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STRUCTURAL ADJUSTMENT PROGRAMMES: IMPACT ON SMALL- AND MEDIUM-SCALE ENTERPRISES*

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* The views expressed in this paper are those of the author and do not necessarily reflect the views of the Secretariat of UNIDO. This document has not been edited.

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INTRODUCTION

The promotion of small-scale enterprises in developing countries has been the focus of many publications in the past few years, in particular for Sub-Saharan countries, where, despite the existence of a long tradition of entrepreneurship and trading, the economic contribution of the industrial sector remains low and insufficient for a self-sustained growth. Many countries in that region have implemented structural adjustment measures to revive their production, but until recently, positive supply response to these measures has been limited and only few changes have been registered in the industrial structures which are still characterized by a few modern sector enterprises and a much larger number of small-scale and micro-enterprises in the informal sector.

The purpose of the study is to present a survey of the literature on the development of small-scale enterprises in Sub-Saharan countries in relation to structural adjustment policies and, more precisely, to assess the impact of structural adjustment programmes (SAPs) on small- and medium-scale enterprises. Chapter I gives the definition and content of SAPs, while chapter II deals more generally with industrial development in Sub-Saharan Africa, underscoring the structural constraints faced by those countries and the industrialization policies implemented to promote small-scale enterprises. Chapter III draws out the main characteristics of small-scale enterprises in Sub-Saharan Africa and the nature of their activities. Chapter IV is devoted to the assessment of the impact of SAPs on small-scale enterprises. A distinction is made between the impact of demand management measures and the impact of supply-side policies. Finally, chapter V gives a brief presentation of the support system to small-scale enterprises.

The increasingly marked interest of donor agencies in the development of small-scale enterprises must not undermine the role played by large-scale enterprises in the industrial dynamic. Large-scale industries continue to play a major role in the industrialization process and their growth will contribute to a greater integration of the industrial network, as the experience of a certain number of countries has demonstrated. It is notably the case in Mexico, where a sufficient number of observations tend to show that with the development of maquiladoras[1], small-scale enterprises have succeeded in elaborating a sub-contracting network, thereby becoming active participants in the country's industrial development, utilizing their knowledge of the market,

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[1] Maquiladoras: industrial enterprises operating with imported equipment on a temporary basis which export their entire production regardless of the production cost or, which on the basis of already installed equipment, devote their production partially or totally to exports.

their rooted business relationships, and the technology which they were able to develop through their operations with the maquiladoras.

I. STRUCTURAL ADJUSTMENT

A. Origin of the crisis

Launched at the beginning of the 1980s, SAPs were introduced to correct the structural imbalances which have hindered the economic growth of developing countries. These programmes, aimed at speeding up the economic recovery, provided additional foreign currency resources through loans and policy reform packages which transferred resources from the less productive sectors to the highest productive ones. These reforms were particularly necessary in Sub-Saharan countries, whereas at the beginning of the 1980s a succession of exogenous shocks which, associated with inadequate macro-economic policies, had led to unsustainable internal and external imbalances. Thus, between 1970 and 1988, the total external debt of Sub-Saharan Africa jumped from US$6 billion to US$134 billion, representing 3.5 times the export earnings registered by the same group of African countries.

More precisely, the international economic environment at the beginning of the 1980s has been characterized by:

(a) A sudden and important increase of fuel prices which caused balance of payment difficulties for the non-oil developing countries of Sub-Saharan Africa;

(b) Restrictive monetary policies pursued by industrial countries which led to high increases in interest rates, while international prices of the major exports of developing countries decreased;

(c) A slow-down of demand-growth in industrialized countries which contributed to price drops of the main commodity products. These downward pressures on international prices were exacerbated by increases in the international supply of agricultural products resulting from national supply policies (price support, buffer stocks etc.) and protectionist trade policies.

At the national level, macro-economic policies followed by numerous countries of this area have been characterized by:

(a) A deterioration of the budget deficits resulting from the combination of public revenue decreases and public expenditure increases which generated acute financing needs. Because of the weakness of domestic savings and the lack of national capital markets, the Sub-Saharan countries relied heavily on foreign borrowings to finance their internal deficits;

(b) An aggravation of inflation: In addition to foreign borrowing, the Sub-Saharan countries financed their budget deficit by increases in the money supply which contributed to stimulate inflation;

(c) An inefficient allocation of resources through ambitious public investment programmes comprising numerous costly and economically non-viable projects;

(d) Governmental policies which often introduced price distortions because of the overvalued exchange rates and publicly controlled distribution networks for exported goods. Price distortions also occurred in labour and capital markets. The low level of real interest rates also discouraged savings, while public investment and inefficient agricultural programmes produced a crowding-out effect in the capital market. At the same time, the private sector enterprises had to compete for the residual amount of credit available;

(e) Commercial policies associated with overvalued exchange rates which (via foreign currency control, custom tariffs, import restrictions and commercial taxes) had a negative impact on the national consumption patterns and the structure of production. These measures have favoured the manufacturing industries and the production of import substitutes to the detriment of the agricultural sector and of tradable goods output. These measures encouraged manufacturing in lieu of agriculture and import substitution instead of export promotion.

B. Definition and content of structural adjustment programmes

Structural adjustment can be defined as "a coherent and explicitly formulated set of internal economic policy measures and institutional reforms adopted by a country in order to eliminate the structural imbalances that affect its economy".[2]

Structural adjustment policies aim at the elimination of macro-economic imbalances and the re-establishment of internal and external equilibria. More particularly, they are designed to:

(a) Eliminate economic distortions;

(b) Reinforce market mechanisms; and

(c) Reintroduce efficiency rules in the management of the state apparatus in such a manner as to place the economy on a sound and longer-term, self-sustained growth path.

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[2] André Martens, Ajustement structurel et coordination de l'aide aux pays du Sahel : éléments de réflexion, Club du Sahel-OCDE, draft version, October 1986.

SAPs generally comprise two components. The first one consists of an economic stabilization programme which includes measures aimed at controlling inflation and at obtaining acceptable budget and balance of payment deficits. The second component of SAPs consists of the structural adjustment itself which includes measures seeking (through changes in the relative prices) to bring about a transformation of the economic structure in order to make it more efficient and more competitive on an international basis.

Although SAPs' composition may vary according to the economic characteristics of the country where they are implemented, SAP had traditionally a common core of measures which may be subdivided into four categories:

(a) Measures reducing in the short run the domestic demand for goods and services - the supply remaining fixed (economic stabilization);

(b) Measures allowing a more efficient allocation of resources by eliminating sources of distortion so that the country may develop according to its relative comparative advantages;

(c) Measures enhancing the national supply by increasing the availability and quality of physical, human and financial capital which are necessary for growth;

(d) Measures improving the national institutions, namely by realigning and redefining the role of the State and its apparatus.

Macro-economic reforms included in SAPs had important implications for the industrial sector in Sub-Saharan countries by, among others, affecting the cost of production and the revenues of the enterprises, the general business climate, and reassigning the roles of the different actors in the national scene. The following chapters present in more detail adjustment measures which affect the industrial sector and their expected effects. It is useful to note that in Sub-Saharan countries stabilization policies have usually predominated. These policies have nevertheless had significant effects on the industrial sectors through, for example, a reduction of public expenses which led to a decrease of domestic demand for industrial goods, and through restrictive monetary policies which limited the supply of credit to private industrial operators.

1. Measures that affect the costs and the revenues

Under this category, measures are mentioned which are directly felt by the industrial operators. These include: the devaluation of the national currency, where feasible; changes in customs tariffs and import/export regulations; the reduction of the public deficit; modifications in the direct and indirect taxation system; the revision of the labour market legislation; and the liberalization of prices.

The devaluation of national currencies

Devaluation has mainly been introduced in countries located outside monetary zones and has been followed by measures aimed at liberalizing trade, like abolition of import quotas and streamlining of import-export procedures. For countries with fixed exchange systems, countries of the West African Monetary Union, devaluation has been obtained indirectly through a combination of a rise in custom tariffs on imported products and the introduction of a premium on exported products. It was the case, among others, in Senegal and Côte d'Ivoire, but this indirect method had the double disadvantage of being onerous in terms of administration as well as being prone to fraud without creating notable changes in the composition of industrial exports. By devaluating their currencies, countries tried to correct the distortions created by overvalued exchange rates and, in the meantime, to remove the bias against export industries. This was achieved essentially by combining, on the one hand, a revenue effect through an increase in export earnings and, on the other hand, a substitution effect between local and imported inputs through a change in their relative prices. The scope of the effects of devaluation will depend, firstly, on the price elasticities of imports and exports and, secondly, on the extent of devaluation in relation to the relative domestic inflation rate.

Custom tariffs reform

The dismantling of tariff protection is in line with the objective of improving the international competitiveness of local enterprises. Custom tariffs are modified under diverse pressures. They could serve as a means to:

(a) Introduce a real devaluation;

(b) Harmonize effective protection rates and eliminate an important source of distortions in the economy;

(c) Modulate the general level of protection;

(d) Respond to the demands of budgetary constraints.

In general, the existing businesses are affected negatively during a very limited time following the introduction of modifications to custom tariffs. The increase in the custom tariff on imported inputs led to an increase in the production costs of enterprises which import their raw material, while at the same time the decrease of custom tariffs on finished products and the abolition of import quotas made the enterprises more vulnerable to foreign competition. On the other hand, the positive effects expected from the elimination of disincentives to export, that is to say the emergence of new activities competitive on an international basis, have not been nor were they expected to be felt in the short run.

Direct and indirect taxation

Direct and indirect taxation have been modified in response to several preoccupations, two of which have had an immediate effect upon private operators. They relate to budgetary equilibrium and fiscal harmonization. The restoration of budgetary equilibrium is obtained by:

(a) An upward pressure on public levies and on the improvement of the system of tax collection;

(b) A downward pressure on direct subsidies to businesses; and

(c) Cutbacks in revenues allocated to private domestic consumption.

Fiscal harmonization results from the elimination of distortions of claims on various economic activities and tends to eliminate ad hoc tax exemptions and tax reliefs. Modifications in the taxation system produce immediate effects on the profitability of the firms either because they abide by the rules and pay the frequently increased levies or because important segments of the tax base evade paying them (illegally) and create an imbalance in the otherwise sound competition that would have reigned.

Labour market legislation

Labour market legislation has become an integral part of the economic policy dialogue in the framework of SPAs. The rigidities which characterize labour markets in many Sub-Saharan countries, and particularly the conditions of recruitment and dismissal of employees, are incompatible with the objectives of structural reforms followed by SAPs. The main changes refer to:

(a) Modifications in the conditions of minimum wages and fringe benefits;

(b) Modes of recruitment (subject to the compulsory utilization of government recruitment offices and facilities);

(c) Dismissal conditions (often too costly);

(d) Employers' contributions (both expensive, and poorly managed);

(e) Financing of professional training and employment policies (that is unemployment); and

(f) Legal status of apprenticeship.

Price liberalization

These reforms represent a central part in SAPs. It is in this area that positive supply responses are likely to be felt in the short term. Until recently, pricing policies have favoured urban consumers which have experienced a high propensity to consume foreign goods. In general, price liberalization consists of the re-establishment of market mechanisms through the deregulation of agricultural input prices, the elimination of public monopolies in distribution and marketing, where they existed, the reinstatement of margins, and a higher degree of autonomy to private agents. The prices of certain publicly-produced goods and services, which are governed by decree, experience semi-flexibility in the adjustment situation in so far as they are regularly revised upward so that their market value and the economic and financial needs of the state ventures that produce them can be taken into account. The number of goods which are still subject to price controls are continuously decreased, and their price levels are regularly revised to take into account the conditions of production and of their international markets.

2. Measures which influence the business climate

The reforms pertaining to the legal and regulatory framework present a high degree of diversity from one country to another. These reforms aim at reducing the level of transaction costs by improving the general conditions of the environment within which firms operate. The simplification of registration procedures, the improvements in external trade regulations, and the revision of banking regulations are but a few examples of policy measures which aim at improving the conditions of transactions and the development of healthier and more confident enterprises. Concerning the industrial sector, SAPs often contain measures which explicitly aim to establish a favourable climate for the development of private domestic and foreign investments. Various national investment codes which were devised in the framework of adjustment programmes contribute to this objective. They indicate, among others, the general advantages offered to all those who meet pre-established eligibility criteria; legal guarantees offered with respect to the circulation of capital and dividends; and, when applicable, registration procedures.

3. Measures which define the roles of the economic agents

SAPs are accompanied with explicit or implicit institutional solutions that assign the responsibilities and authorities of various economic agents. The most impressive aspect is the withdrawal of the State from direct productive activities, essentially through privatization or liquidation, and the emergence of new areas for the development of private initiatives. When public enterprises subsist, they tend to operate in a relatively autonomous manner according to a programme contract formula ("contrat plan"). More generally, situations of adjustment lead to the contraction of the state apparatus with an equally growing role of the local government, private enterprise, non-governmental organizations, and more precisely, community-based organizations. The State would continue to occupy the regulatory sphere, although the content and the nature of the regulation have changed.

II. INDUSTRIAL DEVELOPMENT IN SUB-SAHARAN AFRICA

A. The context

Sub-Saharan Africa comprises more than forty countries which differ notably by their resource endowment, size, population, production and the relative importance of their industrial sector.

With an estimated population of more than 480 millions of people in 1989, Sub-Saharan Africa is composed of countries with populations varying from a minimum of 0.5 million (Sao Tome and Principe) to a maximum of 114 million (Nigeria). Besides the population, Sub-Saharan Africa encompasses countries of different sizes ranging from a minimum of 0.1 million square kilometres for Sao Tome and Principe to a maximum of 2.5 million square kilometres for Sudan.

Wealth is unequally distributed among countries with a gross national product per capita ranging from a minimum of US$80 (in 1989 dollars) for the poorest country (Mozambique) to a maximum of US$2,960 for the richest country (Gabon). Sub-Saharan Africa's diversity also appears in the relative importance of the industrial sectors. When defined to include mining, petroleum, construction, utilities and manufacturing, industry ranges from 7 per cent of gross domestic product (GDP) in the United Republic of Tanzania and Uganda to 47 per cent in Gabon, with a regional average of 27 per cent. On the other hand, the manufacturing sector represents 11 per cent of Sub-Saharan Africa's GDP with a minimum of 3 per cent for Guinea and a maximum of 25 per cent for Zimbabwe, while the manufacturing share of this sector for low-income economies reaches 27 per cent of GDP.

The economy of Sub-Saharan African countries is extremely fragile and relies heavily on agriculture and the export of a limited number of commodity products. The agricultural sector, which accounts on average for more than one third of GDP, accounts for the employment of the majority of the labour force. This sector has been particularly affected by a succession of droughts which, combined with commodity price fluctuations, have rendered Sub-Saharan economies particularly vulnerable.

Industrialization plays a crucial role in the economic development process of a country. It allows the valorization of national resources, increases the availability of human capital through vocational training of labour, and contributes to the modification of the economic structure while making it less vulnerable to exogenous shocks. Despite the efforts made by various States, Sub-Saharan Africa's performance in terms of industrial development has, in most of the cases, been disappointing. In 1989, the Sub-Saharan Africa manufacturing sector represented only 11 per cent of the area's GDP, compared to 8 per cent in 1965.

B. Structural constraints to industrial development

Despite the existence of a wide variety of economic situations and industrialization experiences in Sub-Saharan countries, it is possible to identify a common set of structural constraints which have had a negative impact on the strategies pursued for the development of the manufacturing sectors.

1. The domestic market size

Most Sub-Saharan countries are characterized by a scattered population and by low levels of per capita incomes. Only 11 countries have a population exceeding 10 million with the exception of Nigeria for which the population was estimated at more than 110 million in 1989. Consequently, the domestic markets of Sub-Saharan countries are rather limited. Moreover, the majority of these countries are classified at the "low-income countries" category or, at best, in the inferior bracket of the "lower-middle-income" category. In 1989, GDP for all Sub-Saharan countries totalled US$161.8 billion, an amount slightly greater than that of Belgium.

2. Population density

Low density of population in most countries resulted in a market fragmentation and in costly infrastructure which prevented or limited the attainment of economies of scale. Barriers between States did not favour the creation of mass markets. The extent of natural ground frontiers have made difficult the enforcement of border controls whilst inadequate foreign exchange and pricing policies have encouraged the development of fraud, smuggling and black market activities.

3. The weakness of industrial structures

Most Sub-Saharan countries have a weak industrial structure with few downward and upward linkages. Enterprises are thus more dependent on imported inputs and more vulnerable to problems related to input supplies such as high transport costs, particularly for land-locked countries; price swings due to exchange rate movements; and stock rupture in inputs and intermediate products.

4. Insufficient and costly infrastructure for industrial development support

Roads, harbours, water and electricity production and distribution networks, and telecommunication services required for the expansion of the industrial sector have been insufficient in most of the countries. Moreover, the cost of infrastructure projects has been excessively high.

The lack of adequate transportation infrastructure has caused difficulties in the dispatch of raw materials from production sites to transformation sites, while the delivery of final products to the consumption markets has also been hampered. The imbalance in the supply of some inputs, such as water and electricity, has disrupted the production process.

The non-existence of an appropriate telecommunication network has prevented the development of competitive enterprises by reducing their ability to access the necessary information pertaining to products, technology, suppliers and markets.

5. Production costs

One of the main problems with which enterprises are confronted in Sub-Saharan Africa is the high level of production costs. Enterprises have traditionally used capital-intensive production techniques which relied on imported inputs. Salaries have been high compared to international standards considering the labour's low physical productivity. The failure of vocational training systems, together with employment policies which resulted in over-employment in public enterprises, did not favour the development of a productive and competitive industrial sector. Finally, the existence of an expatriate labour force in some countries has had heavy repercussions on the cost of production.

C. Industrialization policies and the development of small- and medium-scale enterprises

After independence, many Sub-Saharan countries intervened directly in the industrial development process in order to accelerate the development of a modern industrial structure. This intervention was pertinent since it was based on the assumption of the non-existence of a class of national entrepreneurs capable of replacing the State in the process of rapid industrialization. In most cases, import substitution strategies have been favoured and have resulted in the creation of large state-owned industrial units intended to satisfy the expected increase of urban consumption. However, insufficient attention given to economic viability and market opportunities has resulted in the development of excess production capacities poorly integrated in local economy and has required excessive protection. Many of those enterprises have been severely affected by the adjustment policies which have removed the protection barriers, cut off the grants, restricted the demand and introduced changes in relative prices.

Almost all the countries have tried to promote small- and medium-scale enterprises and for that purpose have developed technical support programmes with the financial help of development agencies. In general, however, the political, institutional and legal framework has not favoured the successful realization of these programmes. Various factors have been contributing in inhibiting the development of small- and medium-scale enterprises, the most important of which are:

(a) Inadequate economic policies which discriminate against small- and medium-scale enterprises;

(b) Market imperfections which limit the small- and medium-scale enterprises' access to resources, notably financial resources;

(c) The hostility of certain public authorities towards the principle of a free market economy and consequently towards private investments and profits;

(d) Social and cultural habits which limit the participation of some social groups to small- and medium-scale enterprises.

Small- and medium-scale enterprises, considered as middle-sized industrial units evolving in the modern sector of the economy, are thus under-represented in the industrial structure of Sub-Saharan countries. Industrial sectors comprise informal and formal playing fields. In the informal sector, small- and medium-scale enterprises and micro-enterprises have developed in a haphazard manner with the urbanization process, whereas the formal sector is characterized by the existence of large import substitution units. This under-representation of small- and medium-scale enterprises in the formal sector constitutes at the present time a missing link in the industrial development process of Sub-Saharan countries, whereas they could have contributed to the fulfillment of growth and equity objectives. The studies on numerous Sub-Saharan countries show little evidence of micro-enterprises becoming small- or medium-sized enterprises which indicates a limited migration from the informal to the formal sector.

By acting on the process of allocation of resources, public policies have had a determining influence on the development of small-scale enterprises. The latter have been affected most notably by:

(a) Public investment policies;

(b) Commercial policies which have favoured large industrial units;

(c) Rigidities of the legal and statutory framework; and

(d) Difficult access to financial markets.

1. Public investment policies

The last twenty years have witnessed a big development of public enterprises in Sub-Saharan Africa. More than half of these public enterprises were created between 1970 and 1980, notably those operating in the manufacturing sector. The objectives behind the creation of those enterprises was to increase national ownership of productive assets, to control the utilization of national strategic resources and to encourage the emergence of new activities. Representing an increasing share of the manufacturing production, these enterprises have been called upon to pursue employment and income support policy objectives. In many countries, public intervention policies were accompanied by measures restricting private sector participation in productive activities, either by instituting statutory entry barriers or nationalizing certain sectors of the economy. By restricting the degree of freedom of private operators, these barriers have prevented them from entering into ventures which, if well managed, may have been highly profitable.

2. Commercial policies

Industrial incentive policies comprising tax levies, custom tariffs exemptions on imported equipment and raw material, and accelerated depreciation rules have tended to favour the creation of large capital-intensive units. These enterprises have had little linkage effect in view of their weak integration in local economy, and their limited impact on employment and revenue distribution. Furthermore, the excessive protection which they enjoyed allowed the survival of inefficient enterprises operating at very low levels of capacity utilization.

The numerous import quotas combined with overvalued exchange rates have favoured large-scale enterprises which, at the same time, benefitted from direct attribution of import licences. The administrative processes of hard currency allocation were biased in favour of large-scale enterprises. Hence, small- and medium-scale enterprises were faced with a higher degree of uncertainty regarding the supply of imported inputs and spare parts. Even when small- and medium-scale enterprises could benefit from currency allocations, they rarely had at their disposal the necessary human and financial resources to start the long and costly import/export administrative procedures. Finally, protectionist policies implemented to promote import-substitution favoured the creation of large-scale enterprises and hence acted to the detriment of the creation of small- and medium-scale enterprises.

3. Legal and statutory framework

The legal and statutory framework governing industrial activity in Sub-Saharan countries has been extremely rigid and a constraint to the private sector in general and the small- and medium-scale enterprises in particular. It has been characterized by:

(a) Outdated legal texts, often inherited from the colonial period and suited to the needs of large-scale enterprises;

(b) Complex legal and administrative procedures for registration of enterprises which has caused a great loss of investment and job creation opportunities;

(c) Lack of transparency in the application of legal texts which has resulted in confusion concerning the rules determining the organization and application of corporate laws. Moreover, the absence of judicial organization has conferred discretionary powers to administrations in the application of the texts. This has distorted market mechanisms and has made numerous entrepreneurs cautious in regard to the markets and formal services.

The statutory disposition introduced by public authorities has had an impact on the operating conditions of enterprises through price controls, tax system controls and labour regulations.

Price regulation

In many Sub-Saharan countries, the authorities have established price control mechanisms in order to control inflation, redistribute income and promote priority sectors. They have failed in all aspects. Fixed at an insufficient level and lacking flexibility of market mechanisms, administered prices have discouraged private investment, encouraged black market development and forced small- and medium-scale enterprises to operate outside the legal framework.

Tax systems

The tax systems in force in the Sub-Saharan countries have been characterized by numerous direct and indirect taxes which yielded extremely high nominal tax rates. This has affected the development of small-scale enterprises in many ways. First, the excessive tax has prevented enterprises from accumulating reserves for financing, modernization, expansion and diversification projects. Secondly, it has inhibited investment in productive activities to the advantage of investment in commercial or real estate activities. Thirdly, it has encouraged the transition of enterprises from the formal to the informal sector.

Labour market regulations

Laws governing the minimum wage level and labour recruiting conditions have eroded the profitability of Sub-Saharan enterprises. Instead of incurring important labour costs, small-scale enterprises preferred to evolve in the informal sector where labour market regulations could not be enforced by public administration.

4. Difficult access to financial markets

Bank credit rationing practiced by many Sub-Saharan countries was implemented to the detriment of small- and medium-scale enterprises which have been excluded from capital markets for several reasons. Among these:

(a) The credit access priority granted to public enterprises particularly by development banks created in many African countries to finance public enterprise operations; this reduced the volume of credit available to the rest of the economy;

(b) the cost and importance of public investment programmes which have captured official development assistance;

(c) The low level of real interest rates that has discouraged saving mobilization and long-term credit availability for the financing of small- and medium-scale enterprises;

(d) The lack of capital markets (bond markets or commercial banks) and financial instruments appropriate to the financing of small- and medium-scale enterprises.

Presenting a high financial risk and because of their inability to mobilize the required guaranties, small- and medium-scale enterprises have had limited access to formal financial institutions, the latter giving preference to the financing of commercial activities. Forced to keep cash holdings for the financing of their current payment operations, small- and medium-scale enterprises have been penalized by inflation which has constituted an implicit tax on cash retention.

III. SMALL- AND MEDIUM-SCALE ENTERPRISES

A. Definition of small- and medium-scale enterprises

There is no consensus to define and characterize small- and medium-scale enterprises because of the wide diversity of industrial units belonging to this group. Differences exist in size, type of enterprise (services, trade, manufacturing), sector of activity , location (urban, rural, small localities), types of technology used (modern, traditional), links to the economy (markets, employment, financing, inputs supply), reasons for start-up, production organization etc. This diversity often corresponds to the differences in constraints encountered by small-scale enterprises in their development.

The International Labour Organisation (ILO), which has produced several surveys on small-scale enterprises in the Sub-Saharan region, uses a very wide definition of small- and medium-scale enterprises that includes modern industrial enterprises employing up to 50 individuals, 3 or 4 member family units, cottage industries, associations of individuals, corporations, co-operatives, owner-operated micro-enterprises and self-employed individuals operating in the non-structured sector of the economy. ILO's definition also includes small-scale enterprises operating in the non-manufacturing sector on a small-scale basis in the fields of construction, transportation, maintenance and repairs, and commerce.

Following this definition, small- and medium-scale enterprises in Sub-Saharan Africa represent almost the entire economic network despite the fact that they evolve in a legal and statutory framework often inherited from the colonial period more suited for large-scale enterprises. Located in the informal sector - therefore operating outside the law, its constraints and support - small- and medium-scale enterprises have been excluded from the benefits of policies set forth by public authorities and formal institutions. However, their contribution to the economy is nonetheless important. According to recent estimations of ILO, the informal sector supplies jobs to 59 per cent of the urban active population in Sub-Saharan countries, and production which originates from this sector would represent on average 20 per cent of GDP.

Distinctions are occasionally made between small- and medium-scale enterprises and micro-enterprises. Small- and medium-scale enterprises represent a more elaborate form of organization, reflecting a more advanced stage of industrial development, contrary to micro-enterprises which may be considered as the initial step of the development process. The structure and organization of small- and medium-scale enterprises give them an industrial orientation. Small- and medium-scale enterprises, contrary to micro-enterprises, use technologies based on constant return to scale, a formalized division of labour and specialized management methods. The criterion of size is often used to differentiate the small- and medium-scale enterprise from the micro-enterprise. Besides considerations of size, one of the main differences between micro-enterprises and small- and medium-scale enterprises is the relatively easy entry barriers that characterize markets where micro-enterprises evolve. In both cases, required technical and managerial skills are relatively simple although more sophisticated in the case of small- and medium-scale enterprises. The starting investments are low, the products and services are not too elaborate, requiring no quality control with fairly simple markets and marketing channels. The easy entry barriers lead to a higher degree of competition on the micro-enterprise markets, exercising downward pressure on revenues.

A synthetic presentation of the main distinctions between micro-enterprises and small- and medium-scale enterprises is given in the following table:

Small- and medium-scale enterprises and micro-enterprises: Distinguishing characteristics

Characteristics	Micro-enterprise	Small-scale enterprise
Number of workers	- Roughly 10 or less full-time workers;	- Roughly 10 to 50 full-time workers;
Work-force	- The work-force comprises primarily family labour;	- Hired workers comprise of a significant share of the total work-force;
Sources of finance	- Rely almost entirely on cash transactions, informal credit markets and supplier credit; start-up commonly funded by family savings;	- Limited access to formal financial markets; commonly rely on informal financial markets, supplier credit and reinvested earnings;
Management	- Little management specialization;	- Some specialization in management functions;
Technology	- Traditional: based on widely existing technical knowledge, existing labour skills and existing raw material supplies;	- Less traditional: innovation required in some aspect of the transformation process;
Products	- Products and services are generally simple and unsophisticated; prices are low; cater for "basic needs" of low-income consumers;	- Products and services range from simple to more complex; span a relatively broad range of consumer types;
Markets	- Typically serve highly localized markets through simple marketing channels;	- Marketing patterns somewhat more complex reflecting innovation in raw material procurement or output sales;
Competition	- Competition intense as a result of ease of entry and localized market area;	- Competition somewhat less intense due to barriers to entry;
Earnings	- Returns to owners/ entrepreneurs generally very low.	- Returns higher but subject to greater variation and risk.

Source: A.I.D. micro-enterprise stock-taking: synthesis report, U.S. Agency for International Development, Washington, D.C., March 1989.

The activity of micro-enterprises is marginal and motivated essentially by survival imperatives rather than profit- seeking opportunities. The micro-enterprises grew with urbanization and as the economic crisis reduced job opportunities offered by the public and modern industrial sector. Micro-enterprises income has been too small and insufficient to permit financial and human resource accumulation. Due to the low level of education of their owners, their lack of financial resources and incapacity to enter certain markets, micro-enterprises were denied access to more profitable activities.

Micro-enterprises mainly produce for low-income populations and fulfil that segment of demand not satisfied by formal enterprises. Although their contribution to GDP is relatively low, micro-enterprises have made an important contribution to the long-term growth of production by creating a core of entrepreneurs from which will emerge the investors and the managerial staff who will ensure the leadership of future small- and medium-scale enterprises and large-scale enterprises. Small- and medium-scale enterprises serve as relays between the different sectors of the economy, and their flexibility enables them to play a major role in the efficiency of commercial channels. Finally, micro-enterprises like small- and medium-scale enterprises are national enterprises using production technologies suited to the specific conditions of the country. They can easily adapt their production to market evolution and are easy to create and dismantle considering the low level of seed-capital requirement.

The organization and operation of micro-enterprises and small- and medium-scale enterprises follow local traditions and values. The structure of micro-enterprises and small- and medium-scale enterprises is easily adaptable to changes in economic environment, whereas formal organizations are slow to react.

B. Nature of activities

Generally, the textile and garment industry represents the main activity of small- and medium-scale enterprises in Sub-Saharan countries. This industry provides most of the jobs of the manufacturing sector followed by the wood and furniture industry. More than 25 per cent of the units surveyed in the rural zones of Burkina Faso operate in this sector, while this proportion reaches 52 per cent in Nigeria. The other sectors where small- and medium-scale enterprises evolve are respectively: metal production, food production, (mainly bakery), leather and leather goods, electrical services and repairs, and printing. In the rural areas, metal production, pottery, weaving and professions related to agricultural transformation represent the main activities.

Small- and medium-scale enterprises and large-scale enterprises evolve in different markets and production sectors. In Sub-Saharan Africa, large-scale enterprises are engaged in the following agro-processing industries: food production, beverage, tobacco etc. Direct competition with small- and medium-scale enterprises is practically non-existent due to their low number in those activities. Large-scale enterprises which evolve in the clothing and wood industries have clearly differentiated products comparative to those of small- and medium-scale enterprises and micro-enterprise. In the textile-clothing sector, large-scale enterprises are mainly engaged in mass production activities: spinning, weaving, dyeing and printing, while small-and medium-scale enterprises produce mainly made-to-measure clothes. In the wood industry, small- and large-scale enterprises are both present, but large-scale enterprises are mainly engaged in primary and secondary transformation activities, while small- and medium-scale enterprises are concentrated in craft production of furniture.

In general, small- and medium-scale enterprises and micro-enterprises evolve in the light industry sectors which are relatively less mechanized, while large units show a stronger presence in heavy and basic industries. Moreover, arts and crafts production falls within the competence of small- and medium-scale enterprises, while the production of chemical products, cement, steel and iron is generally ensured by large-scale enterprises. Even when small- and medium-scale enterprises and large-scale enterprises evolve in the same sector, their production is rather complementary than substitutable. Small- and medium-scale enterprises manufacture and commercialize made-to-measure products, while large-scale enterprises manufacture mass market products which are sold through more complex distribution networks.

C. Characteristics of small- and medium-scale enterprises

Small- and medium-scale enterprises can be characterized by:

1. Their size;
2. Their labour intensity;
3. The productivity of capital and labour;
4. Their level of dependence on infrastructure;
5. Their technological level;
6. The education level of owners and staff members;
7. Their managerial capability;

8. Their financial resources;

9. Their markets;

10. The level of subcontracting in which they are involved or which they use;

11. The inter-industry linkages which they induce; and

12. Their rates of capacity utilization.

1. Size

In general, small- and medium-scale enterprises in Sub-Saharan Africa are relatively small, most of them employing less than 5 persons. They are usually male-owned. Women are under-represented; they do, however, control some activities, notably in food production and clothing.

2. Labour intensity

Small- and medium-scale enterprises are labour-intensive compared to large-scale enterprises which generally use capital-intensive methods of production. In most countries, the majority of small- and medium-scale enterprises are located in rural areas and their contribution to manufacturing employment is often higher than that of small- and medium-scale enterprises in urban areas. They pay low wages and recruit their employees from the family, while large-scale enterprises of the formal sector pay higher salaries than the minimum required to attract qualified and stable labour.

3. Productivity of capital and labour

According to some authors, small-scale enterprises use production factors (labour and capital) in a more productive way than large-scale enterprises. However, this view has not been fully documented by statistical studies. The assertion is based on the two following assumptions: the first being that due to their difficult access to capital markets, small-scale enterprises use capital in a more parsimonious and productive manner and the second being that the use of production capacity is greater with small- and medium-scale enterprises. Several studies on this question concluded that when small-scale enterprises favour labour-intensive technologies (as opposed to capital-intensive technologies), the determining factor in their choice was not the size but rather the competitive constraints imposed on all players of that particular sector. Furthermore, when the search for improved competitiveness was not at the origin of the technology choices of small- and medium-scale enterprises, labour-intensive technologies did not prove to be the most efficient choices. Finally, studies did not provide a clear-cut rule on the relation between small size and higher levels in the rates of capacity utilization and higher productivity of production factors.

4. Dependence on infrastructure

The degree of dependence of small- and medium-scale enterprises on infrastructure varies according to the degree of complexity of the production. They can be at least as dependent as large-scale enterprises on infrastructure of public services (water, electricity, telephone) and transportation services. Contrary to small- and medium-scale enterprises, micro-enterprises use few public services, either because they are too costly, or because the infrastructure is insufficiently developed in their vicinity. The access costs to industrial locations are prohibitive and often prevent small-, medium-scale and micro-enterprises from erecting plants in the industrial zones. Rather, we find them in peripheral districts and in the rural zones close to their markets, while large-scale enterprises are situated in urban centres where main services and support functions are also concentrated. The only exception to this rule are the large-scale enterprises which transform natural resources; they often choose their location close to the sources of supply.

5. Technological level

Small- and medium-scale enterprises use unsophisticated technologies which are more adaptable to local operating conditions in Sub-Saharan countries.

6. Training

Training for owners of small- and medium-scale enterprises is generally poor. Technical training is usually obtained through apprenticeship. It is difficult to evaluate the quality of training acquired in small-scale enterprises. One thing remains certain, however, and that is that small-scale enterprises have to totally assume costs of training, whereas in large-scale enterprises, education and training costs are directly or indirectly subsidized by the State.

7. Managerial abilities

Small-and medium-scale enterprises and micro-enterprises are not managed efficiently even though small- and medium-scale enterprise leaders are generally more competent in certain functions than owners of micro-enterprises. The weakness in managerial ability is particularly obvious in book-keeping and financial management. On the other hand, larger enterprises are often managed by expatriate staff, which is more costly in foreign currency.

8. Financing sources

Because of their viability and financial strength, large-scale enterprises have easier access to capital markets. This is not the case with small- and medium-scale enterprises where the initial investment is usually financed through savings in personnel, family loans and private donations. Small- and medium-scale enterprises call widely upon informal credit channels and finance their raw material purchases through prepayments of clients or suppliers' credits.

9. Markets

Small-and medium-scale enterprises and micro-enterprises supply products and services to the low-income population, while products of the modern sector are aimed at high income urban and rural populations. According to the stage of development and level of sophistication of the products, small- and medium-scale enterprises may break free from traditional production channels. As their income increases, they can thus abandon the production of lower quality goods and services. The size and flexibility of small- and medium-scale enterprises enables them to target specialized new market niches, which is an advantage in rapidly evolving markets and a promising means of increasing exports of manufactured products. Most large African enterprises are engaged in mass production but are unable to compete on the world markets.

10. Subcontracting

Subcontracting is not greatly developed between small- and medium-scale enterprises and large-scale enterprises. This is particularly the case in Sub-Saharan Africa where there is a predominance of import-substitution enterprises owned by foreign interests and which import most of their inputs. Some surveys show that only a small number of small- and medium-scale enterprises have been created following training acquired in a large-scale enterprise. However, in cases where entrepreneurs have been trained in large-scale enterprises, small- and medium-scale enterprises created remained linked to the latter through subcontracting arrangements.

11. Inter-industry linkages

As in the case of subcontracting, the level of domestic trading in raw materials is relatively low, with the exception of enterprises engaged in agro-industry where there are better backward linkages. Inter-industry linkages are essentially indirect, notably in the case of micro-enterprises which recover and use residual raw materials rejected by large-scale enterprises (soap, wood, packaging, scrap-iron etc.).

IV. IMPACT OF STRUCTURAL ADJUSTMENT PROGRAMMES ON SMALL- AND MEDIUM-SCALE ENTERPRISES

A. Methodological problems

The analysis of the industrial response to structural adjustment measures is complex because it depends on a number of different, often conflicting forces, whose relative importance varies by country. Furthermore, considering the strong heterogeneity of adjustment policies and of industrial sectors, generalizations are difficult. In the absence of consistent data by country groups, an analysis of the impact of industrial adjustment can only be conducted on a case-by-case basis.

Three methodological problems arise during the analysis of SAPs:

1. An information problem

In spite of the many studies conducted by multilateral organizations, there is not enough data to analyse the impact of adjustment programmes. The data available at this moment concern the financial and macro-economics indicators which cover at the most the situation of large-scale enterprises in the modern sector. The available surveys on the informal sector show cross-section results making it difficult to establish relations between small- and medium- scale enterprises and adjustment programmes. The informal sector is by definition difficult to capture statistically. Informal activities are precarious and volatile and survey results cannot easily be generalized. Most of all, structural changes in the industrial sector will not necessarily appear in an analysis of production and rates of capacity utilization.

2. A time-frame and space problem

Identification of the impact of SAPs is rendered more complex due to differences in the schedule and time horizon of the different policy measures. In particular:

(a) Stabilization programmes have a direct short-term impact on the domestic levels of aggregate demand and credit supply;

(b) Relative price changes affect the production structure in the medium term; and

(c) Institutional and organizational changes are felt in the longer term.

3. A specification problem

It is difficult to isolate the effects of adjustment programmes from the effects of other exogenous factors. The identification of base case scenarios without adjustment has proven quite difficult.

B. Adjustment of the industrial sector

The structural adjustment packages aim at the re-establishment of balance of payment equilibrium and the introduction of proper conditions conducive to self-sustained growth in the long run. Adjustment policies re-establish market prices of inputs and outputs. SAPs are felt by industrial operators directly through the deregulation of markets and changes in relative prices of inputs and indirectly through elimination of special advantages and subsidies to large-scale industrial units (subsidies, negative real interest rates, overvalued exchange rates, public markets etc.).

Simultaneously, SAPs have negative and positive impacts on the industrial sector, and their net effects will depend on the specific measures undertaken, their depth and their speed of implementation. Also, results will vary according to the specific sectors which have been affected and the economic conditions which were prevalent prior to introduction of SAPs. When analysing these impacts, one must not only take into account the short-term supply responses but also shifts in the production structure which are likely to occur in the medium and long term.

Adjustment policies affect the industry in different ways and more specifically by:

(a) The decrease in public expenditures (stabilization policies) which lead to a downturn in the demand for industrial products;

(b) Import liberalization leading to a reduction in supply constraints which, on the one hand, increases the availability of imported inputs and, on the other hand, raises competition in industries which were previously protected;

(c) The changes in relative prices due to price liberalization policies and devaluation. The latter will alter the relative prices of industry in relation to other sectors of the economy and of the different industrial sub-sectors with respect to one another;

(d) The liberalization of the financial sector.

Stabilization and recovery policies will have opposite effects on the industrial output, and their net results will depend on the relative importance of supply and demand constraints. The industrial sector situation will likely deteriorate in the early stages of the adjustment process. The higher levels of competitive imports and the unavailability of financial resources will limit the ability of enterprises to invest and increase the rates of capacity utilization. The industry will likely benefit if:

(a) There is demand;

(b) The capacity utilization is constrained by difficult access to inputs; and

(c) Inputs can move freely from troubled industries to others capable of responding to modifications of economic signals.

A strong financial system will be necessary to ease this transition.

For their part, the changes in relative prices will have both positive and negative effects on the productive sectors according to their economic characteristics. Increases in industrial production will occur depending on:

(a) The efficiency of the industrial structure;

(b) The ability of changes in relative prices to stimulate the rapid growth of industries; and

(c) The time-frame considered.

Basically, adjustment measures will more likely have a positive impact on the following kind of enterprises:

(a) Exporting enterprises or those with a readily available capacity to export;

(b) High intensive users of domestic inputs;

(c) Small-scale enterprises which were previously discriminated against in terms of access to resources and markets and which are now favoured by growth in agricultural incomes;

(d) Competitive domestic enterprises, i.e. those which will minimize their costs and which will market their production aggressively.

SAPs are likely to have a negative impact on:

(a) Industries which rely heavily on imported inputs and which cannot use domestic supplies;

(b) Demand-constrained industries;

(c) Industries which require extensive economies of scale;

(d) Overprotected and ineffective industries.

C. Impact of stabilization measures on small- and medium-scale enterprises

Structural adjustment policies also comprise tax and monetary measures which cut down public expenditure and increase government income. The downswing in public expenditure affects all producers through an income effect which materializes by a drop in demand. Stabilization measures will thwart the induced effects by the release of supply constraints. During balance of payment crises, the rates of capacity utilization are low due to scarcity of foreign currencies necessary to import inputs and spare parts for which no domestic substitutes are available. If SAPs increase the import capacity (by way of structural adjustments credits), the industrial sector may positively respond as long as it is confronted with a supply constraint. However, when there is also a demand constraint, the devaluation will generate increases in production costs and will lead to a reduction in growth.

The impact of SAPs on small- and medium- scale enterprises is complex and multi-dimensional. In the first place, the decline in the purchasing power of the population will affect the demand of goods and services supplied by small- and medium-scale enterprises. Secondly, small- and medium-scale enterprises which supplied the public sector will experience a fall in demand. Finally, firms which were not diversified and which supplied a poor clientèle, or one constituted mainly by public sector employees, will be negatively affected by the demand management measures. Only those firms which have attained a certain technological level and which positioned themselves in high growth sectors will not be penalized by demand management policies.

Stabilization measures may have a positive effect in the medium and long term by creating a favourable environment conducive to efficient investments of small- and medium-scale enterprises. In effect, high inflation rates, public deficits and external trade imbalances create an environment characterized by strong uncertainties whereby small investors will prefer commercial ventures yielding higher returns in the short term to manufacturing investments with longer-term returns. Stabilization measures are essential to reduce this uncertainty and stimulate risk-taking behaviour of entrepreneurs. In the early stages, stabilization programmes restrict credit and demand and thus introduce disincentives to investment. Furthermore, new reforms create uncertainty until they are perceived as long-lasting reforms. During this transition period, small investors may react faster than foreign investors to the new economic signals, even though this expected behaviour has not been confirmed by specific studies.

D. Impact of supply-side policies on small- and medium-scale enterprises

1. The impact of devaluation

Devaluation is frequently an integral part of SPAs. It aims at improving the structure of incentives and at increasing the income of Governments. Devaluations are usually expected to have a positive influence on exporting industries and a negative one on those which rely heavily on imported inputs. Devaluation is usually complemented by measures which intend to increase the availability of hard currencies in the economy and hence the availability of imported inputs. These reforms have put small-scale enterprises on an equal footing, previously excluded from official foreign exchange markets, and public enterprises notably through public auction systems.

Devaluation usually increases the cost of imported inputs expressed in domestic currency. However, this increase does not affect equally all small- and medium- scale enterprises. Devaluation does not significantly affect operators which previously relied on black market currencies. On the other hand, in spite of the negative impact on the cost of supplies, it may help increase the income of enterprises. In effect, if prior to devaluation enterprises had a limited or no access to hard currencies and hence to imported inputs, they were forced to produce at inefficiently low levels of capacity utilization and had to depreciate their fixed costs on small production volumes. After devaluation, these enterprises are likely to restore their income levels and to compete more efficiently on the market.

In general, reforms of the external sectors have had a positive impact on small-scale enterprises, particularly those located outside of the franc zone. After devaluation, several firms were able to:

(a) Diversify their production following increases in the availability of imported equipment;

(b) Produce better quality products;

(c) Increase production of selected product lines in response to high levels of demand following alleviation of constraints on imported inputs;

(d) Improve their competitiveness in the context of higher prices for imported substitutes.

These enterprises which could not increase the quality of their production lost market shares in favour of imported products. On the other hand, small-scale enterprises which had improved their technology and found appropriate niches held their ground and expanded.

2. The impact of price deregulation

The measures of price deregulation aim at improving the allocation of resources in the economy. They affect demand through changes in the distribution of income and reinforce the effects of stabilization measures on aggregate demand.

Liberalization of prices and of trade may or may not favour small- and medium-sized enterprises. The increase of agricultural prices, a central piece of SAPs, raises the income of farmers and hence strengthens the solvent demand in rural areas which are often comprised of as much as 70 per cent of the population in some Sub-Saharan countries. In rural areas, these policies which tend to increase the agricultural income will stimulate the demand for manufactured products and have positive effects on the sales of small- and medium-sized enterprises located in those areas, as long as they can respond to increases in demand. On the other hand, the policies of price deregulation will decrease the income of urban households and of non-agricultural rural households and limit the markets of small- and medium-scale enterprises. Ultimately, the final impact on small- and medium-sized enterprises will depend on:

(a) The intensity of the linkages between agriculture and industry;

(b) The price elasticity of demand; and

(c) The manner by which changes in the distribution of income affect demand.

Furthermore, the net impact will depend on whether the situation is examined in the short- or long-term perspective.

The elimination of price controls and public monopolies in marketing and distribution have other effects on small- and medium-sized enterprises. Actually, liberalization policies will provide new opportunities for small retail operators and for small agro-processing firms which previously experienced difficulties in the procurement of agricultural products.

3. The impact of reform of legal framework

To a large extent, the incentive of enterprises to undertake investments will depend on the Government's attitude towards the private sector and towards private profits. In countries where

Governments have created centralized bureaucracies and where profits were considered anti-social, entrepreneurs have tended to remain invisible. Changes in the legal framework and economic reforms which favour transparent market mechanisms have to convince investors of the long-lasting nature of these reforms and to reassure them on the elimination of arbitrariness. Legal reforms undertaken in SPAs can have positive effects on the small-sized enterprises, particularly by:

(a) Improving the general business climate and stimulating investments which can also benefit from the incentives provided by new investment codes;

(b) The simplification or elimination of procedures governing the daily life of small- and medium-scale enterprises in order to reduce transaction costs;

(c) Reforms on the taxation system.

Although many countries have adopted simplified registration rules and regulations and have eased import-export procedures, the regulatory environment is often rigid. The establishment of single window systems have been inconclusive in numerous countries. This proved to be an additional bureaucratic step where small-scale enterprises had to deal with civil servants who lacked the proper authority to deliver the relevant permits. The reforms have failed to stimulate the transition of small-scale enterprises from the informal sector to the formal sector. Some firms have limited their growth and, in the best case scenario, have opted for horizontal diversification in order to keep a low profile and preserve the benefits of "invisibility".

Of all the reforms of the legal framework, those concerning the fiscal environment are the ones which might be felt differently depending on the formal or informal nature of the firms.

In the formal sector, small-scale enterprises will benefit by reforms which tend to reduce their share of the fiscal burden. Besides, the introduction of tax exemptions and tax rebates in the new investment codes for small-sized enterprises corrects a situation which previously favoured large-scale enterprises. These biases are only partially eliminated, since they would only benefit small-scale enterprises which fall under the categories defined by the investment codes.

In the informal sector, although most people think that small-sized enterprises elude the tax system, the reality is that they are still subject to numerous indirect taxes (through sales, fuel, imports, public utility taxes) and presumptive tax assessments. The tax reforms undertaken in several countries have led to the introduction of value added tax (VAT) which have not helped the small-sized enterprises unable to obtain the reimbursement of VAT on inputs, while at the same time, the strong competition in their sectors has limited their ability to adjust their prices.

4. Impact of reform on the public sector

These reforms aim to reduce and rationalize the intervention of the Government on productive sectors. They may have positive effects on small-scale enterprises provided:

(a) They offer new opportunities for small-sized enterprises;

(b) They allow the development of subcontracting relations between public enterprises and small- and medium-scale enterprises;

(c) They stimulate the transfer of qualified labour and modern technologies to small-sized enterprises. The decrease of the real remuneration in public enterprises stimulates the transfer of labour, while the closure of factories encourages the acquisition of modern equipment by small- and medium-scale enterprises.

However, the lay-offs which frequently accompany reforms of the public sector and the limited absorptive capacity of the labour demand create an upward pressure on the supply of entrepreneurs. In view of the limited barriers to entry in the small- and medium-scale and micro-enterprise sectors, the competitive pressures generate severe downward pressures on income.

The new role of Governments tend to increase the opportunities for the private sector. In Zambia, for example, the deregulation in the allocation of foreign currencies and the dismantling of privileges of public enterprises have fostered the growth of the private sector: the rates of capacity utilization have increased in private enterprises while they decreased in the public sector.

5. The impact of the reform of the financial system

All the surveys and studies on small- and medium-sized enterprises located in Sub-Saharan Africa unanimously conclude that access to financial resources is the main obstacle to growth perceived by entrepreneurs. Financing particularly is lacking during the start-up phase of the firm when sales are insufficient to improve the cash-flow position. Further, inadequate management of small-sized enterprises causes a regular and chronic deficit of their working capital.

Several countries have tackled the inflexibility of the financial sector in SAPs to give precedence to market mechanisms in the allocation and mobilization of financial resources. In general, the reforms comprise:

(a) The reduction of barriers to entry for new banks to stimulate competition in the financial sector;

(b) The deregulation of interest rates;

(c) The abolition of administratively pre-allocated credits and credit ceilings by sector.

The impact of the reforms of the financial sector on small- and medium-scale enterprises will vary by country and according to the extent of the reforms considered. In Mali, Guinea or Ghana, the decompartmentalization of the financial system did not improve the access of enterprises to bank credits. There, the credit is still extended essentially to commercial activities. In Nigeria, reforms were more successful, particularly for the financing of small- and medium-scale enterprises. In spite of increased interest rates, access to credit for small- and medium-sized enterprises has markedly improved in volume as well as in the total acceptance ratio of banks. Furthermore, an important

share of the extended credits resulted from the increase of loans to small-sized enterprises.

6. The impact on employment and production

Adjustment policies promote a more dynamic structure of production by re-establishing market mechanisms, by offering new opportunities to export enterprises and by forcing less competitive firms to reduce their production costs or withdraw from the market. Due to the fact that many Sub-Saharan countries have supported the creation of large industrial units of import-substitution strongly protected, negative effects on production occurred at the start of the adjustment process, particularly following the decrease in demand caused by measures of stabilization and by an increase of imports. This fall may however have been eased if the resources from less competitive sectors moved to sectors with an important potential of growth or the operators were quick in taking advantage of the changes in relative prices. Considering the rigidities which characterize several Sub-Saharan countries, the changes in production were not quick to occur. Some studies on the experience of adjustment indicate however that the important changes in structure occurred in the industrial sector when relative prices changed clearly (usually by way of devaluation).

In general, small-sized rural enterprises benefit from the measures of adjustment, particularly by the increase in demand following an increase in rural income. For small-scale enterprises located in the urban area, the situation is somewhat more complex. Stabilization policies will have a negative impact on production, but the latter will also feel the effects of the supply increase following the rise in the number of players. Under these conditions, the drop in the level of production will be felt all the more since enterprises operate in a field of activity characterized by easy entry or in activities where the demand is elastic.

In several Sub-Saharan countries, the decrease of excessive government personnel has thwarted the employment gains of the private sector. Furthermore, growth of employment has been slow due to the weakness in investment and the slow transformation of enterprises from capital-intensive to labour-intensive.

The level of employment depends on the increase of demand in manufactured products, but even in cases where the production rose, the effects on employment were unevenly felt according to small- or large-scale enterprises and according to the rate of capacity utilization. In enterprises with low rates of capacity utilization and which were unable to reduce the levels of employment due to the regulations in the labour market, the increase in the short-term production resulted in a growth of the rate of capacity utilization without increasing labour. However, small-sized enterprises which were able to avoid the labour regulations and thus reduce employment when production fell, experienced a marked increase in employment when the demand increased.

7. The impact on investments

There is little conclusive data on investment in the industrial sector. In general, the latter has been slow to respond to the measures of adjustment because the monetary policies reduced credit and the banks preferred to grant credit on commercial activities with short-term returns.

The available data for Sub-Saharan Africa shows that industrial investment generally decreased over the 1985-1987 period, though at a slower pace than during 1982-1984. The investment slightly increased in countries firmly engaged in the adjustment programme and which did not suffer from external shocks following the implementation of SAPs.

The reforms of industrial incentives undertaken in SAPs were generally accompanied by a reform of the investment codes correcting their biases in favour of import-substitution enterprises and strengthening inter-industrial linkages. Although investment codes have frequently been oriented towards large-sized enterprises, specific advantages were granted to promote small- and medium-sized enterprises in several countries.

The impact of these codes on the level of industrial investment is difficult to determine, especially on small- and medium-sized enterprises, for which access to the code represents a compulsory transition from the informal to the formal sector.

An increasing number of cases in different Sub-Saharan countries indicate that investment codes have contributed very little to the resurgence of new investments which do not depend solely on fiscal and non-fiscal advantages from which they may benefit. In order for the investors to respond positively to incentive measures, they must be capable of acquiring resources at reasonable costs and making profits without incurring unnecessary risks. The investment also reacts sensitively to the level of taxation, statutory regulations and to prevailing official ideology on profit. The influence of the aforementioned conditions on investments may vary considerably depending on the size of the firms and their access to official institutions.

Although several large-sized enterprises have increased their rate of capacity utilization following an increase in availability of inputs, many have been reluctant to invest in new productive capacities given the economic uncertainties surrounding the implementation of SAPs. On this matter one may add that small-scale enterprises offer a better response to incentive policies. First of all, they operate at a low level of infrastructure and depend very little on support facilities and official institutions. Secondly, they have few opportunities for foreign investments. Consequently, small- and medium-scale enterprises can play a particularly important role in terms of positive response to adjustment measures on a medium-term basis, provided that the investments are deemed profitable and that both the material and financial resources are available.

8. The impact on exports

In general, one of the objectives aimed at by SAPs is increasing the export of manufactured products, the domestic markets being too limited and the monetized demand too small to sustain an increase in capacity utilization of the industry. Several African countries have experienced a revival of their industrial growth, especially in exports of manufactured products within the three years following the adoption of SAPs. A fair share of the increase in exports resulted from the recovery of external markets which had previously been lost. In certain cases, the increase in exports has been the result of the advantage acquired by certain countries over neighbouring countries through the process of devaluation of hard currencies. This was the case for the textile industry in both Ghana and Nigeria, which successfully penetrated the market in neighbouring countries evolving in the franc zone, and thus unable to counter the intrusion through the devaluation of their currency.

In comparison with the situation prevailing before the implementation of SAPs, small-sized enterprises find themselves in a better position to take on export markets. Devaluation of currency renders small- and medium-scale enterprises more competitive on external markets, and the liberalization of imports increases their available foreign inputs. However, to this day, the results are far from conclusive on the matter of exports, although in certain countries such as Ghana or Mali, small entrepreneurs have responded very dynamically to the opportunities made available by the new incentive measures by creating small-scale enterprises which are keen on and aggressive towards exports. However, this pattern cannot be generalized, and these examples are still the exception. Small- and medium-scale enterprises are still not familiar with export markets. Lack of equipment, cost of transportation, and the difficulty of access to credit required to increase export-oriented production constitute serious set-backs to the realization of the export objectives of small-sized enterprises. Public support services for export are insufficient or non-existent, and small-sized enterprises seldom have the required financial means or human resources to canvass markets. SAPs have rarely tackled those constraints, either in their industrial or technical assistance aspects. Moreover, the fact that most small-scale enterprises evolve outside official circuits makes it difficult to provide any form of assistance in this field.

9. The impact on imports

The liberalization of imports comes with a realignment of tariff taxation destined to reduce the differences between rates on raw material and rates on finished products. The aimed effect is a substitution between imported raw material and local raw material. Surveys in Mali, Ghana and Malawi show that this substitution effect did not occur even on the small-scale enterprises which are more inclined to use domestic resources. Several reasons were put forth to try to explain the rigidity of the domestic demand. In some cases, the weakness of the supply response associated with a less diversified industrial structure did not encourage production of domestic inputs substitute to imported products. In other cases, the ratio of relative prices between local and imported was not heavily modified in favour of domestic products even after devaluation. Finally, in countries that maintained an overvalued flat exchange rate, the real economic cost of imported inputs remained lower than that of domestic inputs.

V. SUPPORT SYSTEMS TO SMALL-SCALE ENTERPRISES

A. Justification of support systems

Support for the development of small-scale enterprises has aroused a lot of interest among donor agencies. Sub-Saharan Africa has witnessed a proliferation of direct support projects to micro-enterprises launched in general by bilateral and multilateral institutions. These projects have taken several forms, from simple technical support provided to small- and medium-scale enterprises and micro-enterprises to more integrated intervention combining technical, institutional and financial support. These interventions aimed at introducing mechanisms to improve the access of small-scale enterprises to different services, either because they were not available to them or available at a prohibitive cost.

Several arguments have justified direct intervention in favour of the small-sized enterprises. Among the most important are the following:

1. <u>Promotion of the private sector</u>

Development of the private sector generates positive macro-economic impacts by increasing production, employment, investments etc. Thus, support to small-scale enterprises would improve the results at the macro-economic level and would notably contribute to the diversification of the economy and to more equitable distribution of incomes. This was all the more important since:

(a) SAPs in Sub-Saharan countries have not as yet yielded a positive supply response; and

(b) The need to create efficient job opportunities increases with demographic expansion and stabilization programmes.

2. <u>The dual structure of the industrial sector</u>

In the Sub-Saharan countries, the industrial sector includes, on the one hand, a multitude of micro-enterprises and, on the other hand, a few larger industrial units. Small- and medium-sized enterprises are less important, although experience shows they are at the core of industrialization and constitute the starting point for future large-scale enterprises. This under-representation of small- and medium-scale enterprises may be due to the existence of legal constraints and technical and managerial shortcomings at the enterprise level which limited productivity improvements and inhibited the transition of enterprises to the modern sector.

3. <u>The insufficiency of support systems</u>

The lack of support systems is a source of inefficiency in the economy and delays the growth of enterprises. In countries where these support systems are not well developed or do not correspond to the needs of entrepreneurs, time and energy is wasted having to bypass the limits which they encounter.

4. The insufficiency and inadequacy of financing mechanisms

Limited access to credit is an obstacle to the growth of the private sector. By providing financing to small-scale enterprises at competitive conditions, it is possible to alleviate one of the main constraints to a positive supply response. Also, it helps the entrepreneurs to fill the gap between micro-enterprises and large-scale enterprises either by creating new small- and medium-scale enterprises or encouraging the transition of micro-enterprises from the informal to the organized sector.

B. Sources of failure

In general, direct support projects to micro-enterprises experienced modest results. The appraisal and the analysis of different cases in several countries showed the limits of traditional approaches introduced by donor agencies. The mitigated results were due to the misconception of the projects

and to the constraints imposed by the economic, legal and socio-cultural environment. The main reasons for failure are the following.

1. "Non-integrated projects"

The intervention of donor agencies has generally been conceived as punctual support "projects" instead of permanent and integrated support "systems". These projects were essentially based on the perception of needs by Governments and donor agencies without considering the needs expressed by the entrepreneurs. Furthermore, several support services could have been supplied more efficiently by private domestic or international enterprises, or individual consultants rather than through formal public programmes and institutions.

2. Legal aspects

Many projects have been inefficient because legal considerations were not tackled and were hostile to private actors. Changes in the legal framework and the improvement of market mechanisms could have been, in some cases, more efficient than direct programmes.

3. The limited scope of projects

Even when well conceived and when they offered a wide range of services, support projects for small-scale enterprises could attain only a limited number of enterprises in the formal and informal sector.

4. Inadequate conception and management of the projects

In general, administrative costs of support projects have been high and their viability questionable. Most of the credit lines were introduced through the formal banking network which could not respond to the needs of the informal sector. Furthermore, in Sub-Saharan Africa, the delivery of support services to small-and medium-scale enterprises and micro-enterprises required the reinforcement of institutions which proved to be a costly and generally inefficient effort.

Finally, lack of homogeneity among small-scale enterprises located in Sub-Saharan Africa, the complexity of the economic environment and cultural and social constraints have contributed to the poor results or failure of some support projects.

C. Design of support systems to enterprises

Support systems for enterprises in the formal or informal sector can be defined as networks of institutions, individuals or operators which support small- and medium-scale enterprises in their activities of marketing, supply, training, management, financing, and technological development and implementation. Enterprises use these systems in order to mobilize the required resources for production, distribution and financing of their activities.

In fact, it is possible to distinguish two components in support systems for enterprises: the technical services support subsystem and the financial support subsystem.

Technical services support subsystem facilitates access to technology and training and to management services. This sub-system also provides enterprises with the required support for the distribution and marketing of their products. The technical subsystem support has a formal and an informal part. The formal part is composed of public and private institutions in charge of delivering the services. The informal subsystem provides more or less the same type of services, but the delivery mechanisms are adapted to smaller and informal operators.

The financial support subsystem comprises the operators and mechanisms through which small- and medium-scale enterprises can access the financing of investments and operations. This sub-system has financial networks from the formal, informal and semi-formal sectors to allow a relay between the formal and informal parties.

Support systems should normally operate in a co-ordinated fashion; financial support requiring technical support and vice versa. The two components are also influenced by the legal framework which has a direct impact on their results. More specifically, the complexity of the legal environment will have an impact on prices, diversity and competitiveness of the support services and will affect their overall efficiency in terms of industrialization.

1. The technical subsystem support

Whatever their size (micro-enterprises, small- and medium-sized enterprises, large-scale enterprises) and their status (formal or informal), the technical support required by the enterprises can be classified into four categories:

(a) Management consulting services;

(b) Direct assistance to production; this support consists of specific intervention in some branches or subsectors: development of new products, standardization, transfer of technology, identification, selection and procurement equipment, supply of raw materials;

(c) Assistance for marketing and distribution activities, particularly for exports;

(d) Training activities at all levels in the enterprises (management staff, semi-qualified and unqualified labour).

These services are provided by three categories of actors:

Institutions of the private sector

Institutions of the private sector include enterprises which provide services such as economic consultancy firms, management consulting firms, engineering consulting firms, accountancy firms etc. Equipment and raw material suppliers also offer some technical after-sale services. The actors of this category work essentially with enterprises of the formal sector. In general, private operators providing services to enterprises of the informal sector are themselves less formal and generally familiar with domestic markets; they can either be private sector consultants or non-governmental organizations (national or foreign).

Agencies of the public sector

This category is composed of government departments, domestic promotional agencies, universities and training institutions. These support institutions have not provided efficiently the technical assistance required by small-scale enterprises. Most of them were counterproductive essentially because of:

(a) The heavy administrative requirements which have discouraged the targeted clientèle;

(b) Lack of flexibility when adapting their services to the needs of the clientèle; and

(c) The arbitrary "selection" of beneficiaries by the public authorities.

Private and non-profit-making organizations

Private and non-profit-making organizations are non-governmental organizations, private voluntary organizations (PVOs), co-operatives, domestic and international professional associations etc. The services provided by these organizations were mainly intended for micro- and small-scale enterprises. In general, they have supported them more efficiently than the public institutions.

2. The financial subsystem

The financial subsystem has three components: formal, semi-formal and informal. Each component is comprised of a variety of financial institutions and mechanisms which makes for a larger number of combinations between, on the one hand, the financial instruments and, on the other hand, support institutions and the targeted clientèle.

In the simplest form, one can find in the informal sector family loans, individual lenders or small local credit organizations. The financial mechanisms are then usually quite rudimentary. At the other extreme, in a more elaborate format, one can find a mix of complex financial instruments supported by credit and risk analysis and where several numerous actors intervene: development banks, commercial banks, parent company, subsidiary companies etc.

The formal component of the financial subsystem is composed of public and private institutions, legally constituted, which lend money under generally recognized rules. The lending process is formal: evaluation of a loan request and the supply of acceptable guarantees by the borrower. The formal component includes public and private banks, development banks, non-banking financial institutions such as insurance companies, credit societies and leasing companies. All these institutions evolve in the modern economy and their services are generally adapted to the needs of large-scale enterprises.

The semi-formal component of the financial sector includes legal entities which are legally constituted. Their lending process differs from that of formal organizations, especially concerning the provision of loan guarantees. These rely more often on general personal guarantees, more moral than material, on mutual guarantee procedures or other similar non-traditional collateral. The actors of the semi-formal financial sector include credit co-operatives, popular banks, investment societies, mutual lending institutions, non-governmental organizations, and suppliers of equipment or raw material[3]. The semi-formal component links the formal and informal financial sectors. For example, mutual lending institutions can guarantee subscribed loans from a financial institution of the formal sector.

Finally, in the informal financial sector, one can find tontines, credit and saving associations, money lenders and the immediate and extended family. The services offered are more accessible to the smallest scale units. The lending process and the prerequisites for borrowing are adapted to informal enterprises. These are based on the personal commitment of the borrowers, on peer pressures and on the social constraints imposed on them rather than on formal legal obligations. These institutions are highly diversified, but they all have in common strongly personalized relations with the members of the local communities in which they operate.

One of the main aspects of the diagnostic analysis of the financial subsystems located in Sub-Saharan Africa is their inadequate response to the needs of small-scale enterprises. The capacity of the informal component to grant more equipment or operating credits than the formal component is the most obvious proof of that assertion. Formal institutions were unable to:

(a) Reach the small- and medium-scale enterprises;

(b) Mobilize savings in order to satisfy credit demand;

(c) Provide services to stimulate development of the industrial sector; and

(d) Be competitive in terms of cost in the provision of financial services.

D. Support systems for small-scale enterprises: Towards an integrated approach

Two approaches which could be qualified as direct and indirect approaches constituted the essential support strategies to small- and medium-scale enterprises of the private sector.

The indirect approach tried to intervene on the economic environment to stimulate the development of the private sector. This approach was based on the assumption that macro-economic distortions could not contribute to the expansion of industry, and particularly that of the small-sized enterprise. In

[3] Particularly through suppliers' credit schemes.

distortions could not contribute to the expansion of industry, and particularly that of the small-sized enterprise. In practice, implementation of SAPs affected micro- and macroeconomic variables such as prices, commercial policies, legal framework, government policies etc. However, these measures were mainly targeted at large-scale enterprises due to lack of information on small-sized enterprises and on their specific needs.

Contrary to the indirect approach, rather than intervening on the economic environment, the direct approach tried to support directly small-scale enterprises by setting up financial and technical support systems and reinforcing the existing delivery institutions. Governments and DFIs identified specific needs and actions in some sectors and designed support projects which were neither comprehensive nor efficiently co-ordinated.

In order for them to be optimal, support systems should not only be geared towards the immediate development of the private sector but also be concerned by the continuous reinforcement of the support capacity. For that purpose, support systems should take into account:

(a) Impact of the legal framework which, in spite of SAPs, is not conducive to the growth and development of private small- and medium-scale enterprises;

(b) The infrastructure and human resources available within the economy;

(c) The technical needs of the entrepreneurs. The support systems must be designed in response to demand rather than service availability. The support institutions must be demand-driven and hence be small, decentralized and flexible in order to reach as many types of clientèle as possible;

(d) The actual and potential linkages between different subsupport systems (technical and financial) and between their formal and informal components.

In this context, the design of an integrated approach seems more appropriate to support the development of small-scale enterprises. This approach should be a mix of direct and indirect approaches and would intervene at three levels: the legal and regulatory framework; the technical support subsystem; and the financial support subsystem.

1. The legal and regulatory framework

SAPs have only scratched the surface of legal reforms. Small-and medium-scale enterprises and micro-enterprises are still discriminated against in the current environment. The small-scale enterprise support system may stay inefficient as long as legal constraints:

(a) Limit the small- and medium-scale enterprises' access to information on technologies and markets;

(b) Still maintain ambiguities on private ownership and create obstacles to the legalisation of their status (i.e. force them to stay in the informal sector);

(c) Maintain taxation procedures and registration which are too severe and cumbersome;

(d) Limit their access to hard currencies or to other financial services.

An analysis of the legal framework and its effects on the development of small-scale enterprises is the prerequisite to the design of any support system. Such analysis would identify the legal reforms which would promote small-sized enterprises and facilitate their transition into the organized sector.

2. The technical subsystem support

The traditional problems encountered in the design of technical subsystem support could be avoided by being demand-driven rather than supply-driven.

Very few among them have responded to market needs because of lack of information on:

(a) Types of service required by small- and medium-scale enterprises;

(b) The sums which they would be willing to pay for these services (an important aspect in the long-term viability of support services); and

(c) The nature of services which would have synergy effects on small- and medium-scale enterprises.

A comprehensive analysis of the supply and demand for support services would allow the design of technical support systems which would complement the currently available services. The design of technical support subsystem would be conducted in three steps:

Step 1: Supply analysis

This first step would identify the formal and informal actors providing technical support. This exercise would also identify the types of technical services provided and the types of beneficiaries. At this stage it would be possible to draw a clear picture of the supply-side of technical support systems.

Step 2: Demand analysis

The demand analysis would establish the needs of management, production, technical, training, distribution and marketing support services as perceived by operators. This step would require the conduct of sample surveys covering formal and informal small- and medium-scale enterprises. These surveys would identify:

(a) The main services used by the firms in their operations; and

(b) The support needs not currently satisfied by the market which may contribute to the improvement of their performance.

Step 3: Supply and demand comparison

The comparison of the results obtained after steps 1 and 2 would allow the identification of the categories of actors which best satisfy the needs of small- and medium-scale enterprises, and the areas of support which could be introduced in order to stimulate the development of the private sector.

3. The financial support subsystem

The main financial support projects were based on the assumption that small- and medium-scale enterprises could not have access to credit and hence that their productivity improvements and their growth had been stifled. Many credit lines were then introduced by development finance institutions, but the results were disappointing in view of the limited number of small firms which were reached and in view of the high administrative costs of these programmes.

Few financial support projects have taken into consideration the legal and institutional constraints which limit their efficacy. In this context, the design of a financial support subsystem would require a two-step procedure:

Step 1: Review of the legal framework

This analysis would specifically review the constraints imposed by the legal framework which limit the access of small- and medium-scale enterprises to credit. This first step would identify areas of reform which would improve the efficiency of financial intermediation.

Step 2: Financial subsystem analysis

This analysis would identify the main actors of the financial sector and their main products and would:

(a) Determine the capacity of financial institutions to meet the needs of small- and medium-scale enterprises, and identify the most commonly used financial instruments and evaluate their efficiency;

(b) Reveal the structural problems of financial support systems in terms of their capacity to support the development of the private sector;

(c) Would also allow the identification of institutional and financial actions which would satisfy a larger portion of the financial demand.

The objective of this approach is not to design the optimal support systems of small- and medium-scale enterprises, but rather to outline the process through which this optimal design could be attained and adapted to the particular contexts.

Annex

The objective of the present annex is to outline the main characteristics of some successful support projects to micro-enterprises and the factors to be taken into account in the design of those projects. Many bilateral and multilateral agencies have implemented projects aimed at promoting the development of the private sector. However, these projects have unequally reached their objectives and an analysis of the most successful ones has shown that their success relies more on the specific conditions in a given country than on the use of specific models which can be duplicated like blueprint. Below are some guidelines which have proven to be important in the design and implementation of the most successful projects.

Prior to launching a programme or project, the objective of the programme must be clearly stated and the targeted enterprises properly identified. According to many authors, three levels of micro-enterprises must be taken into consideration in the design of direct assistance projects:

Level 1: Micro-enterprises of this level are found in the survival economy. Projects which target such micro-enterprises are aimed at upgrading highly disadvantaged groups or individuals evolving in that economy;

Level 2: includes micro-enterprises that are better established but not yet very stable with a limited potential for growth. Projects which target this level of micro-enterprises are aimed at improving their performance without attempting to promote them to the formal sector;

Level 3: includes micro- and small-scale enterprises which are more established and stable, with 5 to 10 employees. Projects which target this category try to graduate these enterprises from the informal to the formal sector.

Enterprises of level 3 are those which present the strongest potential for industrial development. It is in these enterprises that one can find the entrepreneurial and managerial class which can contribute productively to the development of inter-industrial linkages and to the fulfillment of growth and equity objectives, whereas projects which target enterprises in levels 1 or 2 respond to social and poverty alleviation objectives.

Furthermore, before designing a programme or project, much needs to be known about specific local conditions such as:

(a) Indigenous informal mechanisms, particularly informal financial mechanisms and potential for tie-ins with assistance programmes and existing formal institutions;

(b) Intersectoral linkages and investment pattern in the industrial sector (formal and informal);

(c) Constraints specific to micro-enterprises: in their daily operation and for expansion in the area of technology, training, credit, marketing, infrastructure and regulations.

Access to credit and provision of training and technical assistance are the main components of projects aimed at supporting directly small-scale enterprises. An analysis of the most successful projects has shown that a strikingly limited number of factors have contributed to their success. Among these factors the following deserve mention:

1. Pre-existing factors: Prior to the implementation of a project there must be:

(a) A large demand for the financial and technical services provided by the project;

(b) A sufficient number of institutions and individuals readily available to implement the different programmes which are incorporated in the projects;

(c) A sufficient level of leadership and commitment by Governments, implementing institutions and active individuals to project goals in order to create and sustain the projects;

(d) A stable economic and business environment to allow project completion.

2. Implementing institutions: Implementing institutions that have succeeded were endowed with a:

(a) Clear and unambiguous mission understood and accepted;

(b) Strong and charismatic leadership;

(c) Well trained and dedicated staff;

(d) Flexible organizational structure;

(e) Good management information system.

3. Project design: The most successful projects were the ones which matched local demand for services and were co-ordinated with existing operations and capabilities of implementing institutions. Thus, most of the best projects had the following characteristics:

(a) They were extensively prepared with in-depth analysis of the potential of implementing institutions;

(b) The demand of credit and technical assistance was accurately evaluated so that appropriate loan amounts were designated;

(c) Delivery systems were designated to fit within existing operating systems of implementing institutions;

(d) The size and complexity of programmes were in line with the abilities of the institutions selected.

4. Individuals: Projects have succeeded when experienced individuals have held key positions in the Government or in major institutions which compose the delivery system. Successful programmes rely on the presence of highly competent individuals with strong leadership abilities.

Credit component

Successful projects with credit components have usually followed the guidelines mentioned below:

(a) Positive and marked-determined final interest rates have been charged to subborrowers;

(b) Banks have been allowed to set rates that cover their costs and ensure profits;

(c) Subsidized interest rates must be avoided, because they may have such effects as:

(i) Undermining informal financial institutions;

(ii) Allowing less viable and more capital-intensive projects to qualify for loans; and

(iii) Subsidizing credit programmes which have little chance of attaining long-term self-sufficiency.

(d) Loans have been granted incrementally to reduce the cost of failures;

(e) Repayment cycles have been short to reflect the shorter buyer-manufacturer-sell cycle (for example Grameen Bank requires weekly repayments);

(f) In the most successful credit components, emphasis was placed on provision of working capital, initial investment often being financed by loans from friends and relatives;

(g) Projects which tried to combine savings and credit components either by setting a dual-purpose financial institution or by making loan disbursement conditional to specific requirements proved more successful. Resource mobilization through saving can enhance the success of a lending institution by providing the basis for a sound financial system.

(h) Credit guarantee schemes have, in most cases, succeeded when the following conditions were met:

(i) Commercial banks participated in the scheme;

(ii) Each request for a guarantee had been investigated independently of the lending institution to guard against banks transferring their high risk loans to the guarantee programme; and

(iii) The optimal loan percentage guaranteed was between 70 and 80 per cent.

(i) The best credit programmes were those built with long-term perspective and an awareness of the entire system from bank managers to subborrowers. Considerable time has been devoted to careful project preparation, design, implementation and supervision.

(j) Apex delivery systems were more effective in reaching small borrowers and in achieving higher repayment rates than credit lines channelled through development finance institutions.

(k) Apex units were most successful when integrated into sound financial institutions and granted sufficient autonomy to tailor policies and procedures specifically for participating credit institutions and small-scale enterprise clients.

(l) Stringent eligibility criteria were introduced to allow only the strongest financial institutions to participate.

Training and technical assistance component

The most effective organizations for providing training and technical assistance were small, local and independent. The resource agencies were close to small-scale enterprises so as to effectively assist them. These resource agencies did not seek to solve all the problems, but acted as referral centre.

Successful technical assistance components have tended to be small with modest and clearly- defined goals. The more effective technical assistance components strengthened existing programmes with proven efficiency rather than with new initiatives. Institutions with proven competence or exceptional leadership have performed far better than less dynamic institutions. The analysis of successful technical assistance programmes have shown that:

(a) Projects with a small number of technical assistance components were more successful than those with large numbers of components;

(b) Courses and consultancy services geared to selected sub-sectors appear to have been more useful than courses in general business skills;

(c) Services were more efficiently and effectively delivered to groups of people with similar occupations as opposed to services extended to individuals.

(d) Components that were small and specific to a selected group of beneficiaries or to a region were easier to implement than larger national programmes;

(e) Programmes with one or two well-defined objectives were more successful than components with multiple objectives;

(f) Most successful technical assistance components were built into existing programmes rather than establishing new ones or rehabilitating those programmes functioning poorly.

(g) Most successful technical assistance programmes were implemented by agencies that had sufficient autonomy from large bureaucracies to design and deliver services as needed.

<u>Choice of intermediaries</u>

The choice of intermediaries is a major challenge in supporting small-scale enterprises, hence the importance of choosing an appropriate intermediary and institutional arrangement. Reaching small-scale enterprises requires small, flexible and responsive organizations. They must have sufficient autonomy to make <u>ad hoc</u> decisions in response to the needs of beneficiaries and to the rapidly changing local environment. A proper balance between autonomy and co-ordination at the national level is necessary to optimize the project's effectiveness.

Different types of organization can be used depending on the project goals. These types are as follows:

(a) <u>International private voluntary organizations</u>

These organizations are well experienced in community development projects. They are involved in income generating activities and tend not to depend too heavily on donors.

(b) National and local private voluntary organizations

These organizations are the most numerous and the most flexible institutions. Although they are members of umbrella associations, the fact that they evolve outside the formal sector makes them vulnerable to lax management. They are also vulnerable because they depend on one or two donors and this affects their sustainability. The most successful projects in Sub-Saharan Africa are run by PVOs.

(c) Co-operatives

Financial co-operatives, production, marketing and supply co-operatives may intervene as intermediary agencies. They tend to be heavily regulated and depend on government subsidies. They are in some cases bureaucratic and rigid, not suited to the cultural context. Co-operatives can be responsive to local needs when they are effectively controlled by their members.

(d) Banks

Banks were not set up to assist small-scale enterprises and are not very adaptable to local context. Still, they may demonstrate a firm commitment towards small-scale enterprises, provided they benefit from government subsidies or donor funding.

(e) Governmental organizations

Governmental organizations have the capacity to offer several types of services. However, their performances are generally bad. They are starved of funds, display poor financial management and generally operate at a deficit. They tend to be extremely rigid and vulnerable to political influence and thus have difficulties to apply strict eligibility and repayment criteria.

(f) Business associations

Business associations are similar to PVOs and are concentrated in urban areas. They provide training in business skills and entrepreneurship development. They have some degree of autonomy towards public authorities. They are more suited to the needs of medium and large business which constitute the majority of their membership.

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