

# Creating a Productive SME Environment and the OECD Policy Framework for Investment

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# Small – Exception or Norm?

- Big captures prestige, gov't & media attention
  - Forces of political economy, urban domination of rural, large of small, hi prestige of low, tax base, party funding
- But SMEs more indicative of economy
  - Range from survivalist to high-tech manufacture
  - In EU SMEs are 95% of all firms, 60-70% of jobs, 40-80% of manufacturing employment
  - In South Africa 90% of jobs outside of big business
  - SMEs in all industries, in all towns and villages
  - Both services and manufacturing
  - Key role in spread of new technology
- SMEs dominant in internet, engineering, medical, dental, accounting, law, tourism, agriculture, construction trades

# Structural Biases Against SMEs

- Investment thinking often favours big business
  - Better access to decision makers, can fund lobby groups, lawyers and researchers to study proposed laws
  - Politics dominated by elites; Large firms far more influential politically
  - In Africa, foreign investors secure better terms than local
- Small size limits ability to interact with gov't
  - Too few staff to research, lobby, comply
  - Too sectorally diverse, geographically spread
  - Passive vs active outreach: Open door does not mean SMEs can enter
- Regulation follows bureaucratic logic, not ease of use
  - Regulation accumulates, involves many bodies: 29 different permits needed to build warehouse in Georgia
  - Harare all buildings inspected personally by the chief or deputy chief building inspector. Result is 952 days; US\$38,347 to secure all permits needed
  - The more an area regulated, the less supply and more distortions
- Regulation consumes time and money – hurt SMEs more
  - Poorer the country, the more survivalist and informal the SMEs
  - SMEs need free, flexible, DIY environment

# Who deals with SMEs?

- Tendency to appoint SME agency or few SME programmes
  - Low visibility, transparency can make SME agencies prone to abuse
  - Weaknesses in uptake: SA example only 28% heard of, 8% used, at survivalist level almost none used government
  - SMEs can't use gov't pgms for same reasons can't influence policy
- But comprehensive investment assessment is vital
  - SMEs affected by policy in agriculture, commerce, local/provincial gov, land use, tax, customs, labour law and regulations of professions
- Investment authorities as champion of business within gov't
  - Need explicit outreach mechanisms
  - Good SME climate needs both focus on horizontal vs vertical
  - General efficiency vs Sector specific plans
  - Evaluate individual regulations but also overall regulatory burden

# Horizontal and Vertical

- Key horizontal issues: land, tax, permits, labour law, dispute settlement, property regulation to eliminate disputes, trade, competition policy, macro-econ
  - 6 traits of good regulation: proportional, accountable, consistent, transparent, targeted, evidence-based
  - Simplification, one-stop shop approaches effective but cut across bureaucracies -- requires top-level attention
  - Political pressures favour vertical over systemic horizontal changes
- Vertical or sector approach – should consider SMEs in all sector plans through dedicated studies, surveys, outreach
  - Balance SME and big business interests
  - Balance segments of value chain
  - Balance domestic production and retail cost
  - Facilitate large-small business linkages

# Promotion or General Environment

- Temptation to focus on high profile deals to neglect of ordinary business
- Subsidies to few deals imply higher taxes for all – can be tax on SMEs
- Opting out – Frequent risk particularly in poorer countries
- Challenges of direct SME promotion
  - very diverse geographically, sectorally
  - awareness of programmes
  - need for many access points, labour intensive
  - limited by few SME advisory staff with real world experience
  - very low uptake levels
  - importance of linkage, fair public tendering rules
  - prone to abuse, elite capture, political conflict of interest

# Infrastructure & Financial Sector

Electricity, Telecoms, Water, Transport – Roads, Rail, Ports, Airports –  
Specialised handling services: cold storage, food storage and loading,  
phytosanitary testing

- High cost, low reliability infrastructure has higher impact on SMEs
  - Chamber of commerce survey, Uganda electricity, Ghana/SA telecoms

Financial sector development

- Desire to promote SMEs leads to direct micro-finance pgms
  - No substitute for removing horizontal and vertical obstacles
  - Effective micro-credit is labour intensive, requires many more loan officers, competes with formal sector lending for loan staff
  - Micro-credit schemes frequently fail to work out collection strategies,
  - Continuous recapitalisation, public perception as grant rather than loan.
- Effective micro-credit can't be developed quickly, needs capacity development, slow geographic spread, social and group lending
- Requires regulation, enforcement, transparency, land titling, effective courts, credit registries, creditor protection laws, cost of bank accounts (Mzansi in SA), slow pace of spread of micro-credit

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