

FINANCE AND DEVELOPMENT RESEARCH PROGRAMME

WORKING PAPER SERIES

Paper No 18

SUPPORT MECHANISMS FOR INTERFIRM LINKAGES AMONG SMEs: IMPACT AND ASSESSMENT

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September 2000

ISBN: 1 902518888

Series Editor: Colin Kirkpatrick

Further details: Maggie Curran, Marketing and Publicity Administrator

Published by: Institute for Development Policy and Management, University of Manchester,
Crawford House, Precinct Centre, Oxford Road, MANCHESTER M13 9GH

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**SUPPORT MECHANISMS FOR INTERFIRM LINKAGES
AMONG SMEs: IMPACT AND ASSESSMENT**

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This paper was prepared for the Asian Development Bank and the Organization for Economic Cooperation and Development Workshop on Small- and Medium-Sized Enterprise Financing in Asia, 3-4 July 2000.

* I would like to thank Peter Quartey for helpful research assistance.

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1. INTRODUCTION

The goals of the paper are three-fold. One, to provide a general review of the approaches to support small and medium-sized enterprises (SMEs) in developing countries. Two, to identify the critical areas of support, their mechanisms and the institutions responsible for their initiation and implementation. Three, to assess the results of support initiatives by reviewing their experience across a range of activities and countries.

Efforts to promote small-scale enterprises in developing countries are not a recent phenomenon but can be traced as far back as the 1950s. However, both the reasons for, and the type of support have changed over time. Earlier support mechanisms centred around direct assistance programmes, usually initiated by state or parastatal agencies. For instance, by the mid-1950s Mexico, Venezuela and Argentina had created well organised financial assistance programmes aimed at transforming household and handicraft enterprises into small-scale manufacturing enterprises. Similarly, in India, the government adopted a demand-oriented protectionist approach towards cottage and village industries through the introduction of a variety of regulatory, incentive, subsidy and market reservation measures. By the late 1960s Kenya and Tanzania were among the first African nations, post-independence, to establish industrial estates, and entrepreneurial training programmes were introduced by governments in Botswana, Kenya and Ghana (Uribe-Echevarria, 1992). However, most of the earlier attempts to shape the environment for small scale enterprises were largely divorced from general industrialisation policies laid down in development plans.

The earlier policies towards the promotion of the small-scale sector have been more influenced by welfare considerations than those based on economic efficiency. In part, this was a result of the polarisation of policy-making that separated small-scale sector development from mainstream industrial policies, which had evolved out of the intellectual dichotomy between the informal and formal sector in the 1970s. As a result, SMEs were looked upon as potential generators of employment, vehicles for achieving balanced regional growth and as counterweights to the concentration of economic power by larger firms. In the 1980s small enterprise development was often strategically tied to policies to mitigate the

negative impact of structural adjustment. In Egypt, for example, through the provision of social safety net measures in the Social Fund for Development (Mamdouh Awney, 1994). Similarly, planning for the small-scale sector in Tanzania in the 1990s was related to the Social Dimensions of Adjustment initiative rather than with the macroeconomic planning process (Dawson, 1993). As Schmitz (1989) has summed up, for more than a century small-scale industry has been the weak and ugly duckling in the mainstream of the industrialisation debate.

Industrial policies in the past have often resulted in the segmentation of markets between large and small-scale producers. As Little, Mazumdar and Page (1987) reported for India, the large-scale sector fed the higher end of the market with capital intensive technology and the small-scale sector produced inferior goods for the lower end of the domestic market with its lower capital intensity. Indeed, policy measures in India at the time created an environment in which the two sectors often viewed each other as adversaries, which prevented linkages from developing between them.

In recent decades a more complex picture of the extent, range and underlying rationale for support mechanisms has emerged. Apart from ongoing support to small enterprises set in place to mitigate the constraining operational environment that has historically developed, and those designed to cushion any adverse effects, or conversely, to reap the benefits of adjustment measures, a newer focus for support is currently being emphasised. This involves the importance attached to supporting linkages between enterprises and networking as a key mechanism to facilitate growth and competitiveness of the small and medium-sized enterprise sector. Evidence is emerging of a trend towards the development of a multi-layered network of support ranging from government policies to micro-interventions by non-governmental organisations (Cook, 1996).

Evidence of complex interfirm relationships and spatial clustering of SMEs is found in a wide range of developing countries and sectors in Latin America and Asia, including Peru, Mexico, India, Indonesia, Korea and Pakistan. In Africa, clusters of small enterprises are seen to be less developed in terms of their interfirm division of labour and institutional support (Schmitz, 1995a and 1995b). Clustering in developing countries is also not constrained to an urban setting. It is a feature in rural industrialisation, as observed by the

specialisation of whole villages, such as the manufacture of roof tiles in Indonesia, and rattan furniture in Java (Sandee, 1994; Schmitz, 1995b).

A shoe industry cluster in the Sinos Valley, Southern Brazil provides evidence that small enterprises have derived considerable benefit through collective action to enhance their competitiveness in the market (Schmitz, 1995a and 1995b). Vital to the success of the Sinos valley cluster is the concentration of suppliers of raw materials and components, manufacturers and suppliers of machinery and parts, national and international marketing agents, specialist organisations providing technical, design, financial and accounting services. In addition, a large pool of skilled specialised workers, specialist training centres and transport services and business associations, as well as a large number of shoe manufacturers, who were able to benefit from division of labour, specialisation and mutual support, have played a role in the development of this cluster. In particular, business associations have been instrumental in promoting sales and private export agents have facilitated access to the North American market.

Collective endogenous action has proved invaluable in creating conditions for small enterprise development even though government initiatives, public agencies and external private organisations may be required to secure export contracts and expand production, particularly in times of economic crisis. Moreover, the existence of large scale industries, located nearby, has proved vital to the development of the small-scale industries. The benefits secured by the larger scale manufacturers, such as improved quality from suppliers, product innovation and export orders, can be passed on to smaller enterprises owing to their collective efficiency derived from local external economies.

The next section discusses the broad approaches to industrialisation and their relationship to the small and medium-sized enterprise sector, and to the linkages and networks that have developed within that sector. The third section reviews the institutional responses towards encouraging interfirm linkages and networks. The fourth section assesses the results of various support mechanisms and the final section draws conclusions.

2. POLICY APPROACHES

The arguments presented about the types of policy approaches that should be used to develop the small enterprise sector have varied. In recent years these have fallen into two juxtaposed positions. First, there is the approach that relies principally on market forces. Underlying this approach is the notion that previous policies pursued in developing countries have led to a bias in favour of the development of larger-scale enterprises. This has principally occurred through government intervention in pricing policies, for example over credit and imports, and through the extensive use of non-market mechanisms to allocate resources. Policies of these kinds were linked to import substitution strategies. Initially the remedy was to intervene to counteract the bias. Much of the support that developed for small-scale industry was of a direct kind and at the micro level (Schmitz and Musyck, 1994). Principally, these involved forms of managerial and technical support through training, credit provisions and a range of site and service type of facilities. Later this was replaced by structural adjustment policies aimed directly at removing the so-called market distortions to create a level playing field in which enterprises of all sizes have access to resources. It was argued that a market-based approach would reduce the scope for arbitrary decision-making and lessen the opportunity for privileged access to resources through bribery and patronage. In part, the decision by the World Bank in 1991 to terminate directed lending to SMEs reflected a movement away from direct towards indirect support for the sector.

The second approach has been associated with the structuralist school of thought: this argues pro-actively for the continuance of forms of intervention to assist small enterprise development (Dijkstra, 1996; Lall, 1995). The general difference between the two approaches is not in questioning the importance of the appropriate macro environment for small-scale development, but in the nature of the types of changes that are required to bring about improvements. The infant industry argument underlies the second approach and envisages forms of intervention that are unacceptable to the first. The consensus in the structuralist approach retains the need to improve the overall policy environment for small-scale industry and, in particular, to remove the bias toward large-scale industry (Liedholm and Mead, 1987; Stewart, 1990). Removing the bias, however, is not merely one of eliminating price distortions but is related to devising overall micro level approaches that cope with the specific problems facing small-scale entrepreneurs and are compatible with the general direction of industrial and macroeconomic policy. This approach, more than the

other, comes with a clearer recognition that previous and existing policies are the result of a complex set of factors, within which vested interests play an important role. It also recognises that the neo-classical view of how the competitive process works through markets that is embodied in the first approach, is overly simplistic. As a consequence, the second school stresses that the process of policy reform cannot rely on market principles alone.

3. SUPPORT MECHANISMS FOR INTERFIRM COOPERATION

A typical evolutionary pattern of interfirm linkages has existed for some time in informal arrangements between small enterprises designed to provide mutual support, particularly at the household level, and between petty entrepreneurs in local markets. These have included sharing of implements, exchanging information and other intermittent types of assistance (Schulz, 1995). In recent years, more formal arrangements have emerged. Three in particular should be highlighted. First, the development of intrafirm relationships aimed at improving the market environment for small enterprises. In particular, the evidence of flexible specialisation and collective efficiency achieved through industrial clustering is viewed as an endogenous support mechanism (Piore and Sabel, 1984; Camagni, 1991; Nadvi and Schmitz, 1994; Schmitz and Musyck, 1994; Schmitz, 1995a and 1995b; Rabellotti, 1995). These collaborative arrangements are often referred to as horizontal linkages. Second, vertical linkages are being created between SMEs and larger domestic and foreign enterprises, principally through sub-contracting arrangements. Third, new interfirm networks have increased the small-scale sector's capacity for advocacy and dialogue in relation to macro-level policy.

There appears to be a consensus that the main impetus to creating enterprise clusters comes from either private sector institutions, such as business associations, or enterprises themselves. Government, it is claimed, largely plays an indirect role by facilitating the creation and effective interaction of private sector institutions (Berry, 1997). This view is reaffirmed by Schmitz (1995b) claiming that 'governments cannot create an industrial organisation which competes on the basis of collective efficiency. However, once a private initiative has led to a minimum concentration of industrial activity and know-how, they can play an important part in helping industry to expand and innovate' (p.554). This also applies to local government, as the case of Mexico illustrates, where a stronger role has been played

by local private associations relative to the public sector in helping form linkages among SMEs (Rabellotti, 1995).

The argument that enterprises help themselves in forming linkages is also predicated on the belief that enterprises that are doing well are more likely to cooperate. As Berry (1997) notes ‘where SMEs are unable to perform well in general, their scope for effective interaction either with larger enterprises or with other small and medium-sized enterprises is reduced’ (p.15). The implication that can be drawn from this approach is to view the support for interfirm linkages as part of the overall support for the SME sector and not to see it as separate.

For the purpose of this paper four key agents are identified as support facilitators for interfirm linkages and networks: *governments*, channelling support through macro policy and direct assistance programmes; small-scale *enterprises* through informal and formal arrangements within small-scale sectors and through linkages between large and small-scale enterprises and sectors; those supported by *other local agents* such as local associations, non-government agencies, and private commercial organisations; and *international donors*.

Government

Government has provided support to linkage creation in three principal ways: through direct measures aimed at influencing enterprise behaviour; through indirect mechanisms to improve the environment for SMEs; and through support given to intermediary agencies, both state and private, that assist in the promotion of interfirm linkages and networking.

Direct programmes of support operate through a variety of incentive schemes using tax and subsidies, procurement policies, and the relaxation of regulatory requirements. Tax and subsidy schemes have been used to help form links between large and small enterprises. Tax incentives have been used in Malaysia to encourage sub-contracting between multinational firms and local small and medium-sized enterprises. Berry (1997) has argued that it is important to consider the benefits that accrue to smaller enterprises and that they are not disadvantaged when large firms receive export rebates and other tax concessions. Subsidies can be used to provide direct support to SMEs in terms of R & D, and training in marketing and finance (Sandee, 1994). Subsidies have also been used to permit SMEs to participate in

trade fairs. In Brazil, SEBRAE pays half of the exhibition costs for small enterprises (Humphrey and Schmitz, 1995).

Procurement policies through national and state governments have been used to support SMEs in a number of countries, as for example in India (Tewarie, 1992; Kashyap, 1992) and in Ceará, Brazil (Tendler and Amorim, 1996). In the latter case public purchasing schemes offered contracts to associations of small-scale producers.

Government can also play a role in establishing and strengthening links between small and large enterprises through sub-contracting. A number of schemes to facilitate sub-contracting linkages, both within the domestic and international markets have been introduced in the Korea, Taiwan, and Singapore. The most successful of these have been used to increase the absorptive capacity of small-scale enterprises to make them more attractive to larger firms and to encourage the exportation of their goods. All three economies have developed their institutional capacity to provide focused support through strong coordinating agencies such as the Investment Development Bureau in Taiwan, the Ministry of International Trade and Industries in Korea, and the Economic Development Board in Singapore (World Bank, 1994).

Intra-country subcontracting links and policies to attract foreign direct investment (FDI) have proved beneficial in creating a wider network of interfirm linkages in Japan and Korea. It has allowed Korean firms to penetrate international markets hitherto outside their reach. These linkages are supported by a conducive policy environment facilitated by the government. An important element in this environment is the screening of foreign investment to ensure that technology is transferred to local firms to improve their competitive edge. Japanese FDI has been an indispensable factor for Korean firms (previously lacking in entrepreneurial dynamism and considered too small to meet large overseas orders) to gain access to additional finance, technological and management skills and acquire more sophisticated marketing knowledge.

Although some of these linkages have been created on the basis of mutual trust, social relationships, schooling ties and family background, government policy has also been evident. In the case of Korea, legislation enacted in 1982 helped in promoting sub-contracting and certain production activities have been reserved for smaller enterprises (Cho,

1995 cited in Berry, 1997). Foster parent programmes were introduced in Indonesia (Berry and Levy, 1994). Public policy has also sought to provide strong technical support systems to complement the arrangements between large and small enterprises through technology centres in Japan (Berry and Levy, 1994).

New initiatives have been introduced by the public sector in the field of finance. For instance, in Taiwan a Small and Medium Enterprise Mutual Guarantee Fund has been established. In this fund 15-30 SMEs combine their assets to form a mutual assistance circle with the aim of assisting member enterprises obtain bank credit by providing guaranteed assets on a mutual basis. Members can access bank loans at lower interest rates since credit risk is lowered through cooperation. Business insurance fees can also be lowered through this process ([www.moeasmea.gov.tw/whitepaper 10.html](http://www.moeasmea.gov.tw/whitepaper10.html), 1999).

In Taiwan the government has encouraged banks to grant loans to SMEs. The Ministry of Finance has put pressure on banks to increase their ratio of financing to SMEs (MOEA, 1996). The government has established a publicly-owned bank, the Taiwan Medium and Small Business Bank to lend to SMEs (Hsueh, 1990).

A significant degree of government effort to support the SME sector has come through general programmes aimed at improving infrastructure and institutions. In this regard, the role of government in regulating the competitive process should be highlighted. Despite the importance attached to this area of policy, it is not until relatively recently that governments and international agencies have focused their attention on developing the framework that is needed to ensure fair competition and public interest perspectives are met (Cook, 1999).

In recent years governments have also supported the development of intermediary agencies such as private associations, as has been the case with SEBRAE in Brazil. In Chile, SERCOTEC funds development projects (PROFOs) to stimulate and coordinate participation of public and private sectors (Humphrey and Schmitz, 1995).

Enterprises

Endogenous action by smaller enterprises clustering together and by larger firms providing assistance to SMEs has occurred in both Latin America and Asia and to some extent in Africa (Schmitz and Nadvi, 1999; McCormick, 1999). In the case of large Brazilian shoe producers,

assistance was provided directly to SMEs, even before public sector initiatives were established. There are also examples of small enterprise start-ups by employees of larger firms with the help of their former employers.

The Honduras industrial SMEs reconversion programme 1993-97 also provides an example of the development of interfirm linkages. In the administrative capital, Tegucigalpa, and the industrial centre of the country, San Pedro Sula, more than 350 small firms from shoes, confection, wood and furniture, mechanical, printing and food industries have created more than 30 clusters (UNIDO, 1996; Seminario de Capacitación Especialización Flexible en Honduras).

There exists a vast array of inter-linked Chinese firms across Asia, held together by verbal agreements and trust. Families introduce each other in their networks, have multiple partner trade deals, share risks and rewards. This clannish organisational network of Chinese businesses aims at achieving economies of scale and emphasises doing business with other Chinese firms. A typical example is the mutual self-help associations usually found in South East Asia and Hong Kong, which have acted rather like banks through which Chinese entrepreneurs can borrow money, obtain trade information, recruit workers and receive business introductions (Ingley, 1999).

In Japan, parent firms and trading houses, with which SMEs have close links, support SME marketing activities. Sub-contracting in Japan is often in a 'pyramid' form, for example where a car assembler has transactions with only the first tier of sub-contractors (supplier), and the first tier sub-contracts with the second in a pyramid form. The assembler is positioned at the apex of the pyramid (UNCTAD, 1997).

The relation between enterprise clusters and external finance is less clear. Funds for SMEs through specialised development banks is diminishing with changes in World Bank credits for SMEs and the spread of financial reforms (Berry, 1997). While it is likely that SMEs organised into clusters may be more successful in gaining funds from commercial banks, as was the experience of clusters in industrial districts in Italy in association with local banks, little is known of the relationships in developing countries (Becattini, 1990).

Local Associations and Non-Government Organisations

There has been a growth in the importance of local associations and non-governmental organisations acting to facilitate small enterprise development in the 1990s. A consensus has emerged that non-government organisations provide effective support that can alleviate some of the constraints faced by small enterprises. Support measures provided by these institutions are wide-ranging across sectors and within countries (Bose, 1990; Levitsky, 1993; Mwarania, 1993; Aredo, 1993; Schulz, 1995; Gibson and Havers, 1995). These include self-help organisations; local business associations; Chambers of Commerce that promote the interests of the business sector, private commercial institutions providing a range of capacity building support in the area of technology, marketing, business, industry analysis, accountancy, law, institutional training, and transport; and non-government organisations, providing, for example, intermediation support to access credit.

Business associations have been particularly important. According to Moore and Hamalalai (1993: 1897), local business associations

'perform a wide range of functions including: political voices; provision of concrete business services such as seminars, information and library services, exhibition and trade fairs, foreign contacts, contract adjudication, specialized legal advice and assistance, certification of document and product quality; an arena for social contact between members; an arena and 'cover' for cartel arrangements; ...and participation in the framing and/or implementation of public policy, including performance of regulatory duties'.

International Donor Support

In recent years, the international development agencies have emphasised the need to develop specific linkage-creation policies, for instance, by lowering transaction costs through the introduction of sub-contracting exchanges, incentives, venture capital schemes, market reservations and local content requirements. A collaborative approach to facilitate vertical and horizontal linkages, rather than enforced linkages is emerging as a consensual trend for linkage support to facilitate small-scale sector development (World Bank 1994; Schmitz 1995a and 1995b).

A range of financial support is provided by the Inter-American Development Bank (IADB) through a Small Projects Programme in Latin America. This programme, in collaboration with small and medium enterprises and co-operatives provides low cost loans of up to US\$500,000. The Asian Development Bank (ADB) supports development policies to provide direct and indirect borrowing and equity participation to small and medium enterprises in Asia.

The UNIDO Cluster Development Project in India targets existing clusters of small-scale enterprises. The project specifically aims at sourcing financial support for small-scale enterprises through NGOs and financial institutions. The project appealed to financial institutions and NGOs in India to assist in the promotion of cluster activities. The first to respond was the National Bank of Agricultural and Rural Development, it financed 15 per cent of the total costs of a Trade Fair at Jaipur City. Since then, the Indian Institute for Rural Development (an NGO), the Small Industries Development Bank of India (SIDBI), the State Bank of India (SBI), various Development Commissions and Chambers of Commerce have in one way or the other, financed cluster promotion in India. By the end of 1999, the financial contribution of these institutions to cluster related activities had reached 20 per cent of the total costs (Clara, Russo and Gulati, 2000).

Bilateral donor agencies intervene extensively to support small-scale enterprises. The most prominent assistance is undertaken by German aid organisations, most notably, the German Technical Corporation (GTZ), which is active in developing links and supporting activities in countries such as Ghana, Kenya, Nigeria and Tanzania. The Crafts and Small-Scale Enterprise Promotion Project in Tanzania, a joint venture between SIDO, Tanzania and GTZ, Germany, supports a range of self help organisations (Schulz, 1995). Other examples include programmes such as New Business Creation, supported by German aid, to provide support services, training and advice to small enterprises in Nepal (ODA, 1992). Other examples include the Integrated Experts Programme, a German supported programme providing advisory services to local entrepreneurs, and a French supported initiative, the Company for International Investment and Development, providing direct and indirect investment and lending to small business entrepreneurs through the creation of local investment companies (ODA, 1992).

Policy Dialogue

Another type of inter-firm networking which merits attention is the range of linkages that have developed to increase small firms capacity to enter policy dialogue. A particularly noteworthy example is the West African Enterprise Network, which is based on local and regional cooperation networks. Borne out of the process of political liberalisation gaining ground in parts of Africa in the 1990s, private entrepreneurs have sought a greater influence over economic policy. The concept sprang from a USAID/OECD sponsored conference that aimed to establish an agenda for private sector action to improve business conditions. By 1993 seven national networks were created in Benin, Burkino Faso, Cote d'Ivoire, Ghana, Mali, Nigeria and Senegal. Membership consisted of heads of firms that employ between ten to fifty workers, and enterprises having relatively high average annual turnovers of over a million dollars (Orsini et al., 1996).

4. ASSESSMENT OF RESULTS

During the 1970s and 1980s, industrial districts in Europe flourished and provided examples for small enterprise development. It is apparent, however, that successful competition has subsequently led to the growth of interfirm hierarchies within the industrial clusters. Many enterprises that have reaped the benefits of growth within clusters are now sub-contracting to smaller enterprises. This type of development, viewed as a competitive crisis, is contrary to the original aims of Italian clusters, which were to encourage collective action and external economies. Indeed, the natural evolution of industrial districts in Europe involves a restructuring process which occurs at different stages of the clusters life cycle. Caution is therefore required in suggesting that clustering provides a successful example of the way forward for small firms in a changing industrial and market environment. What is useful from the European experience is that, in the short and medium term, positive gains can result from collective action. The extent to which this can be maintained in the long term depends not just on the spontaneous endogenous creation of interfirm linkages, but also the development of a supportive and sustainable institutional environment that will assist in providing the necessary interventions as and when required (Rabellotti, 1995).

The debate continues over the extent to which the European experience can be used as a benchmark to assess the success of similar developments elsewhere. Moreover, it is questioned whether or not industrial clustering is a way forward for small enterprises in an

increasingly competitive environment. Schmitz (1995) argues that the limited evidence of industrial clustering in developing countries disqualifies the use of the Italian model as a yardstick to compare performance. Rather, only the underlying concepts on which the Italian, and other European clusters sought strength, such as competitive advantage through collective action and external economies, should be applied and empirically examined in the context of developing countries. Given the limitations of time series data, it is perhaps still too early to determine if clusters can more universally be prescribed for developing countries.

In terms of clusters themselves in developing countries, the weight of evidence reflected in the Sinos Valley experience does suggest that these have the capacity to play an important role for small enterprise development. This appears to be the case, particularly if clustering is harmonised with macroeconomic industrial policy, meso level institutional interventions and direct micro level support in areas such as access to credit, technology transfers and marketing and information. This conclusion is supported by other relatively successful examples of industrial clustering. Clustering in the cotton knitwear industry in Tiruppur, India has enabled small enterprises to break into export markets for high volume and low to medium quality cotton knitwear goods (Cawthorne, 1995). In this case, it was not the dynamics of clustering *per se* that led to success but rather the existence of clustering in a facilitatory macroeconomic environment.

Research on industrial clusters is beginning to show them as a source of competitive advantage. Clustering of small enterprises appears to help in improving export performance. Some clusters have been able to successfully exploit inter-enterprise division of labour to raise their competitiveness and trade in international markets (Nadvi, 1997). Less successful clusters, particularly in parts of Africa, have developed but have failed to create the kinds of division necessary to raise competitiveness (McCormick, 1998).

There is more concern with government-facilitated linkages between large and small enterprises, since studies of these provide more ambiguous results. Limited linkages have occurred in Nigeria. In many instances, small enterprises in Africa considered these relationships unimportant in counteracting any negative impact felt from structural adjustment. The government in Indonesia has initiated promotional small and medium enterprise support policies since the 1970s, concentrating directly on cottage and small enterprises. These have largely been in the form of direct financial and technical assistance

programmes. Poor implementation and design has limited the effectiveness of these policies in creating interfirm linkages. For instance, the 'foster-father' linkage and partnership programme that provides assistance to small enterprises facing production and financing problems has had limited success. Moreover, larger enterprises have entered the scheme reluctantly and under political pressure. This has resulted in numerous mismatches between large and small industries. Indeed linkages between large enterprises appear more common than those with small firms (World Bank, 1994).

Ineffective implementation of policies, use of multi-agency approaches with lack of private sector involvement, inconsistencies in implementation, communication problems between agencies, unfair regulatory burdens on small and medium scale enterprises, and lack of managerial accountability are key factors that limit the effectiveness of support programmes. While these were evident in a number of studies, a contrary picture has emerged in some countries. In Malaysia, for example, effective linkages have slowly emerged. These include a network of information provision and exchange to enterprises too small to access information effectively by themselves, such as the Subcontracting Exchange Scheme (SCX) (a computer clearing house which links component-producing small and medium scale enterprises with component-using multinational enterprises). In Thailand the Board of Investment Unit for Industrial Linkage Development targets parent companies to contact complementary subcontractors.

There is also mixed evidence on the effectiveness of procurement policies to stimulate SME development. Evidence outlined earlier has suggested that procurement policies are not necessarily a panacea. Government procurement systems may operate in weak institutional environments which limit their effectiveness, as, for example, in the case of Bangladesh and Nepal (Cook, 1996). However, a recent study suggests that procurement systems can be refined with little additional financial resources, to meet the needs of the small-scale sector (Tendler and Amorim, 1996). In this case, the evaluation criteria was concerned with the quality and price of goods and the ability of small firms to deliver to the public sector, rather than on the deficiencies in public administration.

Several studies point to the link between business association activity and enterprise performance, as for example in the Mexican shoe cluster in Guadalajara (Rabellotti, 1999). In Pakistan the Surgical Instruments Manufacturers Association played a part in the Sialkot

cluster when economic times were bad but had little effect on overall performance except in improving quality assurance standards necessary to enter export markets (Nadvi, 1999). In Sinos Valley in Brazil, the six business associations representing the interests of various segments of the shoe industry value chain and other professional associations and training institutes have made an impact on the clusters marketing in both local and international markets (Bazan and Schmitz, 1997; Schmitz, 1998).

These types of organisations have not escaped critical review. Particular weaknesses identified are: low membership; poor leadership; inefficient management and administration; non-acceptance as full partners by government, and inadequate finance (Levitsky, 1993). The most representative of these for small firms are local Chambers of Commerce, however, the structure and style of operation of these varies considerably from country to country. A crucial problem is the way in which small entrepreneurs perceive the role of such organisations, and the attitude of governments. Many are politically influenced, for instance in the case of Africa, and many are resource rather than member driven, leading to over reliance on donor funding (Gibson and Havers, 1995).

Further, there is evidence that small enterprises do not always use the range of support services provided by formalised institutional networks. An ILO-ARTEP study of 328 microenterprises conducted in 1989-1990 in Pakistan confirms this trend (Nadvi, 1992). Trade union bodies were ignored by small entrepreneurs, whilst larger, formalised trade and industrial associations tended to focus on representing the needs and desires of larger enterprises. Similarly, despite the emergence of support assistance from non-government sectors, such as credit and marketing cooperatives (Karachi's Orangi Pilot Project – OPP, the Aga Khan Rural Support Programme – AKRSP), these tended to bypass small-scale enterprises and focus more effort at the microenterprise and household levels.

Despite the evident weaknesses, these organisations have the potential capacity to play a vital facilitatory role in small enterprise development in the future. For instance, slow and tentative steps are being taken to incorporate the role of these types of organisations into the wider policy dialogue framework, as indicated by the West African experience. In order to reap the advantages of such schemes, support needs to be directed not only to the small enterprise members through micro level assistance, but channelled at the meso level to alleviate the operational and accountability constraints of the organisations themselves.

One area of specific support from local non-government agencies can be found in the range of initiatives aimed at alleviating the financial constraints many small operators cite as a primary barrier to their development. This is facilitated through a varied package of NGO based financial assistance schemes. NGO links with donor agencies to provide investment funding, technical assistance and management support have increased the effectiveness of government agencies in administering support programmes. Financial liberalisation has had mixed results in opening access to formal sources of credit for small scale enterprises, as illustrated by the cases of Nigeria and Kenya (Oyejide, 1993; Mwarania, 1993). Access to credit continues to be a constraint for smaller enterprises. Direct measures have been introduced to provide access to credit in the form of local financial institutions. An effective example is the Small Enterprise Credit Program (SECP) in the Philippines which is designed as a wholesale financing programme that channels credit through existing financial institutions (Saldana, 1993).

More direct measures channelled through NGO avenues include BRAC in Bangladesh, considered to be innovators in developing rural credit and development activities. Similarly, the Grameen Bank in Bangladesh offers credit assistance to low income creditors, with a typical loan averaging US\$ 60, and interest rates charged at 16 per cent (Hulme and Mosley, 1996). Other examples include the Village Development Fund in Indonesia which provides credit to farmers and is supported by IFAD; Cameroon Tontines which are community lending institutions administering a revolving fund for members loans (ODA, 1992); and the Anurpurna Mahila Mandal (AMM), a development organisation which operates as an intermediary for five nationalised banks in India (Bose, 1990). In the Philippines a number of private voluntary organisations and NGOs have also taken the initiative to provide credit support to small enterprises, such as the PBSP and Tulay sa Pag-unlad (TSP), (Lapar, 1991).

5. CONCLUSION

It is evident that a growing consensus views the future direction for small-scale enterprise development as resting with specialised firms that are able to compete in niche markets. It is difficult to prescribe blanket recommendations for future support strategies given the heterogeneous nature of enterprises in the SME sector. Certain key issues have emerged from the limited empirical research that assesses the contribution of support measures. First, it is too early to tell if the collective actions of interfirm networks have reached a level of

policy dialogue that explicitly integrates small-scale sector policies with broader macroeconomic policy. Second, it does seem realistic to presume that the future success of support mechanisms for small enterprises is dependent on the interaction of the sector in determining their own needs. Small enterprise networks representing the needs of its members present a forum for this collaborative participation and support ought to be continued for collective action that develops through an endogenous process. This aspect appears to be critical for small enterprise development. Third, institutionalised provision of a range of technological, production, marketing, financial, legal, and management support remains important, particularly for small enterprises less able to adapt and innovate. Fourth, collaboration between interventionist agents, between government, local non-government organisations and associations, small and large firms and international donors has shown positive results to warrant its more widespread adoption.

There is continued concern for the majority of small-scale enterprises, and micro-enterprises in particular, who produce simple household goods for the domestic market, and for whom the impact of structural adjustment has been far less favourable. These more vulnerable small enterprises have faced declining demand for local products, exacerbated by large scale retrenchment, decreasing rural incomes and increasing competition from relatively cheap high quality imports. In addition, higher priced inputs and technological down-grading due to rising import and domestic equipment prices have had adverse effects on many small enterprises. Moreover, the majority have few external linkages and exist in areas where infrastructure and institutional development are weak and where transaction costs are high. In an environment where the domestic market is contracting or is unstable, technological upgrading, skills development and quality improvements are difficult to achieve.

It remains apparent that a variety of constraints continue to prevent the majority of small-scale enterprises from taking advantage of economic reforms and that both direct and indirect support mechanisms are required to facilitate small-scale enterprise development. Structural adjustment reforms have not, and cannot realistically, be expected to provide a level playing field that will permit open competition between large and small-scale enterprises for resources and markets. The competitive process left to itself does not work in this way. Besides, some economic reforms may have increased obstacles to small-scale sector development.

Despite the misgivings the review has emphasised the importance of linkage relationships between enterprises as a key to improving SME efficiency and export performance. Continued donor support at all levels and through interlinking with all facilitatory agents, from macro interventions with governments to direct assistance at the micro level with small enterprises and enterprise associations, is needed most in low income countries where domestic institutions are weaker and the probability of macroeconomic instability is higher. In these economies endogenous processes of interfirm linkages are also likely to be less evident. Donors can play an explicit role in building up participatory links with private sector institutions, such as local associations, business enterprise networks, non-government bodies and channelling assistance that is tailored to the needs and capacity of the recipients (Levitsky, 1993).

These perceptions are complementary with emerging views concerning future best practice to support small enterprises. The presence of donors and the move towards private sector and non-government organisational support, should not be concurred as an argument for bypassing assistance provided through public sector institutions. Conversely, there is a need for equal collaboration with the institutional network provided by the government. This in turn ought to facilitate the development of a consolidated public-private network of institutional support, rather than a fragmented picture of a multitude of agencies intervening at different levels and in different ways, which can create the difficulty of overlapping resources and duplication.

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