



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

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

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

Faces of 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, ...

SMEs and FDI

1. Inward FDI

- * From neighbouring countries
- * From foreign residents
- * From other sources – China, India, ...

2. Outward FDI

- * To neighbouring countries
- * To other countries



Part 3

Clustering and Internationalisation of SMEs

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

Internationalisation of SMEs Through Clustering

❖ 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



Part 4

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

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

Clustering and Value Chain Synergies

❖ 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?



Part 6

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.