SMEs, Trade, and Development in Africa

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Outline

1. Background
2. Internationalisation
3. Clustering and Internationalisation of SMEs
4. Value Chains and Internationalisation of SMEs
5. Clustering and Value Chain Synergies
6. Conclusions
Part 1

Background
Enterprise Structure

• Employment:
  * Micro: <5
  * Small: 5-19
  * Medium: 20-99
  * Large: 100+
  * Very large (see McCormick et al 2007): >999

• Contribution to GDP – over 50% (UNIDO 1999)

• Manufacturing, trade, services

• Ownership: Mainly sole proprietorships, partnerships and PLCs

• SMEs are not just ‘smaller companies’; they are often qualitatively different from large and very large firms.
## Selected Firm Characteristics: Africa and All Countries

<table>
<thead>
<tr>
<th>Item</th>
<th>SSA</th>
<th>All Countries</th>
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</thead>
<tbody>
<tr>
<td><strong>Firm Age</strong></td>
<td>14.0</td>
<td>15.9</td>
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<tr>
<td>Age of Establishment (years)</td>
<td></td>
<td></td>
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<tr>
<td><strong>Ownership</strong></td>
<td>80.4</td>
<td>88.6</td>
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<tr>
<td>Proportion of private domestic ownership (%)</td>
<td></td>
<td></td>
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<tr>
<td>Proportion of foreign ownership</td>
<td>14.5</td>
<td>9.1</td>
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<tr>
<td><strong>Formality/informality</strong></td>
<td></td>
<td></td>
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<tr>
<td>Competing against unregistered informal firms</td>
<td>68.5</td>
<td>54.4</td>
</tr>
<tr>
<td>Formally registered at start of operations in country</td>
<td>81.3</td>
<td>88.0</td>
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*Source: World Bank, Regional Enterprise Development Data*
Support Institutions

* Government
  * Ministries
  * Specific support bodies

* Regional Bodies

* Associations
  * General business
  * Sectoral
  * Specific

* Private –sector players

* Financial
  * Banks
  * Venture capitalists

* Business services
  * ICT
  * Accounting & finance
  * Consultants

* Trade facilitation
Part 2

Internationalisation
Four faces of internationalisation

1. **Exports**
   * How and to what extent do African SMEs access export markets?

2. **Imports**
   * What imported goods do African SMEs use and how do they get them?

3. **FDI**
   * How and to what extent do African SMEs invest in foreign countries?

4. **Linkages**
   * How do African SMEs link with foreign individuals, firms and institutional actors?
SMEs and Exports

- **Export Markets**
  - Regional markets
  - Markets in other African countries/trading blocs
  - Global markets

- **Nature of SME Exports**
  - Manufactured goods
  - Semi-processed goods
  - Services

- **Exporting Process**
  - Manufactures: Active, passive, and contracted
  - Semi-processed goods and services: similar or ??
SMEs and Imports

• **Nature of SME Imports**
  * Trade sector:
    * Consumer goods
    * Durables, e.g. Second hand vehicles
  * Manufacturing sector:
    * Raw materials and intermediate goods for local manufacturing
    * Machinery and Equipment
  * Other – construction, mining, services

• **Sources of SME Imports**
  * Depends on Sector and Type of goods
    * Manufactures: China, India, Dubai, ...
    * Commodities: other African countries

• **Importing process**
  * Self, SME importers, brokers, clearing and forwarding, transporters, ...
1. **Inward FDI**
   * From neighbouring countries
   * From foreign residents
   * From other sources – China, India, ...

2. **Outward FDI**
   * To neighbouring countries
   * To other countries
Clustering and Internationalisation of SMEs

Part 3
Internationalisation of SMEs Through Clustering

1. **Cluster: sectoral and spatial concentration of firms**

2. **Potential benefits of clustering**
   - ‘Classic’ collective efficiency:
     - External economies and joint action ➔ greater efficiency and competitive pricing
   - Market access:
     - Domestic, regional, global
   - Linkage formation
     - Between clustered enterprises
     - With knowledge institutions
       ➔ Improved products and processes ➔ new markets and greater competitiveness

Wamalwa & McCormick - March 2015 - ITC Presentation
Challenges associated with clustering

* Collective efficiency can be elusive
* Market access often confined to local markets or passive exports
* Linkages with other enterprises often weak:
  * Nature of markets
  * Cultural or other institutional factors
* Linkages with knowledge institutions also weak
Clustering and Internationalisation

* No automatic link between clustering and internationalisation

* Clusters need support to internationalise
  * from government, business associations, knowledge institutions

* Problem: Lack of detailed knowledge of SME internationalisation processes
Value Chains and Internationalisation of SMEs
Internationalisation of SMEs Through GVCs and RVCs

Benefits of participating in GVCs and/or RVCs

- GVCs - Facilitate access to cheaper or higher quality intermediate inputs
- GVCs - Facilitate access to technology and new knowledge
- GVCs - Allow firms to specialise in a part of the chain of activities
- RVCs and GVCs - Serve as a path to international markets
  - RVCs’ markets similar to domestic market
Internationalisation of SMEs Through GVCs and RVCs

Challenges of participating in GVCs and/or RVCs

* Emphasis on competitiveness can lead to ‘race to the bottom’
* Chain upgrading to taking on additional functions may be blocked by lead firm or others in chain
* Chain upgrading to higher value products or improved processes can be difficult to achieve
* Institutional weaknesses in developing countries may limit benefits
Part 5

Clustering and Value Chain Synergies
Both models facilitate identification of trouble spots
- *Clusters*: Barriers to collective efficiency, market access, intra-cluster firm linkages; infrastructure constraints
- *Value chains*: Low value addition nodes leading to financial constraints, problems with standards, regulatory and institutional constraints, can be adapted for special purposes, e.g., ‘Homeworkers’ manual

Both models require firm-level data that is often lacking in African countries
Neither deals directly with policy constraints
More questions than answers:

- Main theoretical and practical links between the cluster and value chain models?
- How can these links be explored empirically?
- Concrete examples of helpful public policies?
  - i.e., those that have succeeded in creating positive incentives for SMEs’ participation in clusters, GVCs, and/or RVCs?
- How appropriate are such policies for African countries?
Conclusions
Conclusions

- Both cluster value chain models are useful analytical tools for understanding productive processes in African countries.
  - They provide different but complementary insights into how firms internationalise.
  - Varied and complex: One size does not fit all!

- Issue of contribution of internationalising SMEs to sustainable development handled only indirectly
  - Issue of effects on labour of ‘race to the bottom’
  - Issue of building sustained trading relationships
  - Issue of minor role for exporting in most SMEs
Conclusions

- Policies and programmes (National and regional) needed to help African SMEs to internationalise in ways that foster sustainable development
  - Need to protect and enhance livelihoods of small business owners and their workers.
  - Need for regular data collection and specific research projects to support evidence-based policies
THANK YOU!
Comments please.