

**Profile of Small and Medium Scale Enterprises (SMEs) in the SADC Economies**

*Final Draft*

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*Glossary of abbreviations and acronyms*

ACP	African, Caribbean and Pacific states; associated with the EU through the LC.
BLNS	Botswana, Lesotho, Namibia, Swaziland; associated with the RSA through the SACU.
COMESA	Common Market for Eastern and Southern African States; successor organisation of the PTA.
CMA	Common Monetary Area
DRC	Democratic Republic of Congo.
EAC	East African Community (successor organisation of the EAHC; broke up in 1977 and currently due for re-launch to replace the East African Co-operation); East African Co-operation (initiated in 1993 and to be transformed into an East African Community).
EPAs	Economic Partnership Arrangements.
ERP	Enterprise Research Programme
EU	European Union
ERO	European Research Office.
FDI	Foreign Direct Investments.
FES	Friedrich-Ebert-Stiftung.
GDP	Gross Domestic Product.
GATT	General Agreements on Trade and Tariff; predecessor and part of the WTO.
IDIL	Imani Development (International) Limited.
IDS	Institute of Development Studies, University of Sussex.
ICT	Information and Communications Technology.
IOC	Indian Ocean Commission.
LC	Lomé Convention.
LED	Local Economic Development.
LDC	Less developed country (developing country).
LLDC	Least developed country.
MEs	Micro enterprises.
MSMEs	Micro. Small and medium scale enterprises.
NIEs	Newly Industrialising Economies.
ROW	Rest of the world.
RPED	Regional Programme for Enterprise Development.
RSA	Republic of South Africa; interchangeably used with South Africa.
SACU	Southern African Customs Union.
SADCC	Southern African Development Co-ordination Conference; predecessor of the SADC.
SADC	Southern African Development Community; successor of the SADCC.
SMEs	Small and Medium Scale Enterprises.
UNCTAD	United Nations Conference on Trade and Development.
UNIDO	United Nations Industrial Development Organisation.
WIPO	World Intellectual Property Organisation.
WTO	World Trade Organisation; successor of the GATT.
ZEF	Zentrum für Entwicklungsforschung (Centre for Development Research), Bonn University, Germany.

## **Executive summary**

### ***Introduction***

The development of Small and medium scale enterprises (SMEs) is important because of their pivotal role for the economic development. Generally, SMEs constitute a crucial economic and social factor in both developed and developing countries. The SME sector is important for the creation of employment, facilitation of broad based development, and the distribution of incomes. Its income generation activities contribute to both resource accumulation and poverty reduction. The situation is not different in the SADC economies, where SMEs are vent of entrepreneurial innovations and the vanguard of the modern enterprise sector.

### ***Objective of the study***

The purpose of this study is to:

- (a) Take stock of what is known of SMEs in the SADC economies, with a special focus on their salient features and economic significance.
- (b) Take stock of what exists in terms of mechanisms to support the development of SMEs, focusing on SME policy frameworks at national and regional levels, SME sector promotion programmes at national, regional and international levels.
- (c) Highlight the participation of SMEs in technological development, and the role played therein by national, regional and international frameworks of intellectual property rights (IPRs).
- (d) Highlight, using the SADC economies as a sample, the relevance of IPRs for SMEs from developing economies to participate in technological development (as a means of becoming competitive on a sustainable basis), considering the pervasive nature of SMEs in the SADC and other developing regions.
- (e) Summarise the factors that precipitate and or impede the competitiveness of the SADC economies, with the framework of current and anticipated developments in the domestic and international economic spheres.
- (f) To concretise the research agenda related to the participation of the region's SMEs in technological development within the framework of IPRs regimes at various levels (national regional, international).

Against this background, it is noteworthy that the SADC region is among the richest in the world, with quite an impressive natural resource balance. It is blessed with immense mineral

wealth, agricultural capacity, and rich diversity of plants and animal resources. However, the relatively resource-rich economies of the region are contrasted by prolonged poor economic performance. Hence, this study provides also the opportunity for reconciling the resource endowment of the and its economic development achievements, thereby identifying the sources of the implicit entrepreneurial deficits responsible for this paradoxical phenomenon of poverty in the midst of wealth.

### *Methodology*

Given the patchy nature of research on SMEs in the SADC economies, a major objective of this study was to use a review process, to define the agenda for further research. This study was mainly desk-based, and often relied on relying on data that was neither directly related to the theme nor comprehensively covered all the sample economies.

Also, where data was available, it was not possible to get comparable data for all the 14 SADC economies. Therefore, wherever necessary, cases from within and outside the SADC and stylised facts, have been used to highlight the situation, where the author was confident that they fairly reflect the situation for the SADC economies as well.

### *Major observations*

Despite the limitations of the study, some plausible conclusions can be drawn on many issues relevant for the development of SMEs. In terms of economic significance, despite diversity in terms of economic weight of SMEs from country to country, SMEs are crucial in each SADC economy. In *structural terms*, they form the vanguard of the modern private sectors. Hence, they contribute significantly to the structure of employment, aggregate and manufacturing GDP, and exports. They are particularly predominant in the rural economic structures.

In *dynamic terms*, SMEs contribute significantly to new job creation, and the utilisation of local human and non-human resources. Besides, they are crucial for rural economic development, where they are almost the exclusive actors within the modern sector.

In terms of business and particularly *competition strategies*, SMEs base their competitiveness on the so called *lower order* sources of competitiveness (associated with low prices of the primary production inputs), and to a limited extent on the *higher order* sources of competitiveness

(associated with using modern management concepts, particularly strategic management). Quite a few venture into the new sources of competitiveness (based on new technologies, in which information and communications technology, ICT and intellectual properties, IPs, play a key role).

With respect to the major *salient features*, the SME sectors in the SADC region reveal tumultuous patterns with high start-ups rates per annum. Botswana's start-up rate has, for instance, been rated as high as 30 percent. However, SMEs do not have clear growth strategies. They seem to grow erratically and most of them remain small in size over their entire life span. Besides, there are high closure rates, mainly attributable to problems of access to product and factor markets (particularly but not only those of financial nature).

The other typical features of SMEs in the region are poor patterns of linkage within the modern business sector (with reference to product and factor markets, as well as legal systems and inter-enterprise relations), structural disequilibria within the enterprise sector, narrow focus of economic activities and concentration in the retail trade sector.

There exists also many institutional initiatives to support the development of SMEs in the region. These initiatives can generally be divided into national and regional policy frameworks and organs, and SME promotion initiatives of financial and non-financial nature. The initiatives are carried out by various local and international institutions, both governmental and otherwise.

Also, it is observable that issues related to intellectual property rights (IPRs) are interpreted in a rather narrow sense. In fact, of the broad issues related to IPRs, only technology is explicitly referred to in some of the available literature on the development of SMEs. Noticeably, IPRs related to copyrights and neighbouring rights do not form central issues for debate and industrial policy formulation.

To sum up, the *competitiveness of SMEs* is shaped by several factors. These factors can broadly be analysed at the enterprise, sectoral, national and regional/global levels. Concretely, the competitiveness of SMEs depends on such micro-economic forces as inter-enterprise factor productivity differentials, as well as enterprise technology capacities, size and growth strategies, productivity/activity focus, age, entrepreneurial culture, and skill intensity (management/labour force).

These enterprise level influences are complemented by sectoral structure and dynamics. Important factors in this regard include, whether there is a sectoral policy framework and the extent to which the sector in which SMEs operate is internationalised. Besides, there are macro-economic forces which include the macro economic policy framework (particularly, monetary and fiscal policies, and market regulations), national social capital (which refers to network of connections with various societal groups), national education and human development policy, the and adequacy of the provision of physical infrastructure.

At an even higher level of aggregation of environmental influences, the competitiveness of SMEs is shaped by forces emanating from integration into regional and global economy. This integration is associated with liberalisation within the framework open regionalism and multilateralism, and globalisation of industry.

Other factors that influence competitiveness include the extent to which the intervention measures are harmonised and co-ordinated, the content and magnitude of interventions, as well as the focus of interventions (whether they are directed at the business sector or they trickle down to the business sector through intermediary institutions).

### ***Important lessons***

Altogether, important lessons can be drawn from the observations made in this study:

- (a) As economies are moving away from inward oriented development strategies, enterprise competitiveness is taking new dimensions for both developing and developed economies. In *new competition*, enterprise competitiveness is dependent on *higher order* sources of competitiveness as opposed to *lower order* sources of competitiveness. Also, the sources of enterprise competitiveness are shifting in favour of knowledge-based factors of production, i.e., capital intensive technologies and skill intensive production factors.
- (b) In future, it will not be sufficient to predicate the competitiveness of SADC's SMEs on their *traditional merits* (such as flexibility, market development, etc.). Instead, it will be necessary to couple these *traditional merits* and *new, knowledge-based merits* (e.g., skills of management and employees, technological capabilities, information networks, etc.).
- (c) Although in theory all efficient enterprises can take advantage of opportunities presented by new competition irrespective of their size, in reality there is concern that smaller businesses

will be the losers of the process. This is because of a number of size related characteristics that may affect their ability to identify, and harness the emerging opportunities and protect themselves against the pertinent risks. Also, compared to LSEs, SMEs face a higher level of uncertainties in the environment while their resources are limited.

Thus, it is advisable that SADC adequately analyses the role and characteristics of its SMEs, and reflects on the impact of the changing environment on their competitiveness.

### *Proposed research agenda*

To sum up, in new competition, sustaining competitiveness requires understanding the effects of the liberalisation of the global economy on SMEs in countries that are becoming increasingly exposed to globalisation of industry, open regionalism, multilateralism and shifting in the sources of competitiveness, at a time when their economic structures are still underdeveloped.

Despite unquestionable interest in SMEs, our knowledge of their actual potentials and limitations remain limited. While many issues concerning SMEs and entrepreneurship dynamics in general, have not been researched at all, a few empirical studies which have been undertaken for the SADC region have been uneven making comparative assessment next to impossible.

Thus, besides a gap in empirical evidence in general, the infancy of SME research in SADC economies present an incomplete picture of findings. While broad generalisations can be discerned from them, it is also obvious that a great deal more remains to be unveiled.

In broad terms, future research will need to identify on a more reliable basis, the various globalist and SADC unique forces that precipitate or impede the competitiveness of SMEs. Also, such research will have also to estimate the weights of the identified forces in determining the competitiveness of SMEs.

With reference to IPRs, the objective of future research should be to critically evaluate the prospects of achieving sustainable competitiveness of SMEs, through appropriate use of IPRs framework. Future research should explore in particular the role of carefully formulated and effectively enforced regimes of IPRs in facilitating inventions and innovations in SMEs and in enabling them to access knowledge/technologies, and thereby enhancing their competitiveness.

### *Conclusions*

The results show that there are several similarities among the SADC economies in the nature and extent of the competition of SMEs. However such factors as, differences in the level of economic development, market size, enterprise characteristics, macro-economic framework, types of intervention initiatives, combine to produce inter-country differences in the nature and extent to which the SMEs are affected by the liberalisation of the global economy.

Despite these inter-country differences, the SME sectors of all the SADC economies show deficiencies which necessitate action. Also, it is obvious that in the foreseeable future, will remain the vanguard of the modern sector in all the SADC economies, and provide crucial agents for private sector driven development strategy. Corollary, there is a broad consensus that, in order to put the long-term development of the SADC economies on a sound foundation, new approaches to supporting SMEs in the region are necessary. Such supporting measure should stimulate their growth and ensure their competitiveness on a sustainable basis.

Broadly expressed, ensuring the competitiveness of SMEs calls for, (i) the empowerment of the private sector and its market driven institutions, (ii) the transformation of public institutions (governmental, civil society), and (iii) the instituting of measures that will create a level playing field while at the same time maintaining compliance with international obligations within the framework of open regionalism and multilateralism.

Therefore, ideally, a more holistic approach would be the best option for supporting SMEs. However, as is often the case with economics phenomenon, realities on the ground would hardly allow this. Hence, in a foreseeable future, the likely predominant scenario is one of isolated and partially co-ordinated interventions. In any case, a plausible research input is necessary as a basis for planning further action.



## **I: CONTEXT AND BACKGROUND ISSUES**

## **1. Context**

The Southern African Development Community (SADC) is one of the key integration initiatives in Africa. Formally, it was established in August 1992 through the Windhoek Treaty, to replace the Southern African Development Co-ordination Conference (SADCC). The SADCC, on its turn, was established through the Lusaka Declaration of 1980 by the then nine independent states in Southern Africa, i.e., Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia and Zimbabwe. After attaining her independence, Namibia joined the group on 10.04.1990 as its 10<sup>th</sup> member.

Following the election of 1994 which paved the way for the dismantling of the apartheid system, South Africa joined the SADC as its 11th member in 1994. Since then, Mauritius, Seychelles and the Democratic Republic of Congo (DRC) have joined the group, bringing its membership to 14.

The profile of small and medium scale enterprises (SMEs) presented in this inception report is based on evidences collected from these 14 SADC member states.

### **1.1. Introduction**

#### **1.1.1. SMEs and economic growth: general postulations**

The debate on SMEs within the context of development economics underscores their role in the development process. World-wide, the significance of SMEs for economic growth is underlined by their contribution in both developed and developing economies. For instance, empirical evidences show that, even in such developed economies as the USA, in recent years SMEs have been responsible for the creation of 80 percent of all new jobs (Mead and Liedholm 1998: 61). In Northern Ireland and the UK as a whole, it is estimated that SMEs account for about 56 percent and 48 percent of employment in the private sector (Buckland and Greer 1997).

In developing economies, the role of SMEs is even more obvious and conspicuous: to the degree they dominate economic activities, it can be inferred that they play a significant role in whatever economic growth is recorded. Indeed, there are some empirical evidences to support this as well. Among other things, estimates put the percentage of labour force engaged by small businesses alone (i.e., excluding the medium-sized ones) as high as 25 in developing economies (Elkan 1998). Also, characterising the continent's SMEs in the study

„Entrepreneurs and Entrepreneurship in Africa: Finance and Development“, Elkan (ibid.) came to the conclusion that *small businesses are the most promising vehicle of entrepreneurial dynamism in Africa*.

Therefore, on the whole, the economic role of SMEs in the SADC economies, can be predicated upon by their contribution to the processes of resource accumulation and resource allocation, as well as to the structure and dynamics of the economies.

#### *A. SMEs and the generation of incomes and accumulation process*

To the degree that they generate incomes, SMEs are significant for individual, corporate, and national *accumulation process*. They provide employment and generate incomes (as entrepreneurial rent to entrepreneurs, and wages to employees). Since production in SMEs tends to be more labour intensive, they offer more employment opportunities at a given level of capital input, and are thus significant for private sector-driven poverty alleviation. Though no consistent data on all SADC countries could be obtained (partly because there is no systematic monitoring of the economic activities of SMEs), to highlight the likely situation, the proportion of labour force employed in this sector is clearly above 50 percent in each of the three economies of the East African community (EAC), i.e., Kenya, Tanzania and Uganda (Matambalya and Sejjaaka 1999).

Also SMEs contribute substantially to national income. In this regard, the national accounts records in Tanzania, for instance, reveal that SMEs contribute over 50 percent of the country's industrial share of the GDP (Kirumba 1995: 16). Finally, as tax payers, SMEs provide a base for government revenues, and redistribution of incomes through public spending. This last aspect is also important within the context of poverty alleviation, to the extent that public expenditure can be directed at enhancing *social empowerment, social opportunity and social security*.

#### *B. SMEs and the resource allocation process*

SMEs play a key role in the *allocation of resources*. In this regard, economies (at both the regional and macro levels) rely on SMEs, which are key agents in the mobilisation of human and non-human resources. Compared to large scale enterprises (LSEs), they are inclined to utilise locally available resources to produce goods to meet domestic needs, and in many cases also export requirements. By focusing on the utilisation of local resources (in a country or its regions), they (unlike LSEs) do not deplete the foreign exchanges of the eco-

nomies concerned. For foreign exchange strapped developing economies, this is an extremely relevant aspect.

Also, since SMEs are flexible<sup>1</sup> and their spatial coverage customarily includes both rural and urban areas, they play a central role in local economic development (LED). They are likely to have a more differentiated, and thus deeper market coverage, and to foster geographical proliferation of economic activities. Their capability to penetrate markets which will otherwise not be served denotes a significant feature within the business context of developing economies.

### C. SMEs and the structure of the economy

Several features underscore the relevance of SMEs with respect to the *structure of the economy*. In this context, SMEs dominate the formal enterprise sector, usually making up more than 90 percent share of formal enterprises (*table 1*). Hence, for many economies of the world, they are the vanguard of the private sector.

Table 1: Selected indicators of the structural importance of SMEs in selected developing and developed economies in 1994

Country	Growth of GDP p.a.	Exports as % of GDP	SMEs intensity*	% employed by SMEs
Australia	4.6	15	97	74
Canada	4.1	26	98	66
Japan	1.0	15	99	74
Thailand	7.4	29	98	42
Singapore	10.2	138	89	42
USA	4.0	8	98	53

Notes: USA ... United States of America, GDP ... gross domestic product, p.a. ... per annum, and SMEs ... Small and Medium Scale Enterprises, a ... SMEs as % of all enterprises.

Source: Matambalya and Sejjaka, 1999.

Also, SMEs have the potential for stronger forward and backward inter-sectoral linkages. Additionally, they provide an important nexus between LSEs and micro enterprises (MEs). Furthermore, by the virtue of their sizes, SMEs guarantee competition and prevent (at

<sup>1</sup> Technically, the term *flexibility* is used in connection with at least five enterprise characteristics: (i) *machine flexibility* (i.e., the ability to make different parts within a product family), (ii) *operating flexibility* (i.e., the ability to vary sequence of operations), (iii) *process flexibility*, the ability to produce a product family in different ways, possibly using different materials), (iv) *product flexibility* (i.e., the ability to change easily to produce new products), and (v) *volume flexibility* (i.e., the ability to accommodate changes in volume efficiency) (Meyer-Stamer 1995). Process flexibility and volume flexibility seem to be particularly significant for SMEs.

corporate level) monopolistic /monopsonistic tendencies.<sup>2</sup> Finally, SMEs proliferate economic activities to all geographical areas, thereby contributing to the suppression of migration pressures and dualistic economic structures. In this capacity, they contribute to a more equitable pattern of development (particularly between rural and urban regions).

#### *D. SMEs and the evolution of the economy*

From the foregoing discussions, the significance of SMEs as agents for the *evolution of the economy*, is underlined by several observations. Being the fountain of entrepreneurial activities, they are the engine for economic growth. Also, SMEs, adapt technologies to local standards, and make them available to large proportions of the population. They also have a higher propensity to respond in a more flexible manner to environmental dynamics. Furthermore, SMEs are reputed for the creation of new jobs, besides playing a crucial role in market development efforts (i.e., opening of new markets). Because unlike MEs, they operate within the modern sector, they are a potential agent for economic modernisation.

#### **1.1.2. SMEs in global economy: some empirical observations**

Analogous to the general knowledge of the role of SMEs for economic growth and development, it is recognised and empirically established that, SMEs constitute a crucial knot in the economy, making significant contributions to a country's international business.

The observed dynamics in the empirical avenue, are well-embedded in a number of theoretical frames, advanced by Business School Academics, which differentiate small businesses with an international orientation, from those which are not so inclined. Contemporary developments underscore the existence of a special kind of SMEs (that are invariably referred to as *mini-nationals*, *mini-multinationals*, or *mini-globals*), engaged in a wide range of activities from basic exporting efforts (e.g., with no regular exporting) to foreign investments of varying complexity (inclusive foreign production/manufacturing). Preliminary studies ascribe the competitiveness of mini-globals to such attributes as, product uniqueness, sharpness of focus (i.e., niche strategy, i.e., they develop market niches, that will otherwise not be utilised), strategic use of lean operations, openness and capacity to absorb ideas and technologies, more *humanistic* human resources management style, etc., (Keegan and Green 1997, Ball and Wendell 1996).

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<sup>2</sup> Monopolistic tendencies express market tendencies characterised by a few suppliers, while monopsonistic tendencies express market tendencies characterised by a few buyers.

## 1.2. Aim and approach of the study

Deriving from the presentations above, SMEs are important for economic growth and all the good virtues associated with it, e.g., poverty alleviation, promotion of more pluralist societies, etc. Therefore, they deserve to be accorded due attention.

The aims of this study are, (i) to highlight, with assistance of selected indicators, the economic evolution and structure of the SADC economies, and the role of SMEs therein, (ii) to postulate the challenges to SMEs, as key players in the SADC economies, arising from globalisation of industry and the associated dynamics in the knowledge/technology sector, (iii) to review the role that can be played by intellectual property rights (IPRs)<sup>3</sup> to bolster the competitiveness of SMEs from the SADC economies, and (iv) to concretise, from the observations, a research agenda, related to the participation of SMEs from the SADC region in technological development and the role that can be played thereof by effective IPRs at national and international levels.

In view of the patchy situation of focused research on SMEs in the SADC region (i.e., little - in terms of details - is known beyond the general fact that they are crucial for the pertinent economies), this study approaches the subject cautiously. It carefully patches together the disjointed facts that are available, to present a profile of SMEs in the region. It blends knowledge of developments at various levels of economic aggregation (enterprise, sector, national, regional, global), and inferences from selected studies related (some focused, others not), which are helpful in understanding the SME sectors in the SADC region.

This study is divided into five major parts. The context and background issues are presented in Part I. Part II presents a profile of SMEs in the SADC economies, using both stylised facts and empirical evidences. Part III examines the status of IPRs in the SADC region and their significance for SMEs from the region. Part IV summarises the lessons of the study, proposes a research agenda and presents the general conclusions. Finally, two annexes are presented in part V. Annex I contains a detailed proposal for a research of SMEs in the SADC region, while Annex II contains a detailed proposal for a research of SMEs in the SADC region focusing of IPRs issues.

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<sup>3</sup> Throughout this text, IPR should be interpreted in their broadest sense as to include, (i) industrial property (i.e., patents, trade and service marks, industrial designs, utility certificates, trade secrets), (ii) copyrights (for literary works, artistic works, folklore), (iii) neighbouring rights or allied rights (e.g., as is common in the music industry, performances in drama, etc.). For a more detailed discussion of the meaning of IPRs, refer chapter 9.

## 2. The SADC economies in a nutshell

### 2.1. Nominal economic potential of the region: natural economic resource base

Economically, Southern Africa is endowed with many resources in real and potential terms and is one of the world's regions in terms of natural resources. In nominal terms, the region is endowed with a diverse range of *natural resources*, including a wide selection of minerals, vast tracts of land, access to both the Indian and the Atlantic oceans, and internal water resources (big lakes and rivers), etc. It boasts some of the most valuable mineral resources in the world, including gold, asbestos, bauxite, chromite, coal, cobalt, copper, diamonds, ferro-chrome, iron ore, lead, manganese, nickel, oil, platinum, silver, tanzanite, tin, zinc, etc. Remarkably, even if, the DRC and South Africa (i.e., the two mineral-richest states on the continent are excluded), the remaining SADC economies produce a significant global share of minerals. *Table 2* depicts the mineral resource richness of the region with assistance of selected concrete examples.

Table 2: The SADC share of the global production of selected minerals

Mineral resource	Global share produced by the SADC*
Asbestos	4.8 percent
Cobalt	15 percent
Chromite	4.6 percent
Diamonds	18.7 percent
Ferro-Chrome	7.2 percent
Nickel	4 percent

*Notes:* \* ... Excludes the DRC and South Africa.

*Source:* Matambalya 1999a: 226-227.

Market considerations and insutrialisation charaecdtristics underscore two important potential assest of the region. The market considerations are based on the *demographic dynamic* of the regionb. Its population of about 200 million people is more than 20 percent of the African population. Thus, despite poor purchasing power, a market of such size should be strong enough to support modest internal industrial development, and boost the region's production and foreign trade sectors.

Also, mainly due to contribution of such economies as South Africa, Mauritius and Zimbabwe, the SADC region is the most industrialised in Africa, and is also slightly more industrialised than other low-income countries. Notably, even if South Africa is excluded, manufacturing in the region accounts for about 14 percent of the GDP (Matambalya 1999a).

Finally, in spite of the overall poor economic performance of the African economies, Southern Africa is responsible for a major part of the African Continent's productive activity. Notably, even without Mauritius, South Africa and the DRC, the remaining SADC share of the African GDP in 1989 was 9.3 percent. Together with the South Africa, the corresponding regional share of the Continent's GDP was 28.8 percent (Matambalya 1999a).

## 2.2. Economic development trends and patterns

### 2.2.1. Selected economic development indicators

To highlight the current economic situation in the SADC economic space, and its impact on development, three important aspects are delineated: incomes, investments, and exports.

#### A. Incomes and economic activity rate

##### a. GDP trends

In recent years, the economic development trends in the SADC region have been encouraging. As shown in *table 3* for 11 countries, the SADC economies recorded moderate growth rates of incomes in 1997. The performance of the smaller economies (e.g., Lesotho, Mauritius, Namibia), was particularly encouraging.

Table 3: Population, GNP and GNP per capita of the SADC economies in 1997

Country	Population in 1997 (millions)	GNP		GNP per capita	
		Billions US \$ <sup>a</sup>	growth rate <sup>b</sup>	US \$	growth rate <sup>b</sup>
1. Angola	11	3.8	15.4	1 490	-1
2. DRC	47	5.1	NA	110	NA
3. Lesotho	2	1.4	5.2	670	2.9
4. Malawi	10	2.3	3.1	220	0.5
5. Mauritius	1	4.3	5.2	3 800	4.2
6. Mozambique	19	1.7	8.6	90	5.7
7. Namibia	2	3.6	3.8	2 220	1.3
8. South Africa	38	130.2	1.3	3 400	-0.5
9. Tanzania	31	6.6	NA	210	NA
10. Zambia	9	3.6	7.9	380	5.3
11. Zimbabwe	11	8.6	2.1	750	0.0

Notes: *GNP* ... Gross national product, *DRC* .. Democratic Republic of Congo, *a* ... reference year is 1997, *b* ... average annual growth rate in percentage for 1996-97, *NA* ... data not available.

Source: "World Development Report: Knowledge for Development 1998/99", 1999: 190.



Also, as shown in *table 4*, in terms of purchasing power parity (PPP), from 1992 to 1996, Southern Africa recorded rather consistent GDP growth, outperformed only by Eastern Africa (ADB 1997).

Table 4: Africa's real GDP growth by sub-region at 1990 constant market prices

Country	1992	1993	1994	1995	1996
1. Central	-2.3	-5.6	-5.6	4.1	4.0
2. Eastern	0.3	4.6	4.3	5.4	5.3
3. Southern	-1.9	1.4	3.2	3.4	4.5
4. Western	2.3	1.9	2.1	3.3	4.1

Notes: *GNP* ... Gross national product, *DRC* .. Democratic Republic of Congo, *a* ... average annual growth rate in percentage for 1996-97, *NA* ... data not available.

Source: "African Development Report 1997", ADB 1997: 15.

#### *b. Share of GWP*

The significance of the SADC economies in world production is depicted in *table 5*. Notably, in the observation years, the SADC played a mainly marginal role in global production, with individual country shares *gross world product* (GWP) as low as less than 0.01 percent. Although more recent data was not available, it can be postulated that the situation has not changed much, particularly not in favour of the SADC economies.

Table 5: Percentage shares of GWP of a sample of SADC economies

Country	1970		1980		1989	
	MER	WA	MER	WA	MER	WA
1. Angola	0.03	0.02	0.03	0.02	0.03	0.03
2. Botswana	< 0.01	< 0.01	0.01	0.01	0.01	0.01
3. Lesotho	< 0.01	< 0.01	< 0.01	< 0.01	< 0.01	< 0.01
4. Mozambique	NA	0.03	NA	0.02	0.01	0.01
5. Namibia	0.02	0.02	0.02	0.02	0.01	0.01
6. Swaziland	< 0.01 %	< 0.01 %	< 0.01 %	< 0.01 %	< 0.01 %	< 0.01 %
7. Tanzania	0.04	0.04	0.04	0.05	0.01	0.01
8. Zambia	0.06	0.06	0.03	0.03	0.02	0.02
9. Zimbabwe	0.06	0.06	0.05	0.05	0.05	0.03
<i>By comparison</i>						
10. Austria	0.45	0.45	0.66	0.67	0.67	0.64
11. Brazil	1.57	1.36	2.07	1.98	2.40	2.46
12. UK	3.88	3.88	4.63	4.66	4.22	4.23

Notes: *MER* ... estimation based on market exchange rate conversion rate, *WA* ... estimation based on World Atlas conversion rate, *DRC* .. Democratic Republic of Congo, *a* ... average annual growth rate in percentage for 1996-97, *NA* ... data not available, *UK* ... United Kingdom.

Source: Matambalya 1999a: 149.

*c. Adult economic activity*

The adult economic activity rate (generally defined as percentage population aged 15 and above, which is economically active), can also be used as a proxy for the mobilisation of internal human and non-human resources for development. Data compiled by the International Labour Organisation (ILO) suggest that the situation in the SADC economies does not differ much from the situation in other countries. In *table 6*, the adult economic activity rate for nine SADC economies (for which data was available) is presented, alongside figures for Argentina, India, the UK, and the USA.

Table 6: Adult economic activity rate in SADC and selected economies in 1997 (in %)

<i>Adult Economic Activity Rate</i>			
<i>Country</i>	<i>Year</i>	<i>Male</i>	<i>Female</i>
<i>SADC economies</i>			
1. Botswana	1996	60 <sup>a</sup>	46 <sup>a</sup>
2. Malawi	1987	81 <sup>a</sup>	75 <sup>a</sup>
3. Mauritius	1995	80 <sup>b</sup>	39 <sup>b</sup>
4. Mozambique	1980	88	87
5. Namibia	1991	69 <sup>a</sup>	49 <sup>a</sup>
6. Seychelles	1989	79	57
7. South Africa	1991	80 <sup>c</sup>	50 <sup>c</sup>
8. Swaziland	1986	64	28
9. Zimbabwe	1992	78	47
<i>By comparison</i>			
1. Argentina	1995	76	41
2. India	1991	80 <sup>d</sup>	34 <sup>d</sup>
3. UK	1997	72 <sup>e</sup>	54 <sup>e</sup>
4. USA	1996	75 <sup>e</sup>	59 <sup>ae</sup>

*Notes:* *a* ... excluding armed forces, *b*... civilians only, *c* ... age 20 years and above, *d* ... Excluding Jammu and Kashmir, *e* ... age 16 years and above.

Source: "Yearbook of Labour Statistics", ILO, various years up to 1998: table 1A.

The figures presented in table 6 suggest that there is still room for the integration of more adult population in economic activities, a function that in the SADC economies is largely fulfilled by SMEs. However, to the degree that the economic activity rate of the SADC countries do not differ significantly from the situation in other countries, they also symbolise productivity deficits and therefore competitiveness deficits. Given the pivotal role of SMEs in the SADC economies, these macro-economic competitiveness deficits can be related to the limitations of the SME sectors in the countries of the region.

### B. Investments

The domestic investment patterns presented in table 7 suggest a rather impressive development. In this context, the gross domestic investment (GDI) denotes gross domestic capital formation plus net changes in levels of inventory. Hence, it gives crucial hints on improvements in land, dwellings, machinery and other equipment (World Bank 2000).

Table 7: Gross domestic investments as a percentage of GDP

Country and year	1980	1990	1995	1998
1. Angola	NA	12.9	25.0	24.5
2. Botswana	36.8	31.7	26.9	25.3
3. DRC	10.0	9.0	9.4	8.1
4. Lesotho	42.5	70.7	85.5	7.0
5. Malawi	24.7	19.7	16.6	13.7
6. Mauritius	20.7	30.9	25.7	26.1
7. Mozambique	5.9	15.6	22.8	20.4
8. Namibia	29.3	27.4	20.7	19.0
9. Seychelles	38.3	24.6	30.3	22.5
10. South Africa	23.4	11.8	18.2	15.6
11. Swaziland	30.3	19.6	34.1	12.3
12. Tanzania	NA	22.6	21.9	16.0
13. Zambia	23.3	17.3	13.9	15.9
14. Zimbabwe	16.9	17.4	25.1	21.2

Notes: DRC .. Democratic Republic of Congo, NA ... data not available.

Source: "African Development Indicators 2000", World Bank 2000: 24.

Recent developments relevant to investments at the regional level include, the drafting in 1998, of a *SADC investment protocol*. The protocol set, as basic principles for investments, (i) recognition that the pace of liberalisation in the region should be increased, (ii) private-public partnerships should be encouraged, (iii) foreign and domestic investors should have equal access in the relevant areas, (iv) establishment of simple, transparent and non-discriminatory procedures for the approval, entry and operation of investments, (v) need for investment promotion agencies to shift attention from incentive measures towards policy and administrative reform in order to attract investments (United Nations 1999: 123).

However, generally, the performance of the SADC and other African economies in this avenue is still poor, as is indicated by the flows of foreign direct investments (FDI). In 1997, for instance, all the Africa economies received only US \$ 9 billions in FDI, which were less than the amount received by Singapore alone (UNO 1999b: iv).

### C. Foreign trade

A synthesis of the SADC trade is presented in *table 8* (intra-SADC trade and trade between the SADC economies and their trade partners from different regions of the world) and *table 9* (aggregate trade of the SADC economies). As evidenced in *table 8*, all the SADC economies have traditionally maintained strong trading ties with the European Union (EU). This has partly been due to the Lomé Convention (LC), a special arrangement between the EU and its partners from Africa, the Caribbean and the Pacific (ACP) economies (which include all the SADC economies), giving the later preferential access to the EU markets.

Table 8: Trade flows between the SADC economies and their trade partners in 1995 (in percentage)

Country	Trading partner			
		EU	ROW	SADC
1. Angola	Exports	22	78	0
	Imports	64	29	7
2. DRC	Exports	67	27	6
	Imports	46	36	19
3. Malawi	Exports	40	45	16
	Imports	22	17	60
4. Mauritius	Exports	88	10	2
	Imports	40	50	9
5. Mozambique	Exports	38	48	14
	Imports	21	19	60
6. SACU	Exports	28	62	10
	Imports	45	53	2
7. Seychelles	Exports	12	86	2
	Imports	20	66	14
8. Tanzania	Exports	32	66	1
	Imports	36	49	15
9. Zambia	Exports	78	19	3
	Imports	36	49	15
10. Zimbabwe	Exports	42	34	24
	Imports	27	22	51

Notes: DRC ... Democratic Republic of Congo, EU ... European Union, ROW ... Rest of the World, SADC ... Southern African Development Community, SACU ... South African Customs Union.

Source: Own table compiled from Page et al. 1999: 80.

Also, as depicted in *table 9*, the generally acknowledged indicators of internationalisation suggest that all SADC economies are in fact *internationalised*.<sup>4</sup> These macro-economic indicators are consistent with the expected behaviour of small open economies, which *de facto* all SADC economies are, following regional wide macro-economic reforms.

Table 9: SADC trade with the world (exports and imports), selected years

Country	Exports						Imports					
	1995		1996		1997		1995		1996		1997	
	<i>AE</i>	<i>EPR</i>	<i>AE</i>	<i>EPR</i>	<i>AE</i>	<i>EPR</i>	<i>AI</i>	<i>IPR</i>	<i>AI</i>	<i>IPR</i>	<i>AI</i>	<i>IPR</i>
1. Angola	3493	70%	5043	66%	5196	68%	3964	78%	5235	69%	5003	65%
2. Botswana	2196	48%	2534	51%	2857	57%	1694	37%	1741	35%	1901	38%
3. DRC	1805	29%	1650	28%	1463	24%	1504	24%	1281	22%	1350	22%
4. Lesotho	183	22%	219	26%	309	33%	1036	122	1003	117	1215	128
5. Malawi	424	29%	515	23%	613	24%	549	38%	777	34%	870	35%
6. Mauritius	2370	59%	2749	64%	2725	62%	2469	62%	2803	65%	2879	65%
7. Mozambique	407	21%	479	21%	500	18%	899	46%	955	42%	937	34%
8. Namibia	1722	52%	1709	54%	1726	53%	1984	59%	1995	63%	1908	58%
9. RSA	33579	25%	34740	28%	35848	28%	306	25%	375	26%	438	27%
10. Seychelles	271	54%	317	63%	365	68%	33346	60%	33094	74%	34365	81%
11. Swaziland	1052	83%	999	81%	1075	82%	1117	88%	1138	93%	1265	96%
12. Tanzania	949	21%	1259	22%	NA	NA	1963	42%	2118	36%	NA	NA
13. Zambia	1316	38%	1113	34%	1276	33%	1518	43%	1316	40%	1474	38%
14. Zimbabwe	2721	38%	3116	36%	3227	36%	2912	41%	3099	36%	3829	43%

*Notes:* *AE* ... absolute exports in millions of US dollars, *EPR* ... export-production ration estimated as exports as a proportion of GDP, *AI* ... absolute imports in millions of US dollars, *IPR* ... import-production ratio estimated as imports as a proportion of GDP, *RSA* ... Republic of South Africa, *NA* ... data not available.

*Source:* World Bank 2000, complemented with own calculations.

However, to put the SADC international trade dynamics and structure into their correct perspectives, more rigorous analyses are necessary, in which underlying characteristics of the SADC economies should be taken into account. In this regard, empirical evidence

<sup>4</sup> In this case, we adapt the OECD definition of enterprise internationalisation, and loosely define macro-economic internationalisation along the following lines:

- (i) *No internationalisation*, if the economy neither imports and nor exports.
- (ii) *Limited internationalisation*, if the economy's import GDP ratio and export GDP ratios are less than 10 percent.
- (iii) *Major internationalisation*, if the economy import GDP ratio and export GDP ratio is than 10 percent but less than 40% of inputs.
- (iv) *Extensive internationalisation*, if the import GDP ratio and the export GDP ratio are both above 40 percent. above 40% of inputs.

reveal several deficits that underlie the trade structure of the SADC. Among other things, though nominally the SADC economies appear to be internationalised, their integration into the world economy is distorted by several features related to exports and imports. For instance, with respect to exports, by and large the SADC economies reveal:

- (a) Rather subdued participation in international business beyond the SADC region.
- (b) High concentrations of exports in a few usually commodity products (Collier 1997, Matambalya 1999a, Matambalya 1997). This exposes the region's export sector to price shocks characteristic of commodity prices.
- (c) Insignificant share of manufactured goods in its exports (Collier 1997, Matambalya 1999a, Matambalya 1997, UNDP/IBRD 1991). Considering the centrality of manufactured goods in international business, this aspect of SADC trade suppresses the international competitiveness and exposes the region's export sector to price shocks.
- (d) Marginal contribution to gross world product (GWP), as indicated in *table 5*, etc.

Equally, the limitations of the SADC import trade are underlined by several issues:

- (a) The SADC economies source their imports mainly from outside the region and on the whole, intra-SADC imports are restricted.
- (b) To the extent that the imports of the SADC economies originate from another SADC economy, SACU and invariably South Africa dominate intra-SADC trade.
- (c) To the extent that the SACU economies source their imports from outside the SADC region, this is done mainly through South Africa.
- (d) The SADC economies reveal high external consumption dependency (Matambalya 1999a: 88 and 178-182).
- (e) Traditionally, the SADC economies were dominated by very strong internal orientation of manufacturing production. This could be attributed to policy stance in favour of import substitution manufacturing and/or competitive deficits of the SADC manufactures on international markets. This means that imports form a significant proportion of apparent national consumption in every SADC economy (Matambalya 1999a).

On the whole, the overly external orientation of trade may also be associated with the underdevelopment of the internal trade sector.

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### 2.2.2. Selected poverty indicators

Though the SADC region is endowed with immense resources, economically it performs poorly, and an overwhelming majority of its population continue to linger in poverty as indicated in for 4 SADC member countries (i.e., Lesotho, Tanzania, Zambia and Zimbabwe), for which data was available (*table 10*).

Table 10: Selected poverty indicators of the SADC economies

Country and most recent year For which data is available	% of population below US \$		% of poverty gap at	
	1 per day	2 per day	1 per day	2 per day
1. Lesotho (1986/87)	48.8	74.1	23.8	43.5
2. Tanzania (1993)	10.5	45.5	2.1	15.3
3. Zambia (1993)	84.6	53.8	98.1	73.4
4. Zimbabwe (1990/91)	41.0	68.2	14.3	35.5
<i>For comparison</i>				
5. Hungary (1993)	<2	107	NA	2.1

Notes: NA .. data not available

Source: "World Development Report: Knowledge for Development 1998/1999": 196-197

According to the World Bank Report (1999: 1), these negative linkages between resource endowment and achieved level of economic development may be attributed to among other things, the knowledge gap. Accordingly, "poor countries - and poor people - differ from rich ones, not only because they have less capital, but because they have less knowledge". The knowledge gap deters the economic transformation process, and the increases the transaction costs of accessing markets. Expressed otherwise, (partly) because of the region's entrepreneurial activities did not translate into economic growth.

In other words, the development gap expresses a gap in such acquired determinants of development as knowledge/technology. Notably, knowledge/technological factors are the cornerstone of new competition. Alongside the so called *lower-order* or *priced-based* sources of competitiveness, and the *higher order* sources of competitiveness related to strategic management, they constitute what may, in the hierarchy of determinants of sustainable competitiveness be referred to as the *new sources* of competitiveness.<sup>5</sup>

<sup>5</sup> In this context, *higher order* sources of competitiveness refer to competitiveness induced by using modern management concepts (concretely, aspects related to strategic management like planning, R & D, distribution, marketing). These are ranked higher than the *lower order* sources of competitiveness (i.e., cheap labour and physical production materials). The new sources of competitiveness refer to sources of competitiveness originating from new knowledge.

The knowledge gap underscores also the significance of IPRs, to the extent that effective regimes of IPRs regulate and facilitate the participation of enterprises and economies in knowledge/technological related development (Meyer-Stammer 1995, Smallbone et al 1995, Poter 1990).

### 2.3. Resource base and economic competitiveness: reconciling the evidences

The analysis of economic development of nations provides an appropriate contextual framework for evaluating their competitiveness. In a traditional macro-economic analysis, the trends and structures depicted above suggest that the SADC economies enjoy nominal comparative advantage due to their factor or resource endowment. Clearly, they are, at least partially, endowed with the basic or primary factors of production, particularly those associated with land, labour, and production inputs (like raw materials).

Concretely, the *lower order* or *price-based* sources enterprise competitiveness (low labour costs and cheap materials, etc.), provide a sound framework for competitiveness. Contrary to these postulations, even within the framework of traditional paradigm of competition, a comparison of the resource endowment and the macro-economic data of the SADC economies suggest deficits in economic achievements despite resource potential.

One of the explanations of the observed mismatch of the linkages between the natural economic resource base and economic development trends and patterns is entrepreneurial. In this regard, the pattern suggests the existence of deficits within the entrepreneurial/occupational system. This is because, it is enterprise competitiveness that translates into macro-economic competitiveness. Apparently, the mechanisms which influence occupational choices and dynamics in the SADC economies do not favour the emergence and consolidation of competitiveness entrepreneurial patterns. This situation limits the capability of the SADC economies to translate their nominal resource potential for development into real sources for economic development and competitiveness.



### 3. Understanding the set-up of the SADC economies within a broader context

#### 3.1. Business environment, business systems and the economy

It is widely recognised that a firmly established and properly managed business sector constitute an essential catalyst for a country's economic development process. In theory, economic development is contingent to, among other things, the conduciveness of the *business environment* and the existence therein of dynamic *business systems*. The environment at its various levels of aggregation (global, regional, national, sector, enterprise), is the underlying determinant of the performance of businesses. Just like it defines and limits the set of opportunities available to individuals, it also does the same for businesses and business systems.

In practice too, a glance at the economic profiles across nations suggests that, a *country's business systems*, the *environment* in which they operate, and the *ability* (of the businesses) to harness those environments, are fundamental catalysts of economic development. Hence, it is logical to argue that the existence of a conducive business environment, and the evolution therein of dynamic and business systems, are essential for exalting the development and consolidation of competitive economic units.

#### 3.2. Taxonomy of business systems in the SADC economies

Due to lack of earlier studies, there are virtually no empirically-backed evidences of the pattern of business systems in the SADC region. However, by examining the business background and the general economic characteristics of the region, it is possible to apprehend the key features of striking variety of the region's business systems. Hence, a prefatory examination allows the postulation of divergent, though interdependent business systems. Moreover, there are evidences of significant intra- and inter-country differences of both the businesses themselves and the institutions constituting their environment.

Thus, basing on our observations and partly borrowing from Whitley (1992), we may construct a simple profile of the business subsystems and typical business entities in the respective categories, to highlight the scenario in the SADC region.<sup>6</sup> Contingent to the criterion used, we can decompose the region's total *business system* as portrayed in *table 11*.

<sup>6</sup> In his study of East Asian businesses systems, Whitley (1992) used three broadly defined criteria for comparing/contrasting business firms: the nature of the firm, the firm linkages, and the firm's co-

Table 11: Decomposition of the total business systems of the SADC economies

Criteria	Sector	Enterprise characteristics
Legal status and degree of complexity of organisation	<i>Formal sector</i>	<ul style="list-style-type: none"> <li>• Formal organisation of business firms into legal entities.</li> <li>• Comprises further of the <i>private sector</i> (i.e., private firms) and <i>parastatal/public sector</i> (i.e., state-owned firms).</li> <li>• In terms of size, firms in this sector cut across the board, though falling mainly within the category of micro, small, medium scale and enterprises (MSEs), with probably (only) a few deserving the status of LSEs.</li> <li>• Ties to formal labour and financial systems.</li> </ul>
	<i>Informal sector</i>	<ul style="list-style-type: none"> <li>• Enterprises in this sector have, by and large, have no formal organisational structures and are not organised as legal entities..</li> <li>• The sector is by its nature privately organised.</li> <li>• In terms of size, most firms in this sector fall within the category of MEs. This is the major sphere of operation of most firms owned by indigenous Africans.</li> <li>• Usually, no formalised ties to formal labour markets.</li> <li>• Usually, no formalised ties to formal financial systems.</li> <li>• Intra- and inter-industry market linkages are rather unsystematic.</li> <li>• Usually, the firms do not practice formal marketing.</li> </ul>
Form of ownership	<i>Parastatal sector</i>	<ul style="list-style-type: none"> <li>• Comprises of state-owned enterprises (SOEs).</li> <li>• It is by its nature formally organised and the enterprises are legal entities..</li> <li>• In terms of size, most firms in this group fall within the category of SMEs and a few firms in this group may be as LSEs.</li> <li>• Formalised links to the financial systems.</li> <li>• Formalised links to the formal labour markets</li> <li>• Likelihood of systematic intra- and inter-industry market linkages and</li> <li>• Institutionalised marketing efforts.</li> </ul>
	<i>Private sector</i>	<ul style="list-style-type: none"> <li>• Comprises of privately organised firms.</li> <li>• Comprises enterprises organised as legal entities, and those which are not.</li> <li>• In terms of size, most firms in this sector fall within the category of medium, small, and micro enterprises (MSMEs).<sup>7</sup> However, there are also LSEs.</li> <li>• Traditionally, the private sector in the SADC region is dominated by non-indigenous businesses, which is partly a colonial creation.</li> <li>• A substantial number of firms in this group are multinationals.</li> <li>• An overwhelming proportion of enterprises in this category is owned by SADC citizens of Asian descent.</li> <li>• A substantial number of firms in the private sector are likely to have formal links to the financial and labour systems.</li> <li>• To the extent that organised marketing is practised, it will be confined to the formal private sector.</li> </ul>

Source: Own table.

ordination and control. Accordingly, the *nature of the firm* denote how the legal firm boundaries are linked to its actual domain of activity, size, strategic focus, growth patterns, and risk management. *Firm linkages* denote the firms intra- and inter-industry market linkages. *Firm's co-ordination and control* comprises of the management systems, including the entire spectrum of decision making processes. These, intrinsically overlapping criteria provide a useful starting point in understanding the business system of an economy.

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Some authors use the term *small, medium and micro enterprises* (SMMEs) instead.

An equally important feature of the region’s business systems is that although operationally they are inter-linked in a marriage for convenience and closely interdependent, institutionally they reveal a high degree of fragmentation, and skewdness. This constellation allows further the postulation of *dualistic* micro-economic structures underscored by three features:

- (a) The *management structures*. In this respect, complex management structures, at least in part of the formal sector, exist alongside rudimentary management structures in the informal sector (table 12).
- (b) The *rural-urban development gap*. A rural-urban gap is also vivid, with rurally-based businesses likely to be less complex than urban-based ones.
- (c) The *skill intensity of employees*. The skill intensity of both management and labour force as a whole is likely to be higher in the urban than in the rural enterprises.
- (d) The *urbanisation of LSEs and public sector enterprises*. There is a high propensity for LSEs and SOEs to be overproportionally represented in major urban centres.

Table 12: A simple profile of SADC's businesses systems with respect to legal status of firms, firm ownership, firm size, and formalisation of management activities

Legal status	Ownership of the enterprise	Enterprise size	Formalisation of management activities
Formal Sector	Private	Micro	• Elementary management systems
		Small	• Elementary management systems
		Medium	• Advanced management systems
	State	Small	• Advanced management systems
		Medium	• Advanced management systems
		Large	• Advanced management systems
Informal Sector	Private	Micro	• Rudimentary management systems
		Small	• Rudimentary management systems

Source: Own table.

### 3.3. Salient features of enterprise sectors in African economies

Several negative features are postulated for Africa’s enterprise sectors in general, which may also be relevant for the SADC economies. First, within the enterprise sector, the role of the informal sector is conspicuously impregnable. An important observation in this regard is that, to the extent that the informal sector is *land-abundant, high-risk, near-subsistence, low*

*asset-equilibrium*, its power to propel growth and promote international competitiveness is severely eroded.

Second, Africa's enterprise sector is usually a collection of small enterprise enterprises which are significantly smaller in size than enterprises from other parts of the world, and usually these enterprises grow slowly. The *East Africa SME Survey*<sup>8</sup>, for instance, reveal that most of SMEs are concentrated in the group employing 6 to 20 people. Therefore, irrespective of the adopted definition of SMEs, in terms of size there is a concentration of enterprises within the lower end (Matambalya 2000b).

A third major characteristic of the enterprise sector arises from the size limitation., namely, the high *propensity to concentration of activities*. Since MEs and SMEs dominate the economic activities in the enterprise and modern sectors respectively, this leads to the concentration of the economy as a whole in a few sectors, which makes them vulnerable to risks. Typically, SME are crowded in the trade sector.

A fourth major characteristic refers to the *linkages between/among enterprises within and between the sub-sectors*, as well as the *market linkages*. These linkages tend to be unsystematic. Hence, within the enterprise sector and its sub-sector, inter-enterprise co-operation arrangements are limited. Besides, product market linkages tend to be small and volatile, while there are no clearly developed sector-specific labour and financial markets. With respect to the latter, evidences shows that credit facilities are scarce, and credit markets are underdeveloped. Also, the *incidence of credit utilisation* is atypically low (with enterprise making little use of credits to finance their investments), while the incidence of credit extension is likewise very low. Eight, despite country differences, in general the fractionalisation of firm ownership on ethnic basis is high (Collier 1997).

Finally, in virtually all SADC economies, there is a de facto gap of the so called *new-technology-based firms* (NTBFs). The limited creation of NTBFs can be attributed to a myriad of factors, the most prominent among them being lack of requisite technological/scientific base, and the relatively heavy knowledge and capital requirements.

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<sup>8</sup> The *East Africa SME Survey* involved Kenya, Tanzania and Uganda, and was conducted under the technical title "*Chances, Barriers and Options of Small and Medium Scale Enterprises (SMEs) in a Liberal Global Economy: Theoretical issues and empirical evidences from East Africa*". For each country, data was collected from randomly selected 150 enterprises from three sectors, i.e., food processing, textile, and tourist. Also, SMEs were defined as enterprises employing 6 to 50 people.

### **3.4. The business environment and its implications for the SADC economies**

Imperatively, to appreciate the essence of a conducive environment in expediting economic competitiveness, it is essential to understand the evolution and consolidation of dynamic and competitive business systems, from the various levels of aggregation of the business environment, i.e., the global, regional, national and enterprise. This approach to the overview of the environmental foundations of businesses helps to discern the incentives, motivation and sanctions that emanate from the environmental forces. Thus, it contributes to a clearer, more fully-developed and well-grounded comprehension of,

- (a) The business systems in the SADC region.
- (b) The resultant types of SMEs.
- (c) The real and potential role of SMEs for the growth of the economy, and their incidence for international competitiveness.

#### **3.4.1. Dynamics at the global level: globalisation of industry and multilateralism**

Developments in the international system denote the highest level of aggregation of environmental variables that are significant for the economic development of the SADC economies. This process compels each country to internationalise its economy to a degree, which was not known before. However, the emphasis of this study is that, the global environment - and with it the pace and character of globalisation, have changed profoundly since 1989. One of the fundamental changes associated with the geopolitical re-alliance triggered by the end of the cold war, is the intensification of the economic global liberalisation process.

In this regard, while economic integration stood at 20 percent at the beginning of this century, Keegan and Green (1997: 30) observe that by the late 1990s, it was approximately around 50 percent. Today, it is probably in the excess of 50 percent.

Alongside the business sector-driven integration, which articulates itself through the globalisation of industry<sup>9</sup>, there exists several policy initiatives which further ignite the

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<sup>9</sup> Globalisation is a portmanteau term, whose definition significantly depends on the perspective of the author. Just to highlight a few examples:

(i) Julius (1997: 453) characterises it as follows: „For economists, globalisation is an advance towards end-state of a fully integrated world market. For political scientists, it is a march away from their more conventional construct of a system of states with territorial sovereignty over a large number of issues. Business school academics and Consultants tend to favour analogies such as 'borderless world'.

global liberalisation. At the peak of initiatives in this avenue are such multi-lateral arrangements as the world trade organisation (WTO). Besides there are other significant international arrangements, such as the special ties between the SADC economies and the European Union (EU). Notably, while South Africa is tied to the EU through a special arrangement, the other SADC economies have traditionally been tied to the EU through the LC (up to 2008), and this arrangement will be replaced by the successor to the LC (in 2008).

Hence, that we live in a new era of 'economic' globalisation is a tenet acknowledged by management gurus from the field and academia alike, as well as by policy makers. Implicitly, the global base for the business actors from the SADC economies is shaped upon the increasing integration of the global economy. This underscores the growing role of the dynamics of the international system for local economic activities. The relevant forces encountered by economic units at this level (enterprise, sector, nation, etc.) at this level are invariably referred to as *meta-economic forces at the global level*.

Many observers see in the globalisation of industry, the advent of a systematic advance towards the end state of fully integrated world market. It is suggested that in the emerging global system, the international business will become a domain of transnational enterprises (which are invariably LSEs) that are capable of sourcing, investing, producing, and marketing internationally.

#### **3.4.2. Economic dynamics at the regional level: open regionalism**

Developments at regional levels, as underscored by the block-building process, articulate the second level of aggregation of environmental forces that shape the SADC economies. Parallel to and as part of the process of global integration, all major continents have been involved in regional integration processes with varying degrees of intensity and success. For instance, alongside membership of the SADC, each SADC state participates in at least one further regionalisation schemes. With the exception of Tanzania and South Africa, all are members of the Common Market for Eastern and Southern Africa (COMESA). Moreover, Tanzania is also a member of the East African Community (EAC), while South Africa and

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(ii) Tandon (1997: 389) is of the opinion that „Globalisation in the most generic and broadest sense is part of the movement of history itself .... Globalisation, then, as the contemporary expression of this

the BLNS countries (the abbreviation BLNS stands for Botswana, Lesotho, Namibia and Swaziland) are members of the South African Customs Union (SACU). The labyrinth of the major regionalisation schemes with involvement of at least one SADC state is depicted in *table 13*. It portrays a trend of the proliferation of regionalisation schemes in Southern Africa, and the overlapping membership within them.

Notably, besides the SADC, another six regionalisation schemes (i.e., i.e., CBI, COMESA, EAC, IOC, IORARC, SACU and SADC) involve a substantial number of the SADC states.

Table 13: Participation in CBI and other regionalisation schemes by the SADC states

Country / Scheme	CBI	COMESA	CMA	EAC	IOC	IORARC	SACU	SADC
1. Angola		*						*
2. Botswana		*	*				*	*
3. DRC		*						*
4. Lesotho		*					*	*
5. Malawi	*	*						*
6. Mauritius	*	*			*			*
7. Mozambique		*				*		*
8. Namibia	*	*	*				*	*
9. South Africa			*			*	*	*
10. Seychelles	*	*			*			*
11. Swaziland	*	*	*				*	*
12. Tanzania	*	*		*		*		*
13. Zambia	*	*						*
14. Zimbabwe	*	*						*

*Notes:* **CBI** ... Cross Border Initiatives, **COMESA** ... Common Market for Eastern and Southern African States, **CMA** ... Common Monetary Area, **EAC** ... East African Community, **IOC** ... Indian Ocean Commission, **IORARC** ... Indian Ocean Rim Association for Regional Co-operation, **SACU** ... South African Customs Union, **SADC** ... Southern African Development Community, \* denotes country membership in the scheme.

*Source:* Own table.

Hence, the regional economic environment is a further source of environmental forces which dictate the performance of businesses from the SADC economies. These forces are invariably referred to by economists as *meta-economic forces at the regional level*.

### **3.4.3. Economic dynamics at the national level**

The economic dynamics at the national or macro level form the next level of aggregation of environmental forces that influence the economic dynamics of the SADC economies. The developments in the international system have key implications at this level as well. Notably, they compel a new orientation of national economic development strategies, to focus onto the private sector as the main engine for economic growth. This underscores the shifting role of the state, from one of ownership and control, to one of an agent for the promotion and facilitation of development. Hence, the states are called upon to create conducive environments for the evolution of competitive private sector, which should be translated into economic development.

### **3.4.4. Economic dynamics at the enterprise level**

The dynamics at the level of the enterprise form the next level of aggregation of environmental forces that influence the performance of the SADC economies. Analogous to developments at the global, regional and national levels, the SADC enterprise community is becoming increasingly exposed to challenges of competition. Notably, though popular business literature focuses on inter-country competition (and predominantly analyses competition from the national level), in reality, it is enterprises and not nations that compete in domestic and international markets. Subsequently, it is enterprise competitiveness that translates into sectoral (meso-economic) and national (macro-economic) competitiveness

Hence, besides implementing internal initiatives (that will enable them to optimise the use of their factors of production), enterprises have to respond to changing circumstances at the higher levels of aggregation of environment..

One important remark derives from the role of SMEs in the SADC economies. Inasmuch as SMEs dominate the enterprise sectors, the international bifurcation process exposes the SADC SMEs to more competitive foreign enterprises (usually LSEs), through outward globalisation of industry. Hence, as the playing field for competition is not level, the weaker (SADC) enterprises are at the risk of being marginalised. Thus, in the absence of viable strategies, will mean further economic marginalisation of developing economies (which most of the SADC economies are).



**II: PRELIMINARY PROFILE OF SMES IN THE SADC ECONOMIES:  
COLLECTED EVIDENCES**

#### 4. Economic significance of SMEs in the SADC economies

As already pointed out in chapter 1, the significance of SMEs in the economic competitiveness of nations arises from their vitality as economic agents in the economies of developing and developed countries alike. In this context, the *dynamic/evolution* and *structure* of the enterprise sector is pivotal to economic development, since it shapes the competitiveness of enterprises and thereby influence the pattern of economic development of nations.

The SADC economies are no different in this regard. In this chapter, we highlight, with assistance of collected evidences, pertinent issues related to the significance of SMEs in the SADC economies.

##### 4.1. Preliminary remarks

In highlighting the profile of SMEs in the SADC economic space, we have to bear in mind:

- (a) The *research deficits*. While the problems SADC enterprise are facing are widely known, so far little has been empirically verified on SMEs in the region. This is partly because in both absolute and relative terms, few studies have been conducted, and partly due to the focusing of most studies on the enterprise sector as a whole.
- (b) The *diversity of the analytical methods used in previous research works*. The comparability of the various research results is partly obstructed, as by and large, the studies followed different analytical methods.
- (c) The *depth and quality of analysis in previous studies*. Some relevant studies dealt with simple issues, which did not necessitate a rigorous analysis, which would have been necessary in order to win a better comprehension of the SME sector.
- (d) The *definitional problems*. Although, like elsewhere, the pivotal role of SMEs is acknowledged, there is no standard definition of SMEs, both within and between SADC economies. The situation is highlighted in *table 14*, which presents cross sectoral definitions of SMEs for selected SADC economies.

Note that, in some countries (e.g., Mauritius and Tanzania), SMEs have traditionally been only partially defined. In Mauritius, they were defined for the manufacturing sector only. According to the Mauritian Industrial Expansion Act of 1993, SMEs are enterprises that are engaged in manufacturing, using production equipment the aggregate cost, insurance and freight (CIF) value of which does not exceed US \$ 300 000 (Pochum 1998: 28). A more serious fallacy is observed in Tanzania, where only

Table 14: The definition of SMEs in selected SADC economies

Country	Criteria for definition of SMEs
Botswana	<i>Employment:</i> 25 to 100 (including owner) <i>Turnover:</i> < Pula 60 000 to Pula 8 million
Lesotho	<i>Employment:</i> < 10 persons (manufacturing) and < 5 persons for other businesses <i>Turnover:</i> < N\$ 1 million (manufacturing) and < N\$ 250 000 for other businesses <i>Capital:</i> < N\$ 500 000 (manufacturing) and < N\$ 100 000 for other businesses
Malawi	<i>Employment:</i> 5 to 100 persons <i>Turnover:</i> MK 120 000 to MK10 million
Namibia	<i>Employment:</i> < 10 persons (manufacturing) and < 5 persons for other businesses <i>Turnover:</i> < N\$ 1 million (manufacturing) and < N\$ 250 000 for other businesses <i>Capital:</i> < N\$ 500 000 (manufacturing) and < N\$ 100 000 for other businesses
South Africa	<i>Employment:</i> < 10 persons (manufacturing) and < 5 persons for other businesses <i>Turnover:</i> < N\$ 1 million (manufacturing) and < N\$ 250 000 for other businesses <i>Capital:</i> < N\$ 500 000 (manufacturing) and < N\$ 100 000 for other businesses
Zimbabwe	<i>Employment:</i> < 10 persons (manufacturing) and < 5 persons for other businesses <i>Turnover:</i> < N\$ 1 million (manufacturing) and < N\$ 250 000 for other businesses <i>Capital:</i> < N\$ 500 000 (manufacturing) and < N\$ 100 000 for other businesses

*Notes* MK ... Malawian Kwacha, N\$ ... Namibian dollar. The following exchange rates were used: 1 US \$ = 17.2 MK, 1 US \$ = N\$

*Sources:* (1) FES/SADC: "Chambers of Commerce and Industry as Small Business Service Providers - Opportunities and Challenges", Workshop Proceedings, No. 1, 1999, (2) FES/SADC "Appropriate Technology for Small and Medium Enterprises in the SADC Countries", Workshop Proceedings, No. 2, 1999.

small scale industries (SSI) were defined, and this definition referred to enterprises in the manufacturing sector. Accordingly, the Small Industries Development Organisation (SIDO) Act of 1973 defines SSI as establishments employing 6 to 50 people (Kirumba 1999: 74).

- (e) The *SME policy framework*. While there exists an SME Policy in SADC economies (e.g., Mauritius, Namibia, South Africa), in most others, policy deliberations are in progress (or at least were in the 1990s), with the aim of policy design.
- (f) The *fluid border between SMEs and MEs*. The SMEs do not mean the same thing to various stakeholders within and between SADC economies. Conspicuously, SMEs and MEs are loosely interpreted, and the content of many documents titled SMEs deal with MSMEs. Inasmuch as SMEs and MEs differ significantly (e.g., regarding their evolutionary and structural roles, and their saliences), such generalisations distort the

analyses, and the resultant policies may fail to provide a level playing field they are intended to.

- (g) The *regional SME policy framework*. The SADC as a regionalisation scheme still lacks a regional SME policy.
- (h) The *statistical documentation of the activities of SMEs*. The activities of SMEs are not systematically recorded. Hence, statistical data used are based on sample results and good guesses. Analogous to observations elsewhere in Africa, SME issues are usually incorporated in broad industrial policies.

Therefore, accurate estimates of economic contribution of SMEs is difficult to make. Bearing in mind these limitations, the SMEs in the SADC economic space are profiled on the basis of collected evidences. In this context, we highlight their structure and dynamic role.

#### 4.2. SMEs and the structural patterns of the SADC economies

The *structural* pattern of the economy, is used in this regard, to denote the anatomic set-up of the economy. Analogous to observations at the global level (*table 1*), the collected evidences tend to corroborate the postulations that SMEs in the SADC economies do, in *structural* terms, (i) dominate the enterprise sector, particularly the formal one, (i) provide employment and incomes to a large part of economically active population, (ii) contribute significantly to manufacturing and aggregate GDPs, and are thus important for national income, (iv) contribute significantly to manufacturing and aggregate exports, and hence to foreign currency earnings, (v) dominate the economic structure in rural areas, accounting for most of employment and incomes.

In the following sections, these general predications are corroborated with assistance of evidences collected from various SADC economies.

##### 4.2.1. Intensity of SMEs in the structure of the SADC economies

SMEs make up an overwhelming share of the formal enterprises in the SADC economies and are responsible for most of activities in the formal private sector. This is underscored by observations in some SADC economies:

- (a) In Lesotho, 1999 estimations disclose that there were over 250 000 SMEs in the country (Nthejane 1998: 15). However, this figure should be taken as guidance only, as there seems not to be a clear demarcation between MEs and SMEs. Nthejane mentions in the

same contribution that, most of the enterprise referred to are owner-operated and employ one to two people (Nthejane 1998: 16).

- (b) The closest estimate we have for Malawi refers to MSMEs. In this regard, there were, for instance in 1995, a total number of 660 000 MSMEs. This should constitute an overwhelming proportion of enterprises in the country and, although the figures do not make a distinction between SMEs and MEs, they give an indirect hint of the role of SMEs in the enterprise structure of the country.
- (c) In Tanzania, the SME sector is vanguard of the formal private sector. While most of the formal enterprises fall within the SME category, very few can be categorised as LSEs by international standards (Kirumba 1999, Matambalya 2000b).
- (d) In South Africa, SMEs were recently estimated to number 800 000. On the whole, about 95 percent of the (formal and informal) enterprises in the country are SMEs. Furthermore, 80 percent of all enterprises in the formal sector are SMEs (Viviers and Soontjens 1999: 2).
- (e) For Zambia, the closest estimate we have refers micro and small enterprises (MSEs), which in 1999, numbered 336 600. Again, this should constitute a substantial share of enterprises in the economy, especially considering that it provided employment to some 700 people.

#### 4.2.2. SMEs and structure of employment

SMEs make an important contribution to employment in the SADC region. This is partly because, their choice of factors of production is consistent with factor availability and therefore takes into consideration the labour abundance of the SADC economies. Also compared to LSEs, SMEs are more likely to employ workers with limited formal training (ADB 1997).

Evidences of the pivotal role of SMEs in the employment structure of the SADC economies include:

- (a) Observations in Lesotho. In this case, 1999 estimates put the number of employees in the SME sector at 200 000 (Nthejane 1998: 15).
- (b) Observations in Malawi. There, SMEs directly employ approximately one million people and provide livelihood to a large proportion of the population (Kachiza 1998: 20).
- (c) Observations in Tanzania. Accordingly, estimations suggest that about 50 percent of the country's labour force in the formal sector is employed by SMEs (Kirumba 1995).

- (d) Observations in Zambia, in which case the closest estimate we have refers to MSEs. As already mentioned above, in 1999 a total number of 700 000 people were employed in the 336 000 categorised as MSEs. This is equivalent to 18 percent of the aggregate labour force in the country (Mapoma 1999: 1).
- (e) In Namibia, SMEs are accountable for about 30 percent of all employed labour (Botes 1999: 1).
- (f) Observations in South Africa. There, SMEs are estimated to provide 84 percent of all private employment (Viviers and Soontins 1999: 2).

#### 4.2.3. SMEs' contribution to aggregate and manufacturing GDPs

Despite country variations, SMEs appear to be contributing significantly to the GDPs of the SADC economies and apparently, the real manufacturing value added has increased since independence. Here as well, a few evidences are available:

- (a) Again to follow Kirumba (1995), SMEs are accountable for 50 percent of Tanzania's manufacturing GDP.
- (b) In Namibia, Botes (1999: 3), estimate their contribution to aggregate GDP at less than 5 percent.
- (c) In South Africa, SMEs are accountable for about 46 percent of economic activity (Viviers and Soontins 1999: 2). This suggests a significant contribution to the GDP.

#### 4.2.4. SMEs' contribution to exports

The export role of SMEs in the SADC economies vary from country to country. However, their weight in export structure is conspicuously much less than their corresponding weight in the overall economic activities. Empirical evidence from South Africa, for instance, reveal that the sector accounts for less than 1 percent of exports. A plausible explanation for this situation is the mineral-base of South Africa's economy in which LSEs rather than SMEs play the central role, obviously reducing the role of SMEs. Therefore, only 3 percent of the countries SMEs are also exporting SMEs (Viviers and Soontins).

However, despite the specificity of South Africa's economy, it is obvious also that given the nature of SMEs, they are likely to play a less significant role in export structure as compared to overall economic activities. of other SADC economies and all other economies with similar set-up. Generally, this will not be surprising but will corroborate many observations associated with the SME sector. Among other things, as the sectoral concentration of SMEs

in retail trade means that they play a marginal role in exports. Besides, given their dominance in the economic production activities, if SMEs had been major exporters, the SADC economies would probably be competitive exporters.

#### **4.2.5. SMEs and the rural economic structure**

Despite the absence of previous records on which to draw in assessing the role of SMEs in the rural economic structure of the SADC economies, judging from unrecorded observations, SMEs appear to be the most significant formal sector enterprises with a spatially widely extended penetration, reaching far into rural areas. In this context, SADC rural areas tend to be a domain of SMEs, while LSEs tend to settle in rural and relatively more affluent areas. In other words, in a typical rural area setting of developing economies, SMEs are almost the exclusive actors responsible for economic activity in the formal sector. In Zambia, for instance, in 1995 about 50 percent of MEs (which is the closest estimate we have for SMEs) were based in towns with fewer than 2000 inhabitants (Mapoma 1999: 1).

These observations are corroborated by the ongoing privatisation exercise in Tanzania, where enterprises (usually LSE) acquiring formerly state owned enterprises (SOEs) are less willing to take over activities located in rural areas, small towns and even poorer districts within the major metropolises.

#### **4.3. Dynamic role of SMEs in the SADC economies**

The dynamic role, as used in this context, refers to issues related to the evolution of the economy. In this regard, commensurate to observations at the global level, available evidences justify the inference, that SMEs play a significant role in the evolution of the SADC economies. Hence SMEs are accountable for, (i) creating a significant proportion of new jobs, (ii) mobilising local human and non-human resources, (iii) utilising local resources and exert limited pressure of foreign exchange reserves, (iv) providing flexible skilled and production base, (v) opening up new markets, and (vi) playing a crucial role for the economic development of rural areas.

Inasmuch as the SMEs are the fountain of entrepreneurial dynamism, and the SME sector are the vanguard of the formal private sector virtually all SADC economies, it is conspicuous that they SMEs propel the economic evolution and development in these countries. This is underscored by some hard evidences, which are presented in the following sections.

#### 4.3.1. SMEs and job creation

That SMEs are important for job creations is underscored by detailed surveys of developing economies, that suggest that alone MSEs, provide employment to about 25 percent of the workforce (Mead and Liedholm 1998: 61). Also, the initial results of a survey of enterprise in Tanzania within the framework of *East Africa SME Survey* reveal that the labour force in the panel SMEs grew by 18 percent in 1996/1997 to 1997/98 (Matambalya 2000b).

Likewise, the impressive 30 percent new start-ups per annum in Botswana (Mead and Liedholm 1998), suggest that SMEs are crucial in the creation of new jobs. In the same connection, they provide a fall back position for people losing jobs in the public sector through retrenchments as part of structural adjustment programmes (SAPs), as was evidenced in Zambia (Mapoma 1999) and Kenya (Mbeche 1998). Considering the similarities of economic constellation of Zambia and Kenya with the various SADC economies, we can cautiously take these results to fairly portray the situation in the SADC economies.

Also, it is apparent that job shadings by LSEs (through privatisation, rationalisation, etc.) have been compensated by job creations in SMEs.

#### 4.3.2. SMEs and the utilisation of local resources

SMEs are also important for the utilisation of other local resources, which would otherwise remain idle. The initial results of a survey of enterprises in Tanzania within the framework of the *East Africa SME Survey* suggest that above 90 percent of SMEs source their raw materials exclusively locally (Matambalya 2000b). There is a great possibility that this pattern is replicated in other SADC economies.

Another observation, that appears to apply to SMEs across African economies is that, they provide a vent for the investments of small savings from proprietors which tend to exist outside the formal banking system (ADB 1997).

#### 4.3.3. SMEs and rural economic development

The significance of SME for rural economic development should be understood within the context of LED. Generally, due to their flexible spatial coverage, SMEs are strongly represented in rural areas. In this regard, they are a vital component of rural economies.

Though there is no well documented evidence for each SADC economy, the facts on the ground tend to confirm these postulations. For instance, considering that about 50 percent of SMEs are rurally-based suggest that for Zambia, they should constitute a key agent for local economic development.



## **5. Salient features of SMEs and the SME sectors in the SADC economies**

### **5.1. Dynamic aspects**

Generally, in both developing and developed economies, SMEs tend to be associated with dynamic shifts, manifested by persistent new start-ups, expansions and contractions, and closures. These shifts articulate market driven processes, and generate economic activities by means of pull forces. However, in this aspect too, relatively little has been documented regarding the SADC economies. In this chapter, we briefly look at the three constituent aspects of enterprise dynamism, i.e., start-ups, growth patterns and closures.

#### **5.1.1. Start-ups**

One of the few studies which have addressed enterprise start-ups in the SADC region is attributed to Mead and Liedholm (1998). The study covered four SADC economies (Botswana, Malawi, Swaziland, Zimbabwe) as well as, Kenya and the Dominican Republic. Concerning Botswana, an impressive 30 percent new start-ups per annum was observed. Also, an average new start-up rate of 20 percent was observed for all the sample countries together. However, the authors concede that relatively little is known about the forces driving new start-ups.

#### **5.1.2. Growths patterns**

Interesting is also the observation of high overall growth rates for surviving SMEs, contrary to the general trend. Initial results of the *East Africa SME Survey* indicate for Tanzania, a growth rate of 18 percent for the period 1996/97 to 1998/99 (Matambalya 2000b). These results tend to corroborate Mead and Liedholm 1998: 67, who also used the same sample of countries and 'employment growth' as a growth indicator, observed average growth rates of 13 percent to 16 percent, and in most cases, this growth rates were double the growth rates of GDPs in the concerned countries.

#### **5.1.3. Closures**

On business closures, though no specific SADC example could be found, there are some evidences from developing countries, which might be relevant for the region. A study conducted in the Dominican Republic, for instance, put the small business closure rate at 20 percent per annum in the early 1990s. Most important probably, are the observations about the causes of closures: about 50 percent were attributable to lack of demand and shortage of

capital, while the remaining was ascribed to the so called 'traditional business failures', i.e., due to lack of financial and economic viability.

## 5.2. Structural aspects

The structural aspects of enterprises provide their competitive base. They manifest several factors that are necessary conditions for enterprise competitiveness, i.e., the size of enterprises, the focus of economic activities of enterprises, the constellation of the enterprise sector, and the pattern of linkages within the modern business sector. Therefore, they are necessary for the sustainability of enterprises.

### 5.2.1. Enterprise size

Generally even the largest local firms in the SADC region would be considered small to medium sized by European terms (ERO 1998). However, even sticking to the local definitions of SMEs, most SADC firms are small by size. In this regard, the initial analysis of enterprises in Tanzania within the framework of the *East Africa SME Survey*, reveal that in terms of *size*, most firms fall within the range of 6 to 20 employees. In the survey, this group accounted for 68.4 percent of all the enterprises in the panel (*table 15*).

Table 15: Survey results of the size structure of SMEs in Tanzania

Enterprise size	% of total	Cumulated % of total
< 6	17.9	17.9
6 - 10	37.6	55.6
11 - 20	30.8	86.3
21-30	7.7	94.0
41 - 50	5.1	99.1
Total	100	100

Source: East Africa SME Survey.

The size aspect has far reaching influences on the activities of the enterprise. It affects their ability to participate in international trade, inter-enterprise strategic alliances (e.g., technology transfers, licencing, etc.).

On the whole, the observations under this point suggest an asymmetrical structure of the formal enterprise sector, and underpin the deficits in inter-plays among LSEs, SMEs and

micro enterprises (MEs). In return, this constellation of the enterprise sector limits the macro-economic participation in the international allocation of capita flows.

#### 5.2.2. Focus of economic activities

The SADC enterprises also reveal *high propensity to concentration of activities*. Finseth (1998) observed that SMEs in Tanzania are crowded in the *retail trade* sub-sector. Furthermore, he observed that, on the whole, if expressed in order of importance, SMEs focus their activities on consumer goods, followed by services, and manufacturing comes last.

Finseth's observation are in line with ERO's observations (ERO 1998), for the African, Caribbean and Pacific (ACP) economies, that local enterprises are usually small and concentrated in certain activities (e.g., merchandising, commission agencies etc.).

#### 5.2.3. Structural disequilibrium of the enterprise sector

In the SADC economies, the structural disequilibrium of the enterprise sector is underscored by the dominance of the economy by Mes, simultaneous to the absence of a critical mass of LSEs. This configuration of the enterprise sector severely erodes the power of the business sector to propel growth and promote international competitiveness.

Also, insofar as the dynamic interplay between LSEs and SMEs are necessary for the competitiveness of the later, the under-proportional representation of LSEs in the SADC economies offer a plausible explanation for macro-economic competitiveness deficits as well. Besides, the absence of a critical mass of LSEs distorts the forward and backward linkages between of the SMEs and LSEs and MSEs respectively, and limits the possibility of profitable inter-enterprise spin-offs.

#### 5.2.4. Pattern of linkages with the modern business sector

The efficiency of a modern business sector relies on the functionality of networks of inter-related and constantly interacting linkages. These linkages can be grouped into:

- (a) The *forward business linkages*. These refer to linkages to enterprise's (product) markets.
- (b) The *backward business linkages*. These are linkages to the enterprise's suppliers of inputs (raw materials, intermediate goods, capital). These are technically referred to as the factor markets of the enterprise.

- (c) The *lateral business linkages*. These denote linkages of the enterprise to other enterprises in the same line of business. It denotes, for instance, linkages between/among competitors, who are at the same time partners, for instance, in apex organisations.
- (d) The *legal linkages*. These are linkages between *domain of activities* and *legal boundaries* of the enterprise.

As the discussion in the following sections reveals, these networks of linkages appear to be associated with deficits in the SADC economies.

#### *A. Linkages to product markets*

The product market linkages in the SADC economies are fairly similar to those in other African economies. Most traditional barriers, such as, trade restrictions, price controls, exchange rate overvaluations, etc., have been removed in the aftermath of popular reforms. However, others, such as, poor physical infrastructure, relatively high taxes, absence of specialised business services, restricted sales quantities due to limited purchasing power, remain in place.

Within the contemporary context, poor linkages of enterprises to their product markets in the SADC economies can be attributed to such factors as:

- (a) Geographically restricted market outreach.
- (b) The unsystematic *intra- and inter-industry market linkages* in the SME sector. This is underscored by the underdevelopment of channels of distribution.<sup>10</sup> Notably also, the producer trade relations are particularly undeveloped in relation to distant markets.<sup>11</sup>
- (c) The underdevelopment of *marketing institutions* (e.g., advertising agencies, market research institutions, etc.).
- (d) Poor state of *physical infrastructure*, including the information and communication infrastructure.
- (e) Limited application of formal marketing.

These market linkage issues also impact negatively on the efficiency of enterprises, and impede their capability to foster growth. Concretely, they increase transaction costs, choke

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<sup>10</sup> A channel of distribution is constituted by various institutions (e.g., export agent, wholesaler, retailer, etc.), that take part in moving the good (tangible or service) from the producer to the final consumer.

<sup>11</sup> This is an important observation, considering that studies in other parts of the world suggest superior performance if there are trading linkages to distant markets (Nadvi and Schmitz 1994).

the development/integration of markets, encourage inefficient allocation of resources, block a breakthrough from the domination of economic activities by the informal sector/subsistence sector.

### *B. Linkages to financial markets*

The ties between the SME sector and the financial markets constitute a further problem area. In this regard, SMEs reveal underdeveloped ties to formal financial systems. In all Collier (1997: 84 - 86) attributes this situation to such factors as, lack of collateral because of the paucity of assets, and shortage of enterprises with creditworthy situations. However, the distortion of linkages between the enterprise sector and the financial markets also underpins the underdevelopment of the later.

The significance of the relationship between enterprise size and access to financial resources in the formal financial markets is depicted in *table 16*. The results in the table highlight findings of the World Bank enterprise survey, of the distribution of bank loans by country and enterprise size in three SADC economies, i.e., Tanzania, Zambia and Zimbabwe.<sup>12</sup>

Table 16: Distribution and importance of bank loans by country and enterprises size

Country and percentage of enterprises <sup>a</sup>	Enterprise size				Average of all enterprises
	Micro	Small	Medium	Large	
1. Tanzania % of all enterprises	12	20	25	47	10
2. Zambia % of all enterprises	12	27	37	63	NA
3. Zimbabwe % of all enterprises	20	32	53	62	11
<i>By comparison</i>					
4. Cameroon % of all enterprises	31	49	48	85	NA
5. Kenya % of all enterprises	16	46	68	66	NA

*Notes:* a ... Shows percentage of firms in the size category receiving a bank loan at least once in the past 5 years, NA ... data not available.

*Source:* Biggs and Srivastava 1996: 7. The quoted source gives further the following source: RPED Surveys, 1993.

<sup>12</sup> A likely limitation of the survey is with respect to the definition of enterprises by size. MEs are defined as those having less than 10 employees, while LSEs are defined as those having more than 100 employees. Thus, small and medium scale enterprises are defined as those 10 to 99 employees. These definitions significantly differ from the definition of SMEs in developing African countries. Kenya, for instance, defines MEs as enterprises employing up to 5 people and SMEs as enterprises with 6 to 50 employees.

The comparable trend in Cameroon and Kenya show some differences and similarities as well. Notably, while the trend in Kenya is fairly similar to those in the three SADC economies, the situation in Cameroon seems to be slightly better for small enterprises. However, on the whole, the larger the enterprise, the higher the likelihood of getting a bank loan.

Taking the example of Tanzania again, the initial results of a survey of enterprises within the framework of the *East Africa SME Survey* indicate that, own savings as a proportion of start-up capital constitute 99 to 100 percent! On the other hand, bank loan as a percentage of initial capital outlay was zero percent for 93.9 percent of the panel enterprises (*table 17*).

Table 17: Survey results of the start-up capital sourcing of SMEs in Tanzania

Capital sourcing by the panel enterprises	Percentage of enterprise answering "YES"	
	0%	< 0%
Bank loan as proportion of enterprise's start-up capital	93.9	6.1
Private loan as proportion of enterprise's start-up capital	82.6	21.4
Own savings as proportion of enterprise's start-up capital	6.2	93.8
Inherited resources as proportion of enterprise's start-up capital	100	0
Other sources of funding as proportion of enterprise's start-up capital	95.5	4.5

Source: Matambalya 2000b.

The scenarios presented in both tables 16 and 17 concur with the observation of the atypically *low incidences* of both *credit utilisation* and *credit extension* (Collier 1997).

To the extent that financial depth is a determinant of growth, the observed picture explains its negative influences on the competitiveness of the SMEs in the SADC region. Furthermore, limited financial depth manifests the predominance of the subsistence sector, which technically portrays an economic structure associated with high taxing of the agricultural sector (King and Levine 1993).

### *C. Linkages to the formal labour markets*

As observed by Collier (1997), in Africa, little labour is allocated through formal labour markets. Though this problem is mainly attributable to difficulties of establishment and growth of enterprises, in practice it makes it difficult for enterprises to hire the right people.

Colliers observations are supported by two empirical studies conducted in Tanzania:

- (a) Finseth (1998) points out that SMEs frequently face difficulties in recruiting skilled personnel, and that even the sourcing of lesser qualified personnel, e.g., high school graduates, is not easy.
- (b) The initial results of a survey of enterprises in Tanzania conducted under the *East Africa SME Survey* reveal that 53 percent of all management staff and 84.5 of all staff in the panel SMEs had qualifications below high school education, i.e., the equivalent of *General Certificate of Education (GCE), A Level* (Matambalya and Wolf 1999).

Collier (1997) gives further hint to another problem, related to the labour market: in African economies, because wages are insufficiently sensitive to changes in profits, whereas enterprises are prone to shocks (without appropriate institutional means for protection), enterprises tend to refrain from hiring workers even if expected profits will be higher.

#### *D. Linkages to the legal systems*

Enterprises need to establish a solid presence in markets in order to be close to customers. However, in the SADC economies, registration and legal incorporation requirements are often complex and expensive. Imperatively, these requirements bar many SMEs from entering the formal sector, and remain in the informal sector, where usually enterprises are not legally registered. Under these circumstances, formal linkages (e.g., through apex organisations) among un-registered enterprises might not be easy to develop, and to the extent that there are some associational advantages, this present one of the missing links to creating competitive business environments. Altogether, the legal enterprise boundaries tend to be poorly linked to the actual domain of the enterprise activity.

In fact, similar problematic linkages are observed between enterprises' domain of activity and other enterprise characteristics like size, strategic focus, growth patterns, and risk management (Collier 1997).

#### *E. Inter-enterprise relations*

The significance of inter-firm relations is underscored by their influence of number of developments that are necessary conditions for subsequent enterprise competitiveness: division of labour and specialisation, exchange of sector specific technical or market information, emergence of specialised business services, formation of consortia for specific purposes

(e.g., marketing), emergence of associations providing special services and lobbying for members, etc. Usually, these and similar developments promote collective efficiency.

The significance of inter-enterprise relations are even stronger, where enterprises belong to the so called *industrial clusters* also referred to as *industrial district model* and denoting sectoral and regional concentration of SMEs.

However, reminiscent to the general situation of enterprise research in the SADC region, studies with a deliberate focus on inter-enterprise relations are extremely scarce and restricted to just a couple of SADC economies. In fact, among the SADC economies, a few relevant studies are related to industrial district models and were mainly conducted in Tanzania (Aeroe 1992) and Zimbabwe (Sverrisson 1992, Rasmussen 1992). In terms of analytical rigour, these studies are of exploratory nature and reported only initial findings. To the extent that they are methodologically sociological and therefore predominantly qualitative, they lack the *hard evidence touch* that is usually attained by more rigorous studies marrying the strengths of the quantitative and the qualitative analytical methods.

Therefore, though they provide useful insights on inter-enterprise relations, they often lack the holistic view that a targeted approach focusing on the essential parameters of inter-enterprise relations would provide. Yet, they do have some exegetic powers, and their caveats and gaps help us to crystallise the research agenda.

In this section, we briefly assess inter-enterprise relations in the SADC economies along five major parameters: vertical production relations, relations between SMEs and LSEs, relations between MEs and LSE, relations between producing and trading SMEs, and horizontal co-operation.

#### *a. Vertical production relations among SMEs*

The logic behind having a functional vertical production relationship is that, where production can be vertically disassembled, inter-enterprise division of labour based on product and process specialisation can have positive consequences for economies of scale and scope. However, this presumes two key conditions: a higher degree of sophistication of value adding activities (which are then disaggregated into distinct activities or sub-processes), and a broader distribution of SMEs at the various stages of the value adding chain.



In the SADC economies, both conditions do not adequately obtain. Notably, the SMEs are concentrated in the trading sector, while the degree of sophistication of economic activities is still low. Presumably, due to this pattern of economic activities, inter-enterprise vertical disassembling of economic activities (e.g., manufacturing processes) is underdeveloped. A study by Aeroe (1992) involving woodworking cluster in 3 Tanzanian towns revealed for instance, that among the 73 sample enterprises, only one was process specialised. Sverisson (1992) and Rasmussen (1992) made similar observations in Zimbabwe.

Notwithstanding these general negative trends, in both Tanzania and Zimbabwe, some positive aspects of vertical relations were observed. For one, Workshops in carpentry in Tanzania exchanged tools, ideas and designs. This underscores the existence of non-hierarchical technical mutuality among the enterprises.

*b. Vertical linkages of SMEs to MEs and LSEs*

Evidences related to the Italy and South Korea show gains associated with networking and spatial concentration of SMEs around LSEs and industrial conglomerates. This facilitates extensive sub-contracting chains and supplier vendor-relations among LSEs, SMEs and Mes, spearheaded by LSEs.

Inter-enterprise vertical linkages of the kind referred to here seem to be underdeveloped in the SADC economies. In this regard, Rasmussen's (1992) observed in Zimbabwe that LSEs and SMEs operate autonomously from each other producing distinct products and catering for discrete market segments.

However, negative postulations for the SADC economies should at this stage be interpreted with caution, pending further more rigorous research. To a certain extent, they underscore the ambiguity surrounding the theoretical postulations of the SME competitiveness. Notably, vertical linkages are explicitly recognised as fostering enterprise competitiveness, particularly in connection with industrial districts. This seem directly contrast to the predication of SME competitiveness on the existence of fragmented markets which enable enterprises to specialise and benefit from niche markets and marketing.

*c. Non-institutionalised horizontal co-operation*

With non-institutionalised horizontal co-operation we mean co-operation between or among enterprises at the same level of production, that does not take place through formal institutional arrangements, e.g., business associations. In this regard, empirical surveys in other regions reveal that, far from precluding horizontal co-operation, intense horizontal competition is usually a triggering factor for horizontal co-operation.

In such a situation, enterprises usually develop co-operation in such areas which do not involve direct competition as, provision of infrastructure, training, pooling of production capacity, etc. Hence, horizontal co-operation seems to be an important aspect of *survival or coping strategy* of SMEs (Nadvi and Schmitz 1994). In its most developed form, horizontal co-operation can be institutionalised in the form of business associations, which is usually done with or without the collaboration of local or regional governments.

Though probably not exercised to the same extent as in more advanced economies, there are evidences of non-institutionalised horizontal co-operation among SMEs in the SADC region. Hard evidences in this regard are provided by Sverrisson (1992), who observed horizontal co-operation among small carpentry workshops in Zimbabwe.

*d. Summarising comments*

All in all, it can be argued that, besides a higher degree of sophistication of value adding activities and a broader distribution of SMEs at the various stages of the value adding chain, a higher degree of inter-enterprise co-operation presumes mutual trust among entrepreneurs and enterprises. Thus, inasmuch as the business community is fractionalised along sectarian parameters, it is likely to have negative consequences on inter-enterprise relations.

## **6. Institutional mechanisms for supporting SMEs in the SADC economies**

Considering the essence of SMEs in the economic set-up of developing countries, there is a general consensus among the various stakeholders of the need to support the SME sector as a way to fostering economic development. Besides government or donor initiatives, the enterprise sectors in the various SADC economies are also organising themselves into networks, and so attempting to undertake collective action to influence its destiny.

Therefore, there exists in the SADC economies various institutional mechanisms to support SMEs. The content and sustainability of these mechanisms depend on such aspects as country's level of development, type of intervening actor (whether government or non-government, local or international), size of targeted enterprises, level of sophistication of operations of enterprises, financial and technical capacity of the donor, etc.

For analytical purposes, in this report, the various initiatives to support the development of SMEs are broadly categorised into national and regional level policy frameworks, promotional initiatives at national and regional levels, international SME support initiatives.

### **6.1. National and regional policy frameworks and organs**

Like other businesses, SMEs depend on favourable environments (e.g., stable and predictable conditions, easy access to various resources, easy market access, etc.), to be competitive. It is, at least in part, the job of SME Policy to ensure the existence of these conditions. Hence, national and regional policies usually spell out SME sectoral development strategy, and facilitates the blending and economic delivery of SME support programmes. These efforts are usually complemented by the establishment of official organs, which are the accorded the mandate to oversee the development of SMEs.

On the whole, government involvement in issues related to SMEs seem to have been eclipsed by the overly focus on institutions/organs, while the imperative policy issues were not clearly detached from the broad *industrial policy*.<sup>13</sup>

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<sup>13</sup> In this context, industrial policies cover measures, policies, and programmes aimed at improving a country's growth and competitiveness. Typically, industrial policies focus on the so called supply side issues, i.e., issues related to the working of markets in order to increase the economy's supply of goods and services. Hence, the policy goals include reducing market imperfections, stimulating technological

Table 18.: SME Policy frameworks in the SADC economies

Country	Official organ/policy guideline	Sectoral focus
1. Botswana	<ul style="list-style-type: none"> <li>• Botswana Enterprise Development Unit (BEDU)</li> <li>• Rural Industrial Cadre Programme</li> <li>• Task force to address MSMEs issues and design an SME policy established in 1997</li> </ul>	MSMEs Rural MSMEs
2. Lesotho	<ul style="list-style-type: none"> <li>• Ministry of trade and industry</li> <li>• Basotho Enterprise Development Corporation</li> <li>• SME policy "White Paper" prepared</li> </ul>	MSMEs
3. Malawi	<ul style="list-style-type: none"> <li>• Small Scale Industrial Unit (SSIU), Ministry of Commerce</li> <li>• Enterprise Development and Employment Creation Programme</li> <li>• State development policies (DEVPOL)</li> <li>• SME Policy document developed with assistance of the UNDP</li> <li>• SME policy proposal submitted to government</li> </ul>	MSMEs
4. Mauritius	<ul style="list-style-type: none"> <li>• Small and medium industries development organisation (SMIDO)</li> <li>• Small Scale Industries Act (1988)</li> <li>• Industrial expansion act (1993)</li> </ul>	SMEs
5. Namibia	<ul style="list-style-type: none"> <li>• Small Scale and informal industry division (SSIID)</li> <li>• National Development Corporation</li> <li>• Policy and programme on small business development adopted in 1997</li> </ul>	MSMEs
6. South Africa	<ul style="list-style-type: none"> <li>• Khula enterprise finance limited (Khula)</li> <li>• Centre for Small Business Promotion (CSBP) National Small Business Council (NSBC)</li> <li>• Ntsika enterprise promotion agency (Ntsika)</li> <li>• National strategy for the development and promotion of small business in South Africa</li> <li>• Small Business Development Corporation (SBDC)</li> <li>• National small business act (1996)</li> </ul>	MSMEs
7. Swaziland	<ul style="list-style-type: none"> <li>• Ministry of enterprise and employment</li> <li>• Small enterprise development company</li> <li>• The enterprise fund</li> </ul>	MSMEs
8. Tanzania	<ul style="list-style-type: none"> <li>• Small Industries Development Organisation (SIDO), Act 1973</li> <li>• Basic Industry strategy (BIS)</li> <li>• Sustainable industrial development policy (SIDP)</li> <li>• No clear SME policy; SME Policy being prepared</li> </ul>	Not clear
9. Zambia	<ul style="list-style-type: none"> <li>• Small enterprise development board (SEDB), Act 1996</li> <li>• Small scale industries development organisation (SIDO)</li> <li>• Village industry services</li> <li>• Pioneer industries act 1965</li> <li>• Industrial development act 1977</li> <li>• Small scale industries development act 1981</li> </ul>	MSMEs

Notes: *MSMEs* ... Micro, small and medium scale enterprises, *NA* ... information not available.

Source: Own table compiled from following sources, (i) Viviers and Santionis 1999, (ii) Finseth 1998, (iii) Kachale 1999b, (iv) Kachiza 1998, (v) Nthejane 1998, (vi) Thomas 1998.

innovations, and smoothening structural adjustment. Such policies could be micro-, meso-, and macro-specific. They could also be broad based, and focus at various levels of economic production aggregation (Finford 1998, UNIDO 1986).

Hence, early measures related to SME were embedded into the broad industrial policies rather than in focused sectoral policies. The examples are the Statement of Development Policies (DEVPOL) for Malawi, the Small Scale Industries Act (1988) and the Industrial Expansion Act (1993) for Mauritius, the Basic Industry Strategy (BIS) from 1975 to 1995 and the Sustainable Industrial Development Policy (SIDP) from 1995 to 2020 for Tanzania, Pioneer Industries Act 1965 and Industrial development act 1977 for Zambia, etc. (Kachiza 1998, Kirumba 1998, Mauzu 1998, Pochun 1998).

Moreover, a country survey reveals differences in the level of development of SME policies and pertinent organs. As demonstrated in *table 18*, some SADC states have adopted *SME Policy Frameworks*, while others are still in the process of developing them. Apparently, there are already clear policy frameworks for Mauritius, Namibia and South Africa. In the other SADC economies, measures to shift away from *laissez faire* orientation were initiated in the 1990s and might by now have resulted into concrete SME policies.

An obvious problem associated with the absence of clear policy framework is that it leads to an ambiguous categorisation of enterprises in the business sector. Invariably, the existing policy frameworks and those in formulation do not make a clear distinction among various business enterprises, so that usually SMEs and MEs are grouped together, and implicitly accorded uniform treatment.

As expected, deficits at national levels translate into deficits at the regional level. Hence, despite considerable amount of discussions in various fora, there is still no co-ordinated SADC-wide SME policy framework or agenda to support the development of SMEs, and as at national levels, issues related to SMEs form part of a broader industrial policy. This cannot be ascribed to the low level of regional integration only, but suggests technical capacity deficiencies to deal with pertinent matters.

## **6.2. SME promotion measures at the national and regional levels**

The underlying logic of supporting SMEs is to minimise the risks and uncertainties of this sector, and to support genuine entrepreneurial spirit. Therefore, whereas in the past poor policy stance has been blamed for deterring the development of SMEs, market reforms do not rule out government and private intervention initiatives in favour of SMEs.

Deriving from international experience, SME support programmes usually follow three broadly categorised objectives:

- (a) To alleviate *capital shortage* (e.g., soft loan programmes).
- (b) To provide *specialised services*, e.g., technical training, business consultancy/counselling, etc.
- (c) To protect SMEs through various *regulatory measures*, e.g., licensing measures, price regulations, import regulations.

However, very often, the needs of SMEs in different countries and sometimes even in different regions and/or sectors within a country are diverse, and need tailor-made responses. Therefore, a comprehensive understanding of the SME sector, is a necessary condition for devising adequate intervention measures. In this section, we look at the various national and international support SME programmes and briefly comment on their adequacy.

#### 6.2.1. National SMEs support mechanisms

In all SADC economies, there exists at the national level SME support mechanisms, involving various institutions. While the kind of support extended can be direct or indirect, it is common to have one institution involved in several programmes (e.g., financing, training, technology transfer, etc.) which are relevant for the development of SMEs. Also, while the activities of the various institutions might be complementary, they usually also overlap.

In the following sections, we briefly portray the institutions that are actively engaged in supporting SME development, and their programmes. For easy of analysis, we by broadly categorising the support mechanisms into financing services, R & D services, provision of training and non-financial services, and business associational arrangements.

##### *A. Financial services*

Access to capital ranks very high among the unsatisfied needs of SMEs in the SADC economies. As demonstrated for Tanzania in *table 16*, most enterprises are compelled to rely on their own savings in order to be able to start any business. This situation underscores the poor linkages between SMEs and the formal financial markets highlighted in chapter 5.

The observed financial market influences in the SADC economies can be attributed to the severely limited extent of financial markets and the underdevelopment of the financial sector in general. In this regard, Collier (1997) attributes the financial sector underdevelop-

ment to, among other things, policy stance leading to financial repression, low holding of currency, large subsistence economy. Teal and Srivastava (1996) extend the causes to include also, limited information flow among lenders and borrowers, limited communication, and limited enforcement of contracts.

To follow Teal and Srivastava (1996) in their 7-country *RPED Survey* which involved two SADC economies (i.e., Tanzania and Zimbabwe), the deficiencies in the financial sector in the region cause frictions that in turn exacerbate the deficiencies of the financial sector by:

- (a) Impeding the development of other finance-related markets (e.g., insurance, futures).
- (b) Causing allocative distortions (e.g., distorted market access arising into wrong market signals).
- (c) Raising costs of financial transactions (due to information and enforcement problems).

Because of the sceptical stance of the formal financial sector against SMEs, many support programmes are concerned with extending funds to SMEs. Some of the institutionalised enterprise financial support programmes, and their sectoral focus, are presented in *table 19* for 6 SADC economies for which relevant data could be obtained.

Initial evidence delude the role of informal credit mechanisms. Evidences in the manufacturing sector accord marginal significance to, (i) informal credits as source for external financing, (ii) rotating savings and credit associations (Teal and Srivastava 1996).

Also, it seems that, the informal financial markets saving the manufacturing sector in Africa are limited both quantitatively and qualitatively (including in terms of their sophistication), compared to similar institutions in other developing economies particularly those in Asia (Teal and Srivastava 1996). Hence, one of the problems here could be the absence of a critical mass of resources.

The relative insignificance of informal financial arrangements are corroborated by country studies. In Tanzania, for instance, Finseth reports that in spite of some progress in the micro-finance sector, the situation has improved only marginally.

Table 19: Selected SME financing institutions in selected SADC economies

Country	Institution	Activity focus
1. Malawi	<ul style="list-style-type: none"> <li>• DEMAT</li> <li>• INDEFUND</li> <li>• SEDOM</li> <li>• SMEF</li> <li>• MRF</li> <li>• MUSC</li> <li>• UNDP</li> </ul>	Development of the enterprise sector Special window to finance SMEs Special window to finance SMEs Finance wide range of SME activities Financing SMEs in rural areas Financing SMEs Funds to acquire technologies, usually jointly with local institutions
2. Mauritius	<ul style="list-style-type: none"> <li>• MYET</li> </ul>	Start-up capital for young entrepreneurs
3. Namibia	<ul style="list-style-type: none"> <li>• NDC</li> </ul>	Financing wide range of SME activities
4. South Africa	<ul style="list-style-type: none"> <li>• SEDF</li> <li>• Khula</li> </ul>	Financing MSMEs, particularly to give them access to expensive services Credit guarantees, business loans, equity funding, seed loans
5. Swaziland	<ul style="list-style-type: none"> <li>• SASSCO</li> <li>• SiCC</li> <li>• IMBITA</li> </ul>	Credits to SMEs Financing Financing Women entrepreneurs
6. Tanzania	<ul style="list-style-type: none"> <li>• CIDA</li> <li>• DANIDA</li> <li>• DFID</li> <li>• FINCA</li> <li>• MEDA</li> <li>• PRIDE</li> <li>• PRESTIGE</li> </ul>	Finances NGOs that support SMEs Micro-financing Finances NGOs that support SMEs Micro-financing Micro-financing Micro-financing Business plans

*Notes:* **CIDA** ... Canadian International Development Agency, **DANIDA** ... Danish International Development Agency, **DEMAT** ... Development of Malawian Entrepreneurs Trust, **DFID** ... Department for International Development (UK), **DRDP** ... District Rural Development Programme (of the Dutch Government), **IMBITA** ... Swaziland Women's Finance Trust, **INDEFUND** ... Investment and Development Fund, **Khula** ... Khula Enterprise Finance Limited, **MEDA** ... Mennonite Economic Development Association, **MRF** ... Malawi Rural Finance, **MUSC** ... Malawi Union of Savings and Co-operatives, **MYET** ... Mauritius Young Entrepreneurs Trust, **MUSC** ... Malawi Union of Savings and Co-operatives, **NA** ... data not available, **NGOs** ... non-governmental organisations, **SASSCO** ... Swaziland Association of Savings and Credit Associations, **SiCCI** ... Sibakho Chamber of Commerce and Industry, **SEDF** ... Small Enterprise Development Fund, **SEDOM** ... Small Enterprise Development Organisation, **UNDP** ... United Nations Development Programme, **SMEF** ... Small and Medium Enterprise Fund.

*Source:* Own table compiled from following sources, (i) Finseth 1998, (ii) Kachale 1999b, (iv) Thabede 1998, (iv) Umlaw 1999.

### **B. Research and development services**

Knowledge is critical for development, because everything we do depends on it. Individuals, enterprises, and economies require new knowledge to improve their efficiency in the production of goods and services. Therefore, the significance of appropriate knowledge in shaping the competitiveness of enterprises need not be emphasised.



Table 20: Selected institutions engaged in R &amp; D relevant for SMEs in the SADC economies

Country	Institution	Activity focus
1. Botswana	<ul style="list-style-type: none"> <li>• BNPC</li> <li>• BTC</li> <li>• RIIC</li> </ul>	Develop/adapt technologies for renewable energy
2. Malawi	<ul style="list-style-type: none"> <li>• MIRTDC</li> </ul>	Research, technology and technical support, information & networking
3. Mauritius	<ul style="list-style-type: none"> <li>• MSIRI</li> </ul>	Sugar cane -related research
4. Namibia	<ul style="list-style-type: none"> <li>• NDC</li> <li>• TDCs<sup>1</sup></li> <li>• CFC s<sup>1</sup></li> <li>• RDC</li> <li>• UoN</li> </ul>	Financing SMEs Technology transfer Repair and servicing of equipment in technology transfer projects Appropriate technology for rural and agro applications
5. Tanzania	<ul style="list-style-type: none"> <li>• CARMATEC</li> <li>• IPI</li> <li>• SIDO</li> <li>• TEMDO</li> <li>• TISCO</li> <li>• TIRDO</li> </ul>	Design/adapt technology for rural use Appropriate technology for business sector as a whole Improve locally available technologies Design/adapt technology Consultancy, counselling for the business sector as a whole Research and design for the business sector as a whole
6. Zambia	<ul style="list-style-type: none"> <li>• VIS</li> <li>• NCSR</li> <li>• NCRTD</li> <li>• TDAU</li> <li>• ZABS</li> </ul>	Transfer of technology to rural enterprises Advice government, co-ordinate scientific research Design/adapt technologies to meet local needs Designing equipment, service centre, information centre Promote adoption of standards, quality control

*Notes:* 1 .. was planned as of 1999, *BNPC* ... Botswana National Productivity centre, *BTC* ... Botswana Technology Centre, *CARMATEC* ... Centre for Agricultural Mechanisation and Rural Technology, *CFCs* .... Common Facility Centres, *CIDA* ... Canadian International Development Agency, *DANIDA* ... Danish International Development Agency, *DFID* ... Department for International Development (UK), *DRDP* ... District Rural Development Programme (of the Dutch Government), *IPI* ... Institute of Production Innovation, *MEDA* .. Mennonite Economic Development Association, *MIRTDC* ... Malawi Industrial Research and Technology Development Centre, *NCRTD* ... National Council for Research and Technology Development, *NCSR* ... National Council for Scientific Research, *NDC* ... Namibian Development Corporation, *RDC* ... Rural Development Centre, *RIIC* ... Rural industrial innovation Centre, *SIDO* ... Small Scale Industry Development Organisation, *TDAU* ... Technology Development and Advisory Units, *TDCs* ... Technology Demonstration Centres, *TEMDO* ... Tanzania Engineering and Manufacturing Design Organisation, *TIRDO* ... Tanzania Industrial Research and Development Organisation, *TISCO* ... Tanzania Industrial Studies and Consulting Organisation, *UoN* ... University of Namibia, *VIS* ... Village Industry Service, *ZABS* ... Zambia Bureau of Standards.

*Source:* Own table compiled from following sources, (1) Kachale 1999, (2) Botes 1999, (3) Mapoma 1999, (4) Mauzu 1998, (5) Umlaw 1999.

However, generating and/or acquiring appropriate and/or new knowledge requires a certain critical mass of skill intensity of management and the workforce as a whole, as well as substantial investments in research and development. Subsequently, in recent times, the

generation of strategic knowledge for development (innovations, inventions) has been a *de facto* monopoly of developed economies, which have more recently been joined by the so called newly industrialising economies.

Therefore, a range of arrangements to support SMEs in the SADC region seek to bridge the knowledge gap, particularly in relation to technology (i.e., the technology gap). In this regard, a number of research and development centres are active in the SADC economies. Most of these institutions are concerned with the development and adaptation of technology, and its transfer to local enterprises. A selection of relevant institutions in 6 SADC economies is presented in *table 20*.

Therefore, they focus at two fundamental issues, which are crucial in order to enable SMEs from the region to participate in technological development, i.e., (i) technology generation capabilities, (ii) technology acquisition/transfer strategies. They also emphasise the essence of *appropriate technology*, which in this context refers to technology suitable for small businesses and adapted for local needs.

### *C. Training and other non-financial services*

In this respect as well, there apparently exists institutions in virtually all the SADC economies, providing specially devised services for SMEs. Like R & D services, the services in this group revolve around initiatives to address the knowledge and information gap of SMEs. Training seems to provide the core of non-financial services of this category.

Additionally, there exists several other non-financial services, which are provided at different levels and by various institutions. Consequently, the variety, scope, and quality of services differ within and between countries, depending on such as aspects as the involved institutions and the target groups. Typical services in this group include:

- (a) *Business advisory services*. A wide range of institutions in the SADC economies are engaged in this kind of activities: FAIDA, SICATA, and SIDO in Tanzania (*table 21*).
- (b) *Business development services*. These include technical and managerial services, as are provided by Ntsika enterprise promotion Agency in South Africa.

Table 21.: Selected institutions providing focused training and other non-financial services to SMEs

Country	Institution	Activity focus
1. Botswana	<ul style="list-style-type: none"> <li>• BCCI</li> <li>• RIIC</li> <li>• UNIDO</li> </ul>	Training Village skills training programme (VSTP) to increase rural productivity Entrepreneurial training, focus on use of local resources by SMEs
3. Malawi	<ul style="list-style-type: none"> <li>• MEPC</li> <li>• MIPA</li> <li>• STCs</li> </ul>	Promotion of exports for the whole business sector Promotion of investments for the benefit of the entire business sector Business raining
4. Mauritius	<ul style="list-style-type: none"> <li>• UoM</li> <li>• MCA</li> <li>• PROSI</li> <li>• SPES</li> </ul>	Textile related high technology courses Technological information programmes on radio and TV Technology-related information on the internet. Helps diffusion. Training to promote handicraft and cottage industry
5. Namibia	<ul style="list-style-type: none"> <li>• VTCs</li> <li>• VDPs</li> </ul>	Provide vocational training Identify and develop vendors capable of producing quality products
6. South Africa	<ul style="list-style-type: none"> <li>• DANIDA</li> <li>• NTSIKA</li> <li>• MACs</li> <li>• CSIR</li> </ul>	Technical support for SMEs, usually jointly with local institutions Business development, counselling, targeted assistance, training, research Technical support for SMEs in various disciplines Technical support for SMEs
7. Swaziland	<ul style="list-style-type: none"> <li>• IDM</li> <li>• SCOT</li> <li>• SIMPA</li> </ul>	Training Training Training
8. Tanzania	<ul style="list-style-type: none"> <li>• ESAMI</li> <li>• FAIDA</li> <li>• PRIDE</li> <li>• SICATA</li> <li>• SIDO</li> </ul>	Training Business advisory services Business advisory services Business advisory services, training Business advisory service
9. Zambia	<ul style="list-style-type: none"> <li>• CARE Zambia</li> <li>• YWCA-SBC</li> <li>• VIS</li> <li>• ZACII</li> </ul>	Business advisory services, training Business advisory services, exhibitions, information, training Business training, promote labour intensive agro-based rural industries Business advisory services, Training
10. Zimbabwe	<ul style="list-style-type: none"> <li>• CZI</li> <li>• ZNCC</li> </ul>	

*Notes:* *BCCI* ... Botswana Chamber of Commerce and Industry, *CSIR* ... Council for Scientific and Industrial Research, *CZI* ... Confederation of Zimbabwe industries, *DANIDA* ... Danish International Development Agency, *DRDP* ... District Rural Development Programme (of the Dutch Government), *ESAMI* ... Eastern and Southern African Management Institute, *FAIDA* ... Finance and Advice in Development Assistance, *IDM* ... Institute of Development Management, *MACs* ... Manufacturing Advisory Centres, *MCA* ... Mauritius College of Air, *MEPC* ... Malawi Export Promotion Council, *MIPA* ... Malawi Investment Promotion Agency, *NTSIKA* ... Ntsika Enterprise Promotion Agency, *PROSI* ... Public Relations Office of the Sugar Industry), *RIIC* ... Rural industrial innovation Centre, *SCOT* ... Swaziland College of Technology, *SICATA* ... Small Industries Consulting, Advisory and Training Agency (subsidiary of SIDO), *SIMPA* ... Swaziland Institute for Management and Public Administration, *SPES* ... Société pour la Promotion des Entreprises Spécialisées, *STCs* ... Skills training Centres, *UoM* ... University of Mauritius, *VTCs* ... Vocational Training Centres, *VDPs* ... Vendor Development Programmes, *VIS* ... Village Industry Service, *YWCA-SBC* ... YWCA Small Business Centre, *ZNCC* ... Zimbabwe national chamber of commerce.

*Source:* Own table compiled from following sources: (i) Hinojosa Barragán 1999, (ii) Botes 1999, (iii) (iv) Chanda 1999 (v) Finseth 1998, (vi) Kachale 1999b, (vi) Moyo 1995, (vii) Umlaw 1999.

- (c) *Targeted assistance*. The target groups in this regard are usually the youth, the disabled and women. This kind of service is also provided by Ntsika Enterprise Promotion Agency in South Africa.
- (d) *Management entrepreneurial training*. This usually targets the training of trainers, industrial counsellors, information officers, etc.

Some of institutions engaged in the provision of training and other related non-financial services and their activities are presented in *table 21* for 10 SADC economies.

On the whole, South Africa seems to have the most developed network of non-financial SME support services. However, given the immense requirements of the pertinent services in every SADC economy, it seems that the non-financial SME support services available also fall under the critical mass.

#### *D. Business associational arrangements*

Private sector association arrangements constitute an integral aspect of a healthy market economy. These arrangements, which take the form of business associations, usually crystallise from private sector initiatives, though they might also be supported by local or regional governments, and more recently even by international donors. Therefore, in developing country environments, it is now typical to find business associational initiatives supported by local and/or international NGOs.

Formally, institutions of this nature seek to improve the collective bargaining position of the enterprise sector by both lobbying the state in the interest of the enterprise sector, and through the provision of such business support services as, legal advice, technology and training centres, quality control standards, credits, marketing schemes, etc.

In the SADC economies as well, several private sector organisations (including business sector-wide institutions like chambers of commerce and industry, different types of foundations, and specific SMEs associations) have evolved to provide this kind of support to SMEs. *Table 22* depicts the wide variety of institutions in this category, which are active in 7 countries of the region. These institutions have a varying degrees of strengths and effectiveness to articulate the real interests of the business community they formally present which, within the context of this study, cannot be evaluated.

Generally, it seems that there is gap in SME sector specific associational arrangements, while the chambers of commerce may not be in a position to provide focused services to SMEs due to limited SME membership or restricted SME bargaining power in such associations.

In some SADC economies (e.g., Botswana and Swaziland)<sup>14</sup>, the Chambers of Commerce and Industry play pivotal roles in the development of SMEs, while in others (e.g., Mauritius, Tanzania) their roles are marginal. Moreover, available literature (Dammert 1999, Kirumba 1998, Schleberger 1999) point out a number of unique limitations with regard to chambers including:

- (a) Limited membership in chambers in general.
- (b) Many SMEs not being chamber members in particular.
- (c) The *urbanisation* of chambers, which restrict their ability to serve rural based enterprises.
- (d) Poor leadership.
- (e) Restricted financial capabilities, etc.

Also, just as with non-institutionalised horizontal co-operation, deficiencies in the structure of national social capital (NSC)<sup>15</sup>, particularly its fractionalisation along sectarian parameters, are likely to restrict the effectiveness of evolving business associations. The existence of the predominantly white *Swaziland Chamber of Commerce and Industry* alongside the predominantly black *Sibakho Chamber of Commerce and Industry* is the best available expression of the fractionalisation of the business community along sectarian, in this case, racial lines.

A further likely development in economies with deficitary governance is that such associational institutions may eventually become the preserve of more influential elements within them (Nadvi and Schmitz 1994).

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<sup>14</sup> In the case of Swaziland, this refers to the *Sibakho Chamber of Commerce and Industry* and the Swazi Commercial Amadoda Council.

<sup>15</sup> The concept of national social capital is elaborated in detail in chapter 7, section 7.2.2. on the macro-economic influences of the competitiveness of SMEs from the SADC economies.

Table 22.: Associational arrangements with SMEs development agenda in the SADC region

Country	Institution	Activity focus
1. Botswana	• BCCI	Lobbying, information centre, training, marketing, quality control
2. Malawi	• NASME	Interest group organ of SMEs in the Chambers of Commerce
3. Mauritius	• MEF • MCCI • MYET • NGO-AOW	Have programmes to support SMEs Business advisory services, training, legal services, marketing Financing of young entrepreneurs, legal services, training, co-ordination Promote women in business
4. Namibia	• JCC • NCCI	Focuses on networking of SMEs Business advisory services, information, legal services, lobbying, marketing, small business data base, trade fairs, training
5. Swaziland	SCAC SwCCI SiCCI	Facilitates licensing for trade and transport enterprises in rural areas Focuses on LSEs; de facto de-linked from SMEs Focuses on SMEs: business advisory service, financing
6. Tanzania	• CTI • TPSF • TCCLA	Focus on LSEs LSEs and SMEs Focus on LSEs
7. Zambia	• ZACCI	Business advisory services, information, lobbying, training
8. Zimbabwe	• CZI • ZNCC	LSEs, Special service for SMEs LSEs and SMEs

*Notes:* CZI .. Confederation of Zimbabwe industries, SCAC .... Swaziland Commercial Amadaha Council, BCCI ... Botswana Chamber of Commerce and Industry, CTI ... Confederation of Tanzania Industries, JCC... Joint Consultative Council, MCCI ... Mauritius Chamber of Commerce and Industry, MEF ... The Mauritius Employer's Federation, NASME ... National Association of Small and Medium Enterprises, MYET ... Mauritius Young Entrepreneues Trust, NCCI ... Namibia Chamber of Commerce and Industry, NGO-AOF ... NGO Alliance of Women ... District Rural Development Programme (of the Dutch Government), MEDA .. Mennonite Economic Development Association, TCCLA ... Tanzania Chamber of Commerce, Industry and Agriculture, SiCCI ... Sibakho Chamber of Commerce and Industry, SwCCI ... Swaziland Chamber of Commerec and Industry TPSF ... Tanzania Private Sector Foundation, ZACCI ... Zambia Chamber of Commerce and Industry, ZNCC ... Zimbabwe national chamber of commerce.

*Source:* Own table compiled from following sources, (i) Botes 1999, (ii) Ipinge 1999, (iii) Kachale 1999a, b, (iv) Mate 1999, (v) Jhumka 1999, (vi) Moyo 1995, (vii) Thabede 1999.

### **6.2.2. SMEs support initiatives at regional level**

There are also some initiatives at the regional level to support the SME sectors in the SADC region. Like other programmes, they vary in terms of focus, intensity and magnitude. The most prominent among them are the **Small Enterprise Promotion Advisory Council (SEPAC)** and the **International Council for Small Business (ICSB)**.

#### *A. The Small Enterprise Promotion Advisory Council*

The SEPAC is a comprehensive initiative that brings together stakeholders from the business and policy making spheres, to deliberate on issues of mutual interest related to SMEs. From its inception, the SEPAC programme has been strongly supported by the Friedrich-Ebert-Stiftung (FES) offices in Botswana, and other countries in Southern Africa.

The SEPAC programme is also linked to the SADC Secretariat in Gaborone (Botswana), and the various ministries responsible for SME development in the SADC economies.

#### *B. International Council for Small Business*

The international council for small business (ICSB) in Southern Africa is an NGO, with its head quarters in Headway Hill, Midrand, South Africa, but catering for the whole of Southern Africa. Its activities aim at fostering the managerial skills and entrepreneurial development among SMEs. To achieve these goals, the ICSB supports research and training, and provides fora (e.g., through seminars) for the exchange of ideas. It also facilitates networking among SMEs.

### **6.3. International programmes to support the development of SMEs**

In tandem with the changing global environment, the international development co-operation has also been changing its focus of activities. In the past decade, international co-operation initiatives have been paying increasing attention to the promotion of the private sector in developing countries and the creation of conducive conditions for sustainable competitiveness of SMEs. Therefore, international assistance programmes play a crucial role in the development of the SME sector in the SADC region. In this context, several donor institutions are engaged in the development of the SME sector, including the World Bank, the Commonwealth Secretariat, various UN sub-organisations, private foundations, etc. Some of the most prominent institutions and their programmes are briefly presented below.

### 6.3.1. The World Bank

The World Bank is among the leading institutions in research and distillation of the experiences of SMEs in Southern Africa. In fact, most of the studies conducted on enterprises in the SADC region were under the bank's regional programme for enterprise development (RPED). The studies focus on deterrents of enterprise development in Africa.

However, the RPED studies are also prone to the caveat observed for other enterprise studies in the SADC region, i.e., they do not draw a clear distinction between the SME and ME sectors, and therefore between the formal and informal sectors.

The World Bank is further involved in the development of SMEs through other arrangements. These include:

- (a) Funding SMEs through the *Africa Enterprise Fund* (AEF) of the IFC. The AEF exists since 1988 and provides both debt and equity financing.
- (b) Providing *foreign investment advisory service* (FIAS) on business linkages.
- (c) Providing of *leasing and venture capital* through the International Finance Corporation (IFC).
- (d) Serving as the secretariat of the *Donor Committee for SME Development*. The committee brings together several bilateral and multilateral institutions (including NGOs) that fund SME development. Also, it publishes the *Journal Small Enterprise Development*.

### 6.3.2. The Commonwealth Secretariat

The Commonwealth Secretariat (ComSec) has also been involved in the development of the SME sector in the SADC region. In February 1997, it was approached by the government of Tanzania, to provide technical support to develop the micro- and small enterprise divisions. Following this request, ComSec funded a study, that was conducted by *Market Power International*, a Canadian Consulting Company. The study report *A Strategic Plan to Develop Tanzania's National Policy Framework for Small Business*, was released in 1998.



### **6.3.3. The United Nations Development Programme**

The United Nations Development Programme (UNDP) is also active in the development of SMEs in SADC region. Usually, it finances projects that directly or indirectly benefit SMEs. The following are some of the projects, in which it has been involved:

- (a) In Malawi, the UNDP has been involved in the development of *National Policy for MSMEs*, and the *National Policy on Science and Technology*, in collaboration with the MIRTDC. Besides, support has been extended to facilitate the provision of credits, development of technology, marketing and training. Also, UNDP has (through the MRTDC) promoted subcontracting and partnership exchanges between MSMEs and LSEs (Kachale 1999).
- (b) UNDP has been donating funds to Zambia's VIS programme, to enable it to extend credits to clients (Mapoma 1999).

### **6.3.4. The United Nations Education Science and Childrens Organisation**

The United Nations Education Science and Childrens Organisation (UNESCO) has been supporting SME focused programmes in the SADC region as well. In this regard, it has funded several projects in Malawi:

- (a) The installation of demonstration solar systems in rural areas, in collaboration with the MIRDC (Kachale 1999).
- (b) The procurement and installation of biogas plants developed by CARMATEC in Tanzania (Kachale 1999).
- (c) The development and promotion of technologies for traditional salt extraction from saline soils (Kachale 1999).

### **6.3.5. The United Nations Industrial Development Organisation**

Another UN organisation that supports the development of the SME sector in the SADC economies is the United Nations Industrial Development Organisation (UNIDO) has also been involved in. In general, UNIDO's efforts are focused at policy advice, and capacity building. In this regard, specific tools have been developed, including Guidelines for Analysis of SME Policy, and Guidelines for Estimating Industrial Skills Requirements.

Some of the concrete projects supported by UNIDO in the various SADC economies are listed below:

- (a) In 1999, UNIDO funded the study *Towards a Policy for Small and Medium Enterprises in Tanzania*. The was conducted by UNIDO and the Ministry of Industry and Commerce (MIC) of the United Republic of Tanzania and its initial results released in September 1999 (Calcopietro 1999).
- (b) UNIDO has been, jointly with the government of Botswana, organising entrepreneurial training programmes in Botswana. The focus of the training programmes has been to encourage local entrepreneurs to use local resources, particularly in the food processing and selected sub-sectors.
- (c) In collaboration with the VIS programme in Zambia, UNIDO has been providing funds for capital and equipment used in the food processing plants (Mapoma 1999).
- (d) In collaboration with the UNDP and European Union (EU), UNIDO has supported the MRTDC in its efforts to promote subcontracting and partnership exchanges between MSMEs and LSEs in Malawi (Kachale 1999).

UNIDO's engagement is also necessary from the perspective of the provision of a *global forum for industrial development*, through which it promotes exchange of experience and information on best practice, in collaboration with other institutions. A case in hand is the Forum on Enterprise and Entrepreneurship Development (FEED), a joint project of UNIDO and Organisation for Economic Co-operation and Development (OECD).

#### **6.3.6. The Danish International Development Agency**

In collaboration with local institutions, the **Danish International Development Agency** (DANIDA) is also a supporter of several SME development programmes in the region:

- (a) Jointly with the South African government, DANIDA is funding the MAC programme (Umlaw 1999).
- (b) In Tanzania, DANIDA's activity include support for organisations (usually NGOs) that facilitate the growth of SMEs and the entire enterprise sector, technical assistance to strengthen the Vocational Education and Training (VETA) programme, institutional development of apex organisations like the CTI, financing of micro-enterprises, etc. (Finseth 1998).

### 6.3.7. The Friedrich-Ebert-Stiftung

The Friedrich-Ebert-Stiftung (FES), has been one of the most active institutions in supporting SME activities in the SADC economic space. Its activities have been co-ordinated through the FES office in Botswana, and involved all FES Representations in the SADC region. Some of the initiatives which are credited to FES are:

- (a) Establishment of the SEPAC.
- (b) Supporting the development of SME Policies at national levels (e.g., the task force in Botswana).
- (c) Supporting frequent regional fora to discuss SME related issues.
- (d) Supporting publications of research work on SMEs.

### 6.3.8. Other initiatives to support SMEs in the SADC economies

Contrary to the pessimistic view of donor collaboration as oxymoron, there are examples of donor collaboration that have performed quite well in the SADC economies. Hence, in addition to the programmes provided by single institutions, a number of joint programmes exist as well. These are portrayed in *table 23* below.

Table 23: Selected SME support programmes

Programme	Focus of the interventions	Participating institutions	Year of establishment
Africa Project Development Facility (APDF)	<ul style="list-style-type: none"> <li>• Pre-financing (design business plans identifying financing partners)</li> <li>• Link to technical partners</li> </ul>	ADB, IFC, UNDP, governments of 15 industrialised countries	1986
Enterprise Support Service for Africa (ESSA)	<ul style="list-style-type: none"> <li>• Post-financing</li> <li>• Technical assistance in production, marketing, management information systems (MIS), and administration</li> <li>• Training</li> </ul>	IFC and CIDA	1995
Forum for Enterprise and Entrepreneurship Development (FEED)	<ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> </ul>	OECD and UNIDO	

*Notes:* CIDA ... Canadian International development Agency, OECD ... Organisation for Economic Co-operation and Development, UNDP ... United Nations Development Programme, UNIDO ... United Nations Industrial Development Organisation.

*Source:* Collected from various sources.

#### 6.4. Summarising comments

Notably, over time, a number of initiatives to support SMEs has evolved in virtually every SADC economy. The available support mechanisms vary, depending on such aspects as the country's level of development, size of enterprises, level of sophistication of operations of enterprises, etc. However, some basic orientations can be deduced, particularly with respect to the focus of efforts. In this regard, by and large the initiatives are focused at:

- (a) Supporting *SME policy formulation*. The aim is to establish and consolidate conducive business environments, and create a level playing fields therein.
- (b) *Financial support*, through both public and private initiatives. However, in this context, more attention is focused on the MEs/informal sector.
- (c) *Training* in basic business skills. This responds, at least in part, to the need to close the knowledge gap.
- (d) Facilitating mutually beneficial inter-SME and enterprise sector *networking* in general.

Also, regardless of whether they can be categorised as interventions at the national, regional or international levels, often the activities of donor institutions overlap. Besides, the initiatives manifest the agenda of the various intervening institutions.

Customarily, partly due to lack of awareness, issues related to IPRs do hardly feature in SME support programmes, beyond attempts at technology transfer. So far, no single SME support programme has exclusively addressed this subject.

Finally, it is noteworthy to mention that, despite the proliferation of SMEs support programmes, there is a general feeling that, compared to LSES, they continue to operate within a discriminatory business environment. For instance, they are by and large, excluded from incentives available to large (usually) foreign enterprises and are more likely to fall foul to the deficiencies of the NSC. Furthermore, they are more likely to fail to comply with the cumbersome licensing procedures, import control measures, taxation, etc. The situation is exacerbated by the absence of clear policy frameworks in virtually all SADC economies (even in those economies with SME policies, to the extent that the definitions of SMEs are not adequate), lack of market driven technology institutions, often fractionalised and therefore dysfunctional business associations, etc.

## 7. Summary of factors that precipitate or restrain the economic performance and competitiveness of SMEs

The analysis in this chapter gives hints concerning the general conclusions which can be drawn from observations in chapters 1 to 6. Though the absence of focused studies means the absence of concrete evidences, it is still possible to fairly postulate the factors that determine the competitiveness of SMEs. This is because, in practice, the efforts of SME sector businesses are suppressed by several factors of at the enterprise level and beyond. Tentatively, the factors introduced below are categorised into intrinsic and extrinsic determinants of the competitiveness of enterprises in the SADC region. Obviously, such a decomposition is basically heuristic in that it indicates only proximate and not ultimate determinants of enterprise performance and competitiveness.

### 7.1. Intrinsic factors

The intrinsic factors in this context, refer to those factors that are internal to SMEs. They include among other things, enterprise factor costs, inter-enterprise productivity differentials, enterprise technology policy and participation in technological development, enterprise size and growth strategies, enterprise product/activity focus, degree of internationalisation of enterprise activities, predominant entrepreneurial culture, skills of management and other staff of the enterprise, enterprise age, and pattern of enterprise linkages with the modern business sector. Though carrying different weights in different enterprises, sectors, regions and countries, generally these factors present key micro-economic forces that shape the competitiveness of SMEs from the SADC region.

#### 7.1.1. Enterprise level factor costs and productivity differentials

The *costs of production* (e.g., costs of labour, land, capital, etc.) are important for the competitiveness of enterprises. Their significance is associated with postulations of *lower order* or *price-based* sources enterprise competitiveness (low labour costs and cheap materials, etc.), as a framework for enterprise competitiveness.

Initial observations suggest that, the SADC enterprises have significant cost disadvantages, particularly in relation to products which dominate global trade. The absolute cost disadvantages are exacerbated by *productivity differentials* of the enterprise (which are

translated into productivity differentials at sectoral and macro-economic levels).<sup>16</sup> To highlight, while labour costs in Tanzania in the manufacturing sector are at par with those in China and India, the productivity in Tanzania are only a third of comparable rates for China and India (Finseth 1998: 15, Matambalya 2000b, Odhiambo et. al 1994).

#### 7.1.2. Enterprise level technology policies and participation in technological development

Enterprises are the most important actors in the process of generation and/or acquisition, and accumulation of technological capabilities. Thus, enterprise level technology policies and activities are crucial for competitiveness.

Reminiscent to other developing economies, particularly those from Africa, apparently innovation and other issues related to participation in technological development constitute the most lacking factor in the entrepreneurial dynamics of the SADC economies. This can be attributed to restricted investments in research (R&D) observable also at the macro-level, restricted investments in information and communication technology (ICT), limited enterprise skill intensity (commonly estimated as average years of training and/or working experience of employees and of management staff respectively).

In table 24, initial results of the *East Africa SME Survey* of the pattern of enterprise investments in ICT is portrayed for Tanzania. Notably, close to 50 percent of the enterprises in the panel had an accumulated stock of investments in ICT of less than US \$ 200.

Table 24: Survey results of the accumulated stock of investments in ICT in 1997

Indicator	Proportion of sample (in %)
Less than US \$ 200	48.8
Less than US \$ 1000	66.0
Less than US \$ 2000	68.4
Less than US \$4000	79.4
US \$ 4000 or above	21.6

*Notes:* ICT... information and communications technology, *chemicals* .... cost of dyes and chemicals, *direct labour* ..... Exchange rate estimated as 1 US \$ = Tanzanian Shillings 500.

*Source:* East Africa SME Survey.

<sup>16</sup> Technically, the productivity of the various factors of production depends on such factors, as the levels of skills of the employees, the enterprise's technological base, technical efficiency, and quality of high cost inputs, etc.

Furthermore, only a small number of enterprises in the SADC region are engaged in strategic alliances that facilitate the acquisition of technology. For instance, the RPED study (CIBR 1994) involving a sample of 200 enterprises of all sizes revealed that in Tanzania, only 4 firms hold *foreign licences*, while another 10 were involved in *foreign assistance contracts* (Biggs and Srivastava 1996).<sup>17</sup>

An important observation that can be inferred to the SADC economies was made by Biggs and Srivastava, in their study of enterprises in seven African countries. According to their observations, they came to the conclusion that, though African enterprises behave in the same way as their European and Asian counterparts as regards internal technical efforts (e.g., R & D, training, etc.), they behave significantly differently in terms of the *overall quality* and *incidence* of these efforts. Also, another source of differences is the environment in which these efforts take place. Biggs and Srivastava argue that, the external sources of learning are weak or missing altogether (Biggs and Srivastava 1996).

### 7.1.3. Enterprise size and growth strategies

#### A. Enterprise size

As already pointed out above, there is crowding of SMEs in the SADC region in the small category. That size might be an agent for competitiveness is suggested by Teal (1999), who studied associations between enterprise *size* and *competitiveness on international markets*. He came to the conclusion that, by and large, the exporting firms are substantially larger. He attributes this to *scale economies*, i.e., a certain critical enterprise size is necessary to be competitive in export business. This is because, on the supply-side, there are certain *fixed costs*, that require a certain scale of operations. Comparable costs exist on the demand-side as well, and take the form of *marketing costs of access*. Thus the degree of internationalisation is significant in determining enterprise's export competitiveness.

As pointed out in chapter 5, size is also important from the perspective of enterprise capacity. In this regard, limited size of the SMEs from the SADC region invariably means limited capacity to participate in international trade, strategic alliances (e.g., technology

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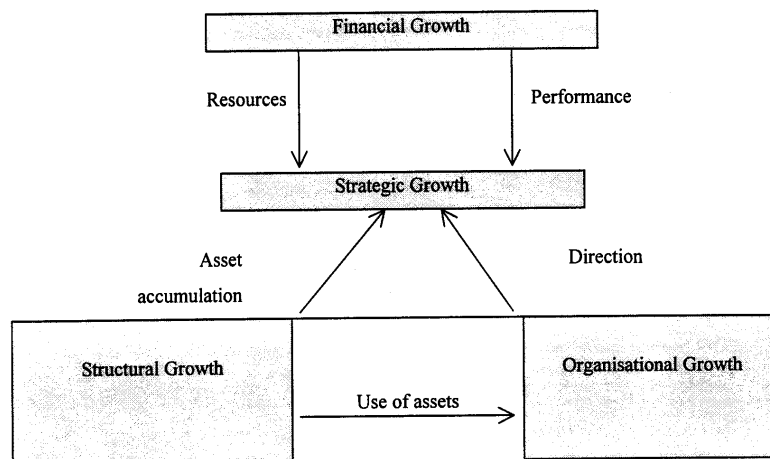
<sup>17</sup> These observations corroborate the findings by Odhiambo et al. (1996), attributing the deficiencies of East Africa's textile sector to, among other things, using outdated technology.

transfers, licensing arrangements, management co-operation, etc.), and international allocation of resource flows.

### *B. Enterprise growth strategies*

Generally, the potential for growth is a defining feature of entrepreneurial success. Therefore, the growth strategies present another factor that influence the competitiveness of SMEs from the SADC economies. Specifically, business growth is critical to financial self-reliance and sustainability of a commercial enterprise operating in a competitive business environment. As indicated in figure 1, business growth is a multi-dimensional process.

Figure 1: The dynamics of growth



In this regard, the growth strategy of a modern enterprise is usually built on four pillars:

- (a) *Strategic growth*, which focus on the organisation's interactions with the environment (customers, competitors, stakeholders, the general public, etc.).
- (b) *Financial growth*, which focus on financial results.
- (c) *Structural growth*, which focus on intra-organisational system of managerial roles and responsibilities, reporting relationships, communication linkages, and resource control systems.



- (d) *Organisational growth* indicators of performance, which focus on intra-organisation processes (innovations, improvements, institutional learning and growth, etc.), culture, and attitudes.

Suggestively, many SMEs do not have a clear growth strategy. Practically, they do not grow significantly over time, while others seem to grow randomly, because they happen to be in the growth market/sector (e.g., the tourist sector within the current context of Tanzania's business scenario).

#### 7.1.4. Product/activity focus

The size and growth limitations translate into a further feature of SMEs, i.e., the *high propensity to concentration of activities* at enterprise level (which inevitably affect the sectoral and macro-economic levels). Finseth (1998) observed that SMEs in Tanzania are crowded in the *retail trade* sub-sector, and that on the whole, if expressed in order of importance, SMEs focus their activities on consumer goods, followed by services, and manufacturing comes last. Finseth's observation are in line with ERO's observations (ERO 1998), for the African, Caribbean and Pacific (ACP) economies, that local enterprises are usually small and concentrated in certain activities (e.g., merchandising, commission agencies etc.).

These observations underscore the significance of enterprise size constraints, limited growth, as well as diversification from global trend of economic activities, as potential deterrents of competitiveness. Arguing along the same lines, the competitiveness SMEs in the SADC region can also be attributed to their *afro-centric product focus*, particularly when this is not flanked by proper marketing development efforts.<sup>18</sup>

#### 7.1.5. Entrepreneurial culture

The entrepreneurial culture is another factor, which is particularly crucial for a sustainable competitiveness of SMEs. In this regard, as is apparent from observations in Tanzania (cf. East Africa SME Survey), Africa seems to be plagued by a very strong presence of *opportunistic entrepreneurs*, whose major motive to go into business is to bestow specific

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<sup>18</sup> In general, the *afro-centric focus* of enterprise in terms of products has both advantages and disadvantages. Though, they denote a market limited by nature (in the absence of market development efforts), they also represent a source of opportunities for market development (for the unique products).

opportunities, which due to their social network and social position (as opposed to business competence), they are likely to achieve (Matambalya 2000b).

Apparently, *opportunistic entrepreneurship* is facilitated by the fractionalisation of the NSC in general, and the deficiencies of the public service in particular.

#### **7.1.6. Management and employee skills**

While task level efficiency is important for enterprise competitiveness, the skills of management and other employee determine task level efficiency. Usually the relevant skills are gained through training (formal, on the job) and job experience. Besides shortcomings in the provision of basic services in education, health care, etc., lack of sufficient management stock and appropriately/skilled employees inhibit competitive forms of production in the SADC economies. As such, enterprises in the SADC region are usually managed by individuals or families with no real professional managerial cadre involved. This corroborates observations in the African Caribbean and Pacific (ACP) group of nations that are associated with the EU (ERO 1998).

Related to management and employ skills is the high incidence of partial or non-use of modern management, and that the compounding of managerial shortcomings by problems arising from the shortages of formally trained shop floor labour.

#### **7.1.7. Enterprise age**

It also appears that, age is a significant determinants of competitiveness. In Tanzania, for instance, parallel to the country's history, most firms in the SME sector were established in the 1990s. As such, they are still deficient in cumulated business experience.

Table 25: Survey results of the age structure of SMEs in Tanzania

Established	% of total	Cumulated % of total	Observations
Before 1961	0.7	0.7	Pre-independence era
1961 - 1967	0	0.7	Early independence years; capitalist orientation
1967 - 1982	5.3	6.0	Arusha declaration in 1967; socialist orientation
1983 - 1989	16.4	22.4	Careful reforms; return to capitalist orientation
1990 - 1999	71.9	100	Forceful reforms towards market economy
Total	100	100	

Source: East Africa SME Survey.

The picture observed in Tanzania as depicted in *table 25* is likely to mirror developments not only in the other formerly socialist oriented among the SADC economies (i.e., Angola, Mozambique), but also in most countries of the region, partly due to the economic exclusion of the majority black population during the colonial period, and the extended liberalisation and later (in some countries) civil wars.

The significance of enterprise age is also underscored by the fact that, a large part of technology (related to both new production processes and products), involves un-codified knowledge: rules of thumb acquired only with experience and via sustained interaction with the people and institutions embodying this know-how (Biggs and Srivastava 1996).

## 7.2. Extrinsic factors

The extrinsic factors denote influences from forces external to SMEs. Such forces emanate from their *meso* (i.e., sectoral), *macro* (i.e., national) and *meta* (i.e., regional and global) economic environments, which form the external framework for enterprise activities.

### 7.2.1. Meso-economic factors

#### *A. Development of apex organisations and mechanisms for concerted actions*

The characteristics of the SME sector, as portrayed by various dimensions, are also important factors of its competitiveness. One of these dimensions is the degree of concerted actions within the business sector, and particularly the SME. This underpins the important role that can be played by business sector associations and other networks, such as the Chambers of Commerce, sectoral business organisations, etc. Initial evidence suggest that in this regard as well, the SMEs in the SADC region are not operating on a sound base.

Notably, there are very few sector specific apex organisations, while the degree to which SMEs can pursue their interests through the broad based chambers of commerce and industry is restricted as highlighted in chapter 6.

### *B. Degree of sectoral internationalisation*

The *degree of internationalisation* is also a determinant of competitiveness that cuts across the board, and is therefore relevant at the sectoral level as well. Hence, particularly concerning export competitiveness, sectors with a higher degree of globalisation tend to be more competitive. Teal (1999), offers evidences, through his observation of the manufacturing sector in a study which is relevant for the SADC economies, since it covers Mauritius. This study reveals that exporters in this sector are more efficient than non-exporters.

Generally, the results underline the degree of globalisation as an important determinant of competitiveness. They also reveal that, economies are more competitive in sectors in which they are more internationalised, as demonstrated for Mauritius in the textile sector.

At this (sectoral) and other levels, the gains can be ascribed to spill-over effects and learning through interactions with other economic units (enterprises, sectors or economies).

### *C. SME sector policy framework*

An *SME sector policy* framework is also important for the competitiveness of SMEs. On the whole, the absence of transparent policy framework usually translates into inconsistencies (e.g., in terms of interventions), and this is likely to exacerbate the distortion of competition between/among enterprises. As pointed out in chapter 6, issues related to SMEs seem to have been eclipsed by the overly focus on institutions/organs, while the imperative policy issues were not clearly detached from the broad industrial policy. Therefore, either there are no universal policy frameworks, or the existing policy frameworks are inadequately focused.

In Tanzania, for instance, the repercussions of the policy vacuum are underscored by the fact that, SME matters are handled by at least 5 Ministries, with inadequate inter-ministerial co-ordination (Finseth 1998).

### 7.2.2. Macro-economic factors

The postulations at the micro- and meso-economic levels are compounded by the observed macro-economic forces. Most SADC economies have experienced prolonged difficulties in macro-economic environment, that have important implications for the competitiveness of SMEs. Most notably, the *high transaction costs environments* distort the entrepreneurial structure, and retard entrepreneurial performance at all levels (Owens and Wood 1997). The high transaction costs environments are attributable to deficits related to several factors including, (i) macro-economic policy instabilities (Collier 1997, Collier and Gunning, Owen and Woods 1997), (ii) regulatory environment, (iii) national social capital (Collier and Gunning 1998), (iv) national education and human development policy, (ERO 1998, Matambalya 1999c), (v) state of provision of infrastructure (ERO 1998, Matambalya 1999c), (v) policy framework to advance the development and diffusion of technologies.

#### A. Macro-economic policy framework

##### a. Monetary and fiscal policies

Monetary fiscal policies are important for understanding competitiveness differentials between countries, and between enterprises of different sizes. Drawing from past studies, macro-economic conditions have had a negative bearing on the various determinants of competitiveness<sup>19</sup> in Africa that are relevant for the SADC economies (Grosman and Helpman 1991, Teal 1999-11-05). Observably:

- (i) Linking *monetary and fiscal policies* to the *export competitiveness* of enterprises, Teal (1999, *ibid.*) found that improvements in inflation, real interest rates, and real exchange rates<sup>20</sup> were associated with expansion of manufactured exports.
- (ii) The *volatility of the macro-economic policies* (as depicted by volatile exchange rates, prices, etc.) is a serious cause of high risk business environment. Jointly with the *illiquidity of investments*<sup>21</sup> and the *volatility of supplies from domestic sources*, they

19 The determinants of competitiveness referred to here include, productivity differentials, levels of skills, technological base, intra-national and inter-national technical efficiency, economies of scale, exposure to international competition, availability of new goods, etc.

20 In this context, real interest rates refer to difference between nominal interest rate and rate of inflation; real exchange rates denote difference between nominal exchange rate and rate of inflation.

21 In this regard, Collier and Gunning (1998) observe that the illiquidity of investments arise from the irreversibility of investments, and the limited market of second hand equipment.

pose major hindrances to business competitiveness. The impact for SMEs is particularly stronger, as they mainly invest and source their production inputs locally.

- (iii) Macro-economic policies, as part of the *regulatory environment* also influence the cost advantage of enterprises.<sup>22</sup> Notably, such interventions as subsidies depress costs and create comparative cost advantage, while taxes increase costs and cause comparative cost disadvantage. Thus, *de facto* subsidies, such as tax holidays extended to foreign firms in order to attract foreign direct investments (FDI), and higher tax rates levied against local firms, distort production cost structure in favour of foreign (relatively larger) enterprises.<sup>23</sup>

#### *b. Market regulations*

Other regulatory measures, for instance those associated with market access, and typically applied on the demand side are also significant for the competitiveness of SMEs. A good example from the SADC region are the Crop Authorities and Co-operatives which dominated Tanzania's business scenario for decade and are still influential with respect to some products. Notably, through their explicit or *de facto* monopolistic positions, Crop Authorities and Co-operatives affect the proportion of the price earned by enterprises.

Though this particular phenomenon has not yet been empirically researched in the SADC economies, empirical evidences by Odhiambo et. al (1997) and Nyoro (1994) suggest that the inefficient management of Crop Authorities and Co-operatives most Kenyan co-operatives, have been a source of significant costs and burden to small holder farmers. They argue that co-operatives pass on only 56 percent of the export price to their members.

Initial results of a survey of enterprises in Tanzania show that comparable marketing arrangements in the dairy sector give the sales agents who are networked through quasi co-operative or associational organs (i.e., usually donor funded institutions that support the marketing of products from small individual entrepreneurs and/or groups of small entrepreneurs) the freedom to set buying prices of processed and raw milk (*East Africa SME Survey*).

<sup>22</sup> In this regard, dynamic interplays between macro- and micro-economic forces, depict how regulatory measures applied on the supply-side affect production costs, prices and profits.

<sup>23</sup> Typically, taxes levied on business enterprises come implicitly, through import duties and excise duties, and explicitly, through corporate and other taxes.

## ***B. National social capital and the enterprise sector***

### ***a. General theoretical expositions***

The concept of social capital derives from a rather old notion, i.e., the power of various social aspects (e.g., features of social organisation, levels of trust within groups, previous history of co-operation affecting social and economic outcomes, etc.) in explaining the inter-enterprise performance/success differentials. Usually this concept is extended to explain the differential success of communities, whole economies and even greater regions (e.g., Southern Africa, the African Continent, etc).

Contemporary debate on social capital is underlined by a novelty, namely the postulations that one can measure the level of these social aspects, and assess empirically their impact on economic performance. The catchword which has come to be used in the underlying debate is *national social capital*. In this regard, in its basic form, social capital express the ability of individuals and households to secure benefits by virtue of membership in social networks and other social structures. Hence, according to World Bank propositions, social constitutes itself out of three closely inter-linked components:

- (a) *Bonding social capital*, implying strong ties between family members and close friends.
- (b) *Bridging social capital*, implying strong ties through civic organisations and business associates.
- (c) *Linking social capital*, denoting strong ties between the poor and people in influential positions in the formal state organisations.

### ***b. Significance of national social capital for the enterprise sector***

In contemporary business and economic performance analysis, NSC is recognised as an agent of entrepreneurial performance. Within this context, the definition of NSC is generally extended to include *associational and other network activities in an economy*, with an emphasis on enterprises.<sup>24</sup> Building on the logic of the deliberations on the subject, NSC is broadly understood to embody also the structure and dynamics of network relationships between the *agents within an economy* and the *people and institutions in positions of influence* as well as the dynamic interplays thereof. In this formulation, *the people and institutions in*

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<sup>24</sup> Notably, interactions between the enterprise sector and the social institutions also influence entrepreneurial performance.

*positions of influence* invariably constitute bureaucratic/technocratic machinery, and influential civil society institutions.

*c. Practical relevance of national social capital for SADC SMEs*

In trying to understand the role of NSC on the development of SMEs in the SADC region, it is important to decompose the analysis into at two dimensions, i.e., the *traits of NSC* and the *impact of NSC*. Referring to the traits of NSC, in a society fractionalised along ethnic, racial, regional, religious lines, etc., there is high likelihood that various aspects of social capital will intermingle. The ties between the business sector and the influential institutions/people influence, would crystallise out of complex interactions, and express what we may refer to as *integrating social capital* (Matambalya 2000b). This component of social capital integrates the bonding, bridging and linking components. It underscores the fact that interactions between the enterprise sector the influential institutions/people is a critical determinants of entrepreneurial performance.

On the whole, evidences of deficient NSC in the SADC economies are partly underlined by ethnically or regional fragmented entrepreneurial development, the rural urban development gap. In a transposed sense, it is manifested by the inability of local business to generate sustainable domestic development and international competitiveness.

The situation in the SADC economies can be highlighted by initial observations in Tanzania (*East Africa SME Survey*). Hence, high levels of social fragmentation or low levels of social cohesion may be associated with high incidence of deficiency as expressed by:

- (a) The *structural saliences* of NSC. Observably, NSC is characterised by ethno-racial social fractionalisation, urban concentration of social institutions, urban focus of the activities of social institutions in contrast to the rural base of the majority of the population, emergent and thus nascent civil society, fractionalised civil society institutions, etc. (Matambalya 2000b).
- (b) The *behavioural saliences* of NSC. In this respect, the NSC is prone to several short-falls, including, low levels of social trust and building social trust along sectarian lines. This in turn may lead to patronage, individualism, particularism, etc. (Matambalya 2000b).



As already hinted in chapter 6, another practical example of structural deficits of NSC in the SADC region is provided by Swaziland, where the networking through the Chambers of commerce is fractionalised into Swaziland Chambers of Commerce and Industry and the Sibakho Chamber of Commerce and Industry, which are of the predominantly white and black respectively.

In terms of *impact*, the NSC is also significant in several ways:

- (a) It influences flows of technical and general business information. This linkage is of particular significance to enterprise competitiveness in the light of the new theories of economic growth, as it underscore the importance of social networks in determining *who gets to hear about what* (Amin 1994, Barr 2000 forthcoming, etc., Coleman et al 1996, Granovetter 1973, Putman et al. 1993).
- (b) The structural deficits of NSC may also restrict the effectiveness of evolving business associations by making them the preserve of more influential elements within them (Nadvi and Schmitz 1994).
- (c) A deficient NSC distorts social empowerment and social opportunities, and perpetrates of perpetual poverty.
- (d) To the extent that NSC can lead to favours to certain categories of entrepreneurs in a manner inconsistent with the economic competency and efficiency, it propagates opportunistic entrepreneurship and articulates some sort of protectionism. Therefore, it encourages inefficient use of resources, and protract inefficiency in both production and overall economic mismanagement.

On the whole, Collier and Gunning (Collier and Gunning 1998: 9) point out that in Africa, the deficiency of the NSC is accountable for about *25 percent of macro-economic growth shortfalls and 9 percent of macro-economic productivity shortfalls*.

### *C. National educational and human development policy*

Alongside the stock of physical infrastructure, the human resources present one of the two national assets over which governments can exercise control. In this respect, the SADC economies still face major human constraints at all levels of economic activity and public administration. The gravity of the situation is highlighted by ERO (1998), which reveals that the gap between ACP states and (competitive) developed and emerging economies, is

increasing with respect to almost all aspects related to the human resource base: the provision of general education, health care services, specialised skills, etc. These deficits translate into such constraints to competitiveness, as lower productivity of the factors of production and limited flexibility to react to changed environmental conditions.

In explicit terms, these human resource capacity constraints have effects not only on the management capacity of enterprises, but also on other factors that are necessary for the creation of an enabling environment for business competitiveness, such as the mobility of labour, the capacity of the government to formulate and implement effective macro-economic policies, the depth of the domestic markets, the quality of governmental and civil society institutions, the degree of social cohesion, etc.

#### *D. Adequacy of provision of physical infrastructure*

SADC's physical infrastructure (e.g., transport, telecommunications, public utilities) is, by and large underdeveloped and poorly maintained. Consequently, even the most basic physical infrastructure that enterprises in competitive economies (e.g., in Europe, Japan the USA, emerging economies of South East Asia) take for granted are erratically available and carry proportionately higher direct and indirect costs for the SADC enterprises (ERO 1998).

Inevitably, these inadequacies translate into constraints to competitiveness in terms of higher production and marketing costs.

#### *E. Technology policy framework*

##### *a. Innovation of technologies*

As already pointed out, globalisation of industry demands more capital intensive technologies and skill intensive production factors. Therefore, active participation in technological innovations and linkages to the technology market are important. In this respect, the greatest threat to SMEs is less their size, than the prospect of being isolated from international economic trends, due to their inability to generate technologies. Yet in most SADC economies, national technology policies are still at nascent stages of development, and therefore have limited positive impact on the performance of enterprises. Local innovations are extremely limited, as evidenced by limited investments in R & D, and restricted number of application for patents. The R & D spending per capita in the SADC region is amongst the lowest in world with the two leading SADC states in respect to

investments in R & D per capita being US \$ 26.4 (in 1991) and 10.5 (in 1992) for South Africa and Mauritius respectively. The comparable figures for the Asian newly industrialising economies (NIEs) and high income economies (excluding NIEs) were US \$ 108 and US \$ 218 respectively in 1994 (World Bank 1999).

As result, as pointed out by Page et. al (1999), the SADC economies are mainly users than creators of such intellectual properties as patents, copyrights etc.

Additionally, experience shows that, having policies does not lead to automatic benefits. If not carefully implemented, the existence of national technology policies will not free the SADC economies from perpetual technological backwardness and dependence.

#### *b. Technological diffusion capabilities*

The *degree of diffusion of standardised technologies* into the economy presents a further determinant of competitiveness. In this regard, according to the expositions of the *technological theories of trade*, the technological lead of developing economies and *international life cycle differentials*, means that new products will usually be produced in and exported by developed economies. The complete standardisation of technologies shift the comparative advantage to the lowest wage, labour-abundant economies (Winters 1992: 54 - 55).

Despite general deficiencies even in the diffusion of standardised technologies, there is some evidence that in the SADC economies could possess comparative advantage in certain aspects of *low skill, labour intensive products*, like in the case of textiles. However, to achieve this, improvements should be made in marketing efficiency (Odhiambo et al. 1996).

The absence of appropriate technologies affect the marginal productivity of the factors of production. They influence the amount of goods and services that can be supplied by the economy, and the marketing cost structure.

#### *c. Information and communications technology infrastructure*

The national information and communications technology infrastructure (NICTI) is essential for the participation of enterprises in modern technological developments. However, it is also one of the major weaknesses in the changing of variables that affect the competitiveness of SMEs and other enterprises in the SADC region. The situation seems to be worse in the poorer SADC economies. This is partially evidenced in *table 26*, which

compares the situation in Tanzania and South Africa. For instance, the average cost of a 3 minute telephone call in a poor country like Tanzania is 143 percent of comparable costs for South Africa.

Table 26: Availability and cost of selected ICTs in Tanzania and South Africa, 1994 - 1997

	Tanzania	RSA	Tanzania/RSA <sup>a</sup>
1. Telephone main lines (per 1000 persons)	3	100	3%
2. Waiting list (thousands)	37	116	31.9%
3. Average cost of a 3 minute telephone call (US \$)	0.1	0.07	143%
4. Mobile phones (per 1000 persons)	1	37	3%
5. Radios (per 1000 persons)	278	316	88%
6. TV Sets (per 1000 persons)	21	125	17%

*Note:* RSA ... Republic of South Africa (which is interchangeably used with South Africa),  
a ... Own calculations.

*Source:* African Development Indicators 2000: 254, supplemented with own calculations.

There are apparently negative dynamics interplays between the situations portrayed in tables 6 and 10, which further exacerbates the disadvantages to SMEs.

### 7.2.3. Meta-economic factors

#### *A. Degree of regional integration of the SADC economies*

The degree of regional integration of the economy is relevant for enterprise competitiveness. As a proxy for regional integration of the economy, we may take the *intra-regional* trade, intra-regional investments, etc.

Generally, it is posited that, the degree of competitiveness of domestic SMEs is higher, the higher the overall level of regional integration. This is because, technically, regional integration is associated with many gains that are relevant for enterprise competitiveness. For instance, extended market size can further lead to:

- (a) Technical economies of scale. This is because many enterprises in restricted markets operate outside the minimum efficient technical scale (METS).
- (b) Favourable cost gradient. This is because usually cost gradients differ from country to country. However, since many enterprises operating in restricted markets are usually

less than optimal size, their cost gradients increase the unit output cost.

- (c) Non-technical economies of scale. This is because, firms can be minimum efficient in production, but not in other important business aspects, e.g., research and development (R & D), financing, etc. Hence, non-technical economies of scale accrue from expanded markets with improved prospects for R & D (e.g., enterprises can pool their efforts and resources and jointly R & D), management, financing, transport costs, marketing costs (e.g., reduced advertising costs due to advertising over a wide audience, similar effects for costs for market research, etc.), etc.
- (d) Experience and learning dynamics. The typical effects of experience and learning are unit cost advantage to the enterprise, resulting from experience acquired through the cumulative production of goods and/or services, improvement of the workers performance over time, technological improvement of working processes, technological improvement of organisational structures.
- (e) Other non-price effects related to competition. These include a broader range of offer, promotion of technical progress and diffusion of innovation.

Another source of gain is attributed to upward convergence. Overall, the phenomenon of upward convergence is more clearly observable in regionalisation schemes which pair highly developed and high performance economies, and less developed and low performance economies. In concrete terms, enterprises from low performance areas benefit through, among other things, (i) learning from competitors from high performance areas, (ii) restructuring enterprise to get inefficiencies due to competition pressure, (iii) formation of clusters around LSEs, especially in case of significant increases in FDI, etc.

As hinted in chapter 2, the pattern and structure of such integration indicators as trade and investments, confirm the poor integration of the SADC economies at the regional level.

#### *B. Degree of internationalisation of the SADC economies*

The degree of international integration of the economy is relevant for competitiveness at the macro-economic level as well. As a proxy for the degree of international integration of the economy, we may take the *degree of internationalisation* as expressed by the economies participation in international trade, international investments, etc.

Generally, it is posited that, the degree of competitiveness of domestic SMEs is higher, the higher the overall level of economic internationalisation. This is attributable to upward convergence, which improves the general level of technical efficiency of the economy in question, assuming liberal global economy. Taking national exports to proxy for the overall level of internationalisation and using specific features of exports, Teal (1999) confirms the observations made at the micro-level. In a cross-country comparison, he observed that the higher the percentage of firms exporting in the economy, the higher the competitive status of that economy.

The various global integration indicators, such as trade and investments flows, confirm a lopsided integration of the SADC into the global economy.

#### 7.2.4. Other Considerations

Drawing from observable practices, there are other considerations, which seem to have a strong bearing on the competitiveness of SMEs. These include the coherence, convergence and content of intervention policies and practices, as well as the focus of interventions.

##### *A. Coherence and convergence of interventions*

With regard to *coherence and convergence*, the current practices are such that, the key actors (i.e., the governments and the many donor institutions) supporting SME efforts, by and large, act in isolation. This results into the duplication of efforts and complicating matters. Ironically, it seems that, in some instances, even well-meant humanitarian interventions have had negative impact on the performance of local businesses. Finseth (1998: 16) points out that, Red Cross imports have in selected cases, e.g., the textile industry, contributed to crippling the local industry in Tanzania. In Uganda, the production of wheat and edible oils has been crippled by PL-480 ACIDI, a programme of USAID.

##### *B. Content of interventions*

The key issues in this regard refer to the trade-off between production-focused interventions and trade-focused interventions. In terms of *content* of the intervention policies, it seems that, over-proportional efforts have been directed towards *trade-support* policies and intervention measures, at the expense of *production-support* policies and intervention measures. Notably, the export-focused interventions (such as those under the Lomé Convention) are usually not fitted with adequate production support measures (particularly

those focused at reducing the myriad of supply-side constraints). On the whole, since enterprise competitiveness depends on the ability to supply, in liberal global markets the SADC enterprises are likely to remain weaker contenders as long as their production side or supply side weaknesses persist.

### *C. Focus of interventions*

Also, so far, little efforts have been directly focused at the business sector. Observations in Tanzania reveal that, customarily, interventions aimed at promoting SMEs, *indirectly* reach the business sector, through the institutions of influence, both governmental and otherwise (i.e., from the civil society). The risks of this approach are that:

- (a) It extends the *channel of distribution* of intervention resources.
- (b) It creates along the way, institutions with vested interests.
- (c) It does not guarantee adequate observation of the concerns of SMEs, as long as the SMEs or their market driven associational initiatives are not direct parties to the contract.

Therefore, it is necessary to restructure such interventions to be more *business sector-focused* than otherwise, and to ensure that, in future intervention efforts, the business sector occupies the driving seat and is really the major beneficiary. This will necessitate capacity building to consolidate the institutions which represent the interests of the private sector .

### *D. Other factors*

In contemporary terms, it hard to discuss any social phenomenon without reference to AIDS. To highlight, projections indicate that by the year 2000, as many as 2.4 Tanzanians will have been infected by aids, and 1 million children orphaned by the killer disease.

The linkage to the dynamics in the SMEs sector is that very often, leading entrepreneurs, and managers fall victim to the disease. This development badly decimates the limited human resource base. Also, transaction costs increase as a result of absenteeism of key SME personnel to get themselves treated, or to take care of their relatives. The eventual deaths are also responsible for the productive population shrinkage that erodes the effective customer and skill bases.

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**7.3. Summarising comments**

The decomposition of the factors that precipitate or retrain competitiveness, as discussed in sections 7.1 and 7.2, is basically heuristic in that it indicates only proximate and not ultimate determinants of enterprise performance and competitiveness. However, it can also be safely argued that, these trends fairly portray the situation in the SADC economies.

On the whole, analogous to observations in other developing countries, and bearing in mind the entrepreneurship and business scenarios in the SADC region, there are strong suggestions that the actual contribution of SMEs to macro-economic development and their participation in international business lies far below the potential.



### **III: The SADC SMEs and the IPRs Protection Systems**

## 8. Intellectual property rights: a general overview

### 8.1. Meaning of intellectual property rights

Intellectual property rights are rights accorded to persons over the creations of their minds. They usually accord the creator an exclusive use of her/his creation for a certain periods of time. As defined in chapter 1, they include, (i) industrial property (i.e., patents, trade and service marks, industrial designs, utility certificates, trade secrets), (ii) copyrights (for literary works, artistic works, folklore), (iii) neighbouring rights or allied rights (e.g., as is common in the music industry, performances in drama, etc.).

Technically, IPRs are divided into two major groups, i.e., *industrial property* (patents and other rights in technological inventions, rights in trade marks, industrial designs, appellations of origin etc); and *copyright and rights related to copyrights*, the so called neighbouring rights (in literary musical, artistic, photographic and audio-visual works).

### 8.2. Essence of intellectual property rights

The drive towards strengthening and harmonising the standards for the protection of intellectual properties (IPs) derives from the ongoing process of global liberalisation and the role of strategic knowledge embodied in technological innovations in new competition. In this regard, while new technologies have become a necessary condition for enterprise and therefore macro-economic competitiveness, the possibilities for their imitation has also increased and become cheap. Therefore, there is an explicit need to regulate the diffusion and assimilation of new technologies through internationally mandated protection of IPRs.

One of the strongest arguments for IP protection is that, unless inventions or creations are appropriately compensated, there will be sub-optimal incentives to undertake research and development. However, the welfare benefits accruing from IP protection for IP owners are also contrasted by the prospects for associated welfare costs which might arise the exclusion of non-IP owners from the consumption of the pertinent strategic knowledge. The balance of these effects will implicitly vary from one economy to another.

Nevertheless, for the global economy as a whole, several benefits are posited for effective protection of IPRs. Generally, domestic industry all over the world will be promoted through the exportation/importation of technology, within the framework of strongly harmonised regimes for the protection of IPRs. Arguably, well-founded IPR systems at

national and international levels can promote enterprise competitiveness in developing and developed economies alike through:

- (a) Protecting the right of individuals/enterprises, with relation to their intellectual property (IP), in much the same way as laws protect other forms of property.
- (b) Encouraging/protecting incentives for innovation (e.g., by enabling the private sector to patent inventions and innovations, etc.).
- (c) Inducing investments to develop and commercialise inventions.
- (d) Providing of incentives to disclose information.
- (e) Protecting the disclosure of partially developed inventions, particularly during licence talks.
- (f) Assisting technology transfer.
- (g) Enabling the private sector to patent discovery.
- (h) Regulating the institutions' use of employees' inventions and innovations.
- (i) Augmenting the marketing efforts of enterprises.

### 8.3. Institutional framework for IPRs at global and regional levels

At the global level, the World Intellectual Property Organisation (WIPO), which was established in 1967, is mandated to enforce international regimes for the protection of various categories of IPs. The principal conventions administered by the WIPO are, *The Paris Convention for the Protection of Industrial Property*, (invariably referred to as the Paris Convention), and *The Berne Convention for the Protection of Literary and Artistic Works* (invariably referred to as the Berne Convention). The former was initially established in 1883, and is the principal instrument for protection of patents and trademarks. The later was formerly established in 1886 and is the major instrument for the protection of copyrights. Both provide for national treatment. The WIPO has also a dispute resolution mechanism.

The regimes administered by the WIPO is complemented by the WTO agreement on TRIPs, as a further multilateral agreements for the protection of IPs. The negotiations that led to the birth of the TRIPs regime were triggered by concerns about inadequate protection against imitation, particularly in pharmaceuticals, food additives and plant varieties. The resultant regime is comprehensive and has the following main provisions:

- (a) Extension of the most favoured nation (MFN) and national treatment status.
- (b) Standard patent protection for a period of 20 years.
- (c) Standard patent protection for a period of 20 years.
- (d) Exclusion from patentability of plants and animals other than macro-organisms, subject to providing a *sui generis* system for plant variety protection.

The major IPRs texts and treaties administered by the WIPO are presented in *table 27*.

Table 27: Major treaties and texts for the protection of IPRs

<b>International protection of industrial property</b>	
Paris convention for the protection of industrial property	1883
Madrid Agreement on the international registration of marks	1891
Nice agreement concerning the international classification of goods and services for the purposes of the registration of marks	1957, revised 1967 and 1977, amended 1979
Lisbon agreement for the protection of appellations of origin and their international registration	1958, revised 1967, amended 1979
The Hague Agreement concerning the international deposit of industrial designs	1960
Locarno agreement on establishing an international classification for industrial designs	1968
The Washington patent co-operation treaty	1970, amended 1979, modified 1984
Strasbourg agreement concerning the international patent classification	1971, amended 1979
Budapest treaty on the international recognition of the deposit of micro-organisms for the purposes of patent procedure	1977, amended 1980
Nairobi treaty on the protection of the Olympic symbol	1981
Geneva trademark law treaty	1994
WIPO copyright treaty	
<b>International Protection of the Copyrights and Neighbouring Rights (Rights of Performers, Producers of Phonograms and Broadcasting Organisations)</b>	
Rome convention for the protection of performers, producers of phonograms and broadcasting organisations	1961
Berne convention for the protection of literary and artistic works	1971, amended 1979
Geneva convention for the protection of producers of phonograms against unauthorised duplication of their Phonograms.	1971
Brussels convention relating to the distribution of programme-carrying signals transmitted by satellite.	1974
WIPO performances and phonograms treaty	

Source: WIPO, 2000.

(e) Compulsory licensing.

(f) Setting up of WTO-TRIPs Council, which will be notified by members of laws regarding IP legislation.

The WIPO has also regional bureaus for all the major developing regions, i.e., Africa, Asia, the Caribbean and Latin America, Asia. There is also a co-ordination unit for the former Soviet Republics and Eastern Europe.

## **9. SADC economies and intellectual property rights**

Although the SADC economies have not been entirely passive in the generation of new IPs (as evidenced by their sporadic filing for world-wide for patent protection), by international standards, they are mainly users than creators of such IPs as patents, copyrights etc. Also, to the extent that they are the sources of new inventions, they usually lack the financial capacity and information network to effectively protect their rights on both local and international markets.

In this regard, the various real and potential creators of IPs in the SADC region present potential beneficiaries of functional international IP market, regulated by internationally mandated protection of IPRs. Therefore, the development of effective IPRs regime at national and regional levels, and the harmonisation of the same with various conventions administered by the WIPO is consistent with the pursuit of national and regional development goals of the SADC economies individually and as a group.

### **9.1. SADC economies and global IPRs initiatives**

At the global level, the engagement of the SADC economies in the protection of IPRs follow under the WIPO and WTO. Individually, all the 14 SADC economies are members of the WIPO. As of March 2000, the various SADC countries participated in the WIPO bodies as indicated in *table 28* overleaf. Notably, all SADC states participate in at least one WIPO organs, while with the exception of Angola and Seychelles, they also participate in at least one organ of the several conventions administered by the WIPO.

Also, with the exception of Seychelles, all are members of the WTO as well (while Seychelles has already applied for membership).

The SADC economies also collectively acknowledge their commitment to effectively participate in the protection of IPRs. In this context, Article 24 of the trade protocol of the SADC stipulates that *member states shall adopt policies and implement measures within the community, for the protection of intellectual property rights, in accordance with WTO agreement trade on related aspects of intellectual property rights.*

Table 28: Membership of the SADC economies in WIPO and other IPRs initiatives

	Membership in WIPO bodies	
	WIPO	Other IPRs bodies
1. Angola	<ul style="list-style-type: none"> <li>• WIPO Conference</li> <li>• WIPO Co-ordination Committee</li> </ul>	
2. Botswana	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Berne Union Assembly</li> </ul>
3. DRC	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly</li> <li>• Berne Union Assembly</li> </ul>
4. Lesotho	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> <li>• WIPO Co-ordination Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly,</li> <li>• Paris Union Executive Committee</li> <li>• Berne Union Assembly</li> <li>• PCT Union Assembly</li> </ul>
5. Malawi	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly</li> <li>• Berne Union Assembly,</li> <li>• Madrid Union Assembly</li> <li>• Nice Union Assembly</li> <li>• Locarno Union Assembly</li> <li>• PCT Union Assembly</li> <li>• IPC Union Assembly</li> </ul>
6. Mauritius	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly</li> <li>• Berne Union Assembly</li> </ul>
7. Mozambique	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly</li> <li>• Madrid Union Assembly</li> <li>• PCT Union Assembly (as from May 18<sup>th</sup> 2000)</li> </ul>
8. Namibia	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Berne Union Assembly</li> </ul>
9. Seychelles	<ul style="list-style-type: none"> <li>• WIPO Conference</li> </ul>	
10. South Africa	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> <li>• WIPO Co-ordination Committee</li> <li>• WIPO Programme and Budget Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Berne Union Assembly</li> <li>• Berne Union Executive Committee</li> <li>• PCT Union Assembly</li> </ul>
11. Swaziland	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> <li>• WIPO Co-ordination Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly</li> <li>• Berne Union Assembly</li> <li>• Madrid Union Assembly</li> <li>• PCT Union Assembly</li> </ul>
12. Tanzania	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> <li>• WIPO Co-ordination Committee</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly</li> <li>• Berne Union Assembly</li> <li>• Berne Union Executive Committee</li> <li>• Nice Union Assembly</li> <li>• PCT Union Assembly</li> </ul>
13. Zambia	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly, Berne Union Assembly</li> </ul>
14. Zimbabwe	<ul style="list-style-type: none"> <li>• WIPO General Assembly</li> </ul>	<ul style="list-style-type: none"> <li>• Paris Union Assembly</li> <li>• Berne Union Assembly</li> <li>• PCT Union Assembly</li> </ul>

Notes PCT ... Patent co-operation treaty, IPC ...

Source: WIPO March 2000.

## 9.2. SADC economies and regional IPRs initiatives

So far, the SADC does not have a policy framework or regime for the protection of IPRs. Nevertheless, there exists a regional co-operation on patent and trademark for 14 Anglo-phone African states, in the form of African Regional Intellectual Property Organisation (ARIPO).<sup>25</sup> However, only six SADC states (i.e., Botswana, Lesotho, Malawi, Tanzania, Zambia and Zimbabwe) are members of ARIPO. Also, only 11 ARIPO members (i.e., Botswana, Gambia, Ghana, Kenya, Lesotho, Malawi, Sudan, Swaziland, Uganda, Zambia, and Zimbabwe - the underlined are SADC states) are signatories to the *Harare Protocol on Patent Protection*. Likewise, just four ARIPO members (i.e., Lesotho, Malawi, Swaziland, and Uganda - the underlined are SADC states) are signatories to the *Banjul Protocol on Protection of Trademarks* (IDS 1999: 3).

On the ground, the enforcement of the protection of IPRs remains patchy in most of countries in Africa South of the Sahara, including in the SADC economic space. Of the 14 SADC economies, currently only Botswana and South Africa are categorised as broadly TRIPs-compliant. Also, only two more economies from Africa South of the Saharan, i.e., Kenya and Senegal fall into this category. Therefore, the new impulse towards more stringent implementation of IPRs and presents a major challenge for the SADC economies

## 9.3. Prospective issues related to the protection of IPRs for the SADC enterprises

### 9.3.1. Compliance with international obligations

Agreements like TRIPs present developing economies of the calibre of most SADC countries with serious implementation challenges. Notably, in addition to the universal provisions pointed out in part 8.3 above, there are provisions of special interest to the SADC economies, as they focus at the specificity of developing economies. These include:

- (a) Transitional arrangements (from 1 January 1995). They mean one year delay in implementation for all signatories; five year delay in implementation for developing countries (which include six SADC economies, i.e., Botswana, Mauritius, Namibia, Seychelles, Swaziland, and Zimbabwe); 11 year delay of implementation for the least developed countries (which include seven SADC economies, i.e., Angola, DRC, Lesotho, Malawi, Mozambique, Tanzania and Zambia).

<sup>25</sup> The sister organisation for francophone Africa is known as Organisation Africain de la Propriété Industrielle (OAPI), and is based in Cameroun.

- (b) Commitment of industrial countries to provide technical and financial assistance to help developing countries to prepare and enforce domestic IPRs legislation.

On the whole, in order to effectively respond to the challenges, national IPRs regimes need to be revitalised or developed from scratch. Concretely, this means, among other things:

- (a) The establishment of administrative procedures.
- (b) The enactment of laws in such new areas of IPRs protection, as biotechnology and origin specifications, as well as related areas of trade secrets and competition.
- (c) The building capacity to administer the various IPRs regimes. This will further require the training of experts in different disciplines related to IPRs (e.g., lawyers, trade economists, engineers, etc.).
- (d) The establishment of dispute resolution mechanisms, etc.

The milestones for action for the SADC economies in implementing various measures related to IPRs are highlighted in *table 29*. Altogether, the developments in the protection of IPRs and related matters contained in *table 29* are important for the SADC economies, as effective participation in them will be associated with commitment of huge amounts of both human and financial resources, that might surpass the capacities of the concerned countries.

Table 29: Some milestones for the implementation of the TRIPs for the SADC economies

Mineral resource	Year	SADC Countries concerned
1. Extension of MFN status	1995	All SADC economies
2. TRIPs agreement comes fully into effect	2000	SADC economies which are not least developed countries, i.e., Botswana, Mauritius, Namibia, Seychelles, Swaziland, and Zimbabwe
3. End of transition period for product patent protection to technologies not previously protected by product patents	2005	All SADC economies
4. TRIPs agreement comes fully into effect	2006	SADC economies which are least developed countries, i.e., Angola, DRC, Lesotho, Malawi, Mozambique, Tanzania, and Zambia

Source: Own table compiled from IDS 1999: 2.



Notably, despite generous time extension accorded to developing countries to enable them to comply with the WTO provisions, as these grace periods come to an end, it is doubtful whether the SADC economies have or will have really been able to put in place requisite measures. At this stage, it is conspicuous that some countries will need international help to able to develop the capacities to implement the various IPRs measures.

### **9.3.2. Expansion of the base for local debate of IPRs issues**

From the foregoing discussion, it is clear that in new competition, IPRs are becoming important aspects of policy formulation. Therefore, development policies should make explicit reference to the role of IPRs.

The industrial policy of the SADC emphasises the role of the private sector and SMEs for sustainable development of the region. The consolidation of regional infrastructure and technological capacities form important aspects of the pursued development goals. Other development goals include strategy the promotion and maintenance of high levels of investment, and the harmonisation of the institutional framework.

Notably, in order to achieve these goals, the SADC economies will have to implement need to be more closely integrated into the world economy. This will, among other things, necessitate the protection of IPRs in order to build confidence of potential investors, inventors, artists and other business persons with regard to the returns from, and the protection of their businesses and IPs.

In this connection, it is obvious that the SADC needs to explicitly deal with issues related to IPRs by having a separate provision of the same in the regional co-operation agreement.

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#### **IV: LESSONS FOR ACTION, RESEARCH AGENDA AND CONCLUSIONS**

#### **10. Sustaining competitiveness in a liberal global economy: reflections for action**

Several important lessons can be drawn from the observations presented in chapters 1 to 9. Notably, the potential contribution of SMEs to sustainable growth of the SADC economies is large. However, the risk of the changing environment to significantly disrupt the activities of SMEs is both real and enormous. Although in theory all efficient enterprises can take advantage of opportunities presented by new competition irrespective of their size, in reality there is concern that smaller businesses will be the losers of the process. This is because of a number of size related characteristics that may affect their ability to identify, and harness the emerging opportunities and protect themselves against the pertinent risks. Two obvious limitations to smaller enterprises compared to large ones are, for instance, the higher level of uncertainties they face in the environment, and their resource limitations.

Therefore, for a SADC action agenda to be successful, it needs to adequately analyse the role and characteristics of SMEs in the SADC economies, and adequately reflect on the impact of the changing environment on their competitiveness.

##### **10.1. SMEs as engine for the economic progress of the SADC economies**

For a foreseeable future, SMEs are bound to remain the vanguard of the SADC economies and other developing economies of the same calibre. In this regard, Elkan's remark that *small businesses are the most promising vehicle of entrepreneurial dynamism in Africa* (Elkan 1998, *ibid.*), apply very much for the SADC economies. Corollary, future economic growth in the SADC region is contingent to the competitiveness of their SMEs.

However, it should also be born in mind that not all SMEs in the SADC region are the same. Despite inter-country differences, evidences suggest that some SMEs are responding to the new market challenges quite impressively, and in the short term at least managing to achieve competitiveness. Moreover, there are strong evidences that the current basis of competitiveness for SMEs in the region contain weaknesses which may affect their ability to sustain it. Notably, though an increasing number of SMEs are venturing into strategies that accord them *higher order* and even *new* sources of competitiveness, most of them still derive their competitiveness from the *lower order* sources of competitiveness.

In general, the overwhelming majority of SMEs remain domestically-oriented, low growth enterprises. Their contribution to long-term economic growth is marginal and below their potential. Both low growth and high growth SMEs can make significant contributions to sustainable growth in the economies of the region, if they will be empowered to utilise the advantages arising from the liberalisation of the global economy, and the immense gains in technological development which have been recorded in recent decades.

### **10.2. Key issues facing SMEs in the SADC economies**

The predicted developments which underlie the liberalisation of the global economy and the great development in technology/knowledge associated with them, pose both opportunities and risks to SMEs. The opportunities are tied with, among other things, the good overall prospects for the invigoration of industrial development, while the risks are underscored by possible marginalisation due to the changing condition of competition. In order to sustain and consolidate the competitiveness of SMEs, as key economic actors in the SADC region, these opportunities and risks will have to be carefully managed.

On the whole, globalisation of industry, open regionalism, multilateral dynamics and knowledge/technological dynamics, translate into a shift in the sources of competitiveness.

#### **10.2.1. Changing framework of business operations**

As highlighted, the environment has changed significantly. The process of global liberalisation has significant implications for the set-up of the economy. Alongside benefits that might result from the rejuvenation of the global economy, are risks of falling behind. In order to avoid marginalisation, enterprises are compelled to strengthen the integrated product cycle: product development, product diversion, product quality, product marketing. To achieve this, enterprises have to participate more effectively in the processes of the development of relevant technologies and skills.

On the way to the formulation of effective strategy, the SADC economies should comprehend the significance of the constituent forces of global liberalisation, i.e., globalisation of industry, open regionalism and multilateralism, and devise appropriate strategies to deal with them.

### *A. SMEs and the globalisation of industry*

Though popular business literature focuses on inter-country competition (and predominantly analyses competition from the national level), in reality, it is enterprises and not nations that compete in domestic and international markets. Hence, from the perspective of the SADC economies, the interaction of the local enterprise sector and the international business sector invariably articulates inward globalisation. In concrete terms, this increasingly exposes enterprises in the SADC economies to the challenges of new competition.

However, inasmuch as SMEs dominate the enterprise sectors and new competition exposes the SADC SMEs to more competitive foreign (usually) LSEs, the playing field for competition is not level. Theoretically, this suggests a possible ruinous shift of competitiveness from SMEs to LSEs, which in the absence of viable strategies, will mean further marginalisation of the SADC economies, alongside other developing countries.

### *B. SMEs and open regionalism and multi-lateralism*

New competition also means that the SADC economies will be compelled to comply with provisions in regional and multilateral arrangements for more liberalisation. Hence, future development strategies should create a liberal economic environment which, (i) minimises restrictions and distortions, and (ii) rewards engagement, creativity, and innovativeness.

Despite risks, open regionalism and multilateralism create many opportunities for SMEs as well. However, the potential for SMEs to contribute to economic development will depend on the utilisation by SMEs of the opportunities created by global liberalisation, to engage in economic activities modelled to enable them to actively pursue *outward globalisation of industry strategies* and harmonise them with *inward globalisation of industry pressures*.

#### **10.2.2. Shift of sources of competitiveness**

As a large number of countries are moving away from inward oriented development strategies, enterprise competitiveness is taking new dimensions for both developing and developed economies. Notably, within the context of new competition, enterprise competitiveness is dependent on *higher order* sources of competitiveness as opposed to *lower order* sources of competitiveness. Simultaneous to this development, the sources of enterprise competitiveness are shifting in favour of knowledge-based factors of production, i.e., capital

intensive technologies and skill intensive production factors. The dynamics in the knowledge and technology market requires enterprise/economies that want to sustain their competitiveness to systematically monitor, (i) new and emerging technologies with a view to making policy and strategic decisions for their timely adoption and internalisation; (ii) internal conditions of the educational and technological bases, and their dynamics.

Thus, in future, it will not be sufficient to predicate the competitiveness of SADC's SMEs upon their *traditional merits* (such as flexibility, market development, etc.). It will be necessary to couple these *traditional merits* and *new, knowledge-based merits* (e.g., skills of management and employees, technological capabilities, information networks, etc.).

### 10.3. Implications for enterprise strategy and SME policy framework

To sum up the observations in the previous sections, in new competition, sustaining competitiveness requires understanding the effects of the liberalisation of the global economy on SMEs in countries that are becoming increasingly exposed to globalisation of industry, open regionalism, multilateralism and shifting in the sources of competitiveness, at a time when their economic structures are still underdeveloped. Within a broader macro-economic context, it will be necessary to link the resource endowment of the country, the traditional merits of SMEs, and the requirements for new competition (e.g., merits based on new knowledge).

Notably, many enterprises in the developed economies have already begun to adapt their operations to the conditions of new competition. However, in developing economies the adjustment to these new realities is either still in its infancy or has not yet started.

Hence, in order to assist the SMEs from the SADC region to adjust to the challenges of global liberalisation, the evolving SME sector promotion strategies should be comprehensive and address both supply and demand side sources of costs to enterprises, in the context of relevant developments. The role of IP and IPRs should be understood within this context.

### 11. Proposed research agenda

An important objective of this work has been to use the review to define a research agenda on SMEs in the SADC region. The observations portray in broad terms, the business scenarios in the SADC economies, and highlight the pivotal role of SMEs thereof. However, despite unquestionable interest in SMEs, our knowledge of their actual potentials and limitations remain weak. Unlike the situation in developed economies, the stock of empirical knowledge on SMEs and entrepreneurship occupational dynamics is still critically small for the SADC and the majority of other developing economies. Notably, a few empirical studies which have been undertaken, particularly for the SADC region have been uneven in terms of such critical aspects for understanding the SMEs as:

- (a) *Sectoral coverage*. Typically a few and usually not the same sectors have been covered in different economies.
- (b) *Methodology used*. These have differed from study to study. Only a few studies that tried to quantify the linkages between enterprise performance and business environmental influences, asked the same questions, used terminology in identical fashion, and applied similar estimation techniques across countries.<sup>26</sup>
- (c) *Rigour of analysis*. In this regard, the bulk of literature on SME in the SADC region constitutes qualitative arguments without attempts to quantify and present some hard evidences of influences that run from the environmental framework (micro, sectoral, macro, regional, regional) of the enterprise operations to enterprise performance.
- (d) *Conceptual clarity*. A few studies use terminology in identical fashion, and on the whole, there is a great confusion on what constitutes MEs and SMEs.

On the whole, these characteristics of literature reduces the plausibility of comparative assessment of SMEs between countries, or even between sectors within the same country.

Thus, to date, many issues concerning SMEs and entrepreneurship dynamics in general, have either not been researched at all (and therefore there is total lack of empirical evidence on them), or they have been researched only in a fragmented way as suggested above (and therefore there are empirical gaps). Hence, the picture of findings is incomplete.

<sup>26</sup> In fact, to our best knowledge, only the *RPED Survey* of the World Bank which covered three SADC economies (i.e., Tanzania, Zambia and Zimbabwe), and the East Africa SME Survey which covered one SADC member state (i.e., Tanzania), used fall into this category.

Hence, though broad generalisations can be discerned from the existing body of literature, it is obvious that a great deal more remains to be unveiled. In reality, the presented findings are, *de facto*, stylised facts derived from a few empirical studies, policy documents, and the author's knowledge of the economic evolutionary and dynamic features of the SADC region. In this spirit, we propose further research of the SMEs in the region, in order to gain better insights of both *broad* and *IPRs related* issues that are significant for competitiveness.

#### 11.1. Broad study of SME related issues in the SADC economies

In broad terms, future research will need to identify on a more reliable basis, the various *general* and *SADC specific* forces that precipitate or impede the competitiveness of SMEs. Equally importantly, such research will have to estimate the weights of the identified forces in determining the competitiveness of SMEs.

Corollary, it should address the policies, strategies, and institutional arrangements, for effectively tapping the opportunities and minimising the threats of the globalisation process, and the related developments in the IP market. The proposed *Southern Africa SME Survey*, could be implemented within the framework of a broader project, the enterprise research programme (ERP). In this context, the study could also draw linkages to and benefit from the *East Africa SME Survey*, whose field work has just been concluded.<sup>27</sup>

Bearing in mind the contemporary and future context of business competitiveness, the study should be designed to gain better insights of the linkages between global liberalisation and the competitiveness of SMEs, in view of three key dimensions: primary resource base of the enterprise, and the capability of the enterprise to mobilise acquired resources particularly technological capacities, and access to information and communication technologies (ICTs). Thus, issues of innovations and transfer/diffusion of technology should be central to the study. Within a broader context, the study should also focus on SME support mechanisms as an aspect of private sector development strategy, and how to integrate this in North-South development co-operation (e.g., EU-ACP co-operation).

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<sup>27</sup> The *East Africa SME Survey* within the framework of Enterprise Research Programme (ERP) is a collaborative project of the Center for Development Research (Bonn University) and four East African Universities: Kenyatta and Maseno (Kenya), Dar es Salaam (Tanzania) and Makerere (Uganda). The project is directed by the author of this report.



Consequently, a *Southern Africa SME Survey* is underscored by the necessity to:

- (a) Understand potentials and risks of the liberalisation of the global economy, that face SMEs, particularly from economies whose enterprise sectors are dominated by SMEs.
- (b) Understand entrepreneurial processes, policies, and intervention measures that favourably or unfavourably impact on the competitiveness of SMEs, in view of the requirements of a liberal global economy.
- (c) Assess the adequacy of the existing entrepreneurial occupational evolution and dynamics, national and regional policy frameworks, and intervention measures (national, regional, international), to facilitate the competitiveness of SMEs on a sustainable basis and foster the integration of developing economies in the global economy.
- (d) Facilitate uninterrupted supply of technologies to the rural areas in pursuance of multiple goals, including the promotion of rural entrepreneurship, food security, etc.

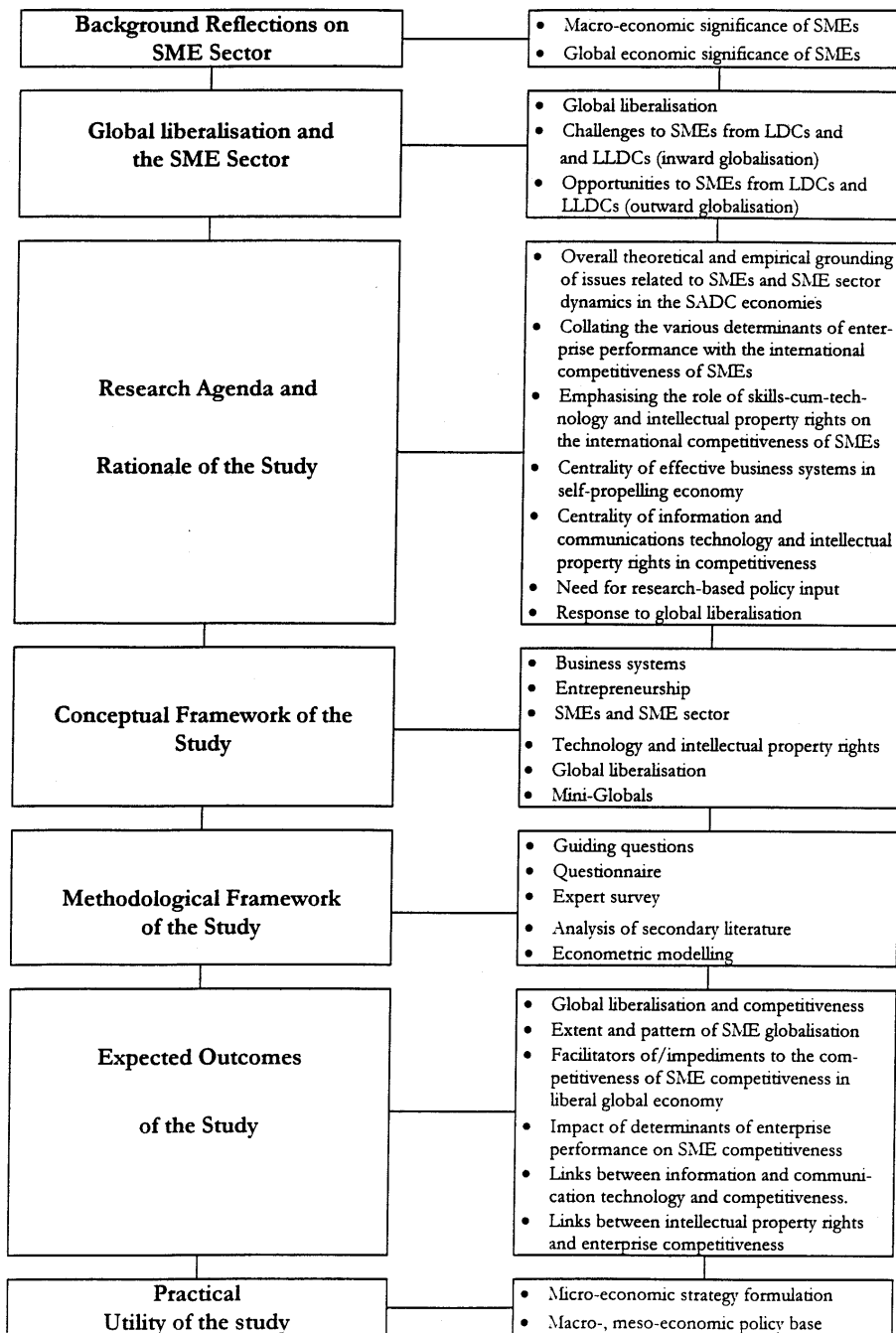
Therefore, the potential benefits of a broad-based *Southern Africa SME Survey* are further underlined by, among other things, the essence to:

- (a) Have a common understanding of SMEs and related issues.
- (b) To facilitate cross-country comparison thereof.
- (c) Have in place a universal regional definition of SMEs to facilitate and focus policy and interventions in a manner that will not distort competition.

Concretely, we propose a research under the working title, "***Sustaining the competitiveness of small and medium scale enterprises (SMEs) in a liberal global economy: empirical and theoretical lessons from the SADC economies***".

Implicitly, so as to internalise the results of the research (which should include recommendations of a SADC SME development strategy, as part of the region's private sector development strategy), the study should be designed and implemented in close collaboration with the Secretariat of the SADC. An overview of the proposed *SADC SME Survey* is presented in *figure 2* overleaf. A detailed research proposal of the same is presented separately as *Annex 1* to this report.

Figure 2: SADC SME Survey: overview of the study



### 11.2. Study of IPRs issues of significance to SMEs in the SADC economies

As suggested above, IPRs are important for SMEs and, if properly enforced they can contribute significantly to their competitiveness. The potential benefits of IPRs draw from the functions they can fulfil, which include:

- (a) Protecting the right of individuals/institutions with relation to their IP in much the same way as laws protect other forms of property.
- (b) Encouraging/protecting incentives for innovation, inducing investments to develop and commercial inventions, providing incentives to disclose information (which would be necessary for the so called *horizontal co-operation*).
- (c) Protecting the disclosure of partially developed inventions (particularly during licence talks), assisting technology transfer.
- (d) Enabling the private sector to patent discovery, regulating institutions' use of employees' inventions/discoveries.
- (e) Attraction foreign direct investments (FDI).
- (f) Encouraging competition in technological development, etc.

Typically, issues related to IPRs bring together a myriad of stakeholders with a diverse views, bargaining positions, and vulnerabilities. Given their limited economic power, SMEs from developing economies are likely to face stronger risks in connection with IPRs. Some of the potential risks associated with a strict implementation of IPRs in conjunction with open regionalism and multilateralism include, the marginalisation of SMEs, barriers against the internationalisation of technologies. Thus, considering the weight of SMEs in developing economies, it is feared that if IPRs are not carefully designed and implemented, they will lead to the overall marginalisation of developing countries and economic colonialism.

Corollary, a research of IPRs is underscored by the urgency to find ways to alleviate the potential risks, and to prevent the de-linking of developing economies from the global economy. Future research should provide a reliable input to serve as a basis for policy actions and other measures, on which grounds the SADC economies could be assisted to:

- (e) Raise and cement awareness on IPRs and their economic significance.
- (f) Build capacity to design effective IPRs at national/regional level and implement them.
- (g) Identify knowledge gaps on the possibilities of the application of IPRs to protect products of unique significance for the economies of the region (e.g., handicrafts products, natural resources, traditional medicine and developments thereof, etc.).

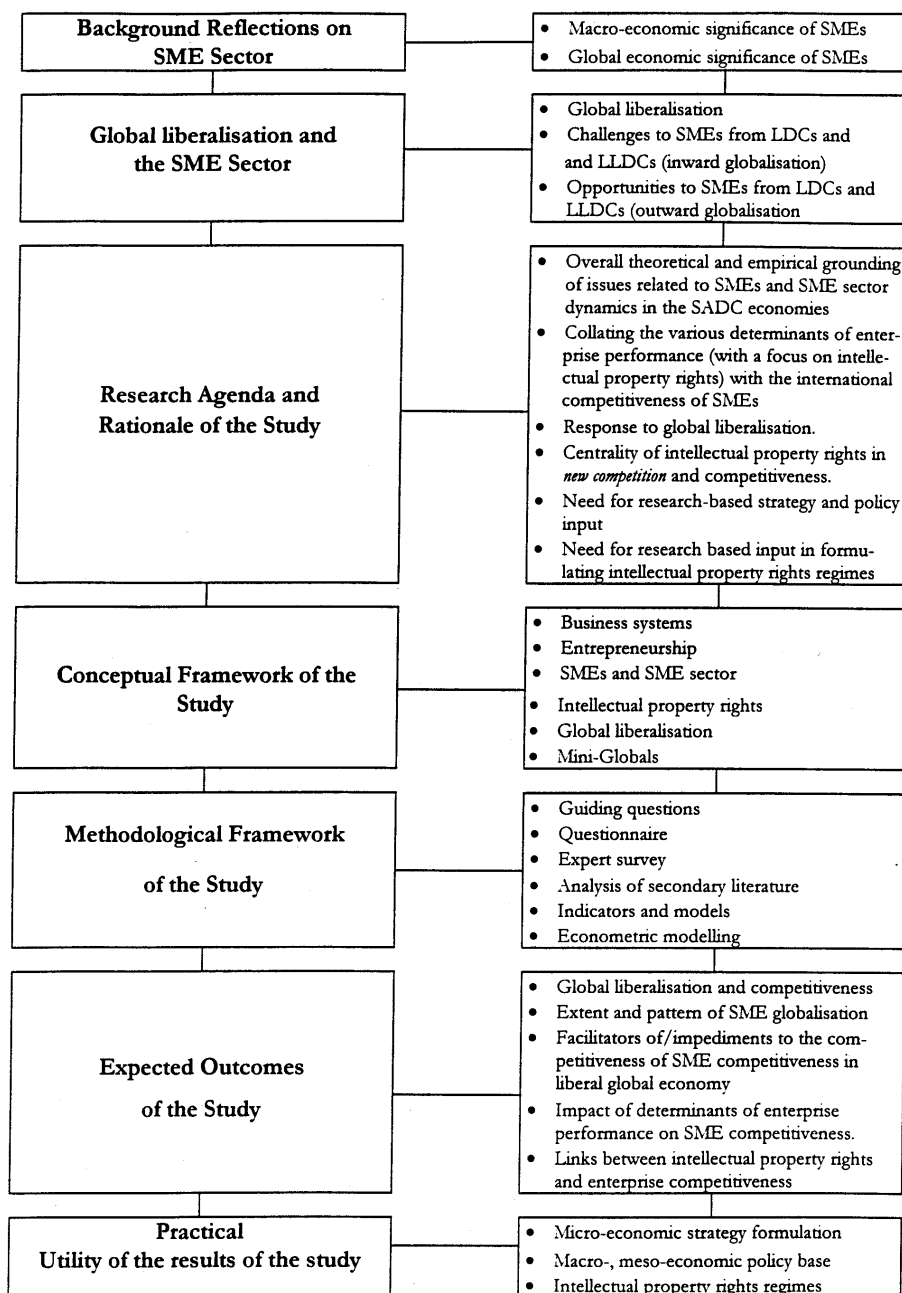
- (h) Identify knowledge gaps on the possibilities of the application of IPRs to facilitate the transfer of strategic technologies (e.g., agricultural technology) to the SADC economies.
- (i) Design national/regional IPRs regimes that conform with TRIPs (of WTO).
- (j) Design national/regional IPRs regimes to protect new areas of technology and effectively deal with disputes (e.g., involving plant genetic material, use of indigenous knowledge as in medicine, etc.).
- (k) Create a platform for informed individuals, representing major institutions with a stake in IPR in Southern Africa.
- (l) Facilitate uninterrupted supply of technologies to the rural areas in pursuance of multiple goals, including the promotion of rural entrepreneurship, food security, etc.

Therefore, with reference to IPRs, the objective of future research should be to critically evaluate the prospects of achieving sustainable competitiveness of SMEs from developing countries, through the creation and utilisation of appropriate IPRs regimes. Future research should explore the role of carefully formulated and effectively enforced IPRs regimes at various levels, in facilitating inventions and innovations in SMEs and in enabling them to access knowledge/technologies on local and international IP markets.

The proposed *Southern Africa IPRs Survey*, could be implemented within the framework of a broader project by the WIPO on IP and economic development. Corollary, it should address the policies, strategies, and institutional arrangements, for effectively tapping the opportunities and minimising the threats of the globalisation process, and the related developments in the IP market. The study should also draw linkages to and benefit from the proposed *East Africa IPR Survey*.

Concretely, we propose a research under the working title, "***Technological Progress, Intellectual Property and SMEs in the SADC Economies***". It should be designed to gain better insights of issues pertaining to three key dimensions: globalisation of industry, the role that effective management of IPRs can play in promoting the competitiveness of SMEs, and thereby the economic competitiveness of developing countries (on a sustainable basis). An overview of the proposed *SADC IPRs Survey* is presented in *figure 3* overleaf. A detailed research proposal of the same is presented separately as *Annex II* to this report.

Figure 3: SADC IPRs Survey: overview of the study



## 12. Conclusions

To recapitulate, the process of global liberalisation underscores the growing interdependence of economies. It means the falling apart of protectionism as entry barriers, and the enhancement of competition involving both local and foreign enterprises. It also means increased interactions among LSES and SMEs. It further means a new orientation, focusing on three aspects:

- (a) The private sector as the engine for economic growth.
- (b) The government as creator and enforcing agent of a conducive environment for the private sector to progress.
- (c) Economic internationalisation.

For most SMEs and SME sectors of such developing economies, this is a very crucial development. The situation poses opportunities, mainly associated with revitalised industrial development, chances for outward globalisation of industry, opening up of new vents for strategic alliances, etc. Against these opportunities are many risks, articulated by the very serious prospects for economic marginalisation (at various levels of economic aggregation: enterprise, sector, national, and even whole regions/continents). In this context, marginalisation may result from the changing condition of competition underscored by:

- (a) The shift to capital intensive technologies and skill intensive production factors.
- (b) The shift from *lower order* sources of competitiveness (i.e., those that are price-based) to *higher order* sources of competition (i.e., those which depend on modern management concepts) and most importantly to *new* sources of competition (which heavily rely on the ability to participate in the generation/consumption of new knowledge for development including information and communications technologies).
- (c) The costs of adjusting to open regionalism and multilateralism.

Also, the implied *new market entry barriers* (capital intensive technologies and skill intensive production factors), might not be easily fulfilled by SMEs, particularly those from developing countries. Concretely, this might restrict the number of participants to small groups of enterprises, of mainly developed economies, if the private sector in developing economies like the SADC, fail to act accordingly and timely.

To summarise, at least three conclusions can be drawn:

- (a) *Lower* and *higher order* sources of competitiveness will continue to form important knots in the competitiveness of SMEs. However, they are a necessary and not inevitably sufficient conditions for competitiveness. In concrete terms, this means in future the significance of such merits as resource endowment of the SADC region as a source for competitiveness will be eroded.
- (b) The paths to competitiveness will continue to vary from country to country, depending on the salient features of the constituent dimensions of its factors of production, over and above the lower order and the *higher order* sources of competitiveness. In this context, the societal institutional set-up as underscored by national social capital will play a key influence. However, current developments suggest, that irrespective of the path taken by individual enterprises/economies, the new sources of competitiveness are indispensable in determining sustainable competitiveness.

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In this regard, a *RPED Survey* confirmed the significance of access to external and internal sources of financing on enterprise investment behaviour. It also reveals that, access to short term working capital increases value added in enterprises by as much as 40 percent.

## **PART VI: ANNEXES**

*Annex I*

*Sustaining the competitiveness of small and medium scale enterprises (SMEs) in a liberal global economy: empirical and theoretical lessons from the SADC economies*

A proposal on a broad study of SMEs in the SADC economies

Submitted to

*The World Intellectual Property Organisation (WIPO)*  
*as part of the study of the Profile of SMEs in the SADC Economies*

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### 1. Background issues

The contemporary global business dynamics are marked by two major strategic developments, i.e., the globalisation of industry, and the advance of information and communications technology (ICT) as one of the prime source for business competitiveness.<sup>1</sup> With reference to globalisation, although it is large scale enterprises (LSEs) that provide most of the thrust through cross border strategic alliances of various degrees (e.g., international production and sourcing, marketing, financing, etc.), the process also presents challenges and opportunities for small and medium scale enterprises (SMEs).

A further important observation is that, to date, SMEs dominate the economic activities of developing countries. Hence, not only are the bulky of business establishments in these countries categorisable as small and medium scale by international standards, but also they dominate the economic activities across the board, e.g., contribution to gross national product (GDP), contribution to exports, provision of employment, contribution to growth in employment, etc.

The study, *Sustaining the competitiveness of small and medium scale enterprises (SMEs) in a liberal global economy: empirical and theoretical lessons from the SADC economies*, is designed to:

- (a) Identify on a more reliable basis, the *general* and *unique* forces that precipitate or impede the competitiveness of SMEs in the SADC economies.
- (b) Estimate the weights of the identified forces in determining the competitiveness of SMEs.

Corollary, it should address the policies, strategies, and institutional arrangements, for effectively tapping the opportunities and minimising the threats of the global liberalisation. The proposed *Southern Africa SME Survey*, could be implemented within the framework of a

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<sup>1</sup> In a narrower perspective *competitiveness* is articulated as the magnitude and rate of change in value added (per unit input) achieved by the enterprise. In this regard, productivity contributes to the ability of the enterprise to compete with other in quality and price. However, in a broader perspective, competitiveness has also to be understood in terms of real market transactions. In this regard, competitiveness is manifest by dynamics in a host of other dimensions (e.g., policies, marketing practices) that are a source of performance differentials between economic units. Besides sector- and economy-specific factors, other factors relate to developments in the international system.

Notably, in this context, ICT is seen as both an aspect of globalisation and source of competitiveness.

broader project, the enterprise research programme (ERP), and thereby draw linkages to and benefit from the *East Africa SME Survey*, whose field work has just been concluded.<sup>2</sup>

Implicitly, the study should be designed and implemented in close collaboration with the Secretariat of the SADC, so as to internalise the results of the research, which should include recommendations a SADC SME development strategy.

## 2. Aim and focus of the study

In a systematically liberalising world, the participation of enterprises in the global economy is becoming increasingly dependant upon three major constraints: (i) effective micro-economic participation in the globalisation of industry, (ii) the ability of enterprises to substitute their factors of production, taking into consideration the shifts in the determinants of competitiveness, (iii) ability of enterprises to absorb macro-economic shocks resulting from compliance with the requirements of global liberalisation (open regionalism and multilateralism).

This research seeks to study the prospects of SMEs from developing economies in a liberal global economy, characterised by a systematic liberalisation of the global economy and the shifting in the importance of the various determinants of competitiveness. It is concerned with better understanding of entrepreneurial processes, policies, and intervention measures that favourably or unfavourably impact on the competitiveness of SMEs, in view of the requirements of a liberal global economy.

Arguably, the process of globalisation poses not only challenges, but also opportunities for SMEs, even those from developing economies. On the one side, it is conspicuous that the developing countries are lacking in one of the key motors of the liberalisation of the global economy, i.e., LSE. Hence, by the virtue of their size, enterprises from developing countries are more exposed to the pressures of globalisation, originating from open regionalism (due to regional integration schemes), multilateralism, and the shifting in the sources of competitiveness. However, on the other side, a strategic combination of lower order or

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<sup>2</sup> The *East Africa SME Survey* within the framework of Enterprise Research Programme (ERP) is a collaborative project of the Center for Development Research (Bonn University) and four East African Universities: Kenyatta and Maseno (Kenya), Dar es Salaam (Tanzania) and Makerere (Uganda). The project is directed by the author of this report.

price-based sources of competitiveness, higher order or non-price based sources of competition, and new sources of competitiveness (e.g., mainly associated with ICT, innovations, etc.) is likely to enhance the competitiveness of SMEs.

Thus, in broad terms, the research is set to highlight, (i) the structural and dynamic effects of global liberalisation on the development of SMEs, (ii) the potentials and risks associated with the global liberalisation, (iii) the role SME policy frameworks, and intervention measures can play in facilitating the integration of SMEs in the global economy, thereby augmenting the competitiveness of nations whose enterprise sectors are dominated by SMEs.

Translated into concrete objectives, the new knowledge expected from the results of this research should contribute to the following:

*General issues*

- (a) Assessing the macro-economic significance of SMEs and the SME sectors in the SADC economies.
- (b) Analyse the past and current role played by the SME sector to link the SADC economies into international business.
- (c) Highlighting the potentials and risks of the liberalisation of the global economy, that face SMEs, particularly from economies whose enterprise sectors are dominated by SMEs.

*Enterprise-level issues*

- (a) Profiling the various *factors that precipitate or impede the competitiveness* of SMEs in the SADC economies, and assessing the significance and adequacy of each identified factor to foster sustainable SME competitiveness within the framework of new competition.
- (b) Assessing the adequacy of the existing *entrepreneurial occupational evolution and dynamics* in the SADC economies to produce competitive SMEs, in view of the requirements of a liberal global economy.
- (c) Assessing the *competition strategies* adopted by SMEs in the SADC economies and the reasons behind, and the adequacy of these strategies to promote competitiveness on a sustainable basis, in view of the requirements of a liberal global economy.



- (d) Assessing the adequacy of the existing national and regional *SME policy frameworks*, and *intervention measures* (national, regional, international), to facilitate sustainable competitiveness of SMEs within the context of new competition.
- (e) Highlighting in detail the role of the following *new sources of competitiveness*:
  - ❖ Technological capabilities in the international competitiveness of SMEs.
  - ❖ Intellectual property rights in the international competitiveness of SMEs.

#### *Conceptual and policy/strategy issues*

- (a) Derive conceptual issues from the observed dynamics and structure of SMEs and the SME sectors.
- (b) Derive policy issues and implications from the observed dynamics and structure of SMEs and the SME sectors.
- (c) Derive policy and strategy issues and implications from the dynamics and structure of SMEs and the SME sectors.
- (d) In view of (a) to (c), make concrete policy proposals and identify agenda for further research, etc.

### **3. Rationale and significance of the study**

The significance of this study for the business sector in general and the SME sector in particular, is underscored by:

- (a) Reminiscent to developments in other developing countries, SMEs form the vanguard of economic production in the SADC economies.
- (b) A rational debate of the private sector promotion strategy needs research input. The results of the study will contribute towards this end.
- (c) For countries like the SADC, the results of the study will also provide an informed basis for development co-operation reforms, in view of the changing perception of North-South co-operation. To the extent that interventions in the private sector are necessary, the results of the study will be useful for the envisaged economic partnership agreements (EPAs), which are planned to replace the Lomé Convention (LC), as the basis for development co-operation between the European Union (EU) and most of the developing economies from Africa (South of the Sahara), the Caribbean and the Pacific (ACP) regions.

The potential benefits of a broad-based *Southern Africa SME Survey* are further underlined by, among other things the essence to:

- (a) Have a common understanding of SMEs and related issues.
- (b) To facilitate cross-country comparison of the SMEs and SME sectors.
- (c) Have in place a universal regional definition of SMEs to facilitate and focus policy and interventions in a manner that will not distort competition.
- (d) Bridge the knowledge gap, as so far no regional wide SME Survey has been conducted.

#### **4. Beneficiaries of the study**

The beneficiaries of this study will be the various individual and institutional actors, at the national and international levels, who are interested in and/or support the development of SMEs, including, (i) institutions which have stake in functional IPR regimes, (ii) SME financing institutions, (iii) institutions providing non-financial services to SMEs, (iv) policy making institutions, (v) individual SMEs and SME apex organisations, (vi) other enterprises and apex organisations of the entire business sector, (vii) individual researchers and research institutions, etc.

#### **5. Basic assumptions and general empirical postulations**

In terms of basic assumptions and general empirical formulations, we follow Matambalya (East Africa SME Survey) and Müller-Falcke (India ICT Survey) (both forthcoming). Accordingly, we predicate enterprise competitiveness upon three sets of interacting sources of competitiveness: lower order or price-based factors, higher order or non-price based factors, and new or emerging factors mainly associated with ICT and IPRs issues. We also assume the shifting in the sources of competitiveness from the lower level towards the new or emerging ones.

We further assume that, the value adding activities of sample enterprise can be expressed by a production relation modelled by a Cobb-Douglas production function.

Bearing the above assumptions in mind, the study will involve three major stages: the analysis of secondary information, the analysis of primary information, and the consolidation of the two.

*Stage 1: Analysis of secondary information*

Building on the findings of the current report, the researchers will be required to conduct secondary information analysis in the various areas where information gaps are conspicuous. For this purpose, they will be required to obtain any relevant information from such institutions as the SADC Secretariat, SME service institutions at various levels, WIPO, ARIPO, national IPRs institutions, research institutions, etc.

*Stage 2: Analysis of primary information*

The analysis of primary information will form the core of the research. With assistance of information collected by the questionnaire, *micro-level, meso, micro and meta* level analyses will be made. Also, cross country comparisons will be made. The focus of the analyses will be broad, and include various issues related to SMEs (enterprise saliences, national legal and regulatory frameworks, regional policy framework, international requirements/commitments, ICTs, IPRs, technical factors, etc.).

Technically, the analysis of primary information will involve both a descriptive analysis of selected key questions in the questionnaire, and econometric modelling.

*Descriptive analysis*

This will involve analysing the general structure of the explanatory variables, linking them to the dependent variables. Graphics like graphs, histograms, pie charts, etc. will be used.

*Econometric modelling*

The intention of the econometric modelling is to provide some hard evidences of the linkages between the explanatory and dependent variables, using statistical methods. As indicated in the table below, the analysis will base on independent variables derived from value added and shifts therein.

	Index	Variables
1.	Analysis of value added dynamics (productivity analysis)	<ul style="list-style-type: none"> <li>• Sales profits and their trends.</li> <li>• Sales turnover and their trends.</li> <li>• structure of profits (by various dimensions)</li> <li>• Structure of sales (by various dimensions)</li> </ul>
2.	Analysis of shifts in the structure of value added	<ul style="list-style-type: none"> <li>• Development trends of sales profits (by various dimensions)</li> <li>• Development trends of sales turnover (by various dimensions)</li> <li>• Development trend of shares of sales turnover by market</li> <li>• Development trend of shares of sales volumes by market</li> <li>• Shifts of profits from industrial averages</li> <li>• Shifts of sales turnover from industrial averages</li> </ul>

A series of equations modelled on the Cobb-Douglas production functions will be derived and tested. In these models, the variables identified in table above will be related to the various explanatory variables (extracted from the various lower order, higher order, and new determinants of competitiveness). It is assumed that, within the context of new competition, competitiveness will largely depend on the extent to which the higher order factor and the new factors, will affect the marginal productivity of lower order factors.

Corollary, the formulated production function will contain:

- (a) A vector of the *lower order* determinants of competitiveness. Its constituent elements will be drawn from such price-based sources of competitiveness as, investments in labour, physical capital and production material respectively.
- (b) A vector of *higher-order* determinants of competitiveness. Its constituent elements will incorporate the postulated determinants of competitiveness related to strategic management.
- (c) A vector of skills-cum-technology. Its elements will constitute the postulated determinants of competitiveness related to ICT and skill intensity of management and labour in general.
- (d) A vector of *IPRs* variables. It will constitute the determinants of competitiveness related to IPRs.

The obtained micro-economic productivity evidences could then be compared with the macro-economic trends of *overall productivity* (estimated as GDP in terms of PPP per person employed), or *labour productivity* (GDP in terms of PPP per employee per hour), or *sectoral productivity* (estimated as GDP per person employed in the sector).

#### *Stage 3: Consolidated analysis*

This stage will consolidate the observations in the first three stages of the analysis, into a comprehensive and harmonised report.

### **6. Data and sampling**

In accordance with the design of the study and in order to be consistent with the *East Africa SME Survey*, in the *Southern Africa SME Survey* as well, both primary and secondary data should be used. Thus, primary data should be collected from sample enterprises in the manufacturing sector (textile and food processing), and the service sector (tourist industry) in the 14 SADC economies. It is further proposed that, primary data be collected using a comprehensive questionnaires (approximately 20 pages) designed for this purpose. This exercise should take into account the experiences of the *East Africa SME Survey*, and integrate key issues related to IPRs. In total, 2 100 SMEs should be interviewed, and the sample

should be equally divided among the sample economies (i.e., 150 enterprises per country) and sample sub-sectors (i.e., 50 SMEs per sub-sector in the respective economy).

The collection of secondary data should focus on the following types of institutions:

- (a) National/international institutions, which have functional mandates to guide the design, and oversee smooth enforcement of IPRs.
- (b) Institutions directly concerned with the development of SMEs and the SME sector, in the respective economies, e.g., (i) Ministries, (ii) Multilateral organisations, (iii) Donor organisations which support SMEs, (iii), Apex business organisations (e.g., Chambers of Commerce and other business associations), etc.
- (c) Those which have the mission to develop and or facilitate the transfer of technologies to SMEs within the respective economies, e.g., research and development (R & D) centres, technology centres, etc.
- (d) Ministries responsible for the focused sectors.
- (e) Institutions which compose/keep national statistics accounts relevant for SME Survey, e.g., Central Banks, National Bureau of Statistics, etc.

#### **7. Expected output**

As already pointed out above, the research is designed to achieve a better comprehension of issues related to the competitiveness of the economies of developing countries within the context of new competition. They should give a detailed overview of issues related to lower order, the higher order, and the new sources of competitiveness of SMEs from developing countries, within the context of current and future developments as dictated by the global liberalisation. and considering that SMEs dominate the economies of the developing countries

In this context, the results of the study are envisaged to provide input into country and regional SME policy formulation, considering that SMEs dominate the economies of the developing countries.

In concrete terms, the proposed outputs include, (i) a comprehensive *Country Report* for each of the sample economies, (ii) an *SME Policy Dossier* (summarised to 15 to 20 pages) for each of the sample economies, (iii) a *SADC SADC Workshop*, (preferably at the SADC Secretariat in Gaborone), where the results of the study will be formally launched.

*Annex II*

*Technological progress, intellectual property (IP) and small and medium scale Enterprises  
(SMEs) in the SADC Economies*

*A Proposal for a Study of IPRs Issues of Significance for SMEs in the SADC Economies*

*Submitted to*

**The World Intellectual Property Organisation (WIPO)**  
as part of the Inception Report on the Profile of SMEs in the SADC Economies

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### 1. Background issues

The foregoing observations portray in broad terms, the business scenarios in the SADC economies, and highlight the pivotal role of SMEs. In this spirit, we propose a research under the working title, "*Technological Progress, Intellectual Property and SMEs in SADC Economies*". The research should be designed to gain better insights of issues pertaining to the three key dimensions: global liberalisation, the role that effective management of IPRs can play in promoting the competitiveness of SMEs, and thereby the economic competitiveness of developing countries (on a sustainable basis).

The proposed *Southern Africa IPR Survey*, should be implemented within the framework of a broader project by the World Intellectual Property Organisation (WIPO), on IP and economic development. Corollary, it should address the policies, strategies, and institutional arrangements, for effectively tapping the opportunities and minimising the threats of the globalisation process, and the related developments in the IP market.<sup>1</sup> The study should also draw linkages to and benefit from the proposed *East Africa IPR Survey*.

### 2. Aim and focus of the study

Like the proposed *East Africa IPR Survey*, the *SADC IPRs Survey* should, in broad terms, seek to study the feasibility and relevance of IPRs in relation to the cultural and economic development strategies of the SADC economies, within the context of a liberal global economic environment. Notably, in this new global environment, characterised by intense globalisation of industry, open regionalism and multilateralism, and the shifting in the importance of the various determinants of competitiveness), the competitiveness of economic units and economic progress of nations is predicated upon, among other things, their participation in technological development.

Thus, following the common logic of classical economics argument, developing countries with an under-proportional share of LSEs (which, as pointed out above, constitute a major force behind globalisation), are likely to see their enterprises more exposed to the pressures of globalisation. These pressures emanate at two levels, i.e., regional integration schemes,

<sup>1</sup> The dynamics in the knowledge and technology market requires enterprise/economies that want to sustain their competitiveness to systematically monitor, (i) new and emerging technologies with a view to making policy and strategic decisions for their timely adoption and internalisation; (ii) internal conditions of the educational and technological bases, and their dynamics.

and the overall liberalisation of international business, particularly within the framework of the World Trade Organisation (WTO). Notably, one of the key provisions of the World Trade Organisation (WTO) is the creation, enforcement, and maintenance at national levels and internationally, of IPR regimes compatible to *trade related intellectual property system* (TRIPS).<sup>2</sup>

Nevertheless, global liberalisation poses not only challenges, but also opportunities for SMEs, even those from developing economies. In this regard, effective IPR regimes at national and international levels are likely to enhance the competitiveness of the SME sectors and be beneficial to the overall private sector development strategies, inasmuch as they encourage, investments in research and development (R & D), transfer of technologies, and fair competition in technological development. Likewise, competitiveness will be enhanced, if IPR regimes will minimise, the barriers for the internationalisation of technologies, the technological hegemony of developed economies, and the technological marginalisation of developing economies.

Considering the challenges of the scantily-researched SADC business scenario, the research will focus on the postulation and/or evaluation of the micro-, sectoral- and macro-economic evidences of the competitiveness of SMEs within the framework of globalised markets and global convergence of IPR regimes. It is set to highlight, (i) the structural and dynamic effects of globalisation on the development of SMEs, (ii) the competitive advantages accruing from effective use of IPRs (and within the context of (i) and (ii)), (iii) role IPR regimes can play in facilitating the participation of SMEs in technological development and augmenting the economic competitiveness of nations.

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2 The TRIPs provides protection to investors in technology and innovating firms, to enable them to capture the profits from their respective intellectual properties. In the worst case scenario, TRIPs may reduce access to the knowledge and technology market, especially related to technologies, or at least increase the transaction costs in this respect. Closely related to the TRIPs, are the Trade Related Investment Measures (TRIMs), whose objective are to liberalise the international flow of investments, by reducing entry and operational barriers for foreign enterprises.



Translated into concrete objectives, the collected information should contribute to the following:

*Major issues*

- (a) Analysing the internal characteristics (of the EAC economies) in relation to the generation of knowledge and technological development.
- (b) Analysing the internal characteristics (of the EAC economies) in relation to the protection of trade marks, copyrights, etc.
- (c) Identifying areas of particular interests to the EAC economies (in their characteristic as LLDCs and LDCs) and WIPO, etc., in developing and enforcing IPR regimes.
- (d) Comprehension of the perspectives and challenges the various stakeholders in the respective countries/economies face with relation to IPRs in a liberal global economy.
- (e) Studying the various statutes of the three EAC economies relating to IPRs, with a focus to harmonise them, and make them WTO-compatible, and thereby:
  - ❖ Identifying hurdles in translating IPR provisions contained in national and international IPR regimes, into action.
  - ❖ Recapitulating the possible roles for the WIPO to help its clients, especially the least developed economies (LLDCs) and developing economies (LDCs), to overcome the challenges associated with effective management of IPRs.
- (f) Suggesting ways to *internalise* the development of IPR values and systems (by proposing viable measures for integrating in the process of development and enforcement of IPR regimes, of the various stakeholders, e.g., research and scientific communities, business communities, educationists, politicians, policy enforcement organs, etc.).
- (g) Assessing the needs, with respect to building capacity to manage (i.e., at the designing and enforcement levels) IPR regimes, especially at national levels.

*Associated issues*

- (h) Identifying IPRs knowledge and awareness gaps, in both conceptual and practical terms.
- (i) Underlining the economic roles/functions of IPRs in a modern society.
- (j) Identifying and concretising the various advantages (socio-economic contribution, etc.) of effective IPR regimes at national and global levels, and how to capitalise on them.
- (k) Assessing the needs, with respect to building capacity to manage (i.e., at the designing and enforcement levels) IPR regimes, especially at national levels.

Finally, with regard to (a) and (k) above, the study will outline the priority areas for further research/action.

### 3. Rationale and significance of the study

The significance of this study for the business sector and economic progress in general, and for the SME sectors in the prospective economies in particular, is underscored by the following:

- (a) Already now, it is vivid that, economic competitiveness and progress in future is bound to be more and more *new knowledge/technology* driven. To keep up with the trend, this obligates (i) active participation in technological development in order to become and remain competitive, while simultaneously (ii) adhering to effective protection of *new knowledge/technology*, through national and global IPR regimes, in line with multi-lateral agreements (such as the TRIPS of the WTO). Hence, there is need to articulate policies, strategies and institutional arrangements, so as to effectively tap the opportunities and minimise the threats of the globalisation process and the respective changes in the knowledge and technology market.
- (b) Reminiscent to developments in other developing countries, SMEs form the vanguard of economic production in the EAC economies. Hence, to have relevance for the SADC economies, a study of IPR should focus on SMEs individually and plurally (i.e., SME sectors).
- (c) A rational debate of the private sector and overall economic development promotion strategy needs research input. The results of the study will contribute towards this end.
- (d) Within the international development co-operation fora, the results of the study will provide an informed basis for development co-operation reforms, in view of the changing perception of North-South co-operation. For instance, to the extent that interventions in the private sector are necessary, the results of the study will be useful for the envisaged economic partnership agreements (EPAs), which will replace the Lomé Convention (LC), as the basis for development co-operation between the European Union (EU) and most of the developing economies from Africa (South of the Sahara), the Caribbean and the Pacific (ACP) regions.

The significance of the research is also underscored by the fact that, so far no IPRs research work focused on the SADC economies has been done, on which decisions can be based.

#### 4. Beneficiaries of the study

The beneficiaries of this study will be the various actors, at the national and international levels, who have stake in functional IPR regimes. Inasmuch as they are concerned with the protection of rights, the IPRs are of great interest to a wide range of stakeholders, including, (i) international institutions mandated to oversee the design and enforcement of IPR regimes, e.g., the WIPO, (ii) regional institutions mandated to oversee the design and enforcement of IPR regimes, e.g., ARIPO, (iii) national institutions mandated to oversee the design and enforcement of IPR regimes, e.g., the Kenya Intellectual Property Organisation (KIPO), the Commercial Laws and Industrial Licensing Agency in Tanzania, Registrar General's Department in Uganda, etc., (iv) individual enterprises and their apex organisations, (v) apex organisations of the business sector, etc.

Notably, the various stakeholders have diverse views, bargaining positions, and vulnerabilities. Given the mixed character of the stakeholders involved, IPRs are also inherently laden with subjectivity, contradictory views, and controversy, which the study will address and seek to harmonise.

#### 5. Basic assumptions and general empirical postulations

The research will build on the premises that the *feasibility* and *impact* of IPRs regimes depend on, *inter alia*, the national and international legal framework, the awareness of the stakeholders, and the IP institutional characteristics (at the national and international levels). The analysis will crystallise out of four components as follows.

##### *Stage 1: Analysis of secondary information*

Considering the patchy character of the analysis of the socio-, cultural, and economic implications of IP and IPRs in developing economies, there is hardly any study on which to build. Yet, to the extent that pertinent literature (e.g., from such institutions as WIPO, ARIPO, SADC, national IPRs institutions, etc.) and comparable researches allow, secondary level analysis will be made.

##### *Stage 2: Analysis of primary information*

In this stage, with assistance of a questionnaire, *micro-level* information will be collected and analysed, focusing on specific legal issues, technical factors, and economic implications of IPRs regimes, for the creators and users of IP.

*Stage 3: Econometric modelling*

Depending on the availability of relevant data, the linkages between competitiveness, on the one side, and resources, technology, institutions, and culture, on the other side, could be analysed. We concretely assume that, dynamics of IPRs regimes could influence participation in technological development, thereby inducing the competitiveness of enterprises and economies. In this regard, we may, econometrically estimate a basic Cobb-Douglas function of the form,

$$Y_{i,t} = f[\varpi_1(\text{IPF}, \text{culture}; i, t)]$$

In this general equation,  $Y_{i,t}$  is a proxy for competitiveness,  $\varpi_1$  is a vector of endowment with primary resources (defined as non-IP resources), while  $IPF$  is a composite variable denoting factors tied to intellectual property (i.e., specialised/new knowledge, technology, IPR institutions). The  $IPF$  denote IP-related factors, that affect the marginal profitability of non-IP resources. Hence, *ceteris paribus*, a conducive environment for IPRs will increase the likelihood of SMEs (as engines of economic growth, particularly in developing countries) to participate in technological development, which will translate into making SMEs/economies more competitive.

Within this framework of analysis, (i) institutional dynamics (as a proxy for IPRs dynamics) may lead to changes in the level of technological endowment (by opening more windows to the technology market), and (ii) technological development may be affected by the impact of institutional dynamics on the resource base, as well as the institutional and cultural environments).

*Stage 4: Consolidated analysis*

This stage will consolidate the observations in the first three stages of the analysis, into a comprehensive and harmonised report.

**6. Data and sampling**

In accordance with the design of the study, both primary and secondary data will be used. Thus, primary data will be collected from sample enterprises in the agriculture, industrial manufacturing sector, handicrafts, music and folklore, and traditional medicine, in the 14 SADC economies. It is further proposed that, primary data be collected using a medium questionnaire (approximately 8 to 10 pages) designed for this purpose. In total, 2 800 SMEs should be interviewed, and the sample should be equally divided among the sample econo-

mies (i.e., 200 enterprises per country) and sample sub-sectors (i.e., 40 SMEs per sub-sector in the respective economy).

The collection of secondary data should broadly focus on a variety of three types of institutions:

- (a) National/international institutions, which have functional mandates to guide the design, and oversee smooth enforcement of IPRs, e.g., patent registration offices at national and international levels, African Intellectual Property Organisation (ARIPO), World Intellectual Property Organisation (WIPO), European Patent Office (EPO), International Plant Genetic Resources Institute (IPGRI), etc.
- (b) Those which are directly concerned with the development of SMEs and the SME sector, in the respective economies, e.g., (i) Ministries, (ii) Multilateral organisations, (iii) Donor organisations which support SMEs, (iii), Apex business organisations (e.g., Chambers of Commerce and other business associations), etc.
- (c) Those which have the mission to develop and or facilitate the transfer of technologies to SMEs within the respective economies, e.g., research and development (R & D) centres, technology centres, etc.

#### 7. Expected output

As already pointed out above, the research is designed to achieve a better comprehension of issues related to the IPRs, participation in technological development, and enterprise and overall economic competitiveness (of developing countries), within the context of current and future developments as dictated by the globalisation of industry, and considering that SMEs dominate the economies of the developing countries. In this context, the results of the study are envisaged to provide input relevant for the formulation of *country*, *regional*, and *global*, (i) IPR regimes, (ii) SME promotion policy framework (at national and regional levels, and within the framework of development co-operation), and (iii), private sector promotion strategy (e.g., within the framework of development co-operation). The premises here are that, in future it will be necessary to focus development co-operation to the development of the private sector, while bearing in mind that private sector development strategy *de facto* means, in the short- to medium term, SME sector development strategy.

In concrete terms, the proposed outputs include, (i) a comprehensive *Country Report* for each of the sample economies, (ii) an *IPRs Policy Dossier* (summarised to 15 to 20 pages) for each of the sample economies, (iii) a *SADC IPRs Workshop*, (preferably at the SADC Secretariat in Gaborone), where the results of the study will be formally launched.