and government bonds absorbed a high percentage of all the funds available in some countries. Prospects for industry to have access to credit were also little.

35. It was proposed that national governments, as part of their inducement to increased production and enterprise performance, could introduce national enterprise award schemes to cover various industrial sectors based on criteria such as level of exports, turnover, employment, innovation etc. Other measures of a promotional nature such as national small- and medium-scale enterprise exhibitions and trade fairs would also have to be considered as part of those government efforts.

36. Suggestions were made for the establishment of a Pan-African Association of Small-Scale Industry. Although some participants were reluctant to support such a proposal due to the weakness of existing national associations in most African countries, the majority was in its favour and stressed that clearly designed objectives should be a priority of strong and operational national associations.

37. Attention was drawn to the importance of capacity building. National governments were encouraged to give due consideration to training programmes for government execution of bilateral and/or multilateral projects as well as for entrepreneurship development.

38. A number of participants felt that there was a need to create institutional bodies, where they did not exist, and to coordinate all activities taking place in the field of development of the small-scale enterprise sector. Special emphasis was given to the need for acceptable, clearly defined goals and objectives regarding the projects implemented by actors such as non-governmental organizations (NGOs). These services should have a growth-oriented impact. In addition, several participants stressed the need for carrying out a post-finance monitoring and evaluation of all projects prepared and implemented by the relevant governmental agencies or NGOs involved in small-scale enterprise promotion.

39. Most participants pointed out that one of the many prerequisites for economic and financial viability of small-scale enterprises was experience and professional expertise in management. In that connection, there is an urgent need for promoting the spirit of enterprises through well-designed training programmes to meet the requirements of potential and existing entrepreneurs, due account being taken of the local conditions.

40. Reference was made to the success of industrial and service cooperatives in providing support in marketing, procurement of raw materials and even in technical consultancy and extension services. However, general concern was voiced about access of small- and medium-scale enterprises to financial institutions. One participant mentioned the physical and psychological distance to be overcome in order for small- and medium-scale enterprises including micro-enterprises to have access to credit. Another participant indicated that financing did not usually reach the smallest of the small-scale enterprises. The time factor involved in obtaining finance was also considered to be critical. Too much time was often spent in project appraisal; hence, there was a need for simplifying the procedures for loan approval.

41. In some countries measures were necessary to provide mechanisms for the procurement by large enterprises of goods produced by small- and medium-scale enterprises. The establishment of subcontracting exchanges was also proposed. The need for providing measures to mitigate undue foreign exchange risks experienced by entrepreneurs was also mentioned.

42. Several participants disclosed that more people had become very active by themselves in undertaking private businesses. In this regard, they suggested that part of the privatization proceeds be earmarked for the funding of private initiatives and particularly those of retrenchees due to the implementation of the privatization programmes.

43. Concern was expressed about the need for effective implementation of small- and medium-scale enterprise policies and programmes. A number of participants suggested that the results of seminars/workshops be addressed to the relevant national offices in African countries to assist policy decision-makers in defining clear guidelines for putting these results into practice. A high-powered national body should be set up for that purpose. Apart from coordinating and monitoring the formulation and implementation of policies, programmes and projects, the other task should be to create, sustain and maintain a permanent dialogue between the main actors involved in the development of the overall national economy: investment promotion centres, research and development institutions, national associations of small- and medium-scale enterprises, financial institutions, NGOs, chambers of commerce and the like.

Annex I

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Annex II

LIST OF DOCUMENTS

Small- and medium-scale enterprises in Ghana	ID/WC.537/1(SPEC.)
The impact of the structural adjustment programme on small- and medium-scale enterprises in Ethiopia and Zambia	ID/WC.537/2(SPEC.)
The present situation of the small- and medium-scale industry/enterprise sector in Kenya and the United Republic of Tanzania and the impact of structural adjustment programmes	ID/WC.537/3(SPEC.)

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