



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)

17717

PTA/CIC/SMI/1/3

Workshop on Small and Medium Scale Industries  
Kampala, Uganda, October 10 - 15, 1989

**The Current Status of Small and Medium Scale  
Industries in The PTA Countries**

by

**CHISELEWE NG'ANDWE (DE)**  
UNIDC/PTA CONSULTANT ON SMIs

**Preferential Trade Area For  
Eastern and Southern African States  
Lusaka, August, 1989**

## TABLE OF CONTENTS

	<u>PAGE</u>
Executive Summary	(i)
Introduction	1
Definitions of SMIs	3
The Role of SMIs in National Economies	5
SMIs Relative Vitality under Difficult Environment	5
Employment Creation	6
Regional Development	7
Promotion of Linkages	8
Promotion of Women Participation in Industrial Activities	9
Foreign Exchange Conservation	10
Promotion of Intra PTA Trade	10
Ancillarisation	11
The Institutional Framework	15
FINANCING OF SHIs	20
CONSTRAINTS ON SMI DEVELOPMENT	29
Incentives	32
International Support and Regional Cooperation	33
External financial support	34
Technical Assistance	36
Technical Assistance for PTA	37
Local Inputs for Regional Cooperation	37
Concluding Observations and Recommendations	38
Appendix on Brief Country Profiles	40

THE STATUS OF SMIs IN THE PTA REGIONEXECUTIVE SUMMARYSMI Definition

While a universal definition of SMI may be untenable and even undesirable, it may be inevitable and desirable at national level to facilitate practical implementation of incentives and other support facilities. Most PTA countries' definitions of SMIs appear well suited to meet this basic objective.

The Role of SMIs in National Economies

Under a generally difficult economic environment the SMIs in PTA have exhibited relative vitality, and significantly helped to sustain many economies when large industries were collapsing or operating below capacities due to foreign exchange and other difficulties. These SMIs have contributed to employment creation, foreign exchange conservation, equitable distribution of income opportunities, the flow of goods and services, promotion of linkages among various economic sectors, and general economic development.

Institutional Framework

Most PTA countries have deliberate policies and programmes for SMIs, and a public agency for policy implementation. NGOs are also active in SMI development.

Constraints

Among the major general constraints are finance at both SMI level and promotional agency level, inadequate technical and management skills, foreign exchange difficulties, inadequate supply of suitable production premises, poor technology, and an uncondusive legal and commercial environment.

### SMI Incentives

The most common incentive among PTA countries is the creation of specialised public institutions to focus on SMIs. In some countries there are tax holidays, customs duty exemptions, and special allocations of foreign exchange. The SMI incentive package in most PTA countries is not as comprehensive as it is in most Asian countries for instance.

### Regional Cooperation

SMI umbrella organisations in PTA have been learning from others through study tours and professional industrial attachment. There have been intra regional transfer of technology, and other forms of cooperation. All these have been on ad hoc basis. There is tremendous scope for regional cooperation which can be exploited through deliberate and systematic programmes such as identifying and strengthening suitable national institutions to serve as regional centers in special fields.

### International Support

There is urgent need for international financial support and technical assistance to improve the financial bases of the credit function of umbrella organisations, and their human resource development. There is also need for financial and technical support to the PTA to strengthen the regional focus on SMIs in the context of overall regional industrial policy.

### Recommendations

National Governments need to address the SMI financing problem more realistically than has been the general case. The budgetary allocations to SMI umbrella organisations could be more generous.

(iii)

A reasonable level of external financial support could be channelled to the SMI sector through these umbrella institutions. The programmes of industrial estates should be encouraged as one of the remedies of the problem of proper factory sheds, although these must be properly appraised to avoid the problem of poor occupancy rate.

## INTRODUCTION

The Preferential Trade Area for Eastern and Southern African States (PTA) includes Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. According to the PTA charter, all the independent countries in the sub region are free to join. In this paper, reference to PTA will generally also include eligible members who have not yet ratified the PTA charter. One of the basic objectives of PTA is the promotion of regional economic development through increased economic interaction among member states. Thus, among other specific objectives, the PTA aims at reducing barriers to intra regional movement of resources and products and thus facilitate the pooling of regional resources and markets.

This paper is one of three basic papers for the PTA regional workshop on Small and Medium Industries (SMIs) which will focus on (a) policies and strategies of SMIs and (b) regional cooperation in the promotion of SMIs. This paper will present the current status of SMIs in the PTA region. It will highlight the current role of SMIs in national and regional economic development process, the institutional framework, and the major constraints faced by the SMIs in the PTA countries. A section is devoted to the problem of SMI financing because among the major constraints faced by SMI sector, it happens to be the binding constraint on SMIs in most PTA countries. Since regional cooperation is the subject of another paper, it will not be discussed in detail in this paper.

The PTA is not a homogenous entity. There are marked differences among PTA countries in geographical sizes, population levels, economic and industrial structures and strengths, economic and social infrastructure and other economic variables.

If there is one common feature, it is the desire to industrialize, and a general recognition of the role of SMIs in the industrialisation and general economic development process. Thus practically in all PTA countries there are some deliberate policies and programmes to promote SMIs. Of course there are differences in policy articulation, SMI institutional framework, range and severity of constraints, and the relative roles of SMIs' contribution to socio economic development. However, these differences are more in magnitude rather than in substantive content.

Thus without any assumption of homogeneity, this paper attempts to present a general picture of the SMI situation in the region by focusing on the principal general features rather than by a catalogue of country profiles.

Some specific country experiences are brought out to illuminate the general picture and to bring out comparative positions. The paper concludes with an evaluation of the situation and some specific recommendations for enhancing the vitality of SMIs in the general context of national and regional economic development.



### DEFINITIONS OF SMIS

At a recent international workshop on SMIs, an attempt to discuss the definition of SMIs provoked a lengthy debate whose final conclusion or lack of it could not justify the heavy investment in time. Ironically, most of the debate time was spent not so much on the substantive issues, but on the wisdom or futility of attempting an SMI definition with some universal appeal if not acceptability. It is generally accepted that SMIs have to be defined on the basis of local objectives and circumstances rather than on a universal scale. Indeed even within national boundaries the issue of definition of SMIs is not quite easy.

A national definition of SMI is usually necessary to facilitate practical implementation of special incentives and specialised support services for SMIs. The definition must also capture the national objectives in such critical factors as target group, use of local resources, and technology choice. The definition must also have capacity to accommodate normal dynamic changes as well as any other anticipated changes in the economy.

Most PTA countries have wisely avoided the rigidities of statutory definitions of SMIs. In many cases they are guided by convention based on the practical realities of the principal SMI specialised support institutions. Such conventional definitions are sometimes based on the lending limits of SMI specialised financing/promotional agencies, e.g. Malawi, Kenya and Botswana. In some countries, they are based on employment levels e.g. Lesotho, Mozambique and Zimbabwe. In some countries, the investment and asset levels are the basic factors in SMI definition. In most cases the use of local resources is a major additional factor in the definition, and so is the use of labour intensive technology.

In most of these countries where foreigners or parastatals dominate the large industries and general economy, the SMIs have, by convention or by explicit charters of SMI specialized institutions, been associated with the development of indigenous entrepreneurs.

Most PTA countries do not appear to have serious practical problems arising from the definition of SMIs. But those few with statutory definitions based on volatile factors like investment level can expect some operational problems. For instance the Zambian statutory definition of small industry was according to the 1921 Act based on a maximum of K250,000 investment in plant and machinery when K1 = \$1. With the rapid devaluation of the Kwacha (Zambian currency) which now stands at \$1 = K16, the maximum investment has been raised to K1.5 million, but even this change has not yet been fully processed through the legal red tape. In Ethiopia the 1977 proclamation on SMI defined small industries on maximum investment of 200,000 Birr in plant and machinery and was repealed by the 1989 special decree on SMI which has capital ceiling of Birr 8 million. Given the frequent and violent fluctuations in many PTA member countries' currencies statutory definitions based on monetary factors can create serious distortions in the operational arena especially given the long periods it takes to amend Acts of Parliament, or to issue remedial statutory instruments. In Zambia for instance after rapid devaluation of the Kwacha the K250,000 ceiling was simply not a meaningful amount for the typical bankable project, and the delay in amending the statutory investment ceilings did create barriers to credit for many SMIs.

Fortunately only a few countries appear to have the risk of suffering from rigid statutory definitions. As long as definitions are considered necessary to facilitate delivery of incentives and services, the challenge is to avoid rigidities that can stifle the basic objectives.

THE ROLE OF SMIS IN NATIONAL ECONOMIES

In practically all PTA countries there is general recognition of the SMIs' role in the economic and social development of these countries. With the exception of Botswana, practically all PTA countries suffer from a severe foreign exchange constraint which tend to exacerbate other economic weaknesses. In particular, the foreign exchange problems have severely constrained the operations of large scale industrial plants which are capital intensive and therefore import oriented. Because of difficult access to imported spares, replacement equipment, and raw materials, some of these industries have been forced to operate far below capacity or even to close down.

SMIs' Relative Vitality Under Difficult Environment

The SMIs have also shown capacity to survive and even thrive under generally difficult conditions. Thus when large industries collapsed during the civil turbulences in Uganda, the small industries came up and confidently helped to sustain the economy. In Mozambique during the current general decline in economic activities, the small industries have been rising and helping to sustain the economy. When in Tanzania and Zambia the large industries were rendered ineffective by severe foreign exchange problems, the consumers had to depend on SMIs for such basic needs as soap and other items. Even where the SMIs' role may have been less visible, there is a general recognition of the relative vitality of the SMI sector under foreign exchange and other adverse circumstances.

The SMIs tend to survive better in times of difficulties because of their flexibility. Because they are small, SMIs can absorb exogenous changes in their financial structure and other operational factors better than the large industries where similar changes may lead to unbearable distortions in the technical and financial viability of the Company.

Moreover, SMIs - generally as a matter of basic survival instinct - have a high propensity to improvise. Thus faced with relatively more severe barriers to credit, and foreign exchange for imported machinery and raw materials, the SMI sector has exhibited a flair for innovation and development. Where large industries' operations slackened due to lack of various imported items, the SMIs have developed machinery, equipment, local raw materials including salvaging of scrap materials to maintain and even improve their industrial operations. They have also developed new products based on locally available resources. Perhaps the most dramatic example of such creativity among SMIs is Uganda, but it is quite evident in many other PTA countries. Indeed, the tragedy of the matter is that few PTA Governments recognise this economic power of SMIs to the extent of providing adequate policy support and financial resources.

#### Employment Creation

Partly due to poor technology base, most SMIs in PTA are based on simple equipment including locally and sometimes crudely fabricated machinery and equipment. Thus the SMI sector in PTA is generally associated with labour intensive production methods. Indeed in many countries the labour intensity of SMIs is a major factor for the promotion of SMIs. With the exception of Mauritius, practically all PTA countries have - in different degrees of severity - some unemployment problems. In some countries, notably Zambia, the high unemployment rate among the youth is seen as a major cause of the increasing trend in the crime rate. The absence of productive job opportunities induces some youth to switch their energies and sometimes well educated minds to crimes and other anti-social activities. Thus some countries emphasize SMIs as a way of containing the unemployment problem especially among the youth.

In some countries notably Mozambique, Zimbabwe, and Zambia the Ministries responsible for Youth have some small industries projects which emphasize creation of youth employment. What is needed is for these rather ad hoc projects to be integrated into a more coherent national SMI policies and programmes.

In a number of PTA countries where the large industries have suffered recessions mainly due to foreign exchange problems, the SMI and informal sector operations have helped to absorb labour. Most of the informal sector activities appear to be petty trading and commerce which largely constitute disguised unemployment. However, the small manufacturing units including those in the informal sector contribute significantly to the flow of goods and productive employment. In Uganda for instance since the collapse of large industries in early 70s, practically all industrial goods and industrial employment comes from the SMIs. In Zambia, most of the kitchen equipment and utensils for most homes (mainly low income groups) such as charcoal stoves, pots etc., come mainly from the informal sector manufacturers. Accurate statistics are hard in all PTA countries, but the SMI contribution to GDP and employment is quite substantial in many PTA countries.

#### REGIONAL DEVELOPMENT

Another practical role of SMIs is the dispersal and equitable distribution of industries, employment and income opportunities among geographical regions. In most PTA countries the majority of people live in rural areas where they depend mainly on peasant agriculture. In many countries there is the problem of migration to urban centers - and for Lesotho and Swaziland, migration to South Africa - that leaves rural areas without a reliable human resource base for development.

Even in the relatively strong economies, the rural areas of PTA countries remain relatively underdeveloped vis urban areas. In Mozambique for instance, the colonial inheritance is a situation where 90% of industries are located in the two major cities i.e. Maputo and Beira. There is political and economic pressure not only in Mozambique to spread industrial activities to other areas. The SMIs are particularly suited for this because partly by virtue of their size they are relatively foot loose. In Lesotho and Swaziland where migration of able bodied youngmen to South Africa has tended to depress the economic life of rural areas especially the spread of small industries in rural areas has significantly helped to sustain reasonable living standards. In Mozambique where MNR bandits have been disrupting normal life in rural areas and forcing rural people into refugee camps, the small industries in rural areas serve as a stabilizing influence. Once a rural community can identify their economic and social well being to a local small industry, they do their best to guard it against MNR destructive raids, and try to consolidate their residence. Thus the small rural industries are helping to stabilize Mozambique's rural population even in the face of brutal physical harrassment. In countries where rural urban migration is propelled merely by economic forces the effect of rural industries on rural population can be and has indeed been significant.

PROMOTION OF OPERATIONAL LINKAGES AMONG VARIOUS SECTORS

The spread of SMIs to rural areas is not merely a matter of economic or social equity, it is indeed a matter of fundamental national economic development. The natural base for most PTA economies is agriculture. But systematic development of agriculture requires effective linkages with industry. The agricultural community requires various productive inputs and consumer goods from the industry sector, while industry requires agricultural inputs and food for its workers.

Historically most PTA countries have had economic dichotomies involving an agricultural sector that exported most of its produce for processing in the factories of the colonial master, and imported manufactured consumer and agricultural inputs in return. There was usually also the modern sector that sometimes involved extractive industries that exported their products in raw form and imported manufactured items like the agricultural sector. Most countries are now anxious to improve the operational linkages between agricultural and industrial sectors. The SMIs are playing an active role in agro processing and in making some productive inputs for agriculture as well as basic consumer goods for agricultural communities such as clothing, furniture and house construction materials.

#### PROMOTION OF WOMEN PARTICIPATION IN INDUSTRIAL ACTIVITIES

The SMIs have also proved effective in promoting women participation in economic activities. As a positive reaction to historical biases and barriers against women in economic activities there is today a world wide campaign to improve the participation of women in the economic activities. The past biases against women had robbed society of the potential contribution of women. The specialized SMI programmes have contributed to women participation in industrial activities. In Lesotho and Swaziland, the majority of entrepreneurs enjoying the services of specialized SMI services, and actually active in business are women. In other PTA countries the majority entrepreneurs are men, but the number of women entrepreneurs is rising. While some historical barriers against women remain, there is need for appropriate programmes. In Zambia for instance in recognition of traditions which inhibit some women from working outside their homes due to a heavy and disproportionate burden of household chores on women, SIDO has a programme of taking industrial activities to such women in their homes, rather than bringing the women from home to projects outside. With adequate funding this and other programmes that recognise and attempt to remedy special barriers can go a long way in improving the participation of women.

FOREIGN EXCHANGE GENERATION AND CONSERVATION

The SMIs in PTA countries do not appear to have played a significant role in foreign exchange generation. Most of them produce for local markets. In this respect they have been very useful in conserving foreign exchange by producing locally some of the items that used to be imported, and by using local raw materials and sometimes locally fabricated equipment to produce products for which large industries require imported equipment and raw materials. There are a few SMI exporters in textile and leather goods. In Tanzania, under the sister industry system some SMIs have been exporting cutlery and other items mainly to the European sister industries that provided technology, equipment and sometimes imported raw materials. There is not much export within the PTA among SMIs.

PROMOTION OF INTRA PTA TRADE

The SMIs face serious marketing problems within national boundaries let alone regional markets. These range from poor information on SMI products to consumer prejudice against such products. In Zimbabwe sewing machines are imported to compete with, rather than supplement the SMI local machines, and in Uganda some sugar processing equipment is imported while local SMIs can produce them at much lower prices. In Zambia saw milling and some wood working machines are imported when the foreign exchange could be more efficiently used to improve the capacity of the local SMIs that produce such equipment. Such cases are common in many PTA countries, and the principal causes appear to be inadequate information and (or) prejudice against SMI products.

On the PTA regional market, these problems are augmented by strong barriers against cross border trade. These barriers include tariffs, import licensing, and foreign exchange problems. Due to inadequate internal capacity for foreign exchange earning a number of PTA countries depend on donor resources for foreign exchange.



Such facilities are often tied to supply sources outside PTA. Above all there is some inertia on the PTA declared policy of reducing colonially inherited commercial linkages between PTA countries and their former colonisers in favour of improved PTA intra regional trade. The basis for this inertia may be too complex for adequate analysis in this paper, but generally it can be observed that the PTA members need to exert greater political will and commitment to realize the tremendous potential offered by the PTA charter.

It is recognised that most SMIs will normally produce for narrow local markets, but there is significant scope for SMIs to play a role in regional trade. For instance Zambia's dry cell battery manufacturer imports battery caps and other components from Europe when these can be more cheaply obtained from an SMI in Tanzania. As a region the PTA has quite a number of such cases.

Beyond such possible direct cross border transactions, there are also strong possibilities of improving intra regional trade and national industrial activities through improved linkages between large and small industries. Even if such linkages are confined to national boundaries, the improved national industrial activities can spill over into regional commercial relations.

#### ANCILLARISATION

In countries like Japan and India where such linkages have often been institutionalized through ancillary relations between a large manufacturing company and a number of SMI satellite companies, the positive impact of such relations has been very significant on the profitability and operational viability of both the large parent company and the SMIs.

The ancillary relations usually involve the big parent company providing its SMIs with physical facilities mainly equipment and some times factory shades, basic designs, quality control, technical and management guidance and training. The SMI entrepreneurs' responsibility is to produce according to the specifications of the parent company. In cases where the parent company does not purchase the entire product of the SMI, there are usually agreements for the parent company to purchase a certain percentage of expected output that helps to ensure a basic market for the SMIs products. Mainly through ancillary relations about 75% of parts and components for Japanese cars and other major products come from SMIs. India's recent rapid industrialisation has also to a significant extent been propelled by ancillary relations. The President of an Indian tractor manufacturing company observed that if his company had not developed ancillary relations with SMIs, it would have been practically impossible for the tractor company to achieve its long term development targets. For the parent company, ancillary relations tend to reduce overhead costs, and industrial relations problems, while improving the flow of parts and components. For the SMIs ancillary relations can provide vital technical and management guidance, readily available technology, productive resources and a ready market - all in a comprehensive package.

In PTA countries the linkages between large and small industries let alone ancillary relations are not very pronounced. Generally there are no practical policies by Government or the business community aimed at deliberate development of operational relations between large and small industries. The few significant exceptions to this general PTA situation include the Automotive Manufacturing Company of Ethiopia (AMCE), the East African Industries (EAI) of Kenya, Raymond Woolen Mills of Kenya, and the Zambia Consolidated Copper Mines Ltd (ZCCM). The operations of these large companies are summarised to illustrate the actual and potential impact of ancillarisation on national and PTA regional industrial development.

The AMCE is a joint venture between Fiat of Italy and the Government of Ethiopia. AMCE obtains truck bodies, upholstery, spring leaves, and batteries from SMIs.

It provides specifications, testing and quality control. The Ministry of Industry has been encouraging these relations, and there is chance of further and deeper relations between AMCE and SMIs in the future.

The EAI is a subsidiary of a major multinational corporation. It manufactures cooking oil, soap, soup. For its soup manufacturing EAI depends on SMIs for the supply of dehydrated vegetables. EAI provides technology, plant design, quality control and technical guidance, and liaison in the financing of the SMIs one of which was funded by the principal SMI agency i.e. KIE Ltd. In this way the EAI can concentrate better on the actual manufacturing of soup.

Raymond Woolen Mills produces wool thread and textiles. It supplies wool to SMIs that manufacture sweaters for Raymond to sell locally and abroad. It also subcontracts SMIs to manufacture safari suits and other clothing for exports. In addition to providing raw materials Raymond provides technical guidance and quality control. This arrangement appears to be more cost effective for Raymond.

Through its subsidiary, the Copper Mining Enterprise Trust Ltd (COMET), the ZCCM is developing SMEs which provide goods and services to its operating companies and their communities and also to the general public. The basic objective of COMET is to assist in economic diversification from copper, and use the basic infrastructure around the copper mining areas to evolve alternative economic activities that can absorb some youths. COMET provides workshop sheds, equipment, and raw materials, technical and management support, and marketing services.

Although still in infant stage, COMET, after two years operations has demonstrated the tremendous development opportunities induced by systematic relations between large and small industries. COMET supported SMIs are for instance producing cement blocks and construction services for ZCCM operating Divisions at much lower cost than if these were produced by ZCCM itself.

Another COMET SME is mining zinc ore where it might be uneconomical for ZCCM, and sells the zinc to ZCCM which exports it to other countries including Tanzania where it is a major input in the sheet metal factory.

Studies by Zambia's Small Industries Development Organisation (SIDO) indicate several other opportunities for ancillary relations with direct or indirect positive effects on PTA intra regional trade. The challenge is on the big industries - both private sector and parastatal - to provide initiative and leadership. In this respect, the Zambia Federation of Employers and SIDO are planning a workshop on ancillarisation in the hope of stimulating other ancillary relations.

### THE INSTITUTIONAL FRAMEWORK

In most PTA countries there is a public agency for the development of SMI. The principal agency usually provides comprehensive services in the critical areas such as management and technical guidance and training, credit, provision of industrial estates, procurement services, and registration of SMIs. In a few cases notably Ethiopia, the principal SMI agency HASIDA does not provide credit.

Most of these agencies are 100% owned and controlled by the Government, but usually operate autonomously outside the Government structure. The basic operating resources come from the Government, while loan funds, training funds and sometimes extension services funds are supplemented by external donors.

Due to general economic and financial constraints, and sometimes due to inadequacies in SMI policy articulation, most of these institutions are currently having severe financial constraints which give rise to other constraints such as manpower, and reduce the effectiveness of these institutions well below general expectations. With so much justifiable talk about small industries, the resource base of most SMI promotional agencies in PTA is far below the demands of the SMI sector for public services. Thus in spite of significant and often undeniable contributions and achievements of these institutions, they tend to have a poor image in most countries because their capacity for delivering services is very limited relative to this high demand. The most serious difficulty is loan finance which today is the binding constraint for most SMIs in the region.

Only a few PTA countries e.g. Uganda, Somalia and Rwanda do not yet have a specialized public agency for SMI promotion. In Uganda there are active discussions regarding specialised SMI support institutions.

The Uganda Small Industries Association has plans to set up an SMI financing institution under private sector control. A recent broad based national workshop on the development of small scale industries in Uganda has also recommended the establishment of a national SMI coordinating body. With the increasing appreciation of the critical role of SMIs in Uganda, one can safely expect early cristalisation of current efforts to establish appropriate institutions to support SMIs.

In some countries notably Zimbabwe, Mozambique, Swaziland and Zambia, the principal SMI public agency's efforts are supplemented by government initiatives in a number of Government or quasi-government institutions. The multiplicity of institutions sometimes reflects the special interest in SMI activities in the various Government Ministries, and sometimes it is a reflection of external donor's biases. While most PTA countries are heavily dependent on donor support for their SMI programmes, some donors have a tendency to prescribe the institutional conditions for their support. Thus instead of using already established institutions, some donors tend to induce the establishment of new institutions as channels of their support. One of the principal motivations for this tendency is ideological. Most of the donor agencies come from Western countries with a strong inherited bias towards private sector. They generally feel that their support will be more effective and efficiently delivered through private sector channels rather than through public institutions.

The multiplicity of SMI support institutions is not necessarily a bad thing. Indeed, contrary to casual but rather persistent observations, the multiplicity of SMI institutions does not generally breed undue duplications.

For one thing the demand for SMI support services is so high and broad that it cannot realistically be satisfied by one institution especially for the large PTA countries. While some element of competition is inevitable and welcome among these SMI institutions, the general pattern is one of complementarity and supplementation. Where a number of SMI institutions are providing the same product e.g. credit, sometimes the macro complementary relations are institutionalized by differentiation in target groups. For instance in Malawi, the Small Enterprises Development Organisation of Malawi (SEDOM) provides loans ranging from K3,000 to K75,000, while the Investment and Development Fund (INDEFUND) caters for bigger projects with loans of K30,000 - K210,000. Even in the absence of deliberate target differentiation, the sheer size of SMI clients often means the services of one institution will reach those not being reached by the others.

In many countries the multiplicity of SMI public and private institutions may be inevitable and even desirable. The challenge for such countries is to ensure coordination and rationalisation of all these institutions through some central authority.

In addition to the public SMI institutions, there are in some countries non Governmental Organisations (NGOs) specialised in SMI services. These NGOs generally tend to be in financial services and auxiliary management support. These are often joint ventures between commercial banks, Development banks, and foreign institutions, notably the Frederick Ebert Foundation of the Federal Republic of Germany and FMO, a Netherlands Development Finance house both of which are active in a number of PTA countries.

The services of such specialized financial institutions must be seen as supplementary to those of the public agency in that the private institution especially when operating as profit making institution will carefully select its target group within manageable geographical spheres, while the public agency must, while exercising due financial prudence, cover all areas with both commercial and developmental focus.

Apart from SMI specialized NGO financing institutions, there are not many specialized SMI NGOs in other fields. But many public and private organisations which do not specialize in SMI support services do render some critical services directly to SMIs and sometimes to the principal support agencies. Such services are often in technical and management training of trainers, and entrepreneurs. They also include liaison in R & D between specialized SMI agencies and these non specialised SMI institutions. Such institutions include universities and Technical colleges, and Research centers, Business and employers organisations. The Zambia Federation of Employers and the Mauritius Federation of Employers also provide some limited loan facilities to certain categories of SMIs.

In many countries the small entrepreneurs have formed Small Entrepreneurs Associations which provide liaison with Government, Commercial Banks, and other sectors. They also provide general business and legal guidance, management training and special commercial services such as assistance in securing Government contracts. In a few cases such as Lesotho and Swaziland, due to complete absence of SMI specialized credit sources these Associations have also attempted to operate revolving funds as a source of credit for their members. But such funds, so far, are too insignificant to make a real impact on the credit situation.



Most of these Associations are in their infant stages and are rather weak in terms of their capacity for delivering services to their members. Most of them have been active in SMI policy evolution process. The African Businesses Association (ABA) of Malawi with a full time staff of 12 appears to be one of the most mature, while the Uganda Small Business Association which has organised a few international expositions for its members appears to be the most active and effective Association in terms of organising its members for collective self support.

FINANCING OF SMIs

With the possible exception of Kenya, Malawi, and Botswana, the PTA countries SMIs generally face serious financial constraints. For Kenya and Malawi, generous and steady financial support from multilateral and bilateral arrangements have helped to ensure a reasonable flow of credit to SMIs and operating resources for the principal SMI agencies. Unlike most PTA countries, Botswana is a surplus fund country without national financial difficulties. For other countries, the general national economic and financial difficulties have tended to weigh heavily on the SMI sector. The principal SMI public agencies have not been adequately funded both in terms of operating budgets and loan funds (for those which provide credit). The general national financial difficulties have in many cases been crowned by hazy policy framework and policy instruments. Donor biases have capitalised on such policy weaknesses to further distort the already rather difficult situation. For instance in some countries e.g. Lesotho and Swaziland, mainly due to donor influence new institutions are being created or explored even where it would be more economical to strengthen existing institutions. In Zambia due to absence of clear policy some Donor funds and even local funds intended for SMIs have been channelled through institutions which are structurally incapable of delivering such credit to the targeted small industries, while Government disbursements to SIDO, the principal public agency have fluctuated in a manner that makes it difficult for orderly development of programmes. The relative clarity and stability of general economic policies and SMI policies in Kenya and Malawi may have facilitated the steady flow of external resources for SMIs in these countries.

The basic financial needs for SMI development are two fold i.e. operational expenses for extension services by the public SMI agencies, and funds for credit. The SMI need for management and technical guidance is recognised in many countries. Thus in both Developed and Developing countries there are public agencies that provide these extension services free or at nominal cost. While most PTA countries have such institutions, the problem is usually inadequate funding for them.

In the absence of special regulations or incentives, the flow of credit from commercial banks to SMIs is very sluggish and usually negligible. The fundamental problem here is the high credit administration costs involved in extending and supervising SMI credit especially where the SMIs are scattered. The cost of evaluating a \$50,000 project may not be very different from that of processing a \$1 million or even a \$10 million project. Moreover the probability of the small project not being bankable is relatively high. Given this relative high risk of investment in project analysis of SMIs and the superior expected yield on big projects, there is an economic bias among financial institutions towards large business even at the level of project identification. Furthermore because of relative weaknesses in technical and management capabilities the SMI credit recipient will often require regular supervision which further raises the unit cost of SMI credit administration. Thus even in countries with well developed and competitive commercial bank sector, the flow of credit to SMIs from commercial banks is very sluggish. For instance in US, loans of \$100,000 and below are generally considered too low to justify the loan administration costs.

In the Developing world of PTA, this fundamental problem is accentuated by other major problems including underdeveloped and uncompetitive financial systems, inadequate collateral resources among SMIs, and historically inherited prejudices against SMIs that make commercial banks in most Developing countries ultra conservative. In most PTA countries SMIs practically have no access to commercial bank credit except under special funded arrangements. Thus in many PTA countries specialized SMI financing institutions have been created to ensure a reliable source of SMI credit. Indeed, this situation is not peculiar to PTA or underdeveloped countries. Such institutions are also

found in developed economies.

In some PTA countries e.g. Kenya, Tanzania, Malawi, Lesotho, Swaziland, Zambia and Zimbabwe the principal public agency for SMIs attempts to combine the credit function with technical and management extension services and provision of industrial shades. This is also the institutional structure in USA and some Western Developed countries. Within PTA countries such financing facilities will be the principal source of funds for the SMIs. In some cases e.g. Kenya and Zambia there are also NGO controlled special SMI financing institutions, but these will usually have a narrow target group while the public agency usually has political and sometimes economic imperatives to cover the entire country.

In a few cases notably Ethiopia and Mozambique the principal SMI agency concentrates on technical and management extension services and leaves credit to existing financial institutions and some NGOs. This is also the situation in India. The basic justification for this institutional arrangement is that if the credit function is included, the promotional agency will be overwhelmed and will tend to neglect the other vital (extension) services. The major problem with this system is that in the absence of systematic harmonisation of efforts, some services by the promotional body could be rendered impotent and wasted by bottlenecks in the credit flows. This was empirically brought out in Zambia when initially SIDO did not have a fund for SMI credit. This system is also associated with delays in completing the essential package of services.

The debate about single window approach that uses one institution to deliver all essential services to an SMI and the specialisation system which involves institutions specializing on financing or extension services sometimes revolves around possible duplication. It is sometimes argued that compartmentalisation of specialised functions among interacting institutions will reduce duplication. With regard to supervisory credit, such arguments often involve a serious fallacy. For instance it is suggested that the promotional agency simply helps with project identification and supervision while financing is handled by a specialised financing organisation or commercial banks. In order for a promotional agency to recommend a project to the financing institution it has to do feasibility studies and complete project appraisal. The lending institution must do its own appraisal and possibly even a feasibility study. Otherwise no financial institution would assume the credit risk on the basis of another institution's recommendation.

Of course the cost of project evaluation for the financial institution could be much lower than that of the promotional institution which had to do everything from scratch. But there can be no escape from additional costs to the financial institution in this process. Even in project supervision the financial institution which carries the risk cannot completely delegate project supervision to the promotional agency or any other institution which does not carry the credit risk. Thus a system which separates financing services from other support services in the SSI sector leads to institutionalized duplication in the most expensive facets of credit administration i.e. project identification and appraisal, feasibility studies, and project supervision.

Beyond the problem of duplication, the project is subjected to a longer bureaucratic red tape. Moreover, investment by the promotional agency in project appraisal of a viable project can be rendered impotent by lack of response from the financial houses.

At macro level, the single window approach appears to be a more efficient and effective delivery system of services to SMIs. In this respect the ideal institutional framework would appear to be one where the principal public SMI agency provides all critical services such as credit, management and technical guidance, and industrial sheds and distribution facilities. SMI specialized NGOs can also provide all services that constitute a reasonable package for their target group. Such NGOs services should be seen as supplementary and complementary to those of the principal agency. These NGOs and other institutions that may provide partial services such as training can collaborate with the principal agency for complementary services. The single window approach appears to be the most common structure of the principal SMI agencies in the PTAcountries where the SMI institutional structure have taken complete shape. Apart from funding inadequacies this system appears operationally effective.

In Ethiopia and Mozambique, the Government control of the commercial banks may facilitate timely responses of commercial banks to the credit needs of SMI to conform with the flow of complementary technical and management services from non financing specialized SMI agencies. In India the Government control of commercial banks has helped to facilitate the flow of credit to SMIs.

In the countries where commercial banks are not that directly controlled by Government, it is very difficult to synchronize credit flows with extension services under a compartmentalised delivery system especially where promotional and extension services are given by a public agency while credit is given by the private sector. Indeed, even in Ethiopia which has had some long experience with the compartmentalised system, the delays in credit flows are long enough to frustrate extension services. Mozambique's experience is too short to warrant justifiable observations, but even there it would be too optimistic to expect a well synchronised delivery system in the absence of a single window approach.

One method used around the world to improve the flow of credit to SMIs is the Credit Guarantee Scheme (CGS) under which the Government through an appropriate public agency undertakes to absorb a certain percentage of SMI bad debts. Our discussion of CGS refers only to this general Government scheme in which several credit institutions can participate, and excludes ad hoc schemes of special funds that may be deposited at a bank as a basis or guarantee for the bank to lend to a specified target group of SMIs.

The CGS has been used in many Asian countries together with mandatory loan quotas for SMIs to improve credit flows to SMIs. In India the CGS is managed by the Central Bank through a subsidiary, in UK it is managed through a Government Ministry, while in US it is managed through the principal public agency for SMEs i.e. the US Small Business Administration (SBA). The CGS is not quite common in PTA. Only Zambia appears to have implemented it under the management of the Central Bank. Swaziland has already amended its Central Bank Act to pave the way for implementation of a CGS.



Other countries like Lesotho and Mauritius have been thinking about it, and may soon come up with some scheme.

To the extent to which lack of security is a major barrier to credit, the CGS which reduces this problem can improve the flow of credit. But it is very easy to exaggerate the role of CGS. Since it started in Zambia in December, 1987 only a few loans have been guaranteed. Out of a total of 85 applications received so far 49 came from the Government owned bank, Zambia National Commercial Bank, 35 from the NGO specialised financing institution, Small Enterprises Promotion Ltd, and 1 from the first indigenous commercial bank, and none from the old established and large foreign banks, Barclays, Standard Chartered, Grindlays, and the Bank of Credit and Commerce. In Swaziland the commercial banks have not been particularly warm to the idea of CGS.

While the risk of default is a definite constraint on any lending programme for small business, the binding constraint on SSI credit facilities in Zambia and most countries is the high credit administration costs involved in lending to small scale industries. Even where the risk of default may appear non existent, the cost of assessing project viability and project supervision may be prohibitive. Thus in Nigeria when the Central Bank set a percentage of commercial bank loan portfolio to go to small business, and any shortfall to go to the Central Bank at zero interest rate for passing to the SSI fund, most commercial banks passed their entire SSI mandated percentage to the Central Bank at zero interest rather than get involved in lending to small industries. This was to avoid the high administration costs.

The CGS can, however, be very useful in conjunction with other measures. In particular, appropriate measures must address the critical problem of high administration costs. This is normally tackled through Government administration grants to the principal agencies to cover extension and credit supervision services, and through provision of loanable funds to these agencies. The cost structures of commercial banks will continue to make them unlikely channels of the bulk of SMI credit. Nor is it politically or economically prudent for Government to subsidize SMIs through grants to commercial banks as has been suggested in some World Bank circles. Such subsidies in form of grants to public agencies and NGOs including church organisations that provide commodity loans to special communities that may not be easily reached by public agencies can expand and improve appropriate channels of credit. Above all, a reasonable supply of loan funds to these agencies is essential.

### CONSTRAINTS ON SMI DEVELOPMENT

In addition to the problem of finance, the SMI sector faces a wide range of constraints. Perhaps the most prevalent in PTA is that of inadequate technical and management skills. In most countries there are programmes of training, counselling, and guidance that help to improve management and technical skills.

In some countries there are also shortages of highly skilled and experienced manpower among the principal SMI agencies. In addition to aggressive in house training programmes there has been a healthy trend in learning from each other in the region. The national SMI specialised agencies in the region are at different levels of development. Short term attachment of staff to older institutions and study tours have already taken place with encouraging results.

Poor technology is also a major problem. A related problem is that of underdeveloped industrial culture and its offshoots of poor local initiatives in technical and industrial activities, and inadequate public or commercial support for local inventions and initiatives. There is need to strengthen national Research and Development (R & D) institutions, and to recognise the role of SMIs in development of new production techniques, equipment, and products. Very often efforts of SMIs in development do not get the support they need, and consequently a lot of technological opportunities and initiatives are lost.

In the PTA region the problem of physical infrastructure range from shortage of land to high cost of putting up industrial sheds. In countries with high population density like Lesotho, Swaziland, Rwanda and Burundi, and Zimbabwe there is difficult access to land, and the lengthy red tape involved in securing it can often be overwhelming for the SMI.

Thus many SMIs in the PTA region operate in inadequate sheds without adequate supply of utilities. Thus a number of SMI agencies have attempted to solve the problem of inadequate production sheds by establishing industrial estates, and facilitating the conversion of under-utilized or disused buildings into factory sheds. The programme of industrial estates has helped to facilitate SMIs that could have otherwise found it difficult to secure appropriate premises. It is therefore worth encouraging, but care must be taken to ensure that these estates are not built too far ahead of demand, and that appropriate sites and designs are used.

In some PTA countries the legal and administrative systems tend to hamper SMIs. Licensing practices and zoning regulations that restrict industrial activities to certain areas away from residential areas tend to hamper SMIs. In some countries these laws and municipal regulations were introduced by Colonial Governments deliberately to protect settler business against competition from indigenous entrepreneurs. Unfortunately long after independence some countries in PTA notably Zambia continue to maintain these laws and practices.

Research has shown that there is a good range of small industries activities that can take place in residential areas without any risk of pollution, noise or other harmful effects. In the initial stages some of these projects may only be viable if operated around or in the house. To insist on such people starting their projects in the industrial area is to discourage a significant number of micro and small industrial activities.

For small countries like Seychelles, Lesotho, Swaziland, Rwanda, Burundi, there is the problem of narrow national markets.

The PTA regional market should be particularly attractive to those SMIs with capacity to export. There is need for more deliberate measures to exploit the PTA trade potential.

SMIs often face serious procurement problems. They have difficult access to wholesalers and manufacturers of various inputs. For imported materials access to foreign exchange is often difficult. Some SMI specialized public and private institutions provide procurement services including importation of raw materials and equipment. Such programs should be encouraged and strengthened.

## I N C E N T I V E S

Perhaps the most significant incentive in most PTA countries is the institutional support in form of a public agency for SMIs. These agencies help to articulate the needs of the SMIs, and provide focused services to SMIs.

In some countries the SMI incentives include tax holidays, customs duty exemption, and special allocations of foreign exchange, and exemption from licence fees.

There are a few but not many PTA countries with Government purchase programmes from SMIs. Governments are major consumers of goods and services. A Government commitment to purchase certain goods from SMIs can be a significant boost to the SMIs. In India and the USA where the Government purchase programmes are well developed they have been very helpful in promoting the steady growth of SMIs. Within PTA there is an apparent general feeling that the capacities of SMIs are too limited for a meaningful Government SMI purchases programme. But there is an undeniable potential for a much greater effort on the part of national Governments to purchase from SMIs than is currently done. Of course SMIs in the region face many supply constraints. Any Government purchase programme must therefore be part of a policy package that includes measures to deal with SMI production constraints.

In India there are Government regulations restricting the manufacture of certain products to the SMI sector. Such incentives can work well in a reasonably well developed economy with a strong SMI sector. There is no PTA country with such sweeping restrictions.

While a certain amount of protection may be desirable especially for infant SMIs, there may be greater growth potential through improved competitive tendencies and complementary relations between large and small industries both within national boundaries and at the regional level.

#### INTERNATIONAL SUPPORT AND REGIONAL COOPERATION

Most PTA economies are very weak. Problems and constraints include underdeveloped social and economic infrastructure, severe foreign exchange difficulties, poor technology, inadequate supply of critical technical skills, and often a poor resource base. Even those countries with a good national resource base are often constrained by the above problems. International assistance for developing countries is generally recognised as an essential ingredient for the development of these economies. For the SMI development international support should particularly focus on financial assistance and technical assistance.

Regional cooperation has generally been recognised as an effective strategy for promoting rapid economic development especially among developing economies that are often constrained by narrow national markets and poor resource base. The potential and actual role of SMIs in promoting meaningful intra PTA trade has already been touched on. There is need for international financial support to strengthen the capabilities and programmes of PTA.

EXTERNAL FINANCIAL SUPPORT

With the exception of Botswana, most PTA countries have serious national budgetary problems. Although the SMI sector may be recognised as an important ingredient in the economic development process, this sector generally does not have the political weight to bear on the national budgetary decisions. Hence its share of the Government budget is often much lower than its perceived relative role in the economy. The two countries Kenya and Malawi where the SMI sectors do not appear to have serious financial difficulties depend mainly on the steady infusion of external financial resources. In Lesotho and Swaziland the termination of foreign financial assistance to the principal public agencies has created a situation of practically no meaningful source of credit for SMIs in these countries for several years. In Zambia where the principal public agency has not yet received any external financial resources for lending, the SMI credit situation remains very difficult.

With the current national budgetary difficulties, there is need for external infusion of financial resources to the SMI sector. Sometimes the debate has been on how to channel these resources. Western donors who constitute the principal source of external resources prefer to channel finance through the private sector institutions rather than through the public sector. The justification for this is the relative operational efficiency of the private sector not only in the Developing, but also in the Developed countries. In Developing countries, the relative operational inefficiency of parastatals for instance is enhanced by undue political interference in parastatal operations.



In spite of undeniable relative weaknesses of the parastatals, the universal justification for public corporations and parastatals is for the Government to provide certain services that cannot easily be given by the private sector, and in such a manner that the operational public agency is free from the routine Government bureaucratic red tape. The extension services given to SMIs by the public agencies cannot easily be given by the private sector. It may not even be practical for Governments to purchase these services from the private sector for the SMIs. Thus even in USA, the acknowledged Dean of private sector, there is a public agency, the SBA that provides all the critical services i.e. credit and a broad range of extension services.

The public institutional mechanism is inevitable in the PTA countries as it is in many Developed and Developing countries. And given the relative superiority of a single window delivery system, the principal public agency should be recognised as potentially a reasonable channel of external financial resources, especially where it has been constituted as such. Otherwise there is nothing structurally repugnant about it.

Of course these agencies sometimes have serious management and other problems. In such cases it is important to deal with the management problems instead of condemning the structure as has happened in some PTA countries. Indeed, the external financial flows must often be accompanied with technical assistance in fields where the local institution has specific weaknesses, and to generally strengthen the institutions. Indeed, even in the absence of external financial resources technical assistance may be useful especially for young institutions, and for countries like Uganda and Rwanda which are in the process of developing systematic formal policies and institutional framework for SMIs.

While external support is very essential it should not be seen as a permanent feature. National institutions should use external resources to generate and develop reasonable capacity for self sustaining. For instance a steady flow of local and international finance for five years can make the semi commercial lending activities of principal agencies self sustaining. Of course, Government grants would continue to be necessary to cover extension services which should be seen as Government subsidy to the SMIs. Otherwise the lending operations could be self sustaining, and expanded on soft loans and occasional grants. The problem sometimes has been that the funds have been on an ad hoc basis - without this long term perspective of self sustaining activities. For instance when a fund of say \$2 million is given and is immediately tied in (5-7 year) medium or long term loans with 6-12 month grace period, unless there is further regular injection of funds, the lending activity can come to a complete stand still even if all the loans are recoverable. Otherwise you cannot expect the initial \$2 million to start revolving at that volume until after 6 years. This has been the problem in some countries including Zimbabwe and Zambia.

#### TECHNICAL ASSISTANCE

In the area of technical assistance, there is need to ensure that any technical assistance facilitates the growth of local capacities to carry on. In this respect technical assistance must involve a well articulated development program for local human resources. Indeed in the interest of maximum effectiveness, as much as possible the pool of expertise in the region should be tapped in technical assistance programmes. The point is that for any given level of qualifications, an expert from the region is more likely to appreciate better the peculiarities of the local situation because they are relatively close to his background and experience.

In any case this is also a way of strengthening local and regional human resource capabilities.

#### TECHNICAL ASSISTANCE FOR PTA

In addition to specific country requirements, the PTA may also require technical assistance to support the industry Division with focussed attention on SMIs in the context of regional industrial development. Most of the regional industrial programmes will naturally tend to involve large industries. But a well developed regional SMI sector is crucial to the development of such a regional industrial programme. An expert on SMIs could help PTA for 1-2 years in this respect. If such expertise is also free to assist individual countries with advice on national SMI programmes and how these could be hooked into the regional industrial programme, such technical assistance can be justified both on the regional and national basis. UNIDO may wish to consider providing such technical assistance.

#### LOCAL INPUTS FOR REGIONAL COOPERATION

While Western countries and multilateral institutions like UNIDO are the principal sources of financial and technical assistance member countries must develop some capacity for absorbing certain costs especially in the area of regional cooperation. For instance the tremendous scope for sharing experiences can be exploited through exchange of visits ranging from brief study tours to a few months of industrial attachment. External support may often be necessary for air tickets in view of foreign exchange difficulties, but local living expenses can sometimes be absorbed by the host country without undue stress, especially when there are possibilities of reciprocal facilities. The development of such local inputs can be combined with external resources to expand the opportunities of regional cooperation beyond the levels that may otherwise be imposed by the limited resources of external support.

CONCLUDING OBSERVATIONS AND RECOMMENDATIONS

All the countries in PTA recognise the important role of SMIs and have adopted or are in the process of adopting deliberate policies and appropriate institutional framework for SMI development. However, the SMI sector faces serious constraints including difficult access to credit, foreign exchange, land, and workshop space, inadequate technical and management skills, and unconducive legal and administrative practices. In spite of these constraints, the SMI sector appears to be playing a significant role in the national economies of PTA countries.

The member countries need to particularly address the financing problem by more generous budgetary allocations to SMI agencies, and by directing external financial resources and appropriate technical assistance to these institutions. The SMI sector is one area through which external financial and technical support can touch the lives of many people, and optimize the impact of such support on general economic performance.

With adequate funding the other major constraints can be tackled through improved extension services, and industrial estates. In large urban areas, the industrial estates full occupancy may be well assured. In rural areas these must be developed to meet known explicit demand. Even in urban areas feasibility studies are essential. Governments should improve the commercial environment by repealing or rationalizing unconducive legal and administrative statutes. They should also provide adequate incentives for SMIs. While some levels and forms of protection may be useful excessive protection of SMIs may create harmful distortions in the economy. At any rate given a good commercial environment and basic support services, the SMIs can be very competitive.

The Government should also play an active role in the development of appropriate technology by supporting R & D programs. The role of SMI sector in this must be recognised and encouraged.

There is need to strengthen linkages between SMIs and large industries and other sectors of the economy particularly agriculture. Ancillarisation is one way of institutionalizing the operational links between large and small industries. This is an area where the large business have to play a leading role. National studies and workshops should be encouraged especially in countries with sizeable shares of large scale industries. After a few successful national workshops, a PTA regional workshop on ancillarisation could be a possibility. Such workshops should aim at concrete proposals.

Most of the PTA intra regional trade will naturally be propelled by large industries. But the role of SMIs in regional industrialisation programme should not be ignored. For one thing the PTA offers expanded markets and a greater pool of resources. Most of the large industries that may develop on the basis of regional rather than national markets will often have scope for ancillary relations with SMIs mainly in their country of domicile but possibly also in other PTA countries. The full potential of the PTA is yet to be exploited. This is basically a challenge for national Governments.

## APPENDIX: COUNTRY PROFILES

### MALAWI

Definition:- In Malawi the definition of a SMI is based on the lending limits of SMI specialised agencies.

Institutional Framework:- The umbrella institution which is Small Enterprises Development Organisation of Malawi (SEDOM) provides both financial assistance and extension services. There are a few other institutions providing finance and (or) management support.

Constraints:- The major constraints faced by SMI include Poor technological base; Weak educational background for most potential entrepreneurs and too much dependence on external financial resources which breeds uncertainty about the future stability of SMI programs.

Status of SMI:- The SMI environment is positive in Malawi, with women constituting 30% of the relatively small units served by SEDOM and 5% of the relatively bigger SMIs financed by INDEFUND.

### LESOTHO

Definition of SMI:- The definition of SMI in Lesotho is based on employment where micro industries are those employing 1-5, small industries 6-25, and medium 26-200.

Institutional Framework:- As an umbrella institution, the Basutho Enterprises Development Corporation (BEDCO) provides management and technical guidance, credit and industrial estates. The institution is assisted by Lesotho Manufacturers Association whose objective is to provide entrepreneurs with marketing, government liaison and financial services. The credit fund of Bedco has been suspended mainly due to lack of funds.

Constraints:- The Major constraints faced by SMIs appear to be lack of reliable credit source, inadequate financial base for the umbrella organisation and severe marketing competition from South Africa.

Status of SMI:- Small scale manufacturing projects are quite active especially in tailoring and handicraft, and the majority of entrepreneurs are women accounting for 60% of total.

### MOZAMBIQUE

Definition of SMIs:- The SMIs are defined on the basis of maximum employment of 50, and use of labour intensive technology.

Institutional Framework:- The Institute for the Development of Local Industry (IDIL) is the umbrella organisation of SMIs. Its responsibilities include project identification and promotion, liaison with financial institutions regarding credit for SMIs, extension services and policy evaluation. Although IDIL does not provide credit, it provides procurement services and can operate as a wholesaler for SMIs. Financing is done by NGOs and the People's Bank for Development.

Constraints:- Among the major constraints faced by SMIs are limited financial resources, lack of entrepreneurial tradition coupled with a low level of educated and skilled man power, inadequate foreign exchange, and bureaucratic delays in processing business formalities.

Status of SM:- Due to lack of basic infrastructure in the rural areas, only 10% of all industries are based in the rural areas whereas 90% of them are concentrated in the urban areas. Though men appear to dominate, women are coming up quite steadily.

## SWAZILAND

Definition:- The definition of SMI is based on employment levels.

Institutional Framework:- The Small Enterprises Development Company (SEDCO) was formed in 1970 to provide credit and technical support to SMIs. In 1973, the Small Enterprises Promotion Organisation (SEPO), which was doing promotional work only, was absorbed by SEDCO to facilitate a single window delivery system. Other institutions in the promotion of SMIs include NGOs linked closely with Government structures. SEDCO has had no funds for lending for several years now.

Constraints:- The SMIs face several major constraints such as lack of SMI credit sources, marketing problems due to severe competition from South Africa, low educational level of entrepreneurs and lack of special incentives for SMI.

Status of SMI:- Like Lesotho, women dominate the sector with 55 - 60% share of SMI projects. Most of the projects, however, are in urban areas, unlike Lesotho.

## ZIMBABWE

Definition of SMI:- The definition of SMI is based on maximum employed of 50 people and fixed capital assets of not more than Zim \$300,000.

Institutional Frame:- The principle public agency for SMI is the Small Enterprises Development Corporation (SEDCO) which became operational in 1984. Among the objectives and functions of SEDCO are, the provision of financial support, training and counselling.

Constraints:- Major constraints include inadequate credit funds, administrative funds at the umbrella organisation, inadequate technology and ideas for new industries, legal barriers, e.g. licensing and zoning regulations, difficult access to land and inadequate seed money for equity contribution.



Status of SMI:- SMIs are actively coming up in both urban and rural areas. Men dominate the sector. In 1987, women only got 14% of the total loan amount given to SMIs, and 11% in 1988.

### MAURITIUS

#### Definition of SMI

The definition is based on the fixed capital assets which should not exceed 500,000 rupees.

#### Institutional Framework

The umbrella organisation which is Small Industries Development Organisation (SIDO) became operational in 1984 with the main objective of providing technical assistance to SMIs.

#### Constraints

The SMIs face several constraints such as marketing problems, inadequate financial resources and lack of skilled manpower.

#### Status of SMI

The SMI sector is dominated by men.

### UGANDA

#### Definition

SMIs are defined by convention and practice of SMIs themselves.

### Institutional Framework

SMI policies are currently handled by the Commissioner of Industries. There is no autonomous public umbrella organisation, although this is actively being considered. The Uganda Small Scale Industries Association is the principal agency for practical support services to its members.

### Constraints

These include absence of public umbrella organisation, shortage of credit facilities and foreign exchange, inadequate technical and management skills.

### General Status

The SMIs in Uganda are among the best developed in the region.

## ETHIOPIA

### Definition of SMI

Is based on investment in plant and machinery and is legally codified.

### Institutional Framework

The principal public agency for SMIs, HASIDA, was established in 1977. It provides technical and extension services, but not credit.

### Constraints

Constraints include financial problems of umbrella institutions, difficult access to credit and raw materials, poor technology base, foreign exchange problems.

### General Situation

The SMIs are active throughout the country, but with a bias to urban centers.

## KENYA

### Definition

Based on employment of maximum 50 and investment levels of KSH0.5 million. Definition is not codified.

### Institutional Framework

Kenya Industrial Estates Ltd is the principal public agency and it provides both credit industrial estates and extension services to SMIs. There are several NGOs also active in SMI development.

### Constraints

Among the major constraints are inadequate technical and management skills, poor technology.

### General Status

The SMI sector is very active and well developed.

## ZAMBIA

### Definition of SMI

The definition is based on the fixed capital investment which should not be more than K1.5 million. This is codified by an Act of Parliament.

### Institutional Framework

The principal public agency for the development of small scale industries is The Small Industries Development Organisation (SIDO).

The SIDC programmes involve the provision of consultancy services, extension services, credit facilities and procurement of factory sheds and distribution outlets. There are other organisations supporting SMIs mainly NGOs.

#### Constraints

The constraints faced by SMIs are inadequate credit resources and poor financial base for the umbrella organisation, shortage of factory sheds and utilities, difficult access to foreign exchange, poor technical and management skills and underdeveloped entrepreneurial base.

#### Status of SMI

The SMI sector is active, in both urban and rural areas.