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GROWING MICRO AND SMALL ENTERPRISES IN LDCs

The "missing middle" in LDCs: why micro and small enterprises are not growing

Contents

Preface

The importance of small and medium-sized enterprises (SMEs) in contributing to job creation and output growth is now widely accepted in both developed and developing countries. Of particular interest is the process of expansion of these enterprises from very small into medium size, as it is when they become medium-sized that growth-oriented SMEs make their most tangible contribution to economic growth and job creation. Dynamic medium-sized enterprises provide a competitive edge in two ways – as leading subcontractors and as venture firms in their own right. They also tend to survive longer than most SMEs and create jobs that yield higher returns, thus multiplying their impact on economic growth.

However, in many developing and least developed countries (LDCs) there is evidence of a "missing middle": a shortage of middle-sized growth-oriented SMEs that could make an important contribution to development. This "missing middle" is generally attributed to hidden and largely inadvertent biases in the economic policies of these countries that militate against the gradual and organic growth of their enterprises. The lack of coherent SME development strategies, which take into account the three dimensions of enterprise evolution (i.e. start-up, survival and growth) and the different needs of enterprises in their various stages of evolution, is another important contributory factor.

In the absence of a coherent policy framework for enterprise development, globalization and the opening of domestic markets as part of liberalization policies has had an adverse impact on the enterprise structure in many LDCs and other developing countries. In particular, SMEs are being decimated or are continually losing ground in terms of their competitiveness. Instead, the microenterprise or survival sector has gained prominence.

The twin processes of globalization and liberalization, combined with rapid advances in information and communication technologies, are creating new dynamics of production, enterprise development and international competition. Countries' existing enterprise development strategies may no longer be effective in light of the changes in the environment. Any government that is concerned about promoting SMEs should therefore carefully examine the impact of its existing policies and programmes for enterprise development and redesign its SME strategies to focus on addressing the issues related to the "missing middle".

This publication presents a summary of the policy framework for small and medium-sized enterprise development in four LDCs: Burkina Faso, Nepal, Samoa and Zambia. The study is divided into two sections: the first section provides a synthesis report summarizing the findings of the four country studies that are presented in the second section.

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Publications in this Series are expected to stimulate discussion among policy makers, practitioners and researchers involved in SME promotion, concerning the contribution of SMEs to national competitiveness and how they can be better supported. The Series covers research work by UNCTAD and by external experts.

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SECTION I: SYNTHESIS REPORT

I. OVERVIEW

The contribution of small and medium-sized enterprises (SMEs) to employment, growth and sustainable development is now widely acknowledged. Their development can deepen the manufacturing sector and foster competitiveness. It can also help achieve a more equitable distribution of the benefits of economic growth and thereby help alleviate some of the problems associated with uneven income distribution.

The available evidence suggests that SMEs have played a major role in the growth and development of all the leading economies in Asia. The Asian experience clearly shows that it is mainly the growth-oriented medium-sized enterprises among the SMEs that have a high propensity to apply technology and training and serve specialized niche markets. Among the factors that have contributed to the success of such SMEs is a high incidence of cooperative inter-firm relationships, which have rendered individual firms less susceptible to risks, fostered mutual exchanges of information and know-how between firms and created a rich pool of collective knowledge. A key factor has also been the provision by Governments to SMEs of technological extension services (such as quality assurance, research support and information on sources of technology).

However, a similarly robust and dynamic SME sector is absent in many developing countries, particularly in the least developed countries (LDCs). The enterprise sector in many LDCs shows a distinct dual structure. At one extreme there exist a few large modern capital-intensive, resource-based, import-dependent and assembly-oriented enterprises, while at the other extreme there are small and informal sector (micro) enterprises that use very simple and traditional technologies and serve a limited local market. This structural imbalance in many developing countries has arisen despite their implementation of SME promotion programmes for many years. The industrialization policies pursued by developing countries in the past are identified as having contributed to a bias in favour of larger scale enterprises by encouraging premature movements of resources into large capital-intensive businesses rather than promoting the gradual and organic growth of enterprises. This bias persists in many developing countries, rendering their SME promotion strategies largely ineffective. Furthermore, efforts focusing on SME development are often frustrated by the absence of a favourable macroeconomic framework. In addition, repressive legal and regulatory regimes can impose disproportionately high costs on SMEs, which often results in a polarization of business size and the phenomenon of the "missing middle".

Badly conceived SME promotion strategies are equally to blame. The degree to which the State regulates, supports or inhibits SME growth requires a delicate balance: overly protective SME development policies have proved ineffective in promoting a robust and dynamic SME sector. The outcome of such policies is a small-scale sector with low productivity, insufficient opportunities for dynamic growth and powerful vested interests.

The structural adjustment programmes (SAPs) of the 1980s, and in recent times, the general move to liberalize domestic markets, were expected to rid economies of market distortions and pave the way for vibrant private sector growth. However, experience shows that the process of policy reform in developing countries which suffer from imperfect market conditions must go beyond the elimination of price distortions and a mere adherence to market principles.

There is thus a growing recognition of a need for micro-level approaches that address the specific problems facing small-scale entrepreneurial activity and that are compatible with the general direction of industrial and macroeconomic policy. In the prevailing climate of globalization, developing countries urgently need to ensure that they have a critical mass of domestic enterprises in the middle range, which are internationally competitive and capable of penetrating global chains of production.

The East and South-East Asian experience with export orientation shows that the majority of small enterprises perform poorly on the world market (ILO, 1996). Those most likely to survive are the ones with export potential, and which, in addition, grow from small into efficient medium-sized firms. Given the inherent difficulties of small enterprises, it is also quite clear that a dynamic SME sector cannot be established without external assistance. In their pursuit of open investment and trade policies, as dictated by the new global economic environment, Governments of developing countries and LDCs need to integrate measures aimed at SME development into their general industrial and economic policy. The combination of intensified competition and technological progress means that countries have to examine how best to use their available scientific and educational resources to enhance domestic technological capabilities as an integral part of industrial policy, in a changed global context.

II. THE SURVEY APPROACH

This study presents a summary of the policy framework for SME development on the basis of country case studies that were carried out during 1998 and 1999 in four LDCs – Burkina Faso, Nepal, Samoa and Zambia. The case studies were undertaken as part of an UNCTAD project on *National Policies and Measures for Growing Small and Micro-enterprises in LDCs*. The principal aim of the project is to contribute to the development of national productive capacity and to address the problem of the "missing middle" in the enterprise sector by providing assistance in the formulation of practical policies and measures to promote the growth of small and microenterprises on the basis of best practices and lessons learnt.

Two of the countries, Nepal and Zambia, have implemented structural adjustment programmes (SAPs) with assistance from the International Monetary Fund (IMF). All the countries have undergone some form of trade liberalization, the most recent experience being Samoa, which announced sweeping liberalization measures in July 1998.

The research in each of the countries was undertaken by a national consultant, guided by a benchmark study of SME development policies and measures, a framework for the analysis of national SME policies and measures as well as a sampling methodology for country analysis. Based on the conclusions and recommendations drawn by the benchmark study, the framework for analysis identified seven criteria for assessing national policies and measures for SME development. The criteria covered the following issues: (i) taxation and an enabling approach to regulation; (ii) equitable access for SMEs to imports or materials; (iii) the impact of labour legislation; (iv) access to finance; (v) government support for women entrepreneurs and entrepreneurs in general; (vi) public-private sector dialogue and its role in contributing to policy coherence; and (vii) intermediary organizations providing support to SMEs and the implementation of the principle of subsidiarity by Governments when providing assistance to SMEs.

The depth of analysis achieved by the national consultants varies and largely reflects the availability of and access to relevant data.

III. SUMMARY RESULTS OF COUNTRY RESEARCH

General policy environment for enterprises

The country reports reveal that Governments are aware of the SME sector as being potentially important for development. In all four of the countries studied, the SME sector has been the subject of numerous policy pronouncements, although the extent to which these have translated into SME development strategies varies between the countries.

As would be expected, each of the four countries studied has its own approach to the definition of micro, small and medium-sized enterprises.[1] The very attempt to differentiate enterprises by size suggests an awareness on the part of policy makers that, in order to help those enterprises in need of assistance, policies and initiatives should be designed to apply to specific categories of enterprises. The absence of a definition for the middle range could imply the existence of a dramatic "break point" that acts as a disincentive to expanding business operations. Medium-sized enterprises can be at a disadvantage if, having graduated, they face a significant loss in terms of the special privileges afforded to micro and small enterprises. In addition, they might be treated as if they were large enterprises commanding the same levels of profit and capacity to spread the administrative costs of regulatory compliance between a greater resource base and also to offset the costs with certain benefits of legitimacy.

Of the four countries, Burkina Faso seems to have developed the most detailed definition for micro, small and medium-sized enterprises using a combination of the three most commonly used size measures: assets/financial investment, employment and sales,

[1] There is no generally accepted definition of micro, small and medium-sized enterprises. No single definition can reflect the differences between firms, sectors or economies of different size and at different levels of development. Most international organizations have adopted a non-definitional policy, although many also employ a working definition. The issue of definitions is further complicated by the tendency of NGOs, donors and authors of various studies quoted in the country reports to adopt classifications and definitions that suit their own purposes. Moreover, the distinction between the micro, craft, cottage, small and informal sectors is often blurred.

as well as other qualitative criteria. This is, however, a recent development, and it is not clear how far it is applied in practice. Zambia attempts to arrive at a more accurate definition of micro and small enterprises by similar means, and goes further by differentiating between total investment criteria for small enterprises in manufacturing and processing on the one hand, and those in the trading and services sectors on the other. An official definition of medium-sized enterprises does not exist. Nepal classifies its industrial enterprises according to four categories: cottage, small, medium-sized and large, based on their levels of fixed capital investment. The Government of Samoa has not found it necessary to develop a formal classification of enterprises by size because of a generally held perception that most, if not all, enterprises in the country are small or medium-sized. The implication being that the economy is free of conflicts related to enterprise size.

In each of the countries studied, policies and programmes for SME development fall principally under the portfolio of their ministries of industry and commerce or the equivalent. In some cases, where the responsibility overlaps between two or more government ministries or departments, this can give rise to problems of coordination and consistency. For example, in Zambia, difficulties in reaching an agreement among government departments, such as the local authorities, the Ministry of Finance and the Revenue Authority, on various fiscal and zoning concessions proposed by the Small Industries Development Board for SMEs, apparently prevented the full implementation of SME promotion measures for a number of years.

None of the countries was found to have an explicit strategy for SME development. Nevertheless, their various projects, programmes and activities can be grouped as a loose, if somewhat uncoordinated, strategy that encompasses the provision of industrial estates, various fiscal and regulatory exemptions as well as support institutions that usually include a small enterprise development agency, development banks and export promotion agencies. In addition, Nepal has a cottage and small industry reservation policy, whereby the manufacture of certain industrial products has been designated as the exclusive domain of the domestic cottage and small-scale sector.

Small enterprise development policies are generally described in the broadest terms. On the whole, the Governments, in line with the current economic thinking, emphasize the creation of an enabling environment by instituting market-oriented reforms, the facilitation of foreign direct investment (FDI) and export promotion. In the countries that have undergone SAPs and are faced with high levels of unemployment as a direct consequence of mass retrenchments in the public sector, poverty alleviation and employment creation is an important objective of their micro and small enterprise policies and programmes.

Legal and regulatory environment

A legal and regulatory system that calls for complex registration and licensing requirements and demands tedious and costly reporting practices imposes heavy costs on SMEs. By contrast, larger firms benefit from “administrative economies of scale”, and often pass the burden of compliance requirements down their supply chains to SMEs. In such an environment, informal sector enterprises are discouraged from entering the formal sector, and in more extreme cases, formal sector enterprises are induced to "deformalize" their activities.

As firms grow and become more "visible", their options for regulatory avoidance decrease, suggesting that there exists a theoretical break point in the cost of compliance. This point logically lies somewhere between very small businesses, which can avoid the rigours of regulation, and those companies that have reached a size that enables them to spread the administrative expenditure between a greater resource base, and to offset the costs with certain benefits of legitimacy (such as the possibility to secure public contracts, access to credit, renewal of licences and opportunities for subcontracting work, from which informal sector enterprises are barred). The challenge for policy makers is not to impose dramatic break points (in the form of regulatory and, in particular, tax requirements) that are a disincentive to increasing the size of business operations.

The evidence indicates that all the countries studied have some registration requirements in relation to tax, labour or other laws. Statutory requirements for setting up businesses vary among the four countries, from strict to non-existent. In Burkina Faso and Samoa, obtaining a business licence is a protracted process. Since 1992, a licence is no longer required for the establishment or expansion of a business in Nepal, although all enterprises are required to be registered. In Zambia, the Government waives licensing and registration requirements for SMEs in designated areas of its cities as a strategy for depressed area development. As can be expected, a manufacturing licence is the most difficult to obtain, given the need to comply with health and environmental requirements. For most small businesses, it seems to matter little whether they are registered or not. In fact most entrepreneurs do not seem to feel particularly constrained by the regulatory environment, possibly because the majority of small enterprises there operate in the informal sector.

As for labour, employment and environmental or health-related regulations, Zambian officials are generally flexible in their enforcement vis-à-vis small enterprises, particularly when they are located in depressed areas. Medium-sized enterprises, on the other hand, are expected to comply fully with all regulations. These regulations do not, in any case, pose a major constraint for business in general. By contrast, labour regulations are quite strict and wide-ranging in Burkina Faso: they apply to all enterprises, including small enterprises, and represent a major constraint on the competitiveness and expansion of smaller enterprises. Hence, many SMEs do not comply with these regulations, but in opting out, they "deformalize" their operations.

Burkina Faso, Nepal and Zambia have a system of exemptions in place to reduce the burden of tax on small enterprises. Zambian entrepreneurs complain about the level of taxation and consider the introduction of value added tax (VAT) irksome on account of the administrative tasks involved. Theoretically, although SMEs are exempt, larger firms often insist that all their subcontractors be VAT-registered. In Nepal, SMEs are theoretically better off as a result of the introduction of a system of self-assessment; however, in reality, tax officers often view their self-assessed submissions with suspicion, leading these enterprises to experience long delays and incur additional costs in pursuit of tax clearance. Small enterprises are not eligible for public contracts or fiscal incentives if they do not get clearance. In Samoa, many of the small entrepreneurs in the fishing industry register as family concerns in order to avoid tax-related administrative burdens.

Business development services

There is broad agreement that SMEs can become effective creators of employment, innovation, income and growth. However, many of them do not realise their full potential because they lack access to markets, finance, technology and business skills. Globalization and liberalization have compounded these traditional problems of access. Production is now knowledge-based and competition occurs on the basis of both continuous innovation and price. Entrepreneurs need to muster design, have extensive knowledge of markets and technology, and become innovative.

Best practice points to the need to support linkages and networking as a key mechanism to facilitate the development of SMEs. The favoured style of intervention is the provision of specialized support services through a multi-layered network of service providers, whereby the Government supplements or supports private sector activities rather than duplicating them, and coordinates with specialized institutions in the provision of services to SMEs. There is little evidence of this kind of intervention in the four countries studied.

There appears to be little scope for implementation of the principle of subsidiarity,[2] at least in Zambia and probably also in the other countries, because of the limited capacity within the private sector to provide business development services (BDS) – particularly growth-oriented SME support services. Another possible reason for the limited participation of the private sector is mentioned in the study of Burkina Faso, where small entrepreneurs have not yet developed the culture of seeking and buying-in technical assistance.

The quality and relevance of BDS are, in most cases, found to be less than satisfactory. Only a small number of micro and small enterprises benefit from existing BDS. These services are often confined to urban areas, but even there, many small enterprises are unaware of their existence. Policies towards SMEs and BDS do not adequately address the problem of insufficient linkages between large and small firms, yet such linkages are an important prerequisite for competitiveness, especially in high-end markets (Porter, 1990). No comprehensive approach seems to have been adopted to facilitate the transition of domestic firms to new market conditions, apart from a macroeconomic approach aimed at "getting the prices right" and measures fostering passive integration into the world market.

Business development services are mainly publicly or donor supported, and generally in the areas of training, marketing (including export promotion), product development, credit and technology. However, training programmes and credit schemes seem to favour start-ups rather than expansions. In Zambia, research and technology

[2] See UNCTAD (1997) for a discussion of the concept of subsidiarity.

institutions have only weak links with the private sector and their work is not driven by the needs of enterprises. Almost all BDS are provided by government agencies and non-governmental organizations (NGOs), and NGO activities are particularly concentrated in the area of microfinance. In Nepal, the heavy reliance on donors and NGOs for the provision of BDS has resulted in a lack of continuity in their provision. Moreover, entrepreneurs in Nepal complain that the services provided by NGOs are not specialized enough to serve their needs.

Although SME support agencies have been in existence in many developing countries for some time, their impact on business formation and their survival and growth have generally been limited. They have been criticized for their bureaucratic nature, inability to recruit and retain competent and motivated staff, lack of coherence and coordination, insufficient geographical coverage, and their overemphasis on business start-ups with too little focus on the other stages of an enterprise's trajectory of growth. In addition, their programmes fail to address the underlying constraints faced by SMEs, particularly in the context of the growth of knowledge-intensive production and the intensification of competition in the global market. These criticisms apply equally to all the countries studied.

Conflicts between the policies of Governments and donors in the provision of BDS are not uncommon. For example, in Zambia NGOs do not always use the official definition of micro and small enterprises, which means that they target a different group of enterprises for preferential treatment. Governments and NGOs alike develop support programmes without sufficient consultation or knowledge of each other's programmes, leading to rivalry, duplication of efforts, piecemeal interventions and inefficient use of scarce resources. In Burkina Faso, some attempts at coherence and coordination in the provision of BDS by donors, NGOs and the public sector have been made, including the carrying out of joint initiatives. One of the outcomes of this cooperation is the compilation and publication of a handbook of micro and small enterprise support organizations/programmes and professional associations, which provides a description of their objectives and details of their activities.

Access to finance

Access to credit is not a major constraint for microenterprise start-ups because the majority of interventions directed at credit facilitation are in the area of microfinance. However, lack of access to medium or long-term credit is a major constraint for those enterprises that wish to expand their activities. The reasons for this are well known, particularly the fact that SMEs present a high risk to the lender because many of them have insufficient assets and suffer from low capitalization. In addition, poor accounting records and the lack of other financial records make it difficult for banks to assess the creditworthiness of potential SME borrowers. Moreover, the relatively high cost of processing small loans means that lending to SMEs is generally not for banks.

Many expect that financial liberalization will solve SME problems by stimulating the substitution of more expensive forms of credit for cheaper ones and lowering transaction costs with respect to credit, resulting thereby in the reallocation of domestic credit in favour of smaller enterprises. However, these desired effects have often failed to materialize in the way policy prescriptions envisaged. All four country case studies show that the traditional problem of access to credit and the reasons for it remain unchanged. Unfavourable macroeconomic conditions and the risks associated with lending to small entrepreneurs engender a preference among formal sector banks for short-term lending and lending to public or corporate entities. Attempts by Governments to address this problem have met with limited success. Despite the provision of subsidized credit channelled through development and commercial banks and the creation of various credit guarantee schemes, these countries have had little success in reaching the intended beneficiaries, namely growth-oriented small enterprises.

One reason for the failure of such interventions in Zambia is the attitude prevalent among small entrepreneurs that loans made available through funds provided by the Government need not be paid back.[3] In Samoa, the issue of collateral is especially difficult because most land is under communal title. Despite liberalization, the financial sectors in these countries have remained small and risk-averse with little incentive to develop products specially adapted to SME needs.

The categories for directed credit in East Asia were not very different from those with which other developing countries and LDCs have experimented. In fact many credit schemes failed and were abandoned for the same reasons already noted here. However, the East Asian credit schemes, on the whole, yielded far better results. High default rates and serious collection problems were avoided by putting in place effective pre-appraisal and monitoring systems including the introduction of appropriate systems of incentives and disincentives for local credit institutions and their staff. Loans to SMEs were subject to continuous and pragmatic review and preferential credit was withdrawn quickly from non-performing firms or from those firms that had gained access to private credit markets. Their success was also due to the fact that they targeted SMEs that were most likely to grow, export or invest and generate technological externalities. Subcontracting was also encouraged as a means of alleviating the financing problems of SMEs.

Public-private sector dialogue

Public-private sector dialogue is a platform for interaction to inform policy development. Given the many areas where there exists a mutual interest in cooperation between the two sectors, including skills, technological and infrastructural development, environmental protection and the promotion of inter-firm backward and forward linkages, the ability of the Government and the private sector to build an effective working relationship assumes particular importance. Such a working relationship may be a competitive advantage in its own right in a globalizing and liberalizing world economy. Collaborative arrangements linking the Government, business and civil society are a distinct and common feature of the East Asian “miracle economies”, and are credited

[3] A similar mindset has been documented by other studies in Swaziland and in Malaysia, underlying the need for borrowers to be inculcated with a repayment culture from the outset so that loans are not viewed as entitlements or gifts from the Government.

with providing the critical means for stabilizing the policy environment and promoting social and economic development. It has been suggested that in an increasingly interdependent world, competition among enterprises is often competition among different systems of government-private sector relationships (UNCTAD, 1997a).

As many developing countries try to adjust to the rapidly evolving world economy through economic reforms, their reform efforts frequently encounter conflicts among powerful actors – such as the political leadership and opposition, business and labour groups – over the direction and timing of reforms. Passive or aggressive resistance to reform efforts through evasion and non-compliance with new policies is common within the business community and has often resulted in derailing the momentum for reform (Biddel and Milor, 1999). Public-private sector dialogue can potentially contribute to the quality and momentum of economic reform and lower the transaction costs of business and economic governance.

The country reviews indicate a recognition and willingness by the Governments to assign the private sector a greater role and status as a partner in economic development and policy-making. Ad hoc consultations frequently take place between various government departments and private sector representatives and it is common for Governments to appoint representatives from the private sector to the boards of various statutory bodies. Governments also regularly seek the input of the private sector and civil society concerning the annual budget. In addition, formal structures for public-private sector dialogue with the involvement of senior ministers have been set up in all the countries. Many of the initiatives for enhancing and bringing about structured dialogue between the public and the private sector are recent and are part and parcel of broader structural adjustment or donor programmes. The scope and focus of the private sector's involvement varies among the countries studied.

In Burkina Faso, an important part of the process of economic reform is the initiation of dialogue between the public and the private sector. A special commission for private sector development exists under the portfolio of the Ministry of Trade, Industry and Crafts. The main task of the commission is to oversee the reform of the policy and institutional framework for the support and promotion of the private sector. A member of the private sector leads the commission, and over 80 per cent of the members are representatives from the private sector. This forum has facilitated the involvement of the private sector in policy-making, notably in the restructuring of the national Chamber of Commerce (a statutory body), the reform of investment, customs, labour and family laws, as well as in the elaboration of policies and strategies for the development of SMEs.

In Nepal, the Business Consultative Forum was constituted under the chairmanship of the Prime Minister in 1998 to assess public policy and its impact on business in the areas of trade, industry and commerce. Public-private sector dialogue has also been initiated in the context of a reform of the tax system. Similarly in Samoa, the Trade, Commerce and Industry Development Board serves as a forum for public-private sector dialogue on issues related to private sector development. Through this forum, the private sector has participated in the liberalization of the financial sector and in a review of the country's tariffs.

In Zambia, the approval of the national chamber of commerce is sought as a matter of course on trade matters, including multilateral trade agreements. The chamber of commerce is also consulted on small enterprise policy issues. The Zambia Industrial Partnership Council (ZIPC) and the National Action Programme for Private Sector Support (NAPPS) offer the private sector opportunities for formal and structured dialogue with the public sector on industrial, commercial and trade policy, and private sector development respectively. Unfortunately, since the ZIPC initiative is essentially donor driven, its sustainability is questionable. In addition, it potentially undermines the authority and standing of the Government in the eyes of the private sector and the general public.

The case studies highlight a number of shortcomings on the part of private sector representative organizations with regard to their preparedness for dialogue. The private sector is described as largely reactive to government initiatives and seemingly uninterested or unable to participate in policy formulation, too focused on lobbying and divided, thus often frustrating the process of dialogue. Concerns are also raised with regard to SME representation in the dialogue. Larger enterprises and their interests dominate the membership and agenda of business associations. Where SME associations exist, they are either too few and too weak to make an impact, or are too many and unable to speak with one voice.

Trade liberalization

Small and medium-sized enterprises are expected to benefit from trade liberalization as a result of greater access to imported raw materials, intermediate goods, spare parts and technology. It is often assumed that the relative flexibility of SMEs will allow them to adapt product lines towards more lucrative production and that it will give them an advantage over large-scale enterprises in competing against manufactured imports. However, while trade liberalization has, in some cases, eased the supply constraints for small firms, it has also presented them with intense competition from foreign goods. For example, cheaper imports have affected the textile sector, in particular, in Zambia and Nepal. In both countries foreign competitors are alleged to have dumped their products on the local market.

The impact of liberalization depends a great deal on the nature of accompanying policies. Both Burkina Faso and Zambia adopted public sector austerity programmes along with liberalization. Mass retrenchments resulted in a significant loss of purchasing power that adversely affected the small-scale sector even as currency devaluation served to dampen import demand in favour of import-substituting SMEs. For many SMEs that were dependent on intermediate imports, the benefits from import liberalization were countered by devaluation and high domestic production costs. Following liberalization, an over-representation of commercial activities among SMEs and a growth in the informal sector have been observed in Burkina Faso, Nepal and Zambia.

Unlike the countries of East Asia, most developing country Governments are under tremendous pressure to effect rapid liberalization of their economies even though they continue to be faced with the economic reality of dependence on revenues from import duties and tariffs and indebtedness. Moreover, their economies are not sufficiently industrialized and competitive to be able to benefit from liberalization and withstand competition from foreign firms. Thus, in many cases, it has either not been possible to carry out vigorous economic reforms, or reforms have been offset by new impediments.

Reforms in Burkina Faso during the period 1991-1993 focused on simplifying the import and export regime with the specific aim of ensuring a neutral impact on government revenue. Consequently, import tariffs on intermediate and finished goods have remained high. Smuggling and customs fraud are widespread and contribute to the “deformalization” of economic activities. In Nepal, implementation of economic liberalization has been limited by the need to stabilize government revenues, and, in some cases, this has led to deviations from the stated reforms and to increased uncertainty in the business environment.

The pace of liberalization has also proved problematic for domestic enterprises. The private sector in Zambia criticizes the reforms as being too abrupt and not allowing business a period of transition. Similarly, the overnight reforms announced in Samoa have caused concern within the private sector because they allow no time for adjustment to new conditions.

Participation of women

In many developing countries women are prevented or constrained from making an economic contribution through employment and entrepreneurship. Inasmuch as it is crucial that policies are not biased in favour of large enterprises or foreign investors, it is equally important that they do not exclude a large segment of a country’s human resources from generating wealth and facilitating development. Moreover, research has shown that women’s incomes are more likely than men’s to contribute towards improving the well-being of the family and society. Women entrepreneurs have also proved to be less of a risk than men in repaying loans.

Research shows that although many women own or run microenterprises (and in many cases form the majority of micro-entrepreneurs), few of them enter the formal sector, and, as a result, only a small number of women’s microbusinesses graduate into SMEs. The reasons for this vary from country to country. In general, the existence and persistence of customary and traditional practices, which, in some cases, result in discriminatory laws, create a multitude of obstacles for women entrepreneurs in addition to those normally faced by all SME entrepreneurs. It is therefore important for developing countries to identify the types of support measures that may be necessary to promote women’s entrepreneurship and facilitate their full contribution to the development of their countries.

In Burkina Faso, law prohibits discrimination against women and the assumption is that it does not exist. In Zambia, although discrimination against women is illegal, sociocultural biases against them persist and remain a major constraint for women in business. Similarly in Nepal, despite laws to the contrary, societal and cultural norms deter women entrepreneurs. Rights to property are a major constraint and religious values and the prevalence of the caste system add to the problem.

Efforts to tackle the problems faced by women entrepreneurs focus on the provision of micro-credit and the promotion of income-generating activities. Unfortunately, while micro-credit plays an important role in the survival of microenterprises and contributes directly to poverty alleviation, it does not promote the growth of SMEs.

Conclusions and recommendations

The four case studies show that Governments have not succeeded in incorporating their SME promotion policies in their overall development strategies. Moreover, their industrial policies have not received much attention of late. The focus has been on macroeconomic policies, which have, for the most part, been defined by structural adjustment programmes that have emphasized "getting prices right" and poverty alleviation. The assumption has been that trade liberalization would increase incentives to export and would facilitate business enterprise by encouraging private ownership through privatization and by attracting foreign investment.

The East Asian economies have shown that developing countries can compete successfully in global markets. However, to what extent the East Asian experience with economic growth can provide a blueprint for other, poorer countries is debatable, but nonetheless, extremely relevant, particularly that of the second tier "tiger economies" of Indonesia, Malaysia and Thailand.

Rapid industrialization in these three countries was characterized by:

?? Appropriate macroeconomic policies;

?? An outward orientation;

?? Measures to attract foreign direct investment; and

?? Effective selective interventions.

Two further conditions are essential to the success of an industrialization strategy: (i) the institutional capacity needs to be created or strengthened in order to maintain appropriate economic policies, undertake selective interventions and attract FDI; and (ii) an efficient infrastructure is necessary to ensure sustained economic growth (Hawkins, 1998).

The picture has been altogether very different in the four countries studied, and closely resembles the general picture in LDCs as a whole, and many developing countries. Most LDCs embarked on adjustment and reform policies in the late 1980s that placed emphasis on macroeconomic stability, which aimed at creating a domestic economic environment conducive to sustained growth and development. However, a survey in 1997 by the World Bank of institutional obstacles to doing business globally showed that corruption, tax regulations and/or high taxes, inadequate infrastructure, inflation, crime and theft, and financing (in that order) are the top six most important problems identified by African businesspeople. The rankings from the African survey and those for developing countries in general are very similar, although financing is seen as less of an obstacle to infrastructure and inflation in Africa. The country case studies also point to these being persistent problems.

While structural adjustment programmes (SAPs) in LDCs have not been a total success they have had some positive benefits. As a group, LDCs recorded somewhat higher levels of domestic investment during the 1990s, which suggests that a degree of macroeconomic stability was achieved. This, combined with specific measures to create incentives for domestic and foreign investment, may have begun to bear fruit. However, the average annual gross domestic investment ratio is still rather modest, and LDCs continue to experience very low levels of capitalization that can only perpetuate their least developed status (UNCTAD, 2000). There is clearly a need for further improvement and greater macroeconomic stability.

Although LDCs undertook rapid trade liberalization in the context of conditionality attached to structural adjustment and stabilization programmes, the outcomes have not always been positive. The liberalization has often been of a "big bang" type, whereas countries in East Asia followed a selective, gradual and sequenced approach, tailoring the process to their levels of economic development and to the capacities of their existing institutions and industries. The abrupt and disordered liberalization carried out by LDCs, on the other hand, was, in many cases, inconsistent with the requirements to maintain fiscal discipline, given their dependence on revenue from customs duties and trade tariffs. Budgetary and balance-of-payments difficulties resulted in policy reversals, and stop-and-go implementation was interpreted as a lack of "credible commitment" to the reform process. Consequently, private investment (both domestic and foreign) in response to the reforms has been sluggish. Despite far-reaching liberalization of investment regimes, most FDI flows to LDCs remain concentrated in extractive industries and in the general exploitation of natural resources, with little, if any, local value-added. Hardly any of the LDCs have markets large enough to attract inward-oriented industrial investment.

Despite the fact that the trumpeted benefits of trade reform and liberalization in general are predicated upon the existence of a private sector (with a diversified manufacturing segment),[4] SAPs in LDCs have lacked an industrial strategy, and industrialization in most of them could be best described as feeble. This has been further compounded by de-industrialization in recent years. Thus, in most of these countries, the private sector remains narrow and weak, with a lack of indigenous entrepreneurs (and the requisite capital) to pursue private sector-led development. Foreign direct investment (FDI) has not been and cannot be the solution, not only for the reasons mentioned above, but also because its developmental role is to catalyse domestic investment and capabilities.

[4] Helleiner (1988) states that dynamic benefits derive more from trade in manufactures than from trade in commodities.

In contrast, a purposeful policy formulation, guided by an overall vision of industrial development was at the core of the East Asian success. Although SMEs are an integral part of all LDC economies, many have overlooked the potential role of SMEs as an engine for economic development. The focus on poverty alleviation to mitigate the negative social impacts of structural adjustment put the spotlight on the social benefits of SMEs, particularly in respect to the generation of low capital cost employment. Some LDCs are attempting to address the issue of SME development. However, as the country studies show, interventions have largely been uncoordinated and not supported by pragmatic policy-making that is guided by a vision of industrial development and a willingness to repudiate failed policies.

The growing knowledge-intensity of production and the emergence of an innovation-based mode of competition means that the survival of domestic firms comes increasingly to depend upon a continuous process of learning and innovation. These changed circumstances, and the consequent redefinition of the conditions for competitiveness in a globalizing world economy, have exposed the long-term neglect of human resource development, and technical and scientific education (including vocational and on-the-job training) in LDCs. Whereas, the largest and most meaningful benefit from FDI is inter-firm linkages, the biggest constraint to such linkages taking place is the lack of absorptive capabilities of domestic SMEs. Herein, perhaps, lies the most serious factor contributing to the marginalization of this group of countries.

A key characteristic of the most successful of the East Asian economies was their sustained investment in human resources and technical skills development. It is notable that among these economies, Thailand made little effort to promote SME development. However, it was quite successful in attracting market-seeking FDI that had a positive impact on investment and growth. Nonetheless, it was also the cause of an even greater rise in imports because the associated investment and production was highly import-intensive, leading to balance of payments difficulties (UNCTAD, 1999b; UNCTAD 1997b). Thailand has belatedly begun to address the issue of the structural weakness of the "missing middle", which resulted in a shortage of middle-sized growth-oriented SMEs functioning as leading subcontractors and venture firms in their own right, in the hopes of developing highly integrated industries such as in the Republic of Korea and Taiwan Province of China.

The institutional capacity of most LDCs to design appropriate macroeconomic policies, effect sequenced and coherent reforms, target FDI and undertake selective interventions in the manner in which the East Asian tiger economies did, has been questioned by many. Even if they were to have the right policies, problems with implementation would likely arise. The East Asian experience shows that where schemes failed, the problems often revolved around ineffective implementation of policies (Meyanathan, 1994). In addition, part of the blame for the sluggish supply response to structural adjustment and liberalization in LDCs lies in the daunting infrastructural costs of doing business in these countries.

The institutional and capacity constraints in LDCs, coupled with the radically changed global business conditions since the 'take-off' of the second-tier tiger economies have led some to suggest that States should confine their efforts to foster national competitiveness[5] through the creation of a business- and investment-friendly (enabling) environment. Others disagree arguing that global business conditions make it imperative that States target selective interventions aimed at fostering particular industrial activities. Soludo (1998) presents a forceful case for selective intervention in Africa:

> … (a) strategic and selective interventions of the Asian type are still necessary (in spite of globalization) because of the plethora of market failures, the disadvantages of 'late starters', the structure of African industry and peculiar geographic and structural constraints, as well as the constraints imposed by the global trading system; (b) those strategic and selective policies can still be done, albeit under different modalities/instruments and changing circumstances; and (c) the major challenge facing African countries is their ability to creatively and effectively deploy available instruments for rapid industrialization and international competitiveness. (pp.26-27).[6]

In the final analysis, what is indisputable is that integration into the global economy and accessing the benefits from globalization presupposes that a platform for industry already exists, which underlies the importance of linkage and cluster effects. Thus, in countries where this platform does not exist, or where the private sector is weak, development policies and strategies must include enterprise development strategies. Interconnections between virtually all development issues make it imperative to maintain policy coherence at all levels and to adopt an integrated approach to trade, investment and technology. Globalization and liberalization reinforce the argument for doing so.

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[5] Hawkins (1998) states that a more appropriate and meaningful description of industrial policy might be strategic government intervention in the economy to build national competitiveness. Such a definition encompasses strategic, economy-wide measures that do not necessarily focus on the industrial sector alone and it highlights the targeting of competitiveness at the national level.

[6] There is consensus both among those who oppose and those who favour selective interventions that investment in capacity and institution building is a first priority for LDCs to enable them to undertake selective interventions.

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SECTION II: COUNTRY STUDIES

Burkina Faso

INTRODUCTION

In the 1970s, the Government's exploitation and development of agriculture, forestry and mining provided the driving force for development in Burkina Faso. The public sector was the focus of all economic strategies and the key development actor. The Government supervised, managed and allocated resources and controlled prices. It also created a number of public or parastatal institutions, such as development banks and enterprise promotion agencies, to fulfil its objectives.

A fundamental change took place in the late 1980s with the Government assuming the role of facilitator rather than the main development actor. The country underwent its first structural adjustment programme (SAP) in 1991 with IMF and World Bank assistance and adopted free-market-based policies aimed at liberalizing the economy and facilitating private sector activities. The SAP focused on the reform of the banking system, price and trade policy, and factor (labour) markets. The success of the reforms was constrained by unfavourable economic conditions, notably, the collapse in world prices for cotton – a major export of Burkina Faso. The introduction of new tax and customs regulations in January 1993 also led to a decrease in government revenues. Despite delays in the execution of some programmes, progress was achieved, notably in the privatization of State-owned enterprises, the restructuring of the banking system and in the provision of private sector support.

Following the devaluation of the CFA (the common currency of francophone West Africa) in January 1994, the Government instituted a new SAP spanning the period 1994-1996. This new SAP was intended to complete the process of reforms begun by the first programme, including the privatization of State-owned enterprises. The most evident consequence of privatization was unemployment as the result of a mass retrenchment of workers. To mitigate the adverse social effects of its privatization policy, the Government set up a national programme for financing micro-projects in order to encourage retrenched workers to engage in self-employment. This led to the creation of a limited number of micro, small and medium-sized enterprises.

It is too early to draw pertinent and final conclusions on the impact over the last five years of the economic and regulatory reforms due to a lack of statistical data and sufficient time for entrepreneurs to change their behaviour. The regulatory framework is, in fact, still under debate and is subject to amendments. Thus, any analysis of the impact of the reforms will have to take these factors into account.

In the short term, the currency devaluation has boosted activity in some export sectors, notably the cattle rearing and mining sectors. Moreover, SMEs producing for the domestic market (particularly those in the informal and crafts sector) have benefited from the lower demand for imported goods. However, it has also had a negative impact in that the price of imports has escalated particularly that of equipment and intermediate products needed by SMEs in the processing and manufacturing industry.

It is worth noting that enterprise creation in Burkina Faso has undergone a rapid evolution in recent years. Statistics reveal that 1,270 individual enterprises and 286 companies (similar to the total numbers recorded in 1992 by the fourth census of industry) were created in 1994 and 1995 (Direction Générale des Impôts, 1996). Thus it would seem that the devaluation did not have an adverse impact on enterprise creation, at least during the first two years. However, a closer look at the statistics shows that the number of companies has tended to decrease, falling from 31 per cent in 1990-1993 to 15 per cent in 1995 (Direction Générale des Impôts, 1996).

At the same time the informal sector is growing rapidly and there is evidence that a number of enterprises that were previously operating within the law are "deformalizing" their operations and hiding in the informal sector in order to escape regulatory constraints.

Table 1: Costs of production in the sub-region

COUNTRY	ELECTRICITY CFA/KWH	FREIGHT PARIS CFA/KG	WATER CFA/M3	MINIMUM WAGE/H
Benin	75	2 900	245	87
Burkina Faso	101	3 000	441	131
Côte d'Ivoire	57	2 900	350	192
Ghana	-	2 300	-	-
Mali	78	3 000	198	-
Niger	83	2 800	137	109
Nigeria	16	2 000	-	-
Senegal	57	2 200	449	-
Togo	59	2 800	240	79

Source: Ministry of Commerce, Industry and Crafts (1995)

In terms of competitiveness, liberalization has, in the short and medium term, weakened local enterprises because it has taken place in the context of inadequate infrastructure and high costs of production (see table 1), rendering local companies ill-equipped to survive in an increasingly competitive environment. Moreover, financial reforms have not resulted in improved access to credit for SMEs, and commercial banks continue to have excess liquidity.

The micro, small and medium-sized enterprise sector

In 1997, the Ouagadougou Small Enterprise Support Agency (CAPEO) hosted a workshop attended by SME support institutions and agencies (including financing training, research and advisory institutions, and NGOs) from 10 francophone African countries, where common definitions were developed for micro, small and medium-sized enterprises (see table 2). These definitions have been adopted by CAPEO as guidelines for national definitions and policy formulation.

According to a survey conducted in 1990 by the National Institute for Statistics and Demography (INSD), there were 90,000 established microenterprises in Burkina Faso. This group comprised mainly informal enterprises, which are generally family-owned without any management structure. As taxpayers, this group accounted for less than 5 million CFA in turnover. Microenterprises employ, on average, one to three persons – mainly family members – and the majority of microentrepreneurs are women. In reality, it has proved difficult to clearly distinguish between microenterprises and the informal sector, and official statistics cannot reasonably determine the contribution of microenterprises to the national economy.

Between 1985 and 1992, the informal sector is estimated to have contributed 30 per cent of GNP, compared to agriculture, which contributed 20.45 per cent, and the modern secondary sector, which accounted for 23.86 per cent (INSD, 1993). The sector employs 77 per cent of the non-agricultural population and 8.6 per cent of the total active population.

Table 2: Enterprise Typologies

	Income-generating activity	**Microenterprise**	**Small enterprise**	**Medium-sized enterprise**
Entrepreneur	Main purpose is to acquire subsistence income or complementary income No special competence Self-employment	Acquisition of income through specialised activity Elementary technical competencies Self-employment, sometimes family or apprentices	Entrepreneurial spirit A certain level of expertise Owner/manager, family, apprentices and salaried staff	Entrepreneurial spirit, medium and long-term vision Technical and managerial competencies Owner/manager and staff
Activity	Service or retail trade; complementary, temporary or seasonal activity	Main activity very small, sometimes seasonal	Well-defined activity on full-time basis	Specialized activity, sometimes diversified, exercised as usual profession
Regulatory environment	No legal status but pays trade taxes sometimes	No well-defined legal status, but often pays taxes	Rudimentary legislation, often registered (individual enterprise), pays taxes. Membership of professional organizations	Registered member of chamber of commerce. Sometimes incorporated as a company

Table 2 (contd.)

	Income-generating activity	Microenterprise	Small enterprise	Medium-sized enterprise
Entry barriers	Virtually no barriers to entry No fixed premises (roadside, home or market) No need for capital investment; requires little starting funds	Elementary technologies Elementary production (little equipment), sometimes without permanent location Need some working capital (stocks raw materials)	Elementary technologies and investment Investment and light equipment (need for electricity) fixed premises Capital required (equipment) and working capital (rent, raw materials, etc.)	Technological complexity in production Relatively adapted production means, special site. Significant capital (office rent, equipment, training), and sometimes significant working capital
Development potential	Very low or non-existent. Majority women.	Low or horizontal diversification. Reproduction logic rather than growth logic.	Beginning of capital accumulation. Sometimes with growth potential but mainly reproduction logic (family enterprise)	Capital accumulation and growth potential.
Number of employees **Turnover**	1 < 5 000 000 CFA	1 to 3 < 500 000 CFA	3 to 5 5 000 000 CFA	10 to 50 5 000 000 to 200 000 000 CFA

Source: CAPEO (1997).

The growth of the sector is the consequence of structural adjustment, which forced urban salaried people to develop secondary income-generating activities.

According to the Ministry of Commerce, Industry and Crafts (MCIA), an SME[7] is classified as any private enterprise (owned by, or formed in, association with a citizen of Burkina Faso) which is legally incorporated and complies with the following conditions:

?? The manager is the owner or a partner;

?? The enterprise maintains accounts in keeping with prescribed principles;

?? Has a total investment of 5 - 200 million CFA; and

?? Has a minimum number of three salaried employees registered with the National Social Security (INSD, 1993).

This sector is estimated to number 1,217 units, employs more than 60,000 people and accounts for 25.7 per cent of the GDP. The majority of SMEs is engaged in the wholesale and retail trades, that is, the import and distribution of goods, and not many of them export. They are essentially concentrated in the capital city (58.87 per cent) and, to a lesser degree, in the second largest town, Bobo-Dioulaso (19.90 per cent). The service sector is the second largest sector in which SMEs are the most active. Once again these enterprises are concentrated in Ouagadougou (66.26 per cent) and Bobo-Dioulasso (18.28 per cent). They provide various services to the manufacturing sector and the public sector. In the rest of the country, small service activities are more informal (such as people grilling meat, small shoemakers, hair stylists and local beer brewers). In general, the few SMEs engaged in manufacturing, processing and import substitution (e.g. sheet

[7] Small and medium-sized enterprises are not defined separately.

metal, spares parts for bicycles and motorcycles, sweets, biscuits, plastic household utensils and PVC piping) are also located in the capital city.

The main constraint facing SME (and micro) entrepreneurs is a lack of training in business management (for example, many do not separate business and personal expenditures), and they lack a long-term business strategy. They also lack the skills and training for their chosen field of business, and the quality of their products is often poor.

Private sector promotion

There has been an eagerness to strengthen micro, small and medium-sized enterprises as part of a general reinforcement of the role of the private sector in the process of national economic development. Parallel to the SAP, the Government put in place policies for promoting SMEs. Various projects aimed at facilitating private sector activities were established with funds and assistance from different donors (see appendix).

Table 3: Private Sector Support Project

Components	Process so far
1. Assistance to MCIA ?? Technical assistance and equipment for one-stop shop (in the past, 14 different documents from 14 different institutions were required in order to set up an enterprise)	?? A one-stop shop now exists and facilitates investment and non-customs formalities.
2. Institutional Support ?? Privatization of the Chamber of Commerce, Industry and Crafts (CCIA)	?? This has proved effective: the CCIA is viewed by the World Bank as the cornerstone of the private sector system
?? Internal restructuring of 3 institutions (CCIA, National Trade office and CBC-Burkinabè Council of Carriers).	?? On the basis of assessments, recommended and conducted reforms, the 3 institutions are expected to be truly autonomous and more effective in their servicing of the private sector.

Table 3 (contd.)

Components	Process so far
3. Assistance to MEFP	
?? Funding for bank audits	?? Achieved: the National Development Bank (BND) has been liquidated.
?? Assistance to the Ministry of Economy, Finance and Planning (MEFP) for enhancing loan recovery capacities of BRCB (loan recovery agency)	?? Achieved, however the environment and political context of its mission restrict its efficiency.
?? Feasibility study on the creation of new tools	?? Survey conducted.

Source: World Bank (1990).

In addition to the SAP reforms, specific programmes such as PAIST (adjustment and investment project for the transport sector), PASA (agricultural sector adjustment project), PDIP (public institutions development project) and PASP (private sector support project) were also launched. However, these programmes had an impact on micro, small and medium-sized enterprises only in an indirect way, as can be seen from table 3, which describes the components of the PASP.

Microenterprises

The Head of State has declared Microenterprises a national priority. The main objectives of the national policy on microenterprises is to create a more conducive environment for their growth and development, including the development of credit, and professional apprenticeship and training policies adapted to the needs of the sector.

The key ministries that conceive and implement national policy for microenterprise promotion are the Ministry of Commerce, Industry and Crafts and the Ministry of Employment, Labour and Social Security. Other ministries with an interest in microenterprises are: the Ministry of Economy, Finance and Planning (MEFP) which has a support fund for women's profit-yielding activities (FAARF); the Ministry of Secondary, Higher Education and Scientific Research (MESSRS), which has professional training centres and technical schools; the Ministry of Social Welfare and Family (MASF), which undertakes activities for poverty stricken and marginalized groups; and the Ministry for the Promotion of Women (MPF).

The creation by the Government of the Informal Sector Promotion Department (DPSI) testifies to its recognition of the important economic and social role of microenterprises in the country. The tasks assigned to this department define quite well the Government's development strategy for microenterprises. Its mission includes:

?? Contributing to better understanding and knowledge of the sector by identifying training, organizational and skills needs;

- Elaborating a strategic development plan and ensuring its implementation in collaboration with other departments;
- Assisting in modernizing the sector by stimulating innovation and the use of technology;
- Maintaining permanent dialogue with microenterprises and their various professional organizations; and
- Networking with national and international bodies involved with microenterprises.

Several other government departments and institutions have programmes and projects with an enhanced profile in the context of the SAPs. For example, The Department of Crafts and Small and Medium Enterprises (DGAPME) in the Ministry of Commerce, Industry and Crafts is responsible for crafts promotion. The Employment and Professional Training Department of the Ministry of Employment, Labour and Social Security, National Office for Employment Promotion (ONPE), National Support Programme for Reinsertion of Retrenched Workers (PNAR-TD) and the National Fund for Employment Promotion (FONAPE) also have programmes to promote the informal sector and microenterprises.

The National Office of Foreign Trade (ONAC) provides assistance to exporters and promotes local products abroad by participating in fairs and commercial weeks. It provides information on business opportunities abroad and facilitates contacts between local and foreign businesses, including arranging of preliminary contacts with potential foreign partners. It thus helps micro, small and medium-sized enterprises to penetrate foreign markers. It also provides administrative assistance and market research. However, as ONAC operates only in Ouagadougou and Bobo-Dioulasso, it has limited national coverage. It is also worth noting that most entrepreneurs do not take advantage of the services offered by institutions such as ONAC as much as they should. They are not yet accustomed to seeking technical assistance or advisory services, and the cost of such services is sometimes a constraint.

In the aftermath of the first SAP, most NGO and donor activities have been focused on microenterprise promotion, providing a combination of technical assistance in the form of business advice, training and microfinance. These initiatives contribute towards diversifying and organizing the support environment for microenterprises.

Small and medium-sized enterprises

The official policy for SME/SMI promotion is also defined and executed by DGAPME. Tasks assigned to this department include the elaboration of a national policy for SME promotion, creation of a database on the sector, research and elaboration of laws governing SMEs or adapting existing regulations to the specific needs of the sector.

Since 1990, government policy centres on the creation of a conducive environment, chiefly through reducing State involvement and through better allocation of resources towards productive investment. Currently the main policy vehicle facilitating SME development is the PASP.

Finance

There are seven main banks that fund private sector activities.[8] There is little competition in the financial sector and the majority of loans are in the form of short-term credits. Few services are offered to micro, small and medium-sized enterprises and the financial sector has made little attempt to adapt them to the special circumstances of this group.

Micro, small and medium-sized enterprises are also constrained by a lack of collateral. Banks favour urban housing permits (PUH) for concrete structures[9] or a sizeable deposit as collateral. The majority of micro, small and medium-sized enterprises consequently rely on informal sources of credit: 85 per cent of SMEs rely on personal savings, family or friends for finance (Llelart, 1995).

From the banks' perspective, difficulties in lending to SMEs arise because:

- Their business plans are based on an over-optimistic vision of the market and are not well conceived;
- Market and technical surveys are weak and feasibility studies are often incomplete;
- Their personal investments are insufficient or borrowed; and
- Their collateral is insufficient.

From the SMEs' perspective, access to finance is a problem because:

- Banks are interested only in well-established businesses with a solid track record;
- The banking system is very slow – it can take up to six months for the bank to review an application; and
- Bank staff is not adequately qualified, dedicated or serious about processing SME applications.

Banks are located mainly in larger urban areas; the rest of the country is not well covered with respect to financial services. This aggravates the problem of access to credit by micro, small and medium-sized enterprises, particularly in the smaller towns and rural areas. In response, the Government, with the help of the donor community and various NGOs, has created alternative sources of funding for SMEs. However, the majority of these only provide microfinance.

Private sector SME support services

Small and medium-sized enterprises find existing support services difficult to access and costly. In many cases they judge the services as unsuited to their needs or not meeting their expectations. According to the World Bank (1990), only accounting and auditing companies appear to have sufficient qualified personnel. Companies providing other services, particularly those dealing with advertising and marketing (one field where enterprises are particularly weak), are understaffed.

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[8] These are Bank of Africa, ECOBANK, Trade, Industry and Crafts Bank (BICIA), International Bank of Burkina (BIB), the National Agriculture Credit Agency (CNCA), Commercial Bank of Burkina (BCB) and SGB.

[9] Individuals may own the structure but not the land on which it is built.

Accounting, legal and marketing services are generally concentrated in urban centres and focus on the needs of the formal sector. Technical services as well as maintenance and after-sales services, including spare parts for equipment, are generally not available, or are basic and not very diverse because of the lack of skilled technicians. Enterprises are heavily dependent on imported technology.

Public procurement

Micro, small and medium-sized enterprises are effectively excluded from securing public sector contracts because of the financial and administrative costs associated with tendering. Even where an SME is in a position to meet the costs of tendering, the delays in payment for services rendered are an additional discouragement to SME participation.

Greater access by SMEs to public contracts may be possible if there is:

?? Wider dissemination of information on tenders;
?? Splitting up of tenders;
?? Timely payment; and
?? Increased transparency and elimination of corrupt practices.

REGULATORY ENVIRONMENT

The procedure to start up a formal sector business venture can be quite lengthy and requires an entrepreneur to go through at least 10 different steps (table 4). In theory the procedure can be accomplished in three to four weeks; however, in reality entrepreneurs report that the process can take anywhere from six months to three years to complete and can cost 100,000 to 300,000 CFA. Fees for setting up a limited liability company are substantially higher.

Of the entrepreneurs interviewed, all deemed administrative red tape an obstacle to doing business, 64 per cent indicated that the growth of their businesses had been directly affected by it and 75 per cent of them considered taxes to be too high.

Business activities are governed by a number of legal instruments, which are described below.

The Investment Code

In 1995, the Government introduced an investment code aimed at encouraging investments that would contribute to the economic and social development of the country. The code distinguishes between production, conservation, service and transformation enterprises. It groups enterprises into six categories.

Category A embraces small and medium-sized industries (SMIs) and crafts. These enterprises are exempt from the standard tax on industrial and commercial professions and from the tax on industrial and commercial profits for the first five years of operation. They are also exempt from patent tax for two years (and taxed at 50 per cent for the following three years thereafter). In addition, Category A enterprises benefit from a total exemption from customs duty and any other similar taxes on equipment, including the first set of spare parts, during the installation (start-up) period, set at three years (a one-year extension is possible). They are also exempt from tax on goods/equipment revenues and apprenticeship tax (4 per cent for nationals and 8 per cent for foreigners).

Table 4.: Procedure for setting up a business

Formalities	**Time**	**Cost**
1. Payment of stamp duties	7 days	400 CFA/page
2. Placement of advertisement in national daily newspapers	1 day	25 000 CFA/1/4 page
3. Registration*	1 – 21 days	15 000 CFA
4. Obtain certificate of work (from chamber of commerce)	1 day	230 CFA
5. Obtain licence (Tax Department)	-	no cost
6 Obtain professional trade card	2 days	975 CFA
7. Obtain enterprise identification number (issued by the National Institute of Statistics and Demography - CNSS)	-	no cost
8. Obtain employer number (CNSS)	1 day	no cost
9. Register as a public sector supplier	1 day	1 100 CFA
10. Obtain certificate from the labour authority and the social security authority (separate steps)	1 day 21 days	 500 CFA
*** Registration**		
1. Tax clearance	1 day	no cost
2. National identity card	7 days	1 500 CFA
3 Police clearance	1 - 21 days	700 CFA
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	84 days (minimum)	45 405 CFA

Source: Chamber of Commerce (1998)

However, the formalities, requirements and paperwork necessary to benefit from the Category A facility of the Investment Code are so laborious, that entrepreneurs are discouraged from applying. The absence of a precise calendar on meetings of the Investments Committee further complicates the application process. Most enterprises find taxes to be too high (the corporate tax rate is 40 per cent and 31 per cent for enterprises that import raw materials as intermediate inputs) and would have preferred the Code to have done more in terms of addressing the many direct and indirect taxes (more than 10) imposed on businesses.

The Investment Code does not particularly favour the creation and growth of industrial enterprises and this could partly explain the predominance of trading and services enterprises (80.86 per cent of all enterprises in the country) compared to the industrial sector (19.4 per cent) and the increasing fraud and “deformalization” of the national economy.

The Customs Code

As part of liberalization, the Customs Code and trade tariffs were reviewed in 1992. The new Code simplifies customs tariffs by reducing the number of tariff categories to just three. The first category includes basic products, taxed at the normal global rate of 11 per cent of their CAF value; the second category encompasses intermediate products taxed at 31.35 per cent; and the third category constitutes all other products, taxed at the maximum rate of 56.65 per cent. The rates for intermediate and other products are extremely high, especially in comparison with those imposed on basic products. This is prejudicial to private sector imports of intermediate consumables and disadvantages the domestic manufacturing industry vis-à-vis cheap products from neighbouring countries. It is thus a major constraint for local enterprise competitiveness and dampens investment. Moreover, it encourages smuggling and corruption, which are increasingly prevalent. According to the customs authorities and the private sector, up to 50 per cent of imported products are estimated as being smuggled into the country. Small and medium-sized enterprises tend to be the losers because they are less likely to have the resources to bribe customs and tax officials or engage in sophisticated smuggling schemes.

The Labour Code

The Labour Code defines a tripartite partnership, which brings together the Government, employers and workers. It confers on the State the role of referee between the other two parties. The main provisions of the Code relate to the freedom of employment, dismissal (terms and procedures), the settlement of litigation (conflict management) and the principles of collective action.

Employers complain that the Labour Code is biased in favour of the employee particularly with respect to the dismissal of workers. Firing a worker is a complex process involving numerous procedures that can extend over several months. Other constraints emanating from the Code include high minimum wages and a strict limitation on apprenticeships, which hinders professional training and qualification of staff. The minimum wage is up to double that in neighbouring Togo and Benin. This deters enterprises from hiring more workers and consequently, those looking for work do not find jobs easily. It encourages many SME businessmen to operate outside the law. It also discourages employers from offering their workers long-term contracts and introduces uncertainty into the labour market, thus making it difficult for enterprises to cope with changes in market conditions.

The Social Security Code

The Social Security Code pertains to the statutory social security obligations of employers. All persons or organizations, government or private employers are required to register their employees within eight days of the commencement of their employment. Many local enterprises consider social security contributions to be too high (18.5 per cent of monthly wages). These contributions are therefore viewed as an obstacle to the creation of employment and the emergence of SMEs/SMIs. As a result, a number of private enterprises (particularly the SMEs) do not register their staff with the national insurance agency (CNSS).

The Individual and Family Code

The new Individual and Family Code has removed many of the legal constraints that prevented women from engaging in business or industrial activities, such as the need for the husband's authorization for any form of financial transaction and the right to own property. Restrictions on travel have also been lifted.

The impact of the new code is that women are increasingly interested in setting up their own SMEs in both the informal and the formal sector. However, the majority of women's enterprises are low-profit microbusinesses (often informal) in the trading or services sector. Development programmes or organizations targeting women (such as FAARF) generally support microenterprises and focus on poverty alleviation measures.

While much has been done to remove legal impediments to women's economic participation, sociocultural biases are still a significant constraint on women for doing "serious" business.

POLICY COHERENCE

Although the desire to promote microenterprises and SMEs has been clearly expressed, a coherent policy framework and strategy for their promotion has yet to be developed. The lack of such a national strategy is a major constraint on SME development, as is the absence of an institution in charge of coordinating the design and implementation of SME development policies. At present, there are more than 10 government ministries active in the area of microenterprise and SME promotion that are not guided by a common vision. In addition, numerous donor-funded and NGO bodies are involved in SME promotion and support. The lack of coordination and communication between these various actors has resulted in a fragmentation of efforts and ad hoc interventions, encouraged rivalry between projects and institutions, and, as a consequence, has led to the inefficient use of resources and a low impact, especially in terms of the sustainability of their programmes. Some of the projects implemented seem to emulate strategies that have proved ineffective in other developing countries (for example, subsidized credit, or promoting cooperatives), which points to ill-conceived interventions that fail to take into account past experiences.

Public-private sector dialogue

There are two main consultative mechanisms by which public-private sector dialogue on issues related to private sector (including SMEs) development takes place. One is a microenterprise and SME support institutions forum, which brings together all institutions that provide financial and non-financial support to micro/crafts and SMEs. Since its creation in 1993, this forum facilitates the exchange of experiences between members and allows them to achieve greater harmony in their interventions.

Joint projects arising from this forum include the production of television advertisements under the slogan, "Made in Burkina Faso", for crafts, the building of a stand at the International African Art, Crafts and Trade Fair held in Ouagadougou, the creation of a professional training institute, the joint publication of a news bulletin entitled, "100 per cent Burkina" (in its translated form), and the publication of a directory of craft and SME support organizations (including their addresses, their objectives and details of their activities).

In addition, a consultative commission has been set up to deal with issues related to private sector promotion in the Ministry of Trade, Industry and Crafts.[10] The objectives of the commission are to facilitate the participation of the private sector in the design and implementation of private sector promotion and support programmes. It is composed of 17 members, of whom three are from the public sector and the others are representatives of the private sector. This consultative mechanism has provided an opportunity for the Government and the private sector to collaborate in the shaping of the future of the economy. Through this Commission, the private sector has had a voice in the restructuring of the Chamber of Commerce, ONAC and other private sector support institutions in the context of the PASP. It has also had a hand in the creation in 1995 of the Enterprise Promotion Centre (CPE), which houses the one-stop shop for investment and trade.

Additionally, the Commission has enabled the private sector to participate in various seminars and workshops, such as the workshop on Policy and Strategies for the Development of Small and Medium-sized Enterprises in Burkina Faso, organized by MCIA in June 1998. The workshop brought together representatives from MCIA, other government representatives, financial and non-financial private sector support institutions as well as research institutions and professional bodies. The discussions at the workshop led to a call for an improvement of the MCIA definition of SMEs. They also highlighted the need to work on SME promotion strategies and create enabling conditions by simplifying the regulatory environment, including favourable conditions for setting up of enterprises, and facilitating import and export. Participants also stressed the need to review the appropriateness and impact of the codes on investment, labour, social security, and individual and family with a view to encouraging private sector growth and development.

Although there are a number of business associations in the country (CCIA, 1993) their influence in national debates and in the development of policies to promote the private sector is minimal. Their multiplicity probably causes a dispersion of efforts and

[10] Various commissions on sectoral issues were set up under different ministries as part of the SAP.

initiatives, and thus compromises their bargaining power. An additional constraint is that small entrepreneurs seem to attach little value to associating as a group and networking.

The private sector is not entirely satisfied with dialogue with the Government. Many business associations are dissatisfied with their interactions with the country's political authorities. They complain that the results of and resolutions emerging from their dialogues are not always executed according to their expectations, or that they are often consulted after decisions have been made, and thus regard talks with the Government as nothing more than a sham. The private sector favours more frequent and formalized dialogue.

Examples of private sector associations that are regularly consulted by the Government and participate in various consultative forums include the Chamber of Commerce, Industry and Crafts (CCIA), the National Council for Burkina Employers (CNPB), Professional Associations of Small and Medium-Sized Enterprises (APPME), and the Foundation for the Promotion of Enterprises and Employment (FEE).

Chamber of Commerce, Industry and Crafts (CCIA)

CCIA conducts training in business management and accounting as well as providing counselling on how to set up a business. It serves as an information centre for business and the public sector. However, the services it provides are concentrated in a few big cities and are not well known to entrepreneurs.

National Council for Burkina Employers (CNPB)

A federation of 27 professional groups and associations, CNPB takes part in all discussions related to labour laws and employment conditions. It has made presentations to the Government on the investment code and promoted credit guarantee schemes as a means of addressing the problems of the lack of access to credit by SMEs.

Professional Associations of Small and Medium-Sized Enterprises (APPME)

APPME is represented in all public-private sector forums and groups about 400 members of whom 80 per cent are in the commercial and services sectors. The rest of the members are equally divided between the production and processing sector and agriculture.

Foundation for the Promotion of Enterprises and Employment (FEE)

FEE was created in response to the need for the private sector to reinforce its capacity to articulate its concerns and meaningfully participate in the debates on economic and regulatory reforms brought about by the SAPs. Its main objectives are to enhance private sector participation in the reform process, improve entrepreneur networking and information sharing, provide training and technical support, and promote dynamic SMEs and microenterprises.[11]

Conclusions

Policies concerning microenterprises and SMEs in Burkina Faso are fairly recent; it was only from 1990, with assistance and sometimes the insistence of the multilateral financial institutions, that the role of the private sector (and especially SMEs) in development was recognised. The redefinition of the role of the Government in economic development and the creation of an enabling environment to facilitate the establishment and expansion of private enterprises are an ongoing process in the country and several problems need still to be addressed. Not least is the need to better coordinate policy formulation and interventions by various government and non-governmental actors in favour of microenterprises and SMEs. In addition, efforts must continue for improving the legal and regulatory environment, not only in order to facilitate local and foreign investment but also to address factor costs. Access to technology and skills development remains a key constraint for local enterprises, as does access to credit. Addressing the issue of access to credit is a crucial component of a coherent policy framework for microenterprise and SME promotion. It is important for SMEs to be able to articulate their concerns and needs because their inability to do so deprives the Government of inputs for policy-making. To this end, SMEs need assistance to form credible associations to represent their interests and to be effective interlocutors with the Government.

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[11] At the time of writing this report, FEE had not as yet begun to provide support services to its members.

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Nepal

INTRODUCTION

Background

Nepal is a tiny Himalayan country sandwiched between China and India with about 20 million people living in an area of about 147,181 sq. km. The country opened up its economy to the outside world in the early 1950s following the end of the century-old feudal Rana regime. The Nepalese economy remains largely traditional, underdeveloped and backward with 80 per cent of the population dependent on agricultural employment. Although only 20 per cent of the land is arable, agriculture accounts for about 40 per cent of the total gross domestic product (GDP). The industrial base is underdeveloped and trade imbalances are a persistent feature of the economy. According to the Central Bureau of Statistics, trade and commerce account for 12.31 per cent of GDP, while manufacturing contributes only 9.31 per cent (CBS, 1996). A heavy dependence on imports and a weak export base have resulted in a widening trade deficit, from 5.6 per cent of GDP in 1975 to 22.8 per cent of GDP in 1996. Moreover, foreign debt increased from 2.1 per cent of GDP in 1975 to an alarming 56 per cent of GDP in 1996. Due to low levels of revenue, the economy is highly dependent on foreign aid, which, according to Nepal South Asia Centre (NESAC, 1998), accounted for 55 per cent of development expenditure in the 1980s and 1990s.

In the early 1980s, an IMF-assisted structural adjustment programme was initiated to address the declining rate of growth in agriculture, the low per capita income, the narrow export base, and high trade and fiscal imbalances. However, it failed to lift the economy. The declining economic performance and public dissatisfaction with the existing political system led to a people's revolution in the early 1990s, which resulted in the establishment of a multi-party parliamentary system. The new Government adopted more open, market-oriented and private-sector-led policies. Consequently, wide-ranging trade liberalization and substantial reforms in industrial policy were initiated through the Trade Policy and the Industrial Enterprises Act of 1992. The reforms encompassed privatization, deregulation, delicensing, export and import liberalization and evolution towards full currency convertibility. Development of information and technology, along with incentives for foreign investment, were considered vital for the effectiveness of these policy measures. Hence the Foreign Investment and One Window Policy and the Foreign Investment and Technology Transfer Act were also initiated in 1992.

Against the backdrop of these reforms, economic policy aims at the development of entrepreneurship in order to achieve higher economic growth. The vast majority of entrepreneurs have informal micro and small enterprises. There are few enterprises that are successful in progressing to formal medium-sized or large enterprises, which could make a significant contribution to national productive capacity. Large enterprises, on the other hand, are typically constrained by a small domestic market and high operating costs and are characterized by chronic underutilization of capacity.

Small and medium-sized enterprises

Agriculture provides only seasonal employment for the rural population, which constitutes 88 per cent of the total population. Hence, off-season and off-farm activities such as weaving, knitting, basketry, teashops and roadside shops complement rural incomes. In addition, informal rural microenterprises supply goods and services to local manufacturers using traditional technologies.

Micro and small enterprises constitute a major source of income in the urban areas. Specific government policies target formal sector cottage and small industries (CSI)[12]. The Industrial Enterprises Act of 1992 classifies cottage industries as traditional industries that utilize specific skills or raw materials and resources, which are labour intensive and are related to national tradition, art and culture. Industries with a fixed capital investment of up to 10 million Nepalese rupees are classified as small industries. Enterprises with a fixed capital investment of between 10 and 50 million Nepalese rupees are classified as medium-sized, and those with a fixed capital investment of more than 50 million Nepalese rupees are categorized as large.

According to the Department of Industry, registered industries with an average of 12 employees per business numbered 27,658 (of which 4,678 were cottage industries and 22,980 were small-scale industries) compared to only 731 medium and large industries with an average of 99 employees per business during the period 1993/94 and 1995/96.

POLICY AND REGULATORY ENVIRONMENT FOR SME GROWTH

Policy environment

The National Planning Commission (NPC), chaired by the Prime Minister, has overall responsibility for setting national development priorities and formulating policy. Various ministries are responsible for developing strategies and executing national policies. The Ministry of Commerce and the Ministry of Industry are the two key ministries related to enterprise development as they have the main responsibility for enforcing regulations and disseminating information about trade and industry. However, the Ministry of Finance, in coordination with these ministries, has overall responsibility for all matters relating to fiscal revenue. This means that the Ministry of Finance has the final say on any trade and industrial incentives, such as tax rebates, and exemptions that may be offered to domestic or foreign investors. In light of the heavy dependence on trade and indirect taxes, conflicts between the objectives of trade and industrial reform and the need to balance the budget have arisen and have frequently resulted in the reversal of reforms. Consequently, although the Government is committed to policy reforms as stated in its five-year development plans, practical problems hinder the proper implementation of these policies. For instance, although the Government made a

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[12] The term industries, as defined by the Industrial Enterprises Act of 1992, does not apply only to manufacturing, it also includes energy-based, agro- and forest-based, mineral, tourism, service and construction industries.

commitment to abolish octroi, which constitutes an additional burden on enterprises, it was unable to do so because octroi is the major source of income for municipal authorities. In the absence of an alternative source of income, the Government reneged on this policy commitment. There are numerous other examples of reversals in trade and industrial reforms, some of which are mentioned in later sections.

Policy implementation has, to some extent, been influenced by political instability. Within the seven-year period after the first general election, the country witnessed six changes of government. Political turmoil has resulted in frequent changes of key decision-makers, contributing to interruptions, delays and reversal of reforms. Consequently, private sector and investor confidence is low.

Regulatory environment

The tax reform initiated by the Government in 1997 includes modifications to income tax, customs duties, indirect tax (sales tax) and tax administration. Specific examples of the reforms comprise a self-assessment system introduced with respect to income tax, a reduction in the number of bands and the level of customs duties, and the introduction of a value added tax (VAT) in place of sales tax on imports and manufactures.

Under the self-assessment system for income tax, businesses may submit an assessment on the basis of an audit carried out by a recognised auditor. However, tax officers may reassess the self-assessments submitted by enterprises. Unfortunately, they reportedly regularly abuse this power and delay the clearance of self-assessments, so that businesses often have to resort to bribing them in order to secure their clearance certificates. Bribery is the most efficient option, given that penalties are arbitrarily determined and that a business is required to deposit the disputed amount with the Revenue Tribunal when making an appeal. Inconsistencies and an inherent bias in favour of tax officials often result in lengthy dispute settlement periods. Furthermore, delays in the annual renewal of income tax certificates and complicated tax forms also increase compliance costs and adversely affect SME growth. Businesses that fail to get tax clearance cannot renew their registration, and thus may not import or supply the Government. Another source of uncertainty is a lack of transparency and reversals in tax policy and procedures announced through department circulars that are not made public.

Regarding import duties, these remain high and a complicated system of valuation and exemptions is applied even though the number of tariff bands has been reduced.

The introduction of VAT appears to have been effected without adequate canvassing of the business sector. Although dialogue was initiated with taxpayers (including representatives of small and large enterprises) before and after the implementation of VAT, there were divisions among business groups. Large enterprises, mostly represented by business associations such as FNCCI, accepted the VAT. However, small businesses did not – the action group, Committee Against VAT, mainly comprises small enterprises. These divisions at times led the Government to force compliance with the measures. The dispute between those against VAT, those in favour of a reformed VAT system, and the relevant authority that is charged with implementing VAT, is not yet resolved and the losers are not only enterprises but also fiscal revenue. However, the culture of dialogue is taking root and its importance is now recognised. Tax officers now engage in educating the taxpayer, and the majority of those registered for VAT are motivated to comply with such efforts. Enterprises with a turnover of less than 3 million Nepalese rupees are VAT exempt and the budget for fiscal year 1998/99 exempted VAT on imported cotton clothing, which had put the Nepalese textile industry at a competitive disadvantage.

Despite the reforms, the tax system remains complicated, with little improvements achieved in tax administration and tax law. But while the tax reforms may not have been wholly successful, they are an attempt to facilitate business in the context of a private-sector-led economy. Efforts are under way to make them more effective in achieving the primary goals of creating an enabling business environment and reducing tax evasion.

Trade and industrial policy

The following reforms in trade policy have been introduced:

?? All goods (except for some banned items) can be imported without licence (delicensing);
?? Any importer may obtain a letter of credit for any amount from any bank;
?? The Nepalese currency has become fully convertible;
?? Exchange rate controls have been abolished;
?? The maximum import tariff now stands at 110 per cent, down from 140 per cent;
?? Export duty drawback schemes for the refund of import duty paid on imported raw materials and intermediate goods have been introduced;
?? Exports are exempt from all duties except for a 0.5 per cent service charge;
?? An export promotion zone has been established;
?? Exporters may retain export earnings in their own foreign currency account with the requirement that a certain percentage of this amount be spent on trade promotion activities; and
?? Income from exports is exempt from income tax, as is income earned from exports to India, on the basis of a letter of credit.

However, a number of practices negate these reforms. For example:

?? Corrupt customs officials often refuse to accept the invoiced value of imports, necessitating bribery and discouraging lawful imports.
?? Although a letter of credit can be obtained for any amount, small businesses often cannot meet the concomitant requirements.
?? Since the Nepalese currency is fixed at par with the Indian currency, Nepalese entrepreneurs exporting to India gain no benefit from devaluation.

- Changes in import duties are often announced in the annual budget thus introducing uncertainties in the business environment and complicating business planning. Businesses generally avoid importing towards the end of the fiscal year.
- Exporters complain that the procedure for claiming duty drawbacks is cumbersome and that the processing of claims takes too long.
- Although there is supposedly only a minimal service charge on exports, export duties are occasionally announced in the annual budget. For example, a 3 per cent export duty on edible oil exports to India was announced in the budget for 1998/99 fiscal year (The Kathmandu Post, 1998a: 4).
- Entrepreneurs complain that limits on withdrawals from foreign currency accounts are too restrictive. Moreover, entrepreneurs are required to furnish proof of expenditure, and this discourages deposits in convertible currency.
- Income tax exemptions on exports are applicable only when the exporter does not import any item.

The initial surge in exports following trade liberalization has not been sustained. Exports increased by 26.0 per cent in 1992/93 and by 11.7 per cent in 1993/94. Thereafter, exports began to decline. In 1994/95, exports recorded a decline of 7.2 per cent. On the other hand, imports increased throughout the same period: by 22.4 per cent in 1992/93, 31.5 per cent in 1993/94 and by 21.7 per cent in 1994/95. Liberalization has failed to induce export diversification and reduce the trade deficit. Frequent changes in trade policy have, no doubt, contributed to this poor response.

The changes brought about by the industrial policy reforms (Industrial Enterprise Act of 1992) include:

- Abolition of the requirement for a licence for the establishment, expansion and modernization of a business (except in the areas of defence, public health and environment);
- A generous income tax holiday (5 to 15 years);
- Creation of a one-stop shop for investors (One Window Policy);
- Incentives for reinvestment of earnings;
- A reservation policy for cottage and small industries (i.e. foreigners may not engage in activities designated as reserved for cottage and small entrepreneurs);
- Exemption from income tax on exports for export-oriented industries;
- Total repatriation permissible of proceeds from the sale of shares or dividends earned by a foreign investor; and
- Foreign experts or technicians permitted to repatriate 75 per cent of their remuneration.

Unfortunately, these reforms have had little impact. The fact that trading activities account for 52 per cent of all economic activities and that the share of manufacturing is only 30 per cent, may have contributed to this poor response to the industrial reforms. Most importantly, inadequate infrastructure, such as telecommunications, roads, electricity, skilled manpower and potable water, constitute major constraints to increased domestic and foreign investment. Moreover, the small Nepalese market is no match for India's huge market in attracting foreign investors. Frequent changes in trade taxation through annual budgets and confidential departmental circulars have also been counterproductive. Reforms in industrial policy have therefore been of little, if any, significance.

Entrepreneurship development, particularly the growth of SMEs, is still constrained. Factors such as the land locked position of the country, low incomes and lack of capital and technology have resulted in the slow pace of development of growth-oriented SMEs. Other constraints include problems of access to inputs and marketing.

While the resource needs of microenterprises can be met locally, small enterprises largely depend on raw materials from India, and in some cases, from China and further afield. SMEs that source from neighbouring countries, especially India, are technically better off because they can be assured of regular supplies. However, liberalization has not resulted in better access to inputs for SMEs. Duties on raw materials have remained high, while duties on imported finished products have been lowered. Domestic firms have found themselves doubly affected – by increased competition from foreign goods and by rising costs of production. Most Nepalese entrepreneurs thus find it difficult to compete with products from India where the costs of production are lower. Goods produced in Nepal utilizing Indian raw materials are seldom able to compete with similar goods imported from India.

The unauthorized entry of goods through porous borders compounds the problem and discourages the establishment of small industries and the diversification of production. For example, the textile industry complains of unfair competition from illicit imports from its neighbours. Agro-processing industries, using a large proportion of domestic agricultural raw materials, stand a better chance of survival. Their expansion and competitiveness is, however, constrained by the lack of modern technology and the fact that costs of production in Nepal are higher than in India.

Nepalese exports destined for the Indian market have also suffered as a result of trade liberalization in India. Freer access to the Indian market of raw materials and finished goods from abroad has resulted in the demise of most of the industries producing shoes, fans, electrical goods and other domestic appliances assembled in Nepal. The restriction on sales of Nepalese carpets on the international market as a result of their failure to meet environmental and labour standards (i.e. the use of azo dye and child labour) in importing countries, has forced many SMEs to shut down. The fall in demand for Nepalese carpets has also led to a shortage of raw material imports for the carpet industry as a whole. Bulk importers of wool (on which SMEs in the industry also depend) have reduced their imports, hence, many Nepalese carpet producers that still have international markets are faced with raw material shortages in the local market. The abolition of the facility to import thread in convertible currency has further prevented the industry from buying raw materials cheaply. Moreover, India exports cheaper Nepalese-style carpets.

Support services for SMEs

The main government agency responsible for small enterprises is the Department of Cottage and Small Industry (DCSI). As its name suggests, this Department provides support only to cottage (micro) and small industries – not to medium-sized ones. In addition to the DCSI, the Industrial Enterprise Development Institute (IEDI) is responsible for the dissemination of information and technology to small enterprises. Its activities focus on entrepreneurship development and small business promotion through training in business creation and business management and the provision of research and consultancy services. Its Technology Transfer Development Project (TTDP) collects and disseminates information on technology, undertakes technology promotion and training activities and facilitates/establishes networks between national and international technology institutions and users. For example, the Exchange of Excellence (EOE) programme links high achievers from India and Nepal. Through this programme, they visit each other's work sites, share experiences and maintain regular contact to their mutual benefit.

The Export Promotion Board is the main agency for export facilitation. In addition, the Trade Promotion Centre encourages large enterprises to identify potential suppliers from the SME sector. It organizes SME trade fairs, publishes a directory of SMEs and facilitates interactions between large and small enterprises. Apart from the carpet and garment industries, it is generally not common for large industries to have SMEs in their supply chain. Attempts have been made by relevant government departments to encourage the purchase of cottage and small industry products. According to the Ninth Plan, incentives will be given to large national and multinational firms that subcontract small and cottage industries.

Support activities are largely confined to the capital and urban areas at the district level and the support agencies generally lack specialized staff. There needs to be a greater emphasis on specific policy measures aimed at fostering competitive and specialized enterprises. Piecemeal initiatives, particularly in the area of technological support, have led to insignificant results.

One of the objectives of the Ninth Plan (1997-2002) is to diversify exports and increase exports originating from rural areas. It envisages:

?? Identifying new export products;

?? Promoting agro-based exports;

?? Introducing quality control measures;

?? Facilitating information networks in partnership with the private sector;

?? Attracting foreign investment and technology;

?? Implementing the duty drawback system in a more efficient and systematic way;

?? Creating an export promotion fund;

?? Establishing an export refining zone and developing an export-oriented village aimed at reducing the cost of production and integrating exportable items;

?? Mobilizing foreign missions to facilitate Nepalese exports;

?? Establishing an export-import bank; and
?? Promoting external and internal trade exhibitions.

Access to finance

As a result of liberalization, the number of commercial banks has increased from 2 to 11, of which 9 have foreign bank participation. Five rural development banks and 40 finance companies have come into existence in a short period. However, distortions in the sector persist. Government-owned or controlled banks have reduced their services in rural areas in the quest for profitability. In urban areas, banks continue to favour short-term lending and maintain a high spread between deposit and lending rates. Apart from rural development banks, formal banking institutions are confined to urban areas because of high operating costs in rural areas. There are concerns about the apparent flow of financial resources from rural to urban areas as a result of the use of deposits collected by commercial banks in rural areas to finance business and commercial activities in urban areas. Many SMEs are reluctant to seek formal sector credit because they consider the process complicated and overly bureaucratic. Instead, they continue to depend on informal credit, despite high interest rates, owing to its easy and timely availability. According to NESAC (1998), the informal sector is the source of 80 per cent of credit for households in rural areas.

A number of targeted credit programmes exist. They are generally micro lending schemes that employ variations of the model (group guarantee) popularized by the Grameen Bank. Four of the five rural development banks and two NGOs[13] use the Grameen Bank model. Other approaches include direct lending by banks to self-help group members and lending to savings and credit cooperatives or NGOs who, in turn, lend to their members.[14] The group-guarantee method is also used with respect to priority sector lending.[15] However, these lending schemes are not without problems. Some charge high delivery costs and others do not reach the intended target groups. Even in the case of priority sector lending, small and medium-sized entrepreneurs are of the view that they are not benefiting as they should. Priority sector lending programmes, as well as those of some NGOs, offer basic financial courses as part of their credit provision activities.

Support to women entrepreneurs

With the advent of multi-party democracy, poverty alleviation and women's empowerment became national priorities. The Ministry of Women and Social Welfare was established with the aim of enhancing women's role in the economy. The Sixth Plan (1980-1985) included, for the first time, specific policies and programmes for women.

[13] These are Nirdhan and the Center for Self-Help Development.
[14] The Small Farmers Development Programme, Intensive Banking Programme, Production Credit for Rural Women and Micro Credit Project for Women use the first approach and the Rural Self-Reliance Fund practices the second approach.
[15] Some sectors have been designated as priority sectors to which banks are compelled to direct credit for development purposes. However, following financial sector reforms, banks are no longer required to provide priority credit at subsidized rates (except for a few activities).

Consequently, most business support programmes also target women, particularly those receiving donor assistance.

The Nepalese constitution states that there can be no discrimination against any citizen in the application of general law on the grounds of their sex, and this also applies to remuneration for the same work. Women may own property and may act on their own behalf in legal and financial matters. However, legal discrimination against women persists with respect to criminal punishment, divorce, as well as property (women may not inherit property) and citizenship rights. Although women are not legally prevented from carrying out commercial activities, culture and societal norms serve as obstacles. For example, apart from restrictions on their personal mobility, society accords a low value to women's work and views women as weak and passive. Moreover, entrepreneurs have always been male, from certain castes and accorded an inferior status to that of a civil servant. Given that formal sector lending requires collateral, women's partial right to property represents an additional obstacle to their undertaking meaningful commercial activities. Women's participation in economic activities is thus still limited. A large proportion of them work as unpaid family members, tending family gardens and farm crops and raising livestock. However, traditional values that have hindered women's entrepreneurship are changing as a result of government policy and the many women's income-generating and entrepreneurship development programmes that now exist. The media has also contributed to awareness raising.

There are numerous NGOs and donor-supported programmes for women in Nepal, with an overarching focus on poverty alleviation. The majority provides micro-credit for women's income-generating activities. The most prominent local NGO targeting women is the Women Entrepreneurs Association of Nepal (WEAN), founded by a group of women entrepreneurs in 1987. Most of its members are engaged in handicraft production and agro-based products. The association offers assistance for start-ups and for improving existing businesses, including offering its members collateral-free loans. It also provides various forms of business and vocational training (including literacy classes) to women, and offers consultancy services in marketing, accounting and technical know-how, as well as facilitating exhibitions and buyer-seller linkages. Among those providing assistance to WEAN are the International Labour Organization (ILO), the United Nations Development Programme (UNDP), the United States Agency for International Development (USAID) and the Government. The association is highly dependent on external sources of finance and as such, like many other NGOs, the sustainability of its programmes and activities is uncertain. Its ability to extend its activities outside the Kathmandu Valley is, consequently, limited.

Donors generally prefer to channel funds through NGOs. However, entrepreneurs are of the view that enterprise support programmes could be more effective if such funds were channelled through business organizations. They consider business organizations as better placed to provide support services than many NGOs, which often lack specialization in business promotion and do not have a solid track record of success in Nepal.

Public-private sector dialogue

Prior to liberalization, dialogue between the public and private sector on policy formulation and implementation was virtually non-existent. In fact, business associations began to be established only after 1986 (a notable exception being the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), which was established in 1965), and the majority, only after the country's democratization in 1990.

Following liberalization, policy makers have sought to interact more closely with the private sector, including transferring certain responsibilities to private sector associations, such as company registration and the issuance of export licences. The emergence of private sector representative bodies has also contributed to the establishment of dialogue and they are gradually becoming more effective in representing their members' interests. As more SME association are formed, they too are drawn into the dialogue.

In July 1998, the Business Consultative Forum was constituted under the chairmanship of the Prime Minister as a formal mechanism for policy dialogue between the Government and the private sector in the areas of trade, industry and commerce. Its aim is to assess government policy measures and their impact in these areas and to recommend policy improvements. The forum comprises representatives from the National Planning Commission, the Ministries of Finance, Industry and Commerce, the FNCCI, the Association of Nepal Cottage and Small Industries (ANCSI) and Tribhuvan University.

There are four main federations: the FNCCI, the Federation of Nepalese Industries (FNI), the Federation of Nepalese Transport Entrepreneurs (FNTE) and the Federation of Nepal National Transport Entrepreneurs (FNNTE). Of these, FNCCI and FNI are the two largest representative organizations. Membership of FNCCI comprises 41 commodity associations and 72 district and local chambers whose members are mainly large commercial traders. The Federation's main activities include advocacy and lobbying on behalf of its members and providing them with information, advice, arbitration and training. It also organizes trade fairs. Its principal donors are the Programme for Development Cooperation of the Helsinki School of Economics, Technonet Asia of the German Federation for Small Business, the Economic Liberalization Project of the United States Agency for International Development and the Nickkerian International Cooperative Centre of Japan. FNI comprises three district industry associations and 43 commodity associations. It offers its members similar services as the FNCCI (including tax assessment training with the assistance of Swiss Development Corporation).

In addition, there is the ANCSI, which was founded specifically to represent the interests of smaller enterprises because the two major federations were perceived to be dominated by the interests of the large commercial traders. ANCSI is also among the largest representative organizations in the country. It has 57 branch offices and a membership of 12 commodity associations and 16,000 enterprises. Similar to FNCCI and

FNI, ANCSI offers a range of services to its members. Its principal donors in the areas of institutional development, training and skill development, and women's entrepreneurship development are the German Federation for Small Business's Technonet Asia, the Friedrich Naumann Foundation and the German Development Service.

SMEs are generally represented through industry or sectoral associations, if at all. These associations are often organized along the lines of caste or community because specific groups have traditionally engaged in certain professions. For example, the Shakya (a local ethnic group), deals in gold/silver ornaments, and Patan, (one of the 75 districts in the country) in handicrafts. Rural enterprises are largely excluded from public-private sector dialogue because they are not as well organized and because existing representative organizations are active only in urban areas.

Conclusions and Recommendations

Nepal's policy shift in favour of a market-oriented economy was intended to create an enabling business environment for private sector development. However, SMEs do not seem to have benefited from the change. Further improvements are necessary to address policy inconsistencies in the trade regime, corruption, and the general failure of industrial policy measures to promote industrial development.

The lack of stability and transparency in policy implementation is a major obstacle to private sector development. Policies need to be carefully formulated in order to ensure consistent and coherent implementation. In particular, the adverse effects of the trade reforms should be addressed in order to ensure a level playing field for domestic enterprises.

The majority of micro and small enterprises are survival SMEs. Business development services are needed to transform those with potential into dynamic growth-oriented enterprises. Hence, enterprise development policies should encourage the progressive expansion of enterprises, and support services for entrepreneurship development should be enhanced. Regular evaluations of support institutions should be carried out to ensure their continued relevance and the effectiveness of their programmes. One of the major constraints to SME growth in Nepal is the market. Marketing should be given due importance in the provision of support services. In the area of SME finance, there is a need to develop measures for encouraging financial institutions to service the SME sector. Such measures should be complemented by strengthened business development training and services, including marketing and access to technology. One way in which to upgrade technology and spread its use by enterprises is to establish technology development and dissemination centres, technology parks, and research and development institutions.

External assistance could be more effective if business organizations were to become involved in the delivery of services rather than NGOs, which lack expertise in business promotion.

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Samoa

INTRODUCTION

The review of national policies and measures having an impact on SMEs in Samoa was carried out from May to August 1998. The most apparent characteristic of business enterprises in Samoa, and one repeatedly emphasized by stakeholders, is that most businesses belong to the SME category. The general perception is that there are no size distinctions between business enterprises in Samoa. Consequently, no special or deliberate policies and strategies have been developed to address the needs of different sized business ventures. There is a broad-brush policy with standard strategies that are aimed at creating a conducive environment for investment, both foreign and local. Measures in place almost inadvertently address some of the needs that SMEs have in common with other enterprises. Yet there are certain clear characteristics that are peculiar to, or more commonly attributable to, different sized enterprises. To some extent, there is a reluctance to specialize, even in terms of development policy and strategy, because of the associated administrative workload and related servicing costs. Unfortunately, the effect is to miscue the thrust of related policy and strategy.

Although the private sector clearly perceives and appreciates the value of promoting and establishing new business enterprises, it does not seem to have a similar level of appreciation and concern for the need to encourage business growth through expansion. Micro and small enterprises remain small for relatively extended periods of time. Most enterprises that start small also tend to stay small, with only the bare minimum graduating to medium or large size. Many factors contribute to this condition. Most are family businesses, and the family business culture often limits the size of the enterprise to the capacities of immediate family members to operate the business. No specific policies or strategies exist to promote and support expansion; at least nothing like the programmes available to assist start-ups.

At the time of writing this report, Samoa had applied for membership to the World Trade Organization (WTO). Many of the policy changes recently implemented are therefore part of the preparations for its obligations under WTO membership. However, some concerns have been voiced regarding the pace of these reforms. For example, manufacturing and processing enterprises have to adapt overnight to changes, which have serious impacts on their cost structures. For some, these changes can be weathered because incentives and subsidies in the past contributed directly to profit margins. More difficult to ascertain, though, are the longer-term implications of these changes to the rate and ease of setting up micro and small enterprises.

OVERVIEW OF THE BUSINESS ENVIRONMENT

Political environment

The system of government in Samoa is invariably described as based on the Westminster model of the United Kingdom. However, there are distinguishing differences based on traditional and customary practices, which have a significant influence on the political set-up and on the norms of political practice. For example, only titled persons can stand for parliamentary elections (except for two members representing those of overseas descent). Before the changes to the Constitution effected in 1991 to allow for universal suffrage, only titled persons were eligible to vote. The delimitation of political constituents still follows closely traditional and social geographical boundaries. The Constitution states that Samoa is founded on God plus its customs and traditions, and this constitutional enunciation is taken very seriously.

The country consists of two main islands, Upolu and Savaii, and two other inhabited smaller islands, Manono and Apolima, in addition to several islets. The total land area is 2 934 square kilometres, with an Exclusive Economic Zone of 120,000 sq. km – the smallest for any country or territory in the South Pacific. The islands are volcanic, characterized by inland mountain ranges and fringed by 4-5 kilometres of gently sloping fertile land. Because of high emigration, the total population has been relatively stagnant for the past 10 years, at around 165,000. Population growth has dropped from 3.3 per cent annually in 1961 to an estimated 0.3 per cent, based on the 1991 population census. In addition to emigration, there has also been a steady decline in the fertility rate, from 8 children per woman of childbearing age in 1962 to around 4 in the 1990s. The crude death rate fell from 7.4% in 1982 to 4.3% by 1990 (DP7, 1992).

Politically the country has been fortunate in having a stable Government over the past 10 years. This stability facilitated important amendments to the constitution, and provided an enabling environment conducive to business investment. One aspect of particular note is the option for longer term planning and implementation of far-sighted social and economic policies. In addition to constitutional amendments, legislation was passed that streamlined government departments and ministries and established a separate Department of Trade, Commerce and Industry, as well as an extensive programme of supportive infrastructure development.

One of the most marked developments in recent years has been the more general and widespread understanding of the role and benefits derived from the private sector. Previously the public perceived business in a negative light, as "living off" the labours of the population at large. Many people could identify with and feel some sense of ownership of projects implemented by government agencies, even if these were implemented inefficiently. The Government's efforts to promote the private sector have greatly changed this perception. The policy to deliberately farm out Government activities that can be undertaken by the private sector has involved a process of mass education. Consequently, private enterprise is gaining acceptance and respect, and success in business is now generally admired. This gradual but definite change in public perception and acceptance of private sector business enterprise has far-reaching future implications. Indeed, the theory and practice of competition, and its attendant benefits to consumers at large is now vaguely understood or appreciated.

A major contribution from this positive change is a more transparent approach to many aspects of government. Procedures for farming out government contracts have been streamlined and transparency ensured through appropriate tendering systems and procedures. Some flexibility in financial management has also been devolved to line ministries – a function previously centralized within the Treasury. The introduction of output and performance budgeting and the general goal of competitiveness have contributed to infusing operational efficiency in the public sector.

Social and cultural environment

Samoans have a very strong and ancient traditional and social structure that has immense influence on the norms of group and individual behaviour. The extended family concept is practised universally. At times this serves as a disincentive to individual economic initiative, particularly with regard to business enterprise, which often requires some form of traditional capital such as land or labour. Numerous efforts over the years have sought to direct traditional cultural and social norms to support and promote economic enterprise, especially as such efforts demonstrate their effectiveness when applied to community development projects such as schools and churches.

Although traditional social and cultural institutions play a major role in the village community setting, there has been a gradual change: individualism – whether on an extended family level, the family as a unit, or an individual level – is gaining ground, as would be expected of a living culture. "Culture" has gained in strength in that there is a deliberate effort to enhance and preserve its desirable aspects, while relinquishing those aspects that are seen as restraints to desirable development. This has allowed for more ready acceptance of entrepreneurial efforts, increasingly at the individual or family unit level. Also, some of the fruits of economic endeavours are used to promote cultural, social and religious needs and activities, providing a further *raison d'être* for economic production through business.

Because of the high level of population mobility, both within Samoa and internationally to destinations such as Australia, New Zealand and the United States, there has been an unintended transfer of benefits through travel experience. The population has stabilized over the past two and a half decades, from one of the highest birth rates in the world to one of the lowest in the developing world. Although there is high emigration, there has also been steady return migration. More and more, and perhaps most noticeable over the past decade, returning nationals or expatriate spouses, bring back with them financial resources, business acumen and entrepreneurial flair. Perhaps this will provide the most effective means of building up both investment capital and business skills in the immediate to medium term.

Macroeconomic environment

The real performance of the Samoan economy over the past decade or so is difficult to assess with any accuracy because the country does not produce official national accounts. Contributions to national productivity are periodically estimated by the Central Bank and Treasury officials, and occasionally by visiting technical teams from the IMF, the World Bank and the Asian Development Bank (ADB). However, even their estimates are based on data provided by local officials.

According to these occasional estimates, the Samoan economy declined by 2.7 per cent in constant-price terms by the end of the five-year planning period to the end of 1987. There was another decline of 0.9 per cent between 1987 and 1990, although when adjusted for the effects of Hurricane Ofa that struck the country in early 1990, there was a slight but real increase of around 0.7 per cent. This is based on an estimated 5 per cent GDP loss attributable to that hurricane (National Planning Office, 1992). The national economy suffered a second setback when Cyclone Val struck in 1991. The two hurricanes in 1990 and 1991 caused severe damage to infrastructure, agriculture and housing, as well as to industrial capacity. This damage resulted in declines in real GDP, estimated at 9 per cent and 2 per cent for the years 1990 and 1991 respectively. Hurricane damage continued to affect economic production in subsequent years, but was partly mitigated by increased activity associated with nationwide rehabilitation efforts.

In addition to the two cyclones, *taro,* the national staple food and main export commodity, was affected by leaf blight in 1994, which virtually wiped out the crop throughout the country. According to the Statement of Economic Strategy 1998-1999 issued by the Minister of Finance, "…by the end of 1996 the economy had fully recovered from the adverse impact of the two cyclones and the Taro Leaf Blight. Real per capita income had once again reached the 1989, pre-cyclone, levels." During 1995 and 1996, GDP is estimated to have grown by 9.5 per cent and 5.8 per cent respectively.

Inflation has been kept under reasonable control in recent years in spite of inflationary reconstruction following the two cyclones. The introduction of a value added goods and services tax (VAGST) in early 1994, however, saw the annual inflation rate increase from 1.7 per cent in 1993 to 18.4 per cent by the end of 1994. By the end of 1995 the rate had again dropped to around 1.0 per cent, but subsequently climbed back to 7.6 per cent by the end of 1996 and 10.5 per cent by the end of 1997 (Central Bank, 1998a). A combination of measures introduced in the Government budget for 1998-1999 should help realise the target of 5-6 per cent set for inflation. These measures include reductions in certain import duty rates and revisions to the VAGST threshold levels.

Following a financial crises during the early 1980s, the Samoan economy has gradually built up its foreign reserves over the past decade, with foreign assets at the end of 1997 representing approximately 7.2 months worth of imports (Central Bank, 1998).

Unemployment figures are difficult to estimate, since the main source of such statistics, the Samoa National Provident Fund, only recognises employees who are registered and contribute to the Fund. Estimates of contributions by the subsistence sector to GDP range from 25 per cent to 30 per cent. Commercial fishing has boomed (in relative terms) over the past three years with an estimated 600 to 1,000 people economically active in this sector, but they do not contribute to the National Provident Fund. Crew members on a fishing boat owned by a relative can easily claim that they are not officially employed, but simply helping out in the family business.

Nevertheless, there is an obvious and growing preference for employment in the formal sector. The decline in the overall share of subsistence production can already be discerned from the relative increase in the volume of imports of food items. Much of what was purely subsistence agricultural production has also gradually become commercialized as more people enter the formal employment sector. The volume of activity at the local town market and the number of small road vendors testify to this trend. Another recent marketing innovation is selling fruits, vegetables, fish and other homemade products to village and town stores, which thus serve as retail trade linkages for the village producers.

The per capita income of 3,075 Samoan dollars, calculated on the basis of figures released in June 1998 by the Minister of Finance as part of his budget speech, would indicate that there is relatively little poverty in Samoa. This statistic, for comparison, represents approximately half the average starting salary for a high-school leaver starting employment with the civil service. It is about 30 per cent of the starting salary of a university graduate in arts, science or business administration, and roughly 30 per cent less than the minimum wage levels set by the Government. Although there are traditional cultural institutions that perpetuate certain social norms, including subsistence farming, there is no escaping the growing influence of the monetized sector. To bolster this trend, the Government is providing incentives to the public through different agencies on the basis of user-pay systems of service, including utilities, education and health services.

Regulatory environment

The main legislation relating to business is archaic. The Business Licence Ordinance of 1960 sets out the procedures for obtaining a business licence. The annual fee for this licence is currently set at 200 Samoan dollars. The ordinance is administered by the Inland Revenue Department and applies to all companies and individuals wishing to set up a business. Companies have to be incorporated under the provisions of the New Zealand Companies Act of 1935 and the Samoa Companies Order of 1955. All limited liability companies have to be registered and file annual returns with the Registrar of Companies. Public companies are required by law to undergo an annual independent external audit.

The Income Tax Administration Act of 1974 is the main legislation that governs direct taxation, including business and individual incomes. Company tax is currently at the rate of 35 per cent of global taxable income, which is also the maximum progressive tax for individuals earning an income of over 18,000 Samoan dollars per annum. The increase in the threshold for income tax from 6,000 to 8,000 Samoan dollars, announced by the 1998/99 Budget Statement, means that almost all employees at the basic entry level are exempted from income tax. Tax holidays that applied to enterprises primarily catering for the domestic market have also been eliminated with the objective of enhancing competitiveness, eliminating the discretionary approval processes that existed in the past and enhancing transparency.

Indirect taxes such as import duty are administered under the Customs Act of 1977. Revisions to both personal income tax and tariffs were announced in June in the 1998/99 budget speech. Excise tax was also abolished on all goods except alcohol, soft drinks, tobacco, petroleum products and certain motor vehicles.

The tariff changes necessitated changes to the incentives offered by the Enterprise Incentives Scheme. Many of the benefits under the Scheme have been scrapped because duties on equipment, plant, raw materials and other intermediate imports have been drastically reduced. Table 5 shows the types of incentives that were in place and available under the Scheme:

Table 5: **Summary of Incentives for Domestic and Export Enterprises**

Type of Incentive	Domestic Enterprise	Exporting Enterprise*
Income tax holiday	up to 5 years	up to 15 years
Preferential income tax rate	-	25% upon end of tax-free period
Exemption on dividend tax	approved tax-free period plus maximum 2 years	approved tax-free period plus maximum 5 years
Loss carried forward	-	during tax-free period
Customs and excise duties	partial or in full, maximum of 5 years	partial or in full up to 15 years

* Exporting 95 per cent or more of output.

Source: Enterprises Incentives and Export Promotion Act, 1992/93

Table 6 lists the types of business enterprises that were granted incentives under the scheme during the four years up to 1995, and in 1997 (no figures are available for 1996).

The Department of Trade, Commerce and Industry (DTCI) estimates that approximately 4,419 jobs (an increase of 13.8 per cent over the number of jobs generated during 1994) were created in the manufacturing and tourism sectors in 1995 by enterprises assisted under the Enterprises Incentives Scheme (DTCI Annual Report, 1995). However, this includes approvals granted to Yazaki Samoa Ltd., which employs more than half this number.

Table 6: Types of Operations Granted Incentive Benefits (1992–1995; 1997)

Type of Operation	Number of Operations				
	1992	**1993**	**1994**	**1995**	**1997**
Hotel/motel/visitor facility	13	39	15	16	12
Food processing	5	12	4	10	6
Bakery	1	-	-	-	1
Fisheries and fisheries development	1	-	4	5	2
Cut flowers	2	-	-	1	2
Packaging	-	2	1	-	1
Garment	-	3	3	2	-
Other manufacturing/service	19	10	23	23	11
Total	41	66	50	57	35

Source*:* Department of Trade, Commerce and Industry, *Annual Reports*, 1995 and 1997.

Yazaki Samoa Ltd. is a good illustration of the impact of development strategies. This is a foreign-owned company that manufactures wire harnesses for motor vehicles. All its raw material is imported and all its production re-exported. The work involved is labour intensive and the company employs the equivalent of some 50 to 100 small enterprises: more than 2,000 women, albeit in what is sometimes described as sweatshop conditions. Extensive incentives were offered to entice the company to choose Samoa over other competing Pacific islands. Because of the extent of new employment it created, the company was seen as a godsend and officials continue to try and secure another "Yazaki".

While there may be nothing wrong with attempts to attract foreign investment of such a nature and magnitude of employment, the glamour and visibility of such developments can skew policy and strategy and thus misdirect effort. It may well be possible to attract a venture such as Yazaki every 10 years or so, yet it is also possible to promote and establish small enterprises that together create more or less the same level of employment, plus other benefits, every two to five years. Incentives granted to about 20 medium-sized enterprises may have the same impact on national income as those given to an enterprise such as Yazaki. In times of recession in global markets, having a greater spread of enterprises provides security against mass layoffs and cushions the effects of downsizing by individual enterprises. Demonstrating the same commitment to creating the right environment for the establishment and growth of small enterprises can therefore be just as rewarding, if not more so. Moreover, an overdependence on one or two large enterprises places those enterprises in an advantageous position with respect to obtaining fiscal and other benefits.

Other legislation governing business activity is listed below:

- Business Licence Ordinance, 1960, administered by the Inland Revenue Department;

- New Zealand Companies Act, 1935 and Samoa Companies Order, 1955, administered by the Justice Department;
- Partnership Act, 1975, administered by the Justice Department;
- Income Tax Act, 1974 and Income Tax Administration Act, 1974, administered by the Inland Revenue Department;
- Value Added Goods and Services Tax Act, 1992/93, administered by the Inland Revenue Department;
- National Provident Fund Act, 1972, administered by the Samoa National Provident Fund;
- Accident Compensation Act, 1989, administered by the Accident Compensation Board;
- Labour and Employment Act, 1972, administered by the Labour Department;
- Immigration Act, 1966, administered by the Prime Minister's Department;
- Commerce Act, 1978, administered by the Department of Trade, Commerce and Industry;
- Enterprises Incentives and Export Promotion Act, 1992/93, administered by the Department of Trade, Commerce and Industry; and
- Trade, Commerce and Industry Act, 1990, administered by the Department of Trade, Commerce and Industry.

A common complaint by operators of small enterprises is the volume of paperwork that is sometimes demanded by officialdom. Quite often it can takes a small entrepreneur as much, if not more, effort as a large enterprise to obtain a business licence. The requirements for issuing licence renewals annually are likewise applied generally. A small enterprise employing one or two people has to comply with all the tax requirements, including VAGST and income tax returns, before a new licence is issued. The cost of hiring an accountant to undertake these tasks is often prohibitive for most small entrepreneurs (accountants do not have a separate scale of fees for small versus large enterprises). In addition, small and large enterprises alike are required to file returns to the National Provident Fund and the Accident Compensation Board on a monthly basis. Avoidance of these administrative tasks is the main reason why fishing-boat owners operate on an informal family basis. Although certain efficiencies have been introduced through output budgeting, this does not guarantee an automatic customer-friendly approach and transaction costs for government services generally remain excessive.

Medium to large enterprises that have Incentive Approval often seem to be accorded priority when applying for a licence, loan financing or other technical assistance from public agencies. It is almost as if those enterprises granted incentives have the Government's "stamp of approval" while the rest belong to some other category. The Government seems to pay more attention to enterprises that promise large gains in terms of new employment and it invariably offers them more incentives. Similarly, enterprises that promise substantial financial investment, especially foreign capital, are more attractive to the Government and the financial sector.

Many of the features of the existing incentives regime have changed in light of the 1998/99 Budget Statement. Import duties on most raw materials are now common-rated with finished products, and both have been reduced appreciably. The need for enterprises to apply for incentives related to the import of raw materials, plant and equipment, including motor vehicles, is greatly diminished.

Industrial and business base

The range of export commodities listed in table 7 is illustrative of the narrow export and overall economic production base of the Samoan economy. Partly as a result of the loss of opportunities for income from the *taro* trade, many turned to commercial fishing. This was initially encouraged and facilitated by the results of trial longline fishing methods coordinated by the Fisheries Division of the Ministry of Agriculture, Forests, Fisheries and Meteorology. From being almost non-existent, fish exports have risen dramatically and currently account for approximately 41 per cent of the value of total exports. *Taro,* on the other hand, has disappeared almost entirely after contributing to approximately 57 per cent of total export value in 1993 (table 7).

Table 7: Exports 1990 -1997 (in million Samoan dollars)

	1990	1991	1992	1993	1994	1995	1996	1997
Exports:								
Coconut oil	4.17	0.02	0.69	0.00	0.00	8.04	6.82	6.76
Coconut cream	5.58	5.27	4.85	3.46	4.52	4.84	4.92	4.77
Copra	1.10	0.00	0.00	0.00	0.06	2.19	4.07	7.88
Fish	n.a	n.a	n.a	0.15	0.26	0.43	2.25	12.33
Taro	3.50	6.88	4.69	9.51	0.16	0.16	0.10	0.09
Other	6.14	3.36	4.12	3.41	3.92	5.65	6.02	5.63
Total Exports	20.49	15.53	14.35	16.53	8.92	21.31	24.18	37.46

Source*:* Malielegaoi1 (1998b)

In spite of deliberate policies and strategies to broaden the economic base, opportunities remain limited. The Samoan economy is highly dependent on two or three export commodities. Coconut cream, coconut oil, and copra (all derived from the coconut tree) accounted for 51.8 per cent of total export value during 1997. Albacore tuna from longline fishing, and coconut-based exports together accounted for 84.7 per cent of all export value for that year. Other export items, including manufactures, have remained stagnant over the past 10 years (Central Bank, 1998a). Export performance by the manufacturing and processing sector (coconut cream and coconut oil being the main export items) has been erratic. Many local manufacturing and processing enterprises cater primarily for the domestic market, while some concentrate on niche or neighbouring export markets.

Samoa has in the past benefited from various preferential trading arrangements such as the General System of Preferences (GSP) and the Lomé Convention, which, in part, have influenced the flow of exports. The country's comparative advantages are similar to those in neighbouring and more developed markets.

Table 8: Characteristics of business enterprises by subsectors – 1994

Subsector	No. of Enterprises	No. of employees	Value added per employee	Fixed assets per employee
Manufacturing	69	1 183	10 700	23 000
?? Food, beverages, tobacco	31	615	9 900	23 700
?? Other	38	568	11 700	22 300
Construction	34	828	11 700	8 200
Vehicle sale/repair & fuel	43	392	24 700	23 300
Wholesale trade	14	254	27 700	24 800
Retail trade	127	1 479	11 200	16 300
Hotels & restaurants	49	958	11 900	48 500
Transport & communication	57	471	33 500	20 600
Real estate & business services	71	509	11 100	30 000
Other industries	103	1 569	9 700	32 100
Total	567*	7 643	13 400	25 600

*excludes Yazaki and enterprises wholly or partialy owned by Government

Source: Economic Planning and Policy Division (1996)

Apart from possibly one enterprise, Yazaki Samoa Ltd., all enterprises, whether in manufacturing, trading, processing or services can be labelled small or medium in size. In the context of Samoa, an enterprise with 6 to 20 employees is considered medium-sized, and one with less than six, as small. Certainly, an enterprise with more than 20 employees has distinct features and characteristics that differentiate it from one with six or less employees.

The range of industrial products manufactured or processed in the country is quite limited. The vast majority of processing and manufacturing enterprises in the country are privately owned. It is the policy of the Government to promote the private sector and to operate or restructure commercial enterprises owned by the Government. This has, however, been a slow process.

According to the results of a Business Activity Survey, there were 586 businesses employing workers on a formal basis, with 306, or 52 per cent, of these employing five people or less. On average, the smallest enterprises in manufacturing require about 100,000 Samoan dollars of capital investment to start up. Table 8 summarizes the results of the survey.

Table 9: Average number of employees per enterprise by subsector - 1994

Subsector	Number of enterprises	Total employment	Average no. of employees per enterprise
Manufacturing	69	1,183	17
?? Food, beverages, tobacco	31	615	20
?? Other	38	568	15
Construction	34	828	24
Vehicle sale/repair & fuel	43	392	9
Wholesale trade	14	254	18
Retail trade	127	1,479	12
Hotels & restaurants	49	958	20
Transport & communications	57	471	8
Real estate & business services	71	509	7
Other industries	103	1 569	15
Total	567	7 643	14

Source: Economic Planning and Policy Division (1996)

Although there have been changes in the four years since the survey was carried out, the above statistics are still relevant and useful as an indicator of the spread of business enterprises by size of investment and number of employees. A significant change to the 1994 scenario is the recent increase in commercial fishing activity. Approximately 230 small fishing catamarans are engaged in commercial fishing with most boats manned by a crew of three or four. There has also been an increase in ecotourism projects at the village level, which may have materially altered the characteristics of the hotels and restaurants subsector, although these projects have low capital investment and low revenue turnover.

Table 9 lists the average number of employees per enterprise by subsector. As noted earlier, almost all industrial enterprises in Samoa belong to the small to medium-sized category, apart from State-owned enterprises and Yazaki Samoa Ltd. Information based on gender was not specifically included in the survey. However, most enterprises are family owned, and as such often involve husband and wife teams who own operate and manage them. Business enterprises in Samoa have a relatively high survival rate, except for retail traders at the village level. The reason for their poor survival rate is the lack of business management skills, often coupled with cash flow problems and exacerbated by family and community obligations as well as insufficient attention to market and pipeline analysis before setting up the business.

Enterprises in Samoa typically have a very slow growth rate due to a number of factors. First, most cater for the local market, which is small and hardly growing in terms of population. Secondly, there is no commercial culture or tradition which newly-established businesses can emulate or learn from through a network of training and exchange of business experiences. Of the few firms that have grown, more often than not they belong to families that have been in business for at least two generations. When they do grow, it is usually horizontally, branching off, often to unrelated product and service lines. Again, this is a response to the current and perceived needs of the local market. It is only in the last 10 years or so that well considered policies and export-marketing strategies have been formulated and implemented to exploit offshore trading opportunities.

There are minimal formal or informal linkages between enterprises. This is especially true of the manufacturing sector. Most enterprises are established to meet a specific recognised market demand, and there is a reluctance to branch out or outsource. Again, it is a phenomenon characteristic of the smallness of the overall national market and an aversion to risk associated with dependence on an outside source, especially for raw materials or semi-finished products. Enterprises generally are not large enough to create subcontracting opportunities. In the case of motor vehicle mechanical workshops, refrigeration and air-conditioning businesses, electrical contractors and manufacturing ventures, there exists a longer history of linkages resulting in an accepted business culture and practice. Manufacturing enterprises almost always outsource their requirements for electricians, motor mechanics, refrigeration and air-conditioning maintenance and the like. To some extent, this has happened at Yazaki Samoa Ltd. Where cafeteria services are outsourced, as are employee transport services, payroll accounting services and the supply of packaging material are also contracted out. At Western Samoa Breweries Ltd., beer and soft drinks distribution is done entirely by outside contractors.

BUSINESS SUPPORT INFRASTRUCTURE

Perhaps the most significant move in terms of assisting the development of enterprises was the establishment of the Department of Trade, Commerce and Industry (DTCI) following legislation passed in 1990. Previously, functions related to trade and industry, tourism, development planning, export marketing and fisheries were coordinated by the now defunct Department of Economic Development. The Customs Department was responsible for “commerce” functions. Establishing the DTCI has made it possible to better focus activities, and restructuring the various functional divisions has rendered it proactive and customer-oriented. Amendments to the Trade, Commerce and Industry Act in 1994 also provided for the establishment of a Trade, Commerce and Industry Development Board. This created a forum through which members representing the trading, commercial and industrial sectors, and the Government can engage in regular dialogue on matters relating to trade, commerce and industry (DTCI Annual Report, 1997).

The principal functions of the DTCI are to:

- Encourage and assist the promotion of domestic exports alone or in cooperation with other organizations, and to hold trade fairs;
- Establish a Commodities Pricing and Marketing Information Unit within the Department;
- Facilitate the securing of funds for the purposes of trade development and promotion, including discussion and negotiation with donors;
- Advise the Minister on all aspects affecting the growth and development of industry, commerce and trade;
- Promote the development of small businesses, including setting up a Small Business Agency within the Department to disseminate knowledge of sound business and commercial practices, and organize and administer training courses, as necessary; and
- Undertake research into any aspects of domestic trade, gather statistics and publish periodic reports.

The Small Business Enterprise Centre (SBEC) was established under a charitable trust in 1994 with funding from the New Zealand Government's bilateral assistance programme. The Centre offers new and existing business enterprises with the following support services:

- Practical business advice;
- Referral to other assisting agencies;
- Assistance in developing business plans;
- Business skills training courses, seminars and workshops;
- Assisting with business loan applications;
- New Zealand Pacific Islands Industrial Development Scheme agent; and
- Ongoing business support.

Although established with New Zealand assistance (essentially public assistance), the SBEC operates as a private sector organization working directly with businesses. It provides independent, confidential, professional and practical assistance for small business development and growth. Its clients are typically people who need help in starting their own businesses, or established businesses. In addition to the funding provided by New Zealand, the Centre relies on nominal fees paid by clients for various services. A board of trustees that includes members from the business community as well as commercial banks, DTCI, and the New Zealand High Commission oversees SBEC's work. Recently, the Centre started targeting small businesses outside the Apia urban area, and conducted training programmes on the island of Savaii.

The establishment of the Trade and Investment Promotion Unit (TIPU) and a Policy and Research Division in 1996 further strengthened the DTCI. TIPU is intended to function as a "one-stop shop" for investors and exporters. Most enquiries on matters related to trade, investment, commerce and industry may be directed to this unit, which can either take care of the enquiry itself or direct the client to the appropriate agency.

The following are the main functions of TIPU:

- Improve the provision of marketing and technical information for potential foreign and local investors, with special emphasis on SMEs, for which gathering such information is normally time consuming and costly;
- Provide information on the availability of technical, training and financial assistance;
- Follow-up actions based on leads resulting from trade and investment promotion missions;
- On a proactive basis provide up-to-date information on investment possibilities within the country;
- Initiate and facilitate activities in the export sector;
- Initiate investment studies in close collaboration with sectoral specialists, identifying investment opportunities for the private sector to undertake; and
- Maintain a corporate planning approach as a management strategy, taking the lead in the preparation of the Department's Corporate and Strategic Plans for ensuing periods.

There are no specific policies or strategies that target SMEs, as it is generally assumed that the policies in place naturally address their needs. This has led to an inadvertent ignorance of the unique needs of small enterprises and often hinders the expansion of established ones. At the same time, there is a greater emphasis on "start-ups" rather than assistance in identifying opportunities for expansion and mechanisms for achieving growth. The range of support services that already exist, such as those offered by the Small Business Enterprise Centre, tend to be limited. Faced with resource constraints, agencies such as the SBEC have little flexibility, but a good appreciation of the varying needs of different subsectors would help improve the design and delivery of support and assistance. The custom of providing packaged training, in particular, is seldom appropriate for the needs of enterprises poised for expansion.

As part of its ongoing work programme, the Department of Trade, Commerce and Industry is undertaking 10 Investment Sector Studies. Four sector studies have been implemented for: the garment and textile industry, food processing, agriculture and engineering. Plans for a study on the tourism industry are well advanced. All sector studies include the preparation of potential investment project profiles. Once again, their emphasis is on large projects and on new enterprises. As such, there is an implicit bias towards large foreign investment. The studies do not specifically review the situation from the point of view of small enterprises and fail to identify and promote opportunities for the expansion of existing businesses. These reviews should have, as an additional objective, the assessment and identification of potential linkages between large and small enterprises within subsectors.

Finance

For more than 20 years, the Development Bank of Samoa has provided both capital and technical assistance to business. Traditionally, the Bank's interest rates were marginally lower than those of commercial banks, in line with the then general international perception of what a national development financing institution should charge. However, since the liberalization of financial services over the past year, banks are now at liberty to vary their interest rates at will in accordance with market conditions and profit targets. The Development Bank has also increasingly come under pressure to be financially self-sustainable. With increased competition within the financial sector, it is expected that interest rates between banks will be closely aligned. However collateral requirements continue to be an obstacle for small enterprises because most of the land in Samoa is traditionally owned and cannot be used for loan security purposes. The SBEC attempts to overcome this problem by providing a loan guarantee service for businesses that qualify.

In addition to the collateral requirements that often place such entrepreneurs outside bank lending policy, there are limited bank products specifically structured to meet the needs of very small businesses. Up until about 1997, Samoa had only two commercial banks. The establishment of a third, the National Bank of Samoa, has had a marginal impact on the competitive environment in the banking industry. It is still very much a lender's market. The new bank, mainly with the aim of encouraging savings and taking banking to the community level, has come up with some product innovations. Other financial institutions, such as credit unions, exist mainly for the benefit of their individual members and primarily to cater for consumer credit needs.

Support to women entrepreneurs

No specific policies or strategies exist for the promotion of women entrepreneurs. However, there is a Ministry of Women's Affairs that promotes the interests of women in general. The Ministry also assists the development and marketing of women's produce and handicrafts, including traditional jewellery. A policy paper recently distributed by the Ministry of Women's Affairs proposes to dovetail many of the ongoing women-related activities in the country. Since the Ministry has been established only recently, its role is still being defined and developed; it is conceivable that it could eventually develop into a "one-stop shop" for women seeking specialized assistance, including assistance in establishing or expanding small businesses. The Ministry has already started programmes that bring together and coordinate the various activities of different women's groups around the country.

A review of the investment environment tentatively reveals that there are no barriers to entry by women into business and that existing policies and strategies do not discriminate against women entrepreneurs. Of the existing interest groups for entrepreneurs, Women in Business is currently the strongest membership organization that represents the interests of women in business and participates in public–private forums. In addition, the National Council of Women (NCW), which has been in existence for almost 40 years, also promotes the interests of women. This NGO has a very strong cultural and traditional base and has members from all over the country. The NCW was specifically established with the objective of spearheading the development of women at the village and family level. Although it has often sponsored training workshops to impart skills that can be the basis for income-generating ventures (mainly in the area of handicrafts and cooking), its primary purpose is to create a secondary source of income for the family, rather than a business that could be the main occupation of a woman or the family unit. The organization is, however, an effective conduit for the dissemination of information to women throughout the country.

Other women's organizations also exist. For example, different church denominations have women's associations with varying purposes and objectives. A common tenet is the development and improvement in family welfare. Invariably this involves the production of different items of artefacts that are displayed for sale at annual bazaars or at national festivities. Again, these efforts provide a secondary income.

Public-private sector dialogue

Dialogue is ad hoc and, at times, lacks clear purpose. More recently the Government has attempted to better streamline and formalize dialogue by specifically inviting comment on items of policy and strategy from the private sector, but only occasionally as part of the process of preparing the Government's biannual Statement of Economic Strategy.

The business community, particularly through the Chamber of Commerce, has had the opportunity to engage in limited dialogue with different government agencies and officials. For example, the Chamber of Commerce has been represented on the Enterprises Incentives Board since its inception in 1965. It has a representative on the Board of Directors of the Samoa National Provident Fund, the Development Bank of Samoa and the Accident Compensation Board. The private sector is also represented on a number of other public bodies such as the Central Bank Board, Public Trust Investment Board, Trade, Commerce and Industry Development Board, Price Control Board, Land Board, as well as being represented on ad hoc committees set up from time to time to consider specific matters of policy. All State-owned enterprise boards have public representation, usually nominated by a cabinet minister.

While it is common for private sector organizations to accuse the Government of not adequately consulting with business, the fault also lies with private sector organizations such as the Chamber of Commerce and the Manufacturers' Association. More often than not, private sector representatives on the various public committees have no policy position from their constituency and consider these appointments more as a personal reward. The Manufacturers' Association often selects its representative on the basis of the size of that individual's enterprise. On the whole, the private sector is largely reactive to Government initiatives and very seldom presents alternatives and options, or policy and strategy recommendations in addition to those already proposed, for the

Government's consideration. This situation is perpetuated due to the limited resources available to private sector organizations that often rely on busy businessmen to provide institutional support and secretarial services. The Government, in fact, has been the one to forge dialogue and promote the active involvement of the private sector in policy debate and formulation.

The membership of trade associations such as the Chamber of Commerce and the Manufacturers' Association is limited largely to the medium and larger enterprises located within the capital. Following the formation of the Manufacturers' Association (about 20 years ago) membership to the Chamber of Commerce now comprises mainly merchants (mostly importers) plus service and tourism enterprises. These merchants invariably imported products that competed with those produced by local manufacturers. The Chamber of Commerce recently underwent revitalization following years of stagnation. The new executive is taking a more proactive role in policy development and has already made an impact on recent economic policy. Following a divergence of paths, the two trade associations now have closer relations and even cooperate when called upon to make representations to the Government.

The Manufacturers' Association is a more specialized club with members consisting almost entirely of manufacturers and processors. It was originally formed as a result of manufacturers' dissatisfaction with the Chamber of Commerce and was given impetus by the investment policy of the times. The Enterprise Incentives Scheme was intended mainly to protect and nurture infant industries from "unfair" foreign competition through the granting of economic benefits to help launch new ventures or expand existing ones. Virtually every manufacturing and processing enterprise that was established in the country needed this protection or an added incentive.

A number of other specialized trade-related organizations surface from time to time with varying degrees of influence and tenacity. The fishing industry has had an association that has been more or less active for almost 30 years. More recently, with the rapid expansion of the commercial tuna fishing, associations have been revived on the two main islands (Upolu and Savaii). However, their impact on policy has been limited, partly because current policy requirements relate to the dire need to formulate and implement regulations to better manage fishing activities. The association in Savaii was formed because the one in Upolu (where the capital is located) was not seen as promoting issues peculiar to Savaii conditions. At the present time, both associations have limited clout and even less influence in steering policy related to fishing industry development. This is unfortunate as much remains to be done in this lucrative subsector.

Other interest groups such as the Planters' Association and the Fishermen's Association become visibly active only when there is a specific current issue of particular interest to their members or their leadership on the agenda. Occasionally even more specialized groupings, such as those of bakery and petrol station operators, are formed to represent the interests of such groups. More recently, an informal group consisting of fishing-boat builders has been formed to assist develop policy on boat standards. There has been a steady growth in the number of visitors to the country. The Visitors'

Association champions the interests of operators in the industry, such as hotels, restaurants, airlines, travel agencies, tour operators, marine sports operators and others. Membership is open and is representative of the range of business enterprises active in the industry.

The role and participation of women in business has been greatly enhanced by the formation almost 10 years ago of an organization called Women in Business. The organization is active in promoting not only businesses run by women, but also the interests of women generally. As already mentioned, many of the small businesses in Samoa, by their very nature, are family affairs involving both husband and wife. Some ventures, however, seem to attract women in particular, such as floriculture, café operations, travel agency and tour services, handicraft and curio shops and groceries. Women in Business focuses on supporting women by providing them with training, organizing exhibitions and fairs, and helping to secure funding and technical support from the Government, donors and other sources.

Small enterprises are not in a position to establish a coherent and effective organization that can represent their interests and present these at policy forums (even larger enterprises can barely manage to do so).

Conclusions and recommendations

Small and medium-sized enterprises are the backbone of the private sector in Samoa. Almost all enterprises established, except for Yazaki and some government-sponsored ventures such as the coconut oil mill and brewery, started small. Private sector growth will continue to be dependent on the establishment and growth of SMEs for the foreseeable future.

There are no specialized policies or strategies that target the development of SMEs. Existing ones apply uniformly to all size types, except perhaps, special treatment given to significantly large enterprises such as Yazaki Samoa Ltd. Identifying and recognising the specific characteristics of SMEs, and their support needs, could enhance their success. This need not involve the provision of particular incentives such as those previously available under the Enterprises Incentives Scheme. Rather, support services should be better focused on training needs, market identification and product development, financing options, possibilities for networking, both locally and internationally, and generally providing a comprehensive service that recognises the different capacities and needs of different sized enterprises.

Although there are programmes that target and assist the establishment of new enterprises, there are none that promote and encourage the growth of existing micro and small enterprises, which show potential. Support infrastructure and services should target all types of enterprises, whether new or existing. To this end, SBEC could be further developed to become the focus of support for SMEs. The Centre is currently funded by bilateral assistance from New Zealand and its longer term institutional and financial sustainability may be in doubt. The services provided by SBEC and by the DTCI through TIPU need to be coordinated in order to avoid duplication and customer confusion, and policy coherence should be fostered. Cooperation with other institutions, such as the National University of Samoa, Samoa Polytechnic as well as other private sector organizations, should be considered.

The impact of the Enterprises Incentives Scheme has varied: while numerous enterprises received benefits under the scheme and numerous others were established and are still in business, many would have been established even without these incentives. In the final analysis, the opportunity costs of incentives must be measured closely, as the economic argument in favour of infant industries is still a powerful one.

Linkages amongst and between SMEs and larger enterprises are weak. This situation is expected to continue, given the tendency for local businesses to be self-contained. More opportunities for linkages will develop as the culture for outsourcing becomes locally ingrained. In the medium term, policies and strategies for the establishment of medium-sized enterprises and the expansion of small enterprises may provide the vehicle for creating this missing link.

Access to finance continues to be an area that warrants further attention and requires effective initiatives. The situation in Samoa is particularly irksome because of the system of land tenure.

While there is a Ministry of Women's Affairs, there is no policy or strategy that targets the special needs of women entrepreneurs. The Ministry recently released for public discussion a generic mission statement with its related strategies and programme of activities. Most NGOs and women's groups promote the supporting role of women in income generation and family care. The current strategy by the Ministry to dovetail related activities around the country should also focus policy and strategy on entrepreneurship development and the establishment of businesses by women.

Dialogue between the private and public sector has been given a relatively major boost in recent years by the Government's efforts to involve the public in developing national economic policies and strategies. Thus far, dialogue has been restricted to the formulation of the Statement of Economic Strategy issued biannually by the Minister of Finance. Private sector groups such as the Chamber of Commerce and the Manufacturers' Association must enhance their capacity to respond to these initiatives and to critically review proposals as well as be proactive in initiating policy. Other business groups should also be encouraged to participate.

Well focused policies and related strategies for SME development are best guided by a detailed review of the special characteristics and needs of SMEs. Such a review should map out the relationship between small and larger enterprises and identify the strategies and different agency programmes needed to achieve policy targets and objectives. Such a review is critical given Samoa's imminent membership to the WTO and the need for local enterprises to become internationally competitive.

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ANNEX: List of Persons Consulted

John Ah Yek, Principal Mechanic, Ah Yek Mechanical Services;

Tolo Aiono, Village Shop Operator;

Bryan Atkins, Managing Director, Pacific Aluminium Ltd.;

Oloipola Terence Betham, Partner in Charge, Betham & Co., Public Accountants;

Lauano Falani Chan Tung, Secretary, Department of Trade, Commerce and Industry;

Auelua Samuelu Enari, Principal TIPU Officer, Department of Trade, Commerce and Industry;

Luanalau Foisaga Eteuati-Shon, Secretary, Ministry of Women's Affairs;

Christina Fruean, Manageress, Office Pot-plant Services;

Lolopo Roy Fruean, Managing Director, L. E. F. Boatcraft Ltd.

Tony Hill, Managing Director, Hillbuilt Boats Ltd.;

Don Jacobson, Technical Advisor, Department of Trade, Commerce and Industry;

Fuimaono Falefa Lima, General Manager, Development Bank of Samoa;

Hon. Tuilaepa Sailele Malielegaoi, Deputy Prime Minister and Minister of Finance and Trade, Commerce and Industry;

Papalii Tavita Moala, Manager, Samoa National Provident Fund;

Luamanuvae Richard Mariner, Deputy Comptroller of Customs, Customs Department;

David Meader, Advisor, Central Bank of Samoa;

Apete Meredith, Deputy President, Samoa Chamber of Commerce;

Eleitino Michelle Meredith, President, Women in Business Inc. and Company Secretary, National Bank of Samoa;

Philip Penn, Deputy Chief Executive, Central Bank of Samoa;

Lemalu Tate Simi, Commissioner of Labour, Department of Labour;

Leota Laki Lamositele Sio, Director, Small Business Enterprise Centre;

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ZAMBIA

INTRODUCTION

Zambia is a low-income country with a per capita Gross National Product (GNP) that averaged US$ 290 between 1990 and 1994.[16] The country had a population numbering 9.5 million in 1996 of which 37 per cent was urban.

Prior to the introduction of multi-party democracy and the adoption of free market policies in 1991, Zambia was a one-party State with a socialist-oriented economy. The business environment was characterized by price controls, administratively determined exchange rates, a variety of subsidies for consumer goods and services, negative real interest rates and high rates of inflation. From 1985 to 1987, inflation averaged about 44 per cent. In 1989, it rose to about 130 per cent, averaged about 100 per cent up to 1992, and from 1992 to early 1994, it averaged 200 per cent.

The public sector was the preferred engine for growth with about 80 per cent of the economy in State hands. During the era of State domination, the favoured policy was that of import substitution. Growth registered mainly in the manufacturing sector, which was dominated by increasingly inefficient State-run monopolies that were heavily protected from outside competition. They were heavily overstaffed and many of them were totally dependent on the State treasury for their continued existence. The budget deficit was massive, private investment was almost non-existent and many parastatals became heavily indebted.

Zambia's economy relies heavily on copper: in 1990, copper accounted for 83.5 per cent of total exports and in 1991 this figure rose to 89.7 per cent. In 1992 and 1993 its share in total exports declined to 78 per cent and 77 per cent respectively, and further, to a record low of 69.5 per cent in 1994. Insufficient investments in copper mines during this period resulted in a decrease in productivity and output. However, this decline in the importance of copper in total exports was compensated by a growth in non-traditional exports.

Enterprises in the private sector thrived only if they had access to foreign currency. Prior to 1991, shortages in basic goods and services were common. The private sector manufacturing industry operated well below installed capacity, as it was not a priority for the allocation of foreign exchange. To have access to foreign exchange, enterprises had to be well connected to the bureaucrats or the Establishment. Since there was a general shortage of inputs, a company with access to these would have a virtual monopoly of the market for its products and hence could make huge profits. Some small enterprises thrived in this sellers' market. However, small enterprises like most of the private sector, had difficulty securing raw material inputs and equipment. Borrowing was also very difficult for business people as real interest rates, which were administratively determined, were negative and hence most commercial institutions had very little

[16] At independence in 1964, and for a decade after that, Zambia was classified as a middle-income country with a per capita income of about US$ 1,200.

incentive to lend. There were, however, a few schemes offering subsidies to which a few small enterprises in the manufacturing sector were able to gain access.

Following the election of a new Government in 1991, there was a shift in economic policy. The new Government embarked on an ambitious World Bank-assisted structural adjustment programme with far-reaching market reforms. The following were the main features of the reform programme:

- Repeal of the Exchange Control Act;
- Liberalization of interest rates;
- Abolition of price controls;
- Removal of subsidies; and
- Removal of import licensing requirements.

As a result of these stabilization measures, the macroeconomic environment was brought under control. Inflation dropped to 54.6 per cent in 1994, and from 1994 to 1997, the annual rate of inflation declined from 54.6 per cent to 24.8 per cent. In the first quarter of 1998 inflation stood at 18 per cent.

As a consequence of vigorous privatization and liberalization, Zambia is now considered to be one of the most liberalized economies in Africa (World Bank, 1996). Although the international community lauded the reform efforts, the results have been mixed. Privatization has slowed down, especially since the breakdown of negotiations within the Kafue Consortium for the sale of the Nchanga and Nkana mines, which account for about 65 per cent of Zambia Consolidated Copper Mines (ZCCM).

Since the start of the process of privatization, there has been a steep rise in traders in the informal sector. The general trend is towards the retail trade as opposed to production. A number of parastatals have had to close, with inevitable job losses. Very few new investments (apart from a mushrooming of new eating places and supermarkets) or new formal sector jobs have materialized. Due to the removal of subsidies, much of the population can no longer afford to pay for basic services. With 76 per cent of Zambia's population classified as poor,[17] this has effectively forced a number of children out of school, and most people cannot afford medicines. The social safety net programme[18] has proved to be inadequate and poverty levels remain high. Moreover, accessing the scheme is almost impossible.

A major complaint from business in general, is that the economy opened up too abruptly. This brought stiff competition from cheaper imports, especially from East Asia, Zimbabwe and South Africa, causing a number of companies to close down. Some have relocated to neighbouring Zimbabwe, resulting in job losses. The textile industry was ruined after the removal of import controls, which led to an influx of second-hand clothes popularly known as "*salaula*".

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[17] According to the Government's Central Statistics Office, (CSO 1996), 66 per cent of the population is extremely poor and 22 per cent is considered non-poor.

[18] To date, the National Social Safety Net Coordinating Committee has received US$ 500,000 from the World Bank and UNDP in its first four years, and virtually its entire budget has been used for capacity building and internal staff training. The Government funds only the operational costs of the National Social safety Net Coordinating Committee.

A number of challenges continue to confront businesses, including difficulties in obtaining of medium- and long-term loans. Currently, financial institutions favour mainly short-term lending. Utilities and energy are costly and have a negative impact on the competitiveness of domestic enterprises. For example, fuel prices are about 45 per cent higher than in neighbouring countries and this is entirely attributable to taxes. There is need to further stabilize the macroeconomic environment, as inflation is still relatively high. The local currency is also very unstable making it very difficult for firms to do business. Interest rates remain some of the highest in the region. Basic infrastructure is inadequate, particularly outside the capital, and access to telecommunication facilities is difficult. For example, there is a long waiting list for the installation of fixed telephone lines. Crime is a major problem for business, to the extent that some businesses have reduced their opening hours for fear of bandits. Insurance premiums are, consequently, high and increase the cost burden on the private sector.

THE SMALL ENTERPRISE SECTOR

According to the Government's Small Enterprise Development Board (Act No. 29, 1996), a microenterprise is defined as any business enterprise that:

(i) Has total investments not exceeding 10 million kwacha (excluding land and buildings);
(ii) Has an annual turnover which does not exceed 20 million kwacha; and
(iii) Employs up to 10 persons.

A small enterprise is defined as any business enterprise that:

(i) Has total investments not exceeding (excluding land and buildings):
   - ?? 50 million kwacha in plant and machinery for manufacturing and processing enterprises;
   - ?? 10 million kwacha in the case of trading and service enterprises;

(ii) Has an annual turnover not exceeding 80 million kwacha; and
(iii) Employs up to 30 people.

A definition for medium-sized enterprises does not exist and there are no special policies or incentives targeting this group of enterprises.

These definitions can be a disincentive for graduation into the middle range as no incentives are offered to enterprises that exceed a 1.53 million kwacha turnover per week. A lot of small enterprises exceed this amount, equivalent to 80 million kwacha per annum of turnover – not profit! Fortunately, in practice, SEDB has not checked if enterprises have exceeded the threshold. Most of the incentives provided under this Act are time bound. There are, however, some incentives, such as the exemption of licensing fees, which are not time bound in the new SEDB Act and may discourage expansion into the middle range.

It is difficult to estimate the size of the private sector, as data from the Central Statistics Office (CSO) do not disaggregate changes in output by public and private sector. A similar problem is encountered with respect to production in relation to enterprise size. According to the latest figures from the CSO and a recent survey on the micro and small-scale sector, the sector consists of approximately 336,600 income-earning activities and employs 714,000 individuals (approximately 18 per cent of the labour force), of whom 47 percent are women (Parker, 1996). Women own 46 per cent of these enterprises. However, enterprises owned by women tend to be concentrated in low return activities and employ fewer than 5 workers.

The small enterprise sector in Zambia is dominated by enterprises with a workforce of less than 10 employees. About 46 per cent of all small enterprises represent those in self-employment (Parker 1996).

Fifty two percent of all small enterprise activities are based in rural areas. Manufacturing accounts for 41.3 per cent of the small enterprise sector activities, while commerce accounts for 48.5 per cent, and services for 10.2 per cent.

According to a recent World Bank report (1997), Zambian firms of all sizes identified the lack of access to credit competition from imports, insufficient demand and infrastructural weaknesses as their most pressing constraints. Inflation is reported to cause a significant burden. Zambian firms do not consider government restrictions to be a handicap for business. Access to finance is more problematic for smaller firms, while competition from imports is a greater threat for larger firms (see table 10).

Table 10: **Perceived business constraints**

	All firms		**Small Firms (1-10 employees)**		**Large Firms (50+ employees)**	
Key 1: not at all 3: moderate obstacle 5: severe obstacle	average score	% of companies reporting as one of top three problems	average score	% of companies reporting as one of top three problems	average score	% of companies reporting as one of top three problems
Lack of credit	3.5	52.6	4.0	71.6	3.3	42.0
No demand	2.8	24.2	2.5	24.3	3.2	26.1
Competition from imports	2.6	22.8	1.8	14.9	3.2	26.1
Lack of infrastructure	2.8	19.5	3.0	33.8	2.7	13.0
Inflation	2.6	47.4	1.8	33.8	3.2.	58.0
Security	NA	14.9	NA	16.2	NA	15.9
Lack of skilled labour	NA	12.6	NA	8.1	NA	4.3
Lack of business support services	2.4	11.2	2.4	16.2	2.2	4.3
Taxes	1.8	6.0	1.0	0.0	1.2	0.0
Government restrictions	1.1	1.4	1.1	1.4	1.2	2.9
Utility prices	3.1	23.7	2.3	10.8	3.4	26.1

Source: World Bank (1997)

Small enterprise policies pre and post 1991

The Fourth National Development Plan (1988 to 1993) set the objectives for the informal sector (or small enterprises) as follows:

?? Identify and promote informal sector activities that have potential for output expansion and employment generation in a manner that structurally integrates such activities to complement the formal sector;

?? Upgrade production, managerial, organizational and marketing capabilities of informal sector participants, particularly among the youth;

?? Identify training schemes for youth in informal sector activities that have potential for production expansion, income and employment generation;

?? Provide the necessary infrastructure for the operation of informal sector activities;

?? Promote, where possible, accessible credit facilities for informal sector activities that have potential for growth in output, incomes and employment; and

?? Improve and expand production of the informal sector, particularly that of subsistence farmers and self-employed workers, in order to increase their levels of incomes.

The plan outlined five strategies to achieve the above-stated objectives. These were:

(i) Provision of collective services, infrastructure, and specialized tools and equipment for common use of related activities that have been identified as having relatively higher potential for increasing efficiency and productivity and for generating higher incomes and employment;

(ii) Establish innovative institutionalized credit facilities that are appropriately tailored to meeting the needs of informal sector participants engaged in potentially productive and dynamic activities, especially with respect to the purchase of input requirements;

(iii) Promote the use of appropriate technology and of available local resources;

(iv) Encourage the formation of small cooperative unions or mutual assistance organizations for the bulk purchase of inputs, the sale and distribution of output, and the joint use of tools and equipment for which considerations of cost or efficiency demand a larger scale of production or more intensive utilization; and

(v) Promote the upgrading of skills through formalized training schemes in terms of extension advisory services.

During the implementation of the Plan, emphasis was placed on collective enterprise rather than individual ownership. Private enterprises were not encouraged. The resources that the Government allocated to the small enterprise sector were low and the role of public institutions, which were the primary source of small enterprises support (i.e. the Small Industries Development Organization (SIDO), the Development Bank of Zambia and the Village Industries Services (VIS)), was not defined, except in the broadest terms. Moreover, these organizations faced serious financial and organizational constraints.

The above policies have not succeeded in creating an enabling environment for small enterprises to grow into middle-sized enterprises. This may be due to the following reasons:

- ?? While the broad policies were defined, the specific targets and strategies to be employed to achieve those targets were not;
- ?? The support institutions suffered from inadequate funding and bad management that was often appointed through patronage. As a result, these institutions serviced too few enterprises to have any meaningful impact;
- ?? Until 1991, the State was very obstructive to the operation of any private enterprise;
- ?? After 1991, the environment became more business friendly, particularly towards small enterprises. The Industrial, Commercial and Trade Policy of December 1994 specifically states that:
    - ?? Government considers the development of small-scale enterprises as an important component of its Industrial, and Commercial policy. Its aim is to devise a strategy, with the participation of the private sector, to encourage the growth of small-scale enterprises;
    - ?? Government will encourage local governments to review their infrastructure services and licensing regulations so as to support small enterprises;
    - ?? Government will provide legislation and incentives that promote the rapid growth of the sector;
    - ?? Government will decentralize business registration to enable the sector to operate efficiently and have access to incentives; and
    - ?? Government will set out to review and harmonize all existing laws and regulations with a view to identifying and removing impediments to the operations of the sector.

However, as in the past, these policies have remained public pronouncements, with little effort to implement them. For example, to date, a small enterprise development strategy has not been developed with (or without) the participation of the private sector. Local authorities have yet to review infrastructure and licensing regulations so as to support small enterprises. This is a necessary initiative because experience, both in the case of the VIS and SIDO, shows that unless industrial estate rentals are market determined, occupants are not necessarily small-scale entrepreneurs. Larger enterprises looking to capitalize on cheaper rents and facilities are not beyond offering inducement to VIS or SIDO/SEDB management for this privilege.

It is conceivable that there are obstacles to such reforms. Since local authorities have a very weak financial base, they would be uneasy at the prospect of having a sizeable group of residents exempt from paying rates, various levies and licence fees for up to five years. This is a clear example of policy incoherence whereby the central Government devises a policy strategy without consulting other parts of government.

REGULATORY ENVIRONMENT

Business is subject to a number of regulations including:

1. The Public Health Act, enforced by local authorities, which requires that all trade premises and factories be kept clean and free from infection. Most small enterprises get away with not complying with these requirements.
2. The Industrial Relations Act and Employment Act, which govern general regulation of contracts of service, including the minimum wage and liability in case of death or injury at work.
3. The Factories Act, which stipulates standards of cleanliness, ventilation, lighting, sanitary conveniences and safety. This, in most instances, is not complied with by small enterprises and local councils normally turn a blind eye.
4. The Environmental Protection Act compels all enterprises to abide by its regulations. Again, small enterprises are not harassed over this requirement.

The procedure for the formal registration of an enterprise is as follows:

1. Register business name at a cost of 12,000 kwacha
2. Place an announcement in a local newspaper on the intention to apply for a Trade Licence;
3. Obtain a Public Health Licence (if necessary);
4. Obtain a Trade Licence;
5. Obtain a Manufacturer's Licence from the district council (if necessary);
6. Register with SEDB or VIS; and
7. Obtain an Investment Certificate in order to benefit from incentives such as exemption from income tax.

According to the new SEDB Act, small enterprises that register with SEDB need not register under the Business Names Act or the Company Act. They can set up businesses without complying with the above regulations, especially if they do not have fixed premises or operate from home. The majority of small enterprises do not, in any case, comply with licensing requirements, particularly if they are located in areas designated as disadvantaged areas. In such areas, the city council has been directed to allow the people to ply their trade in whatever manner they can. However, if enterprises are located in non-commercial areas under the jurisdiction of a city council, they run the risk of having their structures demolished. Consequently, many of them build temporary structures. If they operate from a fixed market, they pay a levy of 250 kwacha per day.

Entrepreneurs with fixed premises and those running certain types of businesses, such as butcheries, or selling and/or serving liquor, generally find it difficult to operate without a trading licence. A manufacturer's licence can be the most difficult to obtain in formal business areas.

Procedures for obtaining a manufacturing licence are as follows:

?? Obtain and complete an application form at a fee of 5,000 kwacha per set;

?? Submit the application form to the licensing officer at the local council, accompanied by a fee of 180,000 kwacha;

?? Council inspectors inspect the premises; and

?? If the premises meet the minimum standards, a licence is recommended.

Procedural requirements for a retail-trading licence are as follows:

?? Register the business with the Ministry of Commerce;
?? Submit a copy of the company certificate to the licensing officer at the local council.
?? Place an advertisement in the newspaper (20,000 to 50,000 kwacha) and in the Government Gazette (45,000 kwacha);
?? Submit copies of both advertisements to the council licensing office, accompanied by a fee of 90,000 kwacha; and
?? Council inspectors inspect the premises.

Employment Legislation

Employment legislation has not been revised for a long time and dates back to the time when the State was the de facto employer in the country. Small enterprises may employ individuals without due administrative burdens. There are, however, a few statutory requirements with which all enterprises have to comply, including statutory contributions such as:

?? Pay As You Earn (social security scheme) contributions;
?? National Provident Fund contributions (pension scheme);
?? Workmen's Compensation Fund contributions.

The above requirements apply equally to all businesses, irrespective of size. However, if a business employs non-unionized labour (as is the case for most small enterprises) this legislation is seldom enforced. Apart from those employed by big firms, where labour is often unionized, most employees do not even know their rights. Hence, small enterprises are not at a disadvantage because they employ few workers, if any at all. Some small enterprises claimed that they hired labour only rarely and even then, it was on a fixed contract basis. They tend to rely on family members as long-term or permanent employees.

Taxation

The private sector generally believes that tax rates are too high. Financial institutions are taxed at 35 per cent for the first 100,000,000 kwacha and at 45 per cent thereafter. Corporation Tax is also levied at a flat rate of 35 per cent for all firms except those in the agriculture sector, which are taxed at a flat rate of 15 per cent. If a company is quoted on the stock exchange, it only pays 30 per cent tax on income. Income from non-traditional exports is taxed at the rate of 15 per cent. Unincorporated small enterprises pay tax, as self-employed persons, at a maximum rate of 30 per cent for income above 1,800,000 kwacha a year.

Businesses with a taxable turnover above 30 million kwacha are subject to VAT. A business may register voluntarily. Many small businesses register in order to qualify for business from large firms that will only work with VAT-registered firms. Similarly, many large firms insist on doing business with corporate bodies; thus, small entrepreneurs have no choice but to register their businesses under the Company Act if they wish to take advantage of subcontracting opportunities. This is to their disadvantage for tax purposes and effectively penalizes ambitious and dynamic small entrepreneurs. Small entrepreneurs are generally opposed to VAT because it represents an additional administrative burden to them.

Small enterprises operating outside the formal sector can usually evade taxation, although this may change soon. The Zambia Revenue Authority (ZRA) attempted pilot schemes in the towns of Kitwe and Livingstone to tax the informal sector (mainly street vendors and marketeers), whereby each businessperson had to pay a flat rate of 50,000 kwacha per year. These pilot schemes were, however, suspended because the informal sector argued that such a scheme should start in the capital city, where the majority of the informal sector is to be found.

According to the Tax Act, small enterprises registered with SIDO that also hold a valid investment license are exempt from paying income tax for up to five years. However, this exemption may no longer be applicable, given that the Tax Act has not been amended in light of the repeal of the SIDO Act and its replacement by the SEDB Act.

There is little evidence of the Government's recognition of the limited administrative resources of small enterprises with respect to taxation, since reporting requirements are the same for both large and small enterprises. A number of small enterprises reported that completing the necessary tax return forms took considerable time and effort and necessitated the keeping of detailed accounts. Apart from their disadvantage of generally having a low level of education, setting up and maintaining a sophisticated system of accounts is also costly for these small entrepreneurs.

There are a few organizations that assist small enterprises to meet and understand the requirements of the taxation system. For example, the Small Business Unit of the Zambia Association of Chambers of Commerce and Industry, through the USAID-financed Human Resources Development Project, offers seminars on taxation to small enterprises already in business and those just starting up. In addition, the Zambia Revenue Authority (ZRA) Advice Centre disseminates simplified versions of the tax law in the form of leaflets (although available only in English) on topical areas, as well as addressing individual requests for information and explanations. Unfortunately, only people in the capital city or the provincial capitals, where ZRA also runs workshops on the national budget and tax legislation, can easily access these services. One way in which ZRA has tried to make life easier for all businesses and improve its own efficiency is to house all the different tax collection agencies under one roof. Although it is still necessary to deal with each department separately, their databases are shared.

Private accounting firms generally do not assist small entrepreneurs because the latter usually cannot afford their services.

SUPPORT FOR MICRO AND SMALL ENTERPRISES

Support Services

Of the institutions providing support of some kind to small enterprises, 55 per cent are NGOs. Other business support comes from cooperatives, church organizations, research institutions and development banks, which together account for 31 per cent. Private sector organizations account for only 3.4 per cent of total business support institutions.[19] Business and professional associations generally have very little capacity to undertake business support although the business chambers have started to do so. The majority of NGOs provide vocational and technical training, including basic business management and accounting/bookkeeping, leadership skills and general training in entrepreneurship. A number of them also provide credit as part of the package with business training.

The Government and NGOs generally do not have a common approach and do not coordinate their support to small enterprises. For example, NGOs do not employ the definitions of micro and small enterprises developed by the Government. Moreover, even amongst them, NGOs' small enterprise support projects do not have networking arrangements, and often do not know what others are doing in the same sector. This lack of coordination and cooperation was highlighted by a UNDP report on small enterprise support institutions, which recommended that:

1. The Ministry of Commerce, Trade and Industry (MCTI) establish standardized monitoring procedures entailing a two-tier mechanism to introduce uniformity of monitoring information among small enterprise support institutions, (i) at a level of institutional performance and sustainability; and (ii) at a level of performance of the small enterprise;
2. Support institutions be compelled to provide periodic submissions of such monitoring information to MCTI;
3. Programmes to disseminate information to the small enterprise support institutions (and consequently to the small enterprises) be an integral aspect of networking; and
4. MCTI have the authority on the placement of all support programmes in order to avoid overlap in certain geographical regions.

Public sector institutions created to support small enterprises and business in general include SEDB (which replaced SIDO), the Export Board of Zambia (EBZ), the Technology Development and Advisory Unit (TDAU), the Zambia Bureau of Standards (ZBS) and the National Council for Scientific Research (NCSR).

General support institutions

Small Enterprise Development Board (SEDB)

[19] GRZ (1998a).

To qualify for assistance from SEDB, small enterprises must register with the Export Board of Zambia by applying for a certificate at a fee of 80,000 kwacha (30,000 kwacha for forms and 50,000 kwacha registration fee).

A number of incentives that mostly targeted enterprise start-ups under the SIDO Act have remained unchanged in the new SEDB Act. Registered enterprises are entitled to:

(a) Exemption from income tax for the first three years of operation (five years if located in a rural area);
(b) A five-year exemption from a manufacturing licence;
(c) Exemption from licensing fees;
(d) Exemption from property rates for factory premises for the first five years; and
(e) Exemption from the requirements of the Trade Licensing Act.

In addition, the new SEDB Act extends incentives to other entities that service small enterprises. It states that any financial institution providing loans or other financial relief or facilitation to registered micro and small enterprises shall be entitled to the following incentives:

1. Exemption from the payment of tax on income or interest payable on and received from loans provided to an enterprise carrying on manufacturing activities;
2. Maintain concessionary core liquid asset ratios and reserve requirements as may be permitted by the Bank of Zambia in consultation with the minister;
3. Expenditure incurred in training staff who specialize in financing micro and small enterprises shall be treated as tax deductible;
4. An owner of the building or premises let out for use by micro or small enterprises for industrial or commercial purposes also stands to benefit from the following incentives:
    - ?? wear and tear allowance of 5 per cent per annum on cost, plus an initial allowance of 10 per cent of the cost in the year in which the building is first used;
    - ?? wear and tear allowance of 50 per cent per year of the cost in each of the first two years for implements, machinery and plant used exclusively for farming and manufacturing;
    - ?? exemption from payment of tax on income received in rentals of such premises; and
    - ?? exemption from payment of rates on factory premises.

However, the new incentives are not yet in operation because these tax exemptions, although featured in the SEDB Act, are not actually contained in the Tax Act, which is the only mandate for ZRA. In addition, local authorities need to make the relevant amendments to their by-laws. Likewise amendments have to be made to the Trade Licensing Act and the Health and Safety Act. This is a clear case of policy incoherence and a lack of coordination on the part of the Government. As it stands, the onus is on SEDB to try and “convince” other government agencies to follow the SEDB Act.

Formerly, SIDO services focused mainly on training, which included general project planning, business management and bookkeeping as well as other industry-specific skills training. Occasionally, SIDO facilitated entrepreneur training abroad. It also provided consultancy services to individual enterprises, including technical assistance related to production processes, marketing and financial management. In addition, SIDO operated raw material and equipment purchasing schemes. To a limited extent, it also tried to encourage the growth of new industries, notably in sericulture and leather. All these services were heavily subsidized.

A major criticism of SIDO, and by extension, of SEDB, is that its mandate is too broad and not sufficiently focused to achieve the results expected of it (see annex). Its impact has thus been limited. Ill-advised ventures and the poor management of scarce resources have also contributed to a disappointing performance. The decision by SIDO's management to run a tannery in Kabwe was disastrous: since the beginning of its operations in 1991, the plant only ever achieved 10 to 15 per cent capacity utilization and much of the machinery has been idle. The tannery is currently facing liquidation due to indebtedness. The failure of the tannery has placed the SEDB (which succeeded SIDO) in a precarious financial position: SEDB is technically insolvent and many activities, including training, which was considered by its clients as its area of comparative advantage, have been scaled back as a result. Since no attempts were made by SIDO to recover the costs of services provided, its operations were wholly dependent on government subventions. SEDB cannot hope to receive a similar level of subventions in light of the current constraints on government revenues.

Export Board of Zambia (EBZ)

EBZ is A statutory government agency, EBZ was established under the Export Development Act of 1985, (as amended by Act No. 29 of 1994) with the objectives of promoting, developing and encouraging non-traditional exports. Its functions include:

1. Complementing the efforts of exporters by collecting, collating and disseminating trade information relating to both existing and potential markets;
2. Providing technical know-how and specialized assistance on quality, supply and pricing of export goods
3. Recommending for approval by the Board of Directors and relevant government ministries of policies relating to the development, promotion and encouragement of the export of goods and services;
4. Promoting export trade by:
   - ?? Participating in trade fairs within and outside the country and assisting export-oriented firms to participate;
   - ?? Undertaking trade missions to target markets and assess the export potential of Zambian products;
   - ?? Liaising with Zambian missions and other organizations abroad to coordinate and activate the development of exports;
   - ?? Arranging trade delegations to and from Zambia;
   - ?? Organizing training programmes, seminars and workshops on activities concerned with developing exports from Zambia; and

5. Recommending for approval by the Minister:
   - ?? Policies relating to the development, promotion and encouragement of goods and services for export;
   - ?? Policies relating to the adoption or ratification of multilateral and bilateral agreements that enhance the growth of exports;
   - ?? Measures aimed at improving existing laws, systems and programmes with a view to maximizing exports; and
   - ?? Policies that facilitate trade and are in harmony with the broader objectives of regional economic integration.

EBZ has two departments: Market and Product Development, and Trade Information. Since big firms have in-house marketing departments, most of the clients are small enterprises. They are assisted in obtaining information on particular markets and on quality requirements in the target market, and for attending international trade fairs. For example, in the case of European trade fairs, EBZ negotiates with the European Union for the payment of freight and stall rentals. Small enterprises would thus be required to pay only for their airfare and accommodation. Potential exporters are also assisted in acquiring low-cost finance, labelling and advertising. EBZ also assists small enterprises through collaborative training courses with small business support programmes such as the Human Resource Development Project (HRDP). According to the HRDP, one such course, on export marketing, has been successful in opening up new opportunities to some small enterprises which, as a result, now export products to various countries, or are exploring the possibility of doing so.

Compared to SEDB, EBZ has very few clients. The combination of a small clientele and well-funded programmes has contributed to its success. As EBZ has only one office situated in Lusaka, its geographical coverage for export assistance is limited. However, EBZ's staff of 10 professionals – comprising three market research officers, three marketing and product development officers, and four trade information officers – visit other provinces on a quarterly basis. Although lean, this organization appears to be adding considerable value in terms of helping SMEs to expand in their chosen markets. However, its performance has yet to be critically evaluated with respect to its stated mandate.

Technological support institutions

While there is no explicit policy on technology as regards small enterprises, a number of official pronouncements encourage these enterprises to employ appropriate labour- intensive technology and use locally available raw materials.

Technology Development and Advisory Unit (TDAU)

TDAU is charged with enhancing technical capability including:

- ?? Developing technologies targeted at SMEs;
- ?? Serving as a development centre for new equipment and processes aimed at replacing imports;

- Providing help and advice on the design and production of agricultural and household equipment for local use;
- Serving as a centre from which local industries can obtain advice from the University of Zambia; and
- Establishing an information centre on appropriate technology with links to international technology networks and rural development programmes in Zambia.

Zambia Bureau of Standards (ZBS)

ZBS is responsible for promoting and enforcing the adoption of standards in industry and commerce with a view to improving

- Quality;
- Industrial efficiency and productivity; and
- After-sales support services and all aspects of quality assurance.

National Council for Scientific Research (NCSR)

One of NCSR's main objectives is to assess and advise on the adequacy of scientific and technological research and development being carried out in Zambia. It mainly engages in research for its own sake and its links with industry are extremely weak. Very little marketing or commercialization of the research output is done, and small enterprises have limited access to information on the research carried out. Access to it is also limited by the fact that, as with the other institutions described above, it is based in the capital city. However, a number of activities targeting micro and small enterprises have been carried out as part of UNDP support to the Ministry of Commerce, Trade and Industry. For example, a study on small and medium-sized food processing enterprises was carried out by NCSR to identify weaknesses and determine how NCSR could assist in strengthening the industry. Similarly, ZBS, in collaboration with industry, has developed national standards for various products, such as school chalk and laundry soaps.

In addition to the services provided and the promotion activities carried out by the various institutions described above, there are various government measures aimed at SME promotion. For example, preference may be given to tenders from small enterprises for government contracts that are up to 20 per cent higher than those from medium or large-scale enterprises.[20] According to the Tender Board Act, companies with paid up capital of 250,000 to 15 million kwacha are considered small scale (i.e. US$ 125 to US$ 7,500 at current rate of approximately US$ 1 = 2,000 kwacha). However, this does not apply to the construction industry yet. It is also desirable that the SEDB and Tender Board use the same definition for a small enterprise.

Despite this preference, small enterprises face practical problems in fully participating in Government tenders[21] such as:

[20] Zambia National Tender Board Act No. 30 of 1982, part VIII number 40, item (q) subsection (iii), statutory instrument number 151 of 1995

[21] This is according to the director of Inspection and Standards for the National Tender Board

- The non-refundable fee of US$ 50 to US$ 100 charged per tender;
- The minimum value of contracts set at 25,000,000 kwacha (US$ 12,500) excludes small enterprises;
- Poor quality goods often prevent them from winning contracts (for example, an innovative small-scale businessperson tendered for the supply of chalk, but was turned down because of poor packaging, even though the quality of the chalk was good);
- The government budget has funded very little capital expenditure; and
- Donors who insist on their own tender procedures fund the bulk of capital expenditure. However, they favour institutions that have previous experience with contracts worth at least 500 million kwacha. This automatically excludes small enterprises.

Apart from the formal tendering process, government ministries and other government agencies regularly invite enterprises to register as suppliers of goods or services. This is the best chance for small enterprises to win government contracts because these are usually within their capabilities and the conditions attached are not stringent. However, small enterprises are still at a disadvantage in that whereas well-established firms with fixed business premises are usually given a down payment of 50 per cent in advance of delivery, they often do not meet the necessary requirements for credit.

Most companies that supply government institutions experience long delays in getting paid which cause severe cash flow difficulties for smaller suppliers. Currently, about 25 billion kwacha (about US$ 12.5 million) is owed to mainly small food suppliers. As a result, these suppliers have resorted to collective action and have set up an organization called the Food Suppliers' Association to force government institutions, such as prisons, schools, hospitals and the army, to pay them.

Finance

Prior to March 1993, Zambia had administratively-determined interest rates that were maintained at negative real rates. As a result, the formal banking sector favoured short-term lending. Most traditional banks had rigid and stringent collateral requirements. Access by SMEs to formal credit was virtually non-existent except through institutions such as SIDO.

Most small entrepreneurs surveyed stated that they would expand their businesses if they were able to borrow money for working capital. Currently, the majority of small enterprises in the country rely on their own resources to try to expand. The lack of credit is therefore a missed opportunity for expansion for the majority of small enterprises. According to the Ministry of Commerce, Trade and Industry (1998) micro-credit institutions in the country currently service only 1 per cent of small enterprises.

The lack of access to formal credit has led small enterprises to develop a range of coping strategies that enable them to start or stay in business. One option is to join rotating credit and savings groups (*chilimba*); another option is to borrow from moneylenders (*kaloba*), which is popular among residents of compounds. However, the *kaloba*'s interest rates are between 50 to 100 per cent with an average repayment period of 30 to 60 days. Defaulters risk having their property confiscated or being subjected to physical and mental assault.

High dependency ratios (on average 1:12 per adult) have also constrained business expansions. Profits made have usually been swallowed up by the needs of the extended family, whose coping strategies from the effects of structural adjustment now include ensuring their children's material needs are met by the seemingly well off in the clan.

An example of a special credit scheme for small enterprises is the Small Enterprise Business Account (SEBA) short-term loan scheme operated by the Zambia National Commercial Bank. Potential borrowers must be members of the Small Enterprise Development Board and must have had a savings account with the Bank for at least three months. Entrepreneurs may borrow up to 100 per cent of their deposits with the bank and the repayment period is three months. The maximum amount that can be borrowed is 5,000,000 kwacha, and an amount equal to 150 per cent of this sum should be deposited with the bank. The repayment period is one year at market interest rates. However, the scheme is not well publicized (it would seem that even the bank staff are not aware of the scheme) and the bank managers are extremely risk averse. Moreover, application forms are not readily available.

A number of credit-guarantee schemes also exist. For example, a donor-funded credit programme is operated in the Northern Province by Zambia National Commercial Bank (ZANACO) and Standard Chartered Bank (since withdrawn from the scheme citing the smallness of the loans and low profitability). This programme offers a 100 per cent credit guarantee and was initiated by a grant of £25,000 from the Norwegian Agency for Development Cooperation (NORAD). The Women's Finance Co-operative also has a guarantee scheme operated through the Zambia National Commercial Bank. Attempts by the Bank of Zambia (BOZ) in the 1980s to create a guarantee scheme for small enterprises failed.

There is a joint NGO-Government credit delivery programme under the Micro Bankers Trust (MBT). [22] This programme is called the Micro Credit Delivery for Empowerment of the Poor (MCDEP). Its main objective is poverty alleviation through micro-credit delivery and promotion of income-generating activities. At present, the programme is at the stage of institutional capacity building for credit delivery, and lending has not yet commenced. The Ministry of Community Development and Social Services funds the bulk of funds for the on-lending programme, while the European Union supports the institutional development component.

Most traditional banks have rigid collateral requirements, but the formal sector has made some limited attempts to adapt its products for the small enterprise market. For

[22] Non-governmental financial intermediaries established the Micro Bankers Trust (MBT). Membership of the MBT steering committee includes CARE, Catholic Secretariat, Lutheran World Federation, Progress Finance Limited, Women's Finance Co-operative, Credit Management Services, Young Women's Christian Association and Zambia Finance and Trading Corporation Limited. The main function of the MBT is to assist the member organizations to establish or strengthen the institutional capacity for credit delivery, through staff training, consultancy, counselling and networking. The trust is also charged with providing funding for their micro-credit programmes.

example, the National Commercial Bank's Small Enterprise Business Account Facility is modelled on character-based lending, which is practised by the informal sector and microfinance institutions. Microenterprise credit schemes are more innovative and rely on peer group pressure for loan repayments. However, some entrepreneurs interviewed were not satisfied with the group-based lending approach, contending that it was unfair to be forced to form groups in order to have access to loans for individual businesses. In their opinion, a "group philosophy" could only work in rural areas where communities already knew each other well.

Some banks, such as Barclays Bank, had developed training programmes for bank employees to help them understand the nature and dynamics of the small enterprise sector. However, the bank discontinued these programmes in the 1980s, citing low profitability. Finance courses for small enterprises are organized by SEDB, various NGOs – including the Friedriech Ebert Foundation, Young Women's Christian Association and PULSE – the Ministry of Community Development and Social Welfare, Zambia Chamber of Commerce and Industry's Small Business Unit, USAID's Human Resources Project, and the Future Search Programme aimed at employees who have been retrenched. Most financial intermediaries offer such training to their clients before granting them credit. These programmes give emphasis to a good business proposal. They generally require the promoters/entrepreneurs to put up some equity in cash or business assets to show that they too are willing to risk something in the business. Profitability is also heavily emphasized. Some, such as the PULSE project, do not require microentrepreneurs to present business plans as a condition for a loan.

Small enterprises need to be taught to be frugal and to separate business income from personal income if they are to succeed and expand their businesses. They also need to learn not to regard loans from the State or donors as gifts that do not require to be repaid. This tendency to consider such loans as gifts developed because, for a long time, the Government and some donors had credit schemes that made little effort to recover loans, so that gradually clients began deliberately to default. A number of banks that target the rural poor, such as the Lima Bank, went into liquidation simply because peasant farmers defaulted on loan repayments, citing a declaration by the Government that those who had been hit by drought need not repay their loans. The Credit Union and Savings Bank, is in dire financial trouble for the same reason.

PUBLIC-PRIVATE SECTOR DIALOGUE

Consultative mechanisms

There are currently two formal consultative mechanisms by which public-private sector interaction takes place. The National Action Programme for Private Sector Support (NAPPSS) is a new mechanism aimed at enabling the private sector to participate and give input in national programmes. The steering committee of the NAPPSS is made up of representatives from related ministries and from the private sector. For example, the Zambia Chamber of Commerce and Industry (ZACCI), Zambia National Farmers Union (ZNFU), Zambia Federation of Employers (ZFE) and Zambia Congress of Trade Unions (ZCTU) are all members of the steering committee (see Annex C). The other mechanism is the Zambia Industrial Partnership Council (ZIPC), launched in November 1997 (under the sponsorship of United National Industrial Development Organization (UNIDO)) to provide a platform for constructive dialogue among stakeholders in the industrialization process. ZIPC is responsible for the development of a national industrial plan of action encompassing specific projects and programmes. The first meeting of the ZIPC standing committee was held on 19 February 1998 (see Annex D).

These two forums overlap in their ultimate objective of involving a representative number of stakeholders in private sector development. According to a member of the sub-committee, ZIPC has lost much of its momentum since its launch because members have realised that the objectives of this forum are similar to those of the NAPPSS. Moreover, it has no permanent secretariat and depends on an interim chairperson who is too busy with other work.

Another forum for public-private sector dialogue is task force constituted annually to consider representations on the budget, including taxation issues. This process takes place from July and culminates in the budget address by the Minister of Finance at the start each year. Organizations such as the Zambia Association of Manufacturers and ZACCI have also lobbied effectively and achieved favourable results. For example, through this process they were able to secure a reduction in import duties for a number of raw materials.

On a more informal and ad hoc basis, the Department of Industry at the Ministry of Commerce, Trade and Industry claims to maintain cooperative and interactive policy formulation and decision-making with business chambers, industry associations and other representatives of the private sector. However, ZACCI refutes this and believes that the Government does not genuinely wish to talk to business organizations, but rather to individual businesspeople (whose interests are usually to seek personal political favour). According to ZACCI, there are no regular meetings with the Government.

According to the chairperson of the Small Scale Business Committee, who is also a board member of ZACCI,[23] real understanding and discussion of issues involving stakeholders in policy-making and implementation has not been taking place and the Ministry of Commerce Trade and Industry is out of touch with the private sector. This view is more or less confirmed by a report by the Ministry of Commerce, Trade and Industry (1998) which states that public-private sector dialogue has gradually improved, although attempts to hold systematic talks have failed. The report points out that the private sector often engages in dialogue directly with Ministry of Finance and Economic Development without the involvement of the Ministry of Commerce and Industry, contrary to its mandate.

There are also a number of sectoral associations that hold regular dialogues with the Government. For example, the Freight and Hauliers Association has a good working relationship with the Transport Department and the aviation industry with the Communication Department. The same is true for interactions between the Ministry of Education and private stakeholders and the Ministry of Agriculture and the Zambia National Farmers' Union. However, the Ministry of Mines has had bad relations, and hence no communication, with the Gemstone Miners' Association.

23 Mr.Theo Bull , Board Member of the ZACCI and Chairman of the Small Scale Business Committee.

The Government makes a point of consulting ZACCI before signing any trade agreements. Through its role as board member of SEDB, ZACCI is consulted on small enterprise policy and is also represented on the Small Enterprise Promotion and Advisory Council (SEPAC).[24] The business community is also represented on the boards of institutions such as the Bank of Zambia, the Zambia Revenue Authority and the Investment Centre.

From 1964 to 1991, the Government discouraged business organizations, and it is only since 1991 that have they been encouraged and become quite strong. ZACCI (which was formed in 1933, and became an umbrella organization in 1938), with 40 corporate members and a number of member associations, represents 40 per cent of big business in Zambia.[25] The Human Resources Project of USAID is in the process of assisting ZACCI to facilitate membership and better represent the interests of small enterprises.

The first national association for the small-scale sector was the Small Scale Industries Association of Zambia (SSIAZ), which was founded in 1983. However, it currently has very few paid-up members due to the formation of a splinter group, the Manufacturers' Association of Zambia (MAZ), and the creation of provincial small business associations facilitated by the USAID-funded Human Resources Project. Most small-scale entrepreneurs who had been with SSIAZ joined these new provincial and district associations. There is also an Informal Sector Business Development Association (ISBDA), launched in May 1998, which targets SMEs and street vendors.

Small enterprise organizations have generally not taken advantage of the various mechanisms for interaction between the public and the private sector due to lack of information and initiative on their part. Conversely, the street vendors, through their association, have successfully lobbied to trade in the central business districts of most towns and cities. Thanks to the political and social significance of their plight, they have even managed to get a full-time vendors desk officer with the rank of deputy minister in the President's Office.

WOMEN

The Strategic Plan for the Advancement of Women (SPAW), 1996-2001, was developed as an action plan to guide the Government and NGOs in implementing the Beijing Platform of Action and the National Gender Policy. It is based on the premise that women and men must have the same rights, obligations and opportunities in all areas of life. It focuses on five key priority areas which the Government, NGOs, donors and other actors need to address. These are:

?? The persistent and growing burden of poverty on women and their unequal access to economic resources and participation in economic policy-making;

24 The view of the Chief Executive of the Zambia Chamber of Commerce and Industry (June 1998).

25 Zambia Association of Manufacturers, Bankers Association of Zambia, Zambia Clearing and Forwarding Agents Association, Textile Producers Association, Zambia National Farmers Union, Building Contractors, Handicraft Association (in the process of being registered), Association of Building and Civil Engineering, Bakers' Association of Zambia, Clothing and Allied Industries Association of Zambia, Federation of Road Hauliers, Gemstone Corporation of Zambia, Leather Industries Association of Zambia, Youth Entrepreneur Association of Zambia, Zambia Export Growers' Association, Women Entrepreneurs in Industry and Business, Zambia Coffee Growers' Association, Motor Trades Association

?? Inequality in access to, and opportunities in, education, skills development and training;

?? Women's unequal access to health and related services;

?? Inequality between women and men in the sharing of power and decision-making; and

?? The rights of the girl child

Since the mid-1980s, marriage no longer affects a woman's legal status. As a result, married women can own property, make financial commitments, borrow, and enter into legal contracts without the consent of their husbands.

Few programmes specific to women can be said to target women entrepreneurs. At the national level, there is the Small Enterprise Development Programme (SEDP) run by the Young Women's Christian Association. This programme was established in 1994 (with funding and technical assistance from Irish Aid) with the objective of empowering small-scale entrepreneurs by building their capacities and enhancing their incomes and job- creating activities. The programme targets women and youth. SEDP offers non-financial services, including training, to facilitate entry into business activities.

The Planned Parenthood Association of Zambia (PPAZ) has trained women in entrepreneurship skills and credit management and plans to start a credit programme with assistance from NORAD, UNDP and the United Nations Population Fund (UNFPA). The Programme is based in the Ministry of Community Development and Social Welfare and has projects in rural Zambia.

The majority of women-specific programmes fall in the category of social welfare and poverty alleviation programmes. Consequently, the Community Development Department of the Ministry of Community Development and Social Services is responsible for most of them. The Department is undertaking a number of programmes aimed at encouraging the participation of women in income-generating activities. These include the hammer-mill programme (from 1995 to end-1997, 490 hammer-mills were distributed to women's clubs throughout the country), informal skills training in tailoring, poultry, small-scale trading, agriculture, carpentry, and home economics.

There are only a few programmes targeting rural women. One example is the NGO, Women for Change Organisation (WFC), founded in 1994. It mobilizes financial support for rural women's groups engaged in income-generating activities in order to improve their economic status, and facilitates their networking with organizations involved in micro and small enterprise development.

Lack of access to credit is particularly acute among women entrepreneurs because it is culturally unacceptable for them to borrow from men. In addition, the burden of caring for those orphaned by the AIDS pandemic usually falls on their shoulders. Other social costs, related to the fact that they are the main part of their extended families' coping strategy to survive through the hardships wrought by structural adjustment, constitute a major drain on their cash flow.

There are a number of credit programmes supporting income-generating activities. For example, a private company, Progress Financial Limited, provides short-term loans (1 to 6 months) to women in Lusaka, Kabwe and Mazabuka. These loans generally finance retail operations. The Community Development Department, through the Micro Bankers Trust, also provides loans to microentrepreneurs (the majority of whom are women). The UNDP Women's Revolving Fund Scheme is yet another source of finance for women in income-generating activities, as is the Village Industry Service (VIS), which is currently implementing the UNDP/Economic Commission for Africa Women's Credit Programme.

Conclusions and recommendations

The definitions from the Small Enterprises Development Act are a disincentive for graduation into the middle range, as no incentives are given to enterprises that exceed 1.53 million kwacha turnover per week, which equates with 80 million kwacha per annum of turnover (not profit). The maximum turnover per week is low considering that Zambia is a high-cost economy. There are some incentives in the new SEDB Act, such as exemption from payment of licensing fees, which are not time bound. In this sense, the Act serves as a disincentive to graduation into a medium-sized enterprise. A major weakness is that the terms of the SEDB mandate are too broadly defined. Specific targets focusing on critical activities and strategies to be employed should be developed for SEDB so that the organization can also properly evaluate implementation against defined targets and monitor its costs.

Business associations, NGOs and the private sector should be encouraged to provide some of the services that SEDB cannot provide. Potential and existing business development service providers should learn from SEDB's mistakes. Self-sustainability, or at least, cost-recovery, should be a major goal. A price should be put on every service. If these services are worth their price they will prove their profitability.

There should be better coordination and liaison between the Government and NGO support service providers so that well conceived services are developed, which also avoid geographical clustering and concentration of services. Business support organizations should try to specialize in specific areas of business support.

Industrial estates would not be attractive to entrepreneurs wishing to remain outside the formal sector, but they could be useful for encouraging small entrepreneurs who are willing to enter the formal sector. However, experience has shown, both in the case of VIS and SIDO, that unless industrial estate rentals are market determined, most occupants will contrive not to move out even after the expiry of the maximum lease period. A possible solution may be to allow private developers to build and manage estates for occupation by members of SEDB at market-determined rentals. Members of SEDB could also have the possibility to lease land from SEDB.

Given the related administrative burdens, small enterprises should not be obligated to collect/pay statutory contributions such as Pay As You Earn, National Provident Fund contributions, (Social security), and Workmen's Compensation Fund contributions. Employees of small enterprises could, instead, be treated as self-employed, so that the onus will fall on them to make such payments.

Taxation should be reviewed in line with other countries in the region. The tax threshold should be raised, tax bands widened and tax rates lowered, if these are not to act as a binding constraint on small enterprises wishing to enter the formal sector and those wanting to expand into the middle range. It would also increase tax compliance in general.

The institutions that usually finance small enterprises are classified as intermediaries for financial institutions and cannot hold deposits. Holding deposits would render them automatically subject to the Banking and Financial Services Act and require them to deposit 2 billion kwacha (US$2 million) with the Bank of Zambia. This requirement should be reviewed to make it more flexible so as to enable financial intermediaries to collect deposits for loans that require a beneficiary to pay a deposit or some kind of down payment towards a loan.

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ANNEX A: People Interviewed

S C Banda, Chairperson, Small Business Association, Lusaka Province, and entrepreneur.

Alfred and Mateyo Bowa, Metal fabricators, Alick Nkhata Road

Theo Bull, Board member of ZACCI, Chairman of Small Scale Business Committee.

Baster Bwalya, Mutoba Sanitation and Plumbers, Pest Control Services

L S Chanda, Director Research & Project Department Investment Centre

Don B, Chiinya, Executive Secretary, Informal Sector Business Development Association.

Chikoti, Deputy Permanent Secretary, MACTI

Patience Chileshe, Training Officer, Human Resources Development Project

C Chileya, Director, Credit & Marketing Zambia National Commercial Bank

L Haangala, Naranda Enterprise Ltd, Director

Godfrey Hatembo, Self-employed Welder, Great East Road

Kampasa, Gender Analyst, Gender in Development Division Cabinet Office

Catherine Katongo. Marketing Controller, SEDB

George Lipimile, Chief Executive, Competition Commission

Webby Mate. ZACCI Small Business Development Unit

D M Mauzu, Director, Industry, MCTI

Raymond Mbali, Assistant Commissioner, Direct Tax Policy, ZRA

Chipo G, Mhlanga, Coordinator, Informal Sector Business Development Association.

D Msoka, Public Relations Officer. Lusaka City Council.

Mudenda, self-employed stone crusher, Kalingalinga Compound.

Docas Mulenga, Alcohol Brewer. Kalingalinga Compound.

J Mulenga, Assistant Director Finance, Lusaka City Council

M Mulenga, Lawyer, Mulenga & Company

M Muliwana, Project Director, SEDB

Mr & Mrs Mungule, Construction Stone Crushers

Musonda, Licensing Officer, Lusaka City Council, Legal Department

Walter Mutoba, Mutoba Sanitation and Plumbers, Pest Control Services

Muwowo, Project Manager, SLC Lusaka City Council

C Mwananshiku, Economist, Micro & Small Enterprise Unit, MCTI

M.Mwansa, Revenue Analyst, Budget Office, MOFED

Mr. Misheck Mwanza, self-employed welder, Great East Road.

Johnson Mwenya, Acting Executive Director, Export Board of Zambia

G Ngenda, Consultant and Gender Specialist.

Ngulube, Employer, Metal Fabrication. Mtendere Compound

James Njolomba, Director Inspection & Standards, Tender Board

Nelson Nyangu, Principal Economist, Gender in Development Division Cabinet Office

Gideon Phiri, ZACCI Chief Executive

Sakala, Secretary,Youth Development Council.

Jonathan Shimwawa , Head of Marketing and Research Department, Export Board of Zambia.

Joe Sichingwa, Director, Locktech Services, Lusaka

Maxwell D Sichula, Project Manager, Human Resources Development Project

M Sikazwe, Acting Director of Projects. Village Industry Services.

A Simasiku, Senior Community Development Officer, MCDSS

Tembo, Flower pot manufacturer. Helen Kaunda

Zulu, Brick Making Business and Supplier of Sand, Kalingalinga Compound

ANNEX B: Policy Measures for Small Enterprise Development

Policy Measure	Type	Constraint Targeted	Effectiveness/ Adequacy	Remarks & Conclusions
	L - legal/regulatory **I** - institutional **F** - fiscal incentives **S** - direct support		******* good ****** fair ***** poor **?** unknown	
SEDB Act (1997)	L	General constraints of small enterprise sector		Legislation passed to transform SIDO into SEDB, to become a small enterprise service agency with customer representation. Implementation has not yet been completed. Need for action.
Exemption from income tax, licensing fees, land rates (for registered small enterprises and facilities supporting small enterprises)	F	2	*	Informal small enterprises prefer to stay informal by not registering, particularly when the incremental benefits seem negligible.
Establishment of SEDB with following functions:	I		?	SEDB is being re-organized to perform according to a new mandate. Board has been appointed. Not yet operational.
?? Small enterprise policy formulation & implementation and monitoring	S	General	?	Not yet operational
?? Information on technologies, inputs, finance, markets, consultancy services, etc.				
	S	1, 2, 3, 6	?	Not yet operational
?? Marketing technical support	S	1, 6	?	Not yet operational
?? Industrial estates & leasing of equipment schemes	S	6, 7, 8	?	Not yet operational
?? Technical & entrepreneurship training	S	6, 11	?	Not yet operational
?? Financial services	S	2	?	Proposed SED fund. Not yet operational

Policy Measure	**Type** **L**-legal/regulatory **I** - institutional **F**-fiscal incentives **S** - direct support	**Constraint Targeted**	**Effectiveness/ Adequacy** ******* good ****** fair ***** poor **?** unknown	**Remarks & Conclusions**
Coordinate activities of small enterprise support agencies	S	General	?	Not yet operational
NGO Micro Credit Schemes	S	2	*	There are a number of schemes in place assisted by EU, USAID, Swedcorp, NORAD, etc. , and NGOs such as CARE, and World Vision. Although providing a useful service, their coverage is limited. Only an estimated 1% of small enterprises benefit. Need for expansion including into rural areas.
Technological Support Services	S	11	*	TDAU and VIS provide technological advice for small enterprises. Limited coverage
Industrial estates schemes	S	7, 8	*	Several established throughout the country by former SIDO and VIS benefiting small enterprises. Limited coverage and not cost recovering.
Zambia National Tender Board Act (1982) & SI 151 (1995)	L	1	?	Provides simplified tender procedures for small enterprises
ZACCI Small Business Unit	S	General	*	The unit is working with local chambers in the field of business training and formal-informal sector linkages, with the support of FFES and USAID; coverage is limited.

Source: Ministry of Commerce, Trade and Industry (1998)

Annex C: Zambia Industrial Partnership Council Members

Theo Bull, Interim Chairman, ZIPC
Moses Banda, Chairman, Economics Association of Zambia.
Jonathan H. Chileshe, Chairman, National Economic Advisory Council.
Abe Galaun, Managing Director, Grand Investments Limited.
Muna Hantuba, Anglo American Corporation of Zambia.
David Littleford, Zambia Privatization Agency.
Manenga Ndulo, Head of Economics, University of Zambia.
Bwalya Ng'andu, Director General, Zambia Investment Centre.

The following Ministries and Organizations have a nominated representative:

1. Ministry of Commerce Trade and Industry.
2. Ministry of Agriculture, Food and Fisheries.
3. Ministry of Science Technology and Vocational Training.
4. Ministry of Finance and Economic Development.
5. Ministry of Labour.
6. Environmental Council of Zambia.
7. Zambia Association of Chambers of Commerce and Industry.

Annex D: National Action Programme for Private Sector Support

In fulfilment of its mandate, the Ministry of Commerce, Trade and Industry (MCTI) in cooperation with other ministries, government agencies and stakeholders, is responsible for interpreting and reviewing the Industrial, Commercial and Trade Policy (December 1994) based on:

?? An assessment of small enterprises' economic potential in various economic sectors and industries;
?? An evaluation of their recent performance and competitiveness; and
?? An identification of prevailing business constraints

Translate the policy into an effective National Action Programme by:

?? Defining Programme objectives, time frame, roles and responsibilities in design and implementation;
?? Targeting crucial constraints for private sector development;
?? Evaluating policy measures and support projects with respect to their consistency with the policy framework and their effectiveness in overcoming business constraints;
?? Identifying missing action or needed adjustments of ongoing measures;
?? Elaborating those actions and mobilizing required resources; and
?? Institutionalization of M&E, management and review mechanisms for Programme implementation.

The time frame is three years (from mid-1998 to 2001).

Priority action by the NAPPSS relates to following areas:

1. Macroeconomic stability and predictability of the policy environment
2. Market development and access
3. Incentives, taxation and duties
4. Access, cost and risk of finance
5. Infrastructure and utility costs
6. Availability and cost of factor inputs
7. Regulatory environment and transaction costs

Priority Areas of Government Action and Support Programmes

Based on the predominance of the growth objective and the importance of investment as the overriding instrument, the following priority areas for government action and support can be identified as follows:

1. *Macroeconomic stability and predictability of policy environment:* Good economic policy, performance, and adherence to IMF conditionalities for disbursements of adjustment credits will instill confidence among entrepreneurs and potential investors in the Zambian economy and the government system and indirectly promote investment and growth.

2. *Market development and access:* The integration of regional markets on a levelled playing field will increase the attractiveness of Zambia as an investment/production location. The competitiveness of Zambian industry has to be enhanced through product and process innovations and cost reductions, (i.e. the alleviation of 'supply-side constraints'). The improved access to international and growing domestic markets will have benefits in terms of economies of scale.

   With respect to the domestic market, the privatization of ZCCM will give a substantial boost to related business by settling ZCCM debt, opening new business opportunities for up and downstream production and services and generally increasing the purchasing power through a higher level of operations and honouring of investment commitments.

3. *Incentives, taxation and duties:* The design and implementation of the tax system and inherent fiscal incentives determines, to a large extent, the attractiveness of a country as an investment location. Tax levels as well as the efficiency of its administration are important, as any delay or ambiguity in tax collection or refund reduces net profits.

4. *Access, cost and risk of finance:* Real investment depends on the availability of credit and interest rates. High perceived-risk increases interest and thus tends to divert financial resources from long-term real investment to short-term portfolio investment and other uses. Volatility in exchange rates and high inflation rates also inhibit the availability of long-term investment credit at lower interest rates. The mobilization of savings cannot be achieved through a banking system that lacks credibility.

5. *Infrastructure and utility cost:* Infrastructure and utilities determine part of the total cost of a product, including its distribution and marketing. The international division of labour and the integration of markets at regional or international levels necessitate a comparison of location-specific costs and have an influence on the competitiveness of goods and services.

6. *Availability, quality and cost of factor inputs (physical; and human):* The basis for any productive venture is the availability, quality and cost of the required raw materials and other factor inputs, such as labour, plant and equipment, technology and land. Their availability is partly determined by their physical existence and any regulations with respect to their access, partly by the ease of importing them. The price depends on the ease of entry into the market by competitors as well as on taxation or other duties.

7. *Regulatory environment and transaction costs*: The costs of doing business can vary substantially depending on financial cost of transport and communications, cumbersome and time-consuming administrative procedures, oversized public administration and related taxation, uncertain-ties, industrial and environmental standards to be met, corruption, etc.