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TRADE IN THE SMALL- AND MICRO-ENTERPRISE SECTOR IN KENYA AND OTHER COUNTRIES IN EASTERN AND SOUTHERN AFRICA

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Abstract

Since the famous ILO report on the informal sector in Kenya was published in 1972 the small-scale enterprises have been recognised to play an important role in the Kenyan economy as in other African countries. However, although often more than half of all the small enterprises are traders. Most small enterprise policies have focussed almost entirely on the small scale producers. The small-scale traders have generally been seen as unproductive activities with no positive role to play in development, a sign of poverty, although they are responsible for a large share of the national distribution system. The paper attempts to look at this paradox and investigate the role of the small scale traders in the small enterprise sector and in the development process.

Introduction

Since the famous ILO report on the informal sector in Kenya was published in 1972, the small-scale enterprises or Jua Kalis have been recognised to play an important role in the Kenyan economy as in other African countries. However, although often more than half of all the small enterprises are traders, most African governments, as well as most small-enterprise support schemes have focussed almost entirely on the small-scale producers, while the small-scale traders have often been seen as unproductive and a nuisance which in the public debate often have been called by names with negative connotations, such as hawkers and middlemen. There are also relative few detailed studies of the structure of small-scale trade in Kenya, as in eastern and southern Africa generally (Kongstad and Mönsted (1980) and Freeman and Norcliffe (1985) are two important exceptions), and most of the few studies of traders focus on street and itinerary traders as a social problem rather than as a part of the distribution system. Still small-scale traders distribute a large share of the agricultural produce and industrial goods, both locally produced and imported.

The strong policy focus on producers is even more problematic because the majority of those small enterprises that we classify as producers in reality serve as retailers as much as producers. Almost all of them sell their products directly from their workplace to the individual consumers. They often spend more time waiting for customers and selling their products than actually producing them, and they often operate on a 'retailer's logic' rather than a 'producer's logic'. Their ability to compete with the formal industry does not rest on their production efficiency (which is often poor), but partly on their ability to distribute their goods to the rural areas and low-income urban neighbourhoods where they are located at a much lower cost than the formal industry, and partly on their willingness and ability to produce goods of a low quality and price which better suits the low-income consumer; (although a large part of the literature rather focuses on their inability to produce a higher quality).

1. The changing perception of small enterprises in the economy

At the time of independence economists generally saw small-scale producers as part of a traditional economy which would disappear with modernisation, ousted by a more efficient formal industrial production. Small-scale traders were seldom discussed. However, this prophesy has generally not come true. Only in some traditional rural sub-sectors where traditional raw materials have been have been substituted by new products, such as grass-mats and pottery which have been substituted by plastic products; but even here the process of decline has not been a simple one. Thus Mihanjo (2001) and Müller (2001) show how Tanzanian potters and black smiths after 30 years of suppression have again expanded after liberalisation. Even in the industrialised countries small enterprises have not disappeared, although what they do has changed over time.

Since the famous ILO report in 1972 the small-scale, informal sector has been recognised to play an important and growing role in Kenya as in other African countries. However, the small-scale activities were generally seen as important for employment creation and income generation for poor people with no alternatives, but often as not having any real importance for the economy at large (see e.g. Livingstone 1991). They are therefore expected to expand during economic crisis and contract again during up-swings, and thus develop anti-cyclical (Daniels 1995, 2003). The focus of small-enterprise policies and also of many small enterprise studies has therefore often been on their ability to create employment and generate income for the poor, rather than on what the small enterprises actually do, and how they contribute to the economy. This is highly problematic as the ability of the small enterprises to play a social role clearly rests on their ability to play an economic role: that is to sell their goods and services at the market.

With introduction of the structural adjustment policies during the 1980s and 1990s there was an increasing tendency to see the small enterprises as a more integrated part of the economy, partly because many small traders distribute formal sector products and partly because they to some extent serve the same markets. Success in the formal sector should therefore lead to success in the small enterprise sector while crisis in the formal sector will lead to crisis in the small enterprise sector. The small-enterprise sector was therefore expected to develop pro-cyclical with the formal sector.

However, recent literature on rural-urban linkages and the importance of the rural non-farm activities indicate that the small enterprise sector has been growing in spite of stagnation in the formal economy, and not just because the poor has no alternative (Bryceson 2002a and b). There are at least three reasons why we should expect the market for small enterprises, and not least for the small traders, to grow in spite of the generally stagnating economy. Firstly, increasing commercialisation of the rural areas increases the need for commercially traded goods even if the economy as a whole is not really improving. Secondly, trade liberalisation and agricultural diversification tend to shift trading activities from the parastatals and large private enterprises to small-scale trade and production. Where the agricultural system before liberalisation tended to concentrate on growing a few export and food crops for the export and urban market, liberalisation has led to diversification of the agricultural production as well as a diversification of the trade channels for the large food and export crops (Evans and Ngau 1991; Ponte 2001 and 2002; Ellis and Mdoe 2003). Smaller crops and more diffused markets call for small traders closer to the market. A rapid growth of small rural towns has contributed to this (Pedersen 1996). Thirdly, the market for industrial goods, both locally produced and imported, has been growing due to increased urbanisation and more widely diffused, not least as a result of the rapid growth of the small towns. This means that the development of the small enterprise sector is linked to the largely irreversible processes of urbanisation and rural commercialisation and therefore not cyclical although the type of small enterprises developing during up-swings may not be the same as during economic crisis (Pedersen 2000). This is also supported by Daniels' (2003) finding that entry into the small- enterprise sector in both the urban and rural areas is highly correlated to the development of agricultural value-added.

There is no general agreement on which of the three arguments outlined above best account for the interaction between the small-enterprise sector and the economy at large, but the three arguments probably to some extent complement each other by fitting to different part of a very heterogeneous small-enterprise sector. Thus while some traditional production sub-sectors may be ousted by new industrial products other sub-sectors, especially retail trade, rather develops in tandem with either with formal industry or with agricultural production; and while some people may operate small enterprises because they have no options, many others do it because it gives them an income comparable to other available options and in addition liberties and possibilities to use constraint work time and other resources which they could not use in an ordinary wage job (Pedersen 2000; Daniels 2003).

One of the problems of understanding how small enterprises interact with the economy at large and develop over time is that although there has been carried out a huge number of studies of small enterprises most of them are based on small sample surveys, often of less than 100 and seldom more than a few hundred enterprises located in specific localities. Such studies have given us a large knowledge about the characteristics of individual small enterprises, but they cannot tell us how the small-scale sector as a whole interacts with the economy at large or how it develops over time. Such local surveys also do not give a basis for comparative studies of the structure and development of the small enterprise sector in different countries which could contribute to our understanding of the impact of economic policies on the small-enterprise sector. A consequence of this is that the small-enterprise sector is often implicitly or explicitly assumed to develop independent of the large-scale formal economy and of economic policies, and as a consequence also develop in more or less the same way in different African countries.

The lack of time series data also means that policy recommendations on the development of the small-scale sector are mostly based on conclusions indirectly inferred from cross-section data, or data which are little better than guesswork.[1] In order to remedy the lack of data a series of large national sample surveys was carried out during the 1990s in a number of African countries on the initiative and support from USAID. The surveys in principle are based on the same methodology, namely a total count of all enterprises with less than 50 employees at all addresses in a sample of both rural and urban enumeration districts. This makes it possible to blow the sample up to estimations of national figures. This methodology means that the samples in principle comprise both formal and informal enterprises, and thus especially in trade comprise most of the retail trade, whether formal or informal[2].

Although there are large difficulties in comparing the different national surveys they do indicate that there are large national differences in the structure of the small enterprise sector, depending both on social structures and on the structure of the formal economy with which the small enter-

[1] For instance in Kenya the annual Economic Surveys have since 1980 published data on the employment in the informal sector. However, these data are not based on surveys. An analysis of the data shows that the employment in the informal sector is assumed to grow linearly with a fixed but generally too low, amount each year, but was then adjusted upward every time a new survey has been carried out during the 1980s. The share of trade in the informal sector is set at an almost fixed 60% of the sector. In 1992, after the first large survey, the size of the rural informal sector shifted from being estimated to about half the size of the urban informal sector to becoming about twice as big as the urban informal sector. These figures clearly cannot be used as a basis for detailed analysis of the development of the informal sector over time and its interaction with the formal economy.

[2] According to the enterprise statistics of the Central Bureau of Statistics (Statistical abstracts 2001) in Kenya there was in 2000 11686 formal trading enterprises in Kenya of which 10933 or 94% had below 50 employees. This corresponds to only 1.3% of the small trading enterprises estimated in the 1999 small enterprise survey. The formal trading firms employed 105480 employees or 9 per enterprise. Of these 54500 were employed in enterprises with less than 50 employees.

prises have to compete (see e.g. Liedholm and Mead 1999 and Pedersen 2000). A comparison between Kenya and other countries could therefore help us understand the Kenyan development.

The following discussion of the role of traders in the small-enterprise sector is based on the results of the three surveys carried out in Kenya during the 1990s. Although the focus is on Kenya we have also analysed the similar Zimbabwean data because the comparison between Kenya and Zimbabwe highlights some of the development trends in Kenya which would be difficult to interpret without the comparison. Zimbabwe has been chosen for the comparison primarily because Zimbabwe is the only other African country where more than one survey has been carried out. However, it is not unreasonable to compare Kenya with Zimbabwe as they are both among the most industrialised countries in Sub-Saharan Africa. There are admittedly large problems involved in comparing the different surveys, but they are the only data available and, although the data should not be treated as hard facts, we do believe that they give an indication of important development trends for which we have no other information.

2. The structure and importance of trading enterprises in the small-scale sector

Table 1 shows data from the small-enterprise surveys in Kenya and Zimbabwe indicating that the share of traders among the small enterprises in the early 1990s was above 60% in Kenya, but only 20% in Zimbabwe. The high share of small traders in Kenya at least partly reflects that Kenya's rural trade and transport policies have always been more liberal than Zimbabwe's and the liberalisation process started much earlier. Thus although inter-district transport of grains were prohibited in both Kenya and Zimbabwe it was much more strictly administrated in Zimbabwe, and while rural transport in Kenya developed rapidly when *matatu* transport was liberalised in 1973, licensing of transport in Zimbabwe was only liberalised in the late 1990s (Pedersen 2004; Alila et al. 2005). Therefore the growth in trade in Kenya started already in the 1970s. Thus Kongstad and Mönsted (1980) found that only 12-14% of the rural non-farm activities consisted of trade in the mid-1970s. However, the small share of traders in Zimbabwe also to a large extent is due to a much larger number of small-scale producers than in Kenya (especially in clothing and mat weaving), as reflected in the large number of small enterprises per 1000 inhabitants (for a more detailed discussion of the Zimbabwean data see Pedersen 2000). When we compare the number of small traders per 1000 inhabitants in Kenya and Zimbabwe the difference is much more limited.

Table 1. The role and development of traders in the small-scale sector in Kenya and Zimbabwe

	Kenya			Zimbabwe		
	Sept./Oct. 1993	May 1995[1]	Sept./Oct. 1999	Sept./Oct. 1991	Sept./Oct. 1993	Jan./March 1998[1]
Total no. of SMEs	910,000	708,000	1,289,000	868,000	942,000	860,000
No. of small traders	552,000	388,000	826,000	177,000	259,000	384,000
% of small traders	60.6	54.8	64.1	20.4	27.5	44.6
All SMEs/1000 inh.	38	28	45	86	88	73
Small traders/1000 inh.	23	15	29	18	24	33
Rural areas						
Total No. of SMEs	711,000	528,000	846,000	598,000	686,000	529,000
No. of small traders	428,000	271,000	552,000	108,000	175,000	(236,000) [2]
% of small traders	60.2	51.3	65.0	18.1	25.5	(44.6) [2]
Urban areas						
Total No. of SMEs	200,000	181,000	443,000	238,000	256,000	331,000
No. of small traders	124,000	117,000	274,000	68,000	91,000	(148,000) [2]
% of small traders	62.1	64.8	61.5	28.6	35.6	(44.6) [2]

1 The surveys in Kenya 1993 and 1999 and in Zimbabwe 1991 and 1993 were carried out during September/October which is the heights of the harvest season while the survey in Kenya 1995 and Zimbabwe 1998 were carried out in May/June and January-March, respectively, which are (especially May/June) much less economically vibrant in the rural areas. The surprisingly small number of SMEs found in these two surveys is therefore probably to a large extent due to exemption of rural activities only operated during the busy season. For this reason we primarily base our conclusions on the four September/October surveys. However, whether the seasonal explanation for the low 1995-figure is correct is an open question. If it is primarily small rural enterprises which has been left out we would have expected to find a high average enterprise size in the 1995 survey, but the survey find it to be very low.

2 The survey report for Zimbabwe 1998 does not give data for traders in the rural and urban areas. The data shown are therefore based on the share of traders in the total national sample, which is likely to result in a slight over-estimation of the figure for rural traders and a somewhat larger under-estimation of the figure for urban traders.

Sources:
Kenya 1993: Parker and Torres (1994)
Kenya 1995: Daniels, Mead and Musinga (1995)
Kenya 1999: Central Bureau of Statistics (1999)
Zimbabwe 1991: McPherson (1991)
Zimbabwe 1993: Daniels (1994)
Zimbabwe 1998: Development Alternatives Inc. (1998)
Malawi 1992: Daniels and Ngwira (1993)

Table 1 also shows that the share of traders among the small enterprises has grown during the 1990s, though much less so in Kenya (from 61% to 64%) than in Zimbabwe (from 20% to 45%). The more rapid increase in the share of traders in Zimbabwe is due both to a decline in the number of small producers per 1000 inhabitants (which has not happened in Kenya) and a rapid increase in the number of traders per 1000 inhabitants (much larger than in Kenya). This corresponds to a liberalisation process which has been much more rapid and dramatic in Zimbabwe than in Kenya.

The lower part of Table 1 shows that trading firms tend to be relatively more important in the urban areas than in the rural areas. This is partly because trade tends to concentrate in the urban centres where the market access is better and partly because small-scale producers play a relatively more important role in the rural areas where there are less competition. The difference between the rural and urban areas is larger in Zimbabwe than in Kenya, probably reflecting the much larger constraints on rural trade in Zimbabwe before trade and transport were liberalised during the late 1990s. Thus in Zimbabwe the parastatal monopolies were maintained more strictly and longer than in Kenya (Ikiara, Jama and Amdi 1994; Raikes 1994); and the truck licensing system in Zimbabwe meant that access to rural transport here was much poorer than in Kenya where the matatu system since the 1970s has secured a relative efficient access to rural transport. Thus by the mid-1990s there was still only one truck for hire in each of the two rural districts of Gutu and Gokwe each with about 300.000 inhabitants, but in 2000 after liberalisation this had in Gokwe district increased to more than 50 trucks for hire. In spite of the relative concentration of small-scale traders in the urban areas the majority of small traders are located in the rural areas where most of the population live.

In Table 2 the retail trade data from the small-enterprise surveys in Kenya and Zimbabwe have been disaggregated into different sub-sectors. Strictly speaking the data hardly warrant such de-segregation, therefore only data for the largest sub-sectors are shown. There are also problem with the comparison between the different samples. Still we believe that the data in Table 2 give an indication of the trend, though they should not be interpreted literally.

Table 2. Distribution of small traders by main sub-sector

	Kenya		Zimbabwe		
	Sept./Oct. 1993	Sept./Oct. 1999	Sept./Oct. 1991	Sept./Oct. 1993	Jan./March 1998
Retail of agricultural products and livestock	220,200	262,900	71,200	88,400	135,800
Retail of food, drink and tobacco	21,800	65,500	40,900	38,500	115,000
General dealers and kiosks	108,000	336,100	13,300	27,000	50,200
Ready-made garment	19,700	4,800	27,600	29,100	30,300
Second-hand garment[1]	38,800	57,400	-	-	-
All other retail trade	123,400	87,300	24,000	75,900	52,800
Total retail trade	532,000	808,000	177,000	259,000	384,000
Retail trade in % of all SMEs	58.5	62.7	19.9	24.9	44.4

[1] There is no category for second-hand cloth trade in the Zimbabwean survey because import of second-hand cloth grew much later than in Kenya.

Sources: see Table 1.

The largest retail sub-sector is trade in agricultural produce and livestock. The Zimbabwe data show an almost doubling of the number of small traders of agricultural produce and livestock as we should expect due to the liberalisation of agricultural trade. This even is probably a low estimate because the 1998 survey was carried out during a low season in agricultural trade (see also the footnote to Table 1) which especially should influence this sub-sector negatively. In Kenya the small-scale trade in agricultural produce has also increased, though much less dramatic than in Zimbabwe because the sub-sector already had developed rapidly during the 1970s (see above). This indicates the importance of agricultural trade liberalisation and the resulting restructuring of the rural economy for the development of small-scale trade.

Two other important sub-sectors are "retail trade in food, drink and tobacco" and "general dealers and kiosks". In both Kenya and Zimbabwe the two sub-sectors about tripled between 1993 and 1999, reflecting, on the one hand, the rapid urbanisation taking place during the period and, on the other hand, a rapid commercialisation of food trade in the rural areas. At the same time trade in ready-made garment almost stagnated in both countries. The Zimbabwe data do not have a distinction between new and second-hand cloth, but for Kenya the data shows that the number of small traders in new clothes dropped from 20,000 to only 5000 between 1993 and 1999, while the number of second hand clothes traders increased for 37,000 to 58,000. Finally the number of more specialised traders declined in both countries by about one third between 1993 and 1999. This shift from more specialised trade to food and general stores reflect the increasing poverty among the customers (Engel's law), though not necessarily among the traders.

These trends indicate that the small enterprise sector and especially small-scale trade is much more dependent on the largely irreversible processes of urbanisation and rural commercialisation than on the cyclical development of the urban formal economy.

3. Is small-scale trade a place of last resort?

In much of the literature the large and growing share of traders in the small enterprise sector is seen as a sign of poverty (Livingstone 1991). It is argued that the number of small enterprises, and more specifically the number of small traders, only grows because it supposedly requires little capital and few qualifications to start trading and thus access is easy (Daniels 1999). On the other hand, the income generated is generally expected to be correspondingly small. Small-scale trade is therefore often perceived as the place of last resort in which poor, unemployed people with no other options compete for an ever shrinking market.

However, the assumption that small-scale trade is the place of last resort is highly problematic. It is based on the use of cross-section data showing that groups of small-scale traders have few resources and low incomes, but it does not hold for a more dynamic consideration. Small producers and traders can only serve a social purpose if they have a market. There must be costumers willing and able to pay for the offered goods and services. Thus Scoones (1996) studied the development of non-agricultural activities during the drought in a drought-stricken area in Zimbabwe and showed that while many people started to operate small non-agricultural activities in the beginning of the drought, most had to stop again as the crisis tightened, partly because they had eaten their working capital and partly because their customers had no more money. To start small and micro enterprises therefore only play a limited role as the place of last resort during crises. The place of last resort rather consists of family networks and patrons. The existence of a large sector of small producers and traders is an indication that a market actually exists.

There is therefore a need to turn the argument around. The number of small-scale enterprises and more specifically the number of small-scale traders is growing because there is a growing market for their activities (though of course not an infinite market), and not just because the number of poor unemployed people is growing.

However, many small enterprises of course remain small because they lack capital and qualifications to develop their markets efficiently. It is often argued that small traders need less capital and fewer qualifications to start than small producers. As a general statement this is highly problematic. Thus the small enterprise surveys from both Kenya and Zimbabwe do not support the notion that the average investments in small production enterprises are higher than those in small trading enterprises.[3] This may not harmonize well with conventional wisdom, but one explanation is that while the trader may not require much fixed investment (except in storage facilities) he often requires more working capital, which for small producers is often pre-paid by the customer.

[3] Daniel, Mead and Musinga (1995) shows that while 43% of the small traders in Kenya had a start-up capital of more than 1000 Ksh this was only true for 27% of the manufacturers; and Development Alternatives Inc. (1998) showed that the average start-up capital for small traders in Zimbabwe was 5962 Z$ it was only 3771 Z$ for manufacturers. On the other hand, the Kenyan 1999 survey (Central Bureau of Statistics 1999) showed that the average starting capital was mush larger for manufacturers (33943 Ksh.) than for traders (9190 Ksh.). However, this was mostly due to a small number of manufacturing enterprises with a large start-up capital, and the median start-up capital was almost equally small (3000Ksh. for manufacturing and 2000Ksh. for trade).

Also the assumption that trade should not require any special qualifications is highly problematic, considering that one can get university degrees in commerce. The problem is not that trade is an area with easy access because it require little capital and few qualifications, but rather that people with little capital and few qualifications are unable to develop their business whether in trade or production. During the 1990s the educational level of small-scale traders and more generally of small-scale entrepreneurs, has increased rapidly as a result of the gradual improvement in the educational system in Kenya since independence and the entry of new groups of people which would earlier not have considered working in the small-scale sector (see e.g. Otunga et al. 2001). However, there is still a large need for training in trade.

4. Access to markets and resources by small-scale producers and traders

MARKETS

Most small enterprises serve local markets only. In small enterprise surveys from Zimbabwe, Malawi and Lesotho, Liedholm and Mead (1999) found that 96.6% of all small manufacturing enterprises sold all or most of their produce directly from their premises to individual consumers, while less than 4% sold primarily to other enterprises. In Kenya the share of small enterprises trying to reach a wider market by selling to intermediaries is a little larger, namely 7%, probably reflecting the more liberalised domestic market in Kenya.

There are good reasons for this focus on the local market. It keeps the cost of distribution very low. Intimate knowledge of the local market and social control of their customers also gives the small businessman or woman a large advantage compared to non-local enterprises. Thus small enterprises are often able to compete by offering credit where it would be too risky for non-local firms. On the other hand, the inability of both small producers and traders to expand their markets beyond the local area limits their market and makes them very sensitive to swings in the local economy. This is probably the main reason why competition and lack of market almost always appear as a major constraint in small enterprise surveys.

A comparison between the data from the 1993 and 1999 surveys in Kenya indicates that the use of intermediaries has not been increasing during the 1990s. However, this does not preclude that small enterprises primarily selling to individual consumers may actually sell an increasing share of their commodities to other enterprises.

Among both small and large enterprise-owners there has been and still is a wide-spread perception of markets as something given rather than something which could and must be actively developed. This understanding of markets, which is deeply rooted in the import-substitution period, when almost anything could be sold with little effort and almost at any price, need to be changed.

Small enterprises tend to serve niche markets, most often low-income market segments with low-quality, low-price products. Although this segmentation to some extent limits the competition from the formal industry it does not eliminate it because competition may move the border between market segments. Thus during the 1990s the low-income segment has tended to increase both as a result of increasing poverty and a changing attitude towards low-priced goods. The increasing demand for second-hand clothes among the urban middle class is an example of this.

This shift in market segments has been very harmful to some formal industries and resulted in intensive lobbying to reduce the import of low-quality goods. The problem for the formal industry is that it is caught between pressures to produce higher quality goods for the overseas export market or low quality goods for the home and African regional markets.

CAPITAL AND LABOUR

After independence, development policies attempted to concentrate capital in the formal, large-scale economy, which was conceived as more productive than the small enterprise sector. African governments therefore often attempted to suppress the development of the informal sector because it was seen as a waste of scarce resources to invest in them. This argument however, was and still is problematic because most of the capital and labour invested in small enterprises would not be available for investment in the formal sector if the small enterprises were closed. Many rural non-agricultural activities are subordinated the requirements of agricultural production and could not easily be translated into ordinary full-time industrial jobs. Similarly many women operate small enterprises which have to be coordinated with their household activities. From a resource point of view it therefore makes good sense to develop small enterprises because they generate both capital and labour resources which the formal sector is unable to exploit.

Most small-enterprise surveys show that 90% or more of all the small enterprises start on the basis of their own savings only. Very few enterprises get formal bank loans, but a larger and during the 1990s probably growing share get loans from NGOs and other small-enterprise development-schemes. Rotating savings associations (ROSCAs) and loans from family members, especially husbands and parents are especially important for women. The dominance of own savings is partly a result of the difficulties getting access to formal loans. However, even if formal loans were readily available most small entrepreneurs are for good reasons hesitant to borrow money against high interest rates because they operate on very unstable markets with very high risks that they will not be able to pay back the loans. The high minimum deposits and low interest rates obtained by banking small savings in formal banks also mean that it is often much more attractive to invest the savings in a cow or a small enterprise than to bank them.

On the other hand, there are a number of changes under way which are gradually changing the capital market for small enterprises. Firstly, the informal sector has expanded to comprise new groups of better educated people, who ten years ago would not have dreamed of working in the informal sector. Thus the share of small enterprise entrepreneurs with secondary or higher education increased from 24% in the 1995-survey to 35% in the 1999 survey. This has contributed to an improved image of the informal sector, and also improved the access to the financial system by at least some small entrepreneurs (Alila and Pedersen 2001). At the same time a new semi-formal credit market has been developing (often with donor or NGO support) to support the small enterprises. While the old enterprise development programmes focused on investment capital, there are in the new credit schemes an increased understanding of the need for short-term working capital which is often more important for trade and service enterprises.

There are also indications that the nature and conditions of family loans have changed. With few job openings in the formal sector, and a formal bank system which shows no interest in small savings, parents increasingly invest in small enterprises as a way of starting their children off. There are also more examples of men in employment supporting their wives' enterprise (Njeru and Njoka 2001), which often give higher incomes than their formally employed husbands earn (Otunga et al. 2001). Such family loans are often more attractive than formal loans because they usually are interest free, although some sort of profit sharing is often expected.

However, in spite of these improvements in the access to capital lack of both working and investment capital and recurrent cash flow problems remain major problems for the small enterprises.

The way small entrepreneurs try to solve the problem of capital scarcity is to use their scarce capital more efficiently by re-circulating it. In the rural areas the diversification into non-farm activities (Bryceson 2002a and b) and shift from slow to fast crops (Ponte 2001 and 2002) are examples of this. In the urban areas lack of working capital and recurrent cash flow problems have led to new informal or semi-formal organisational forms of credit and market sharing. The grain market in Iganga described by Sørensen (2000) consisting of a nested hierarchical network of traders mastering different amounts of capital is an example of such an organisation. The rapid development during the late 1990s of almost 100 small small-scale producers of ox-carts for rapidly growing but seasonal and highly risky market in the cotton growing area around Gokwe in Zimbabwe is another example (for further detail see below).

5. Unproductive replication or clustering of small-scale activities?

Small enterprises often concentrate in the same local area. In part of the literature this is seen as a sign of unproductive replication or imitation of activities. Poor people with no alternatives are seen to concentrate in the same limited or even shrinking markets with the result that competition increases and incomes fall.

This contrasts with the literature on enterprise clusters, which rather argues that small enterprises cluster in order to achieve increased market access or even increased efficiency through collective action (Schmitz 1990). Most of this literature has focused on sector-specific clusters of small (and sometimes also large) collaborating manufacturing enterprises linked in producer networks with mutual division of work and forward and backward innovation diffusion which improves their "collective efficiency" and thus their competitiveness on the market. Successful examples of such networks in Latin American and Asian countries have been analysed in e.g. Nadvi and Schmitz (1999). In the literature on production clusters the role of traders has generally not been discussed, though some of the more recent studies recognise the importance of traders, both large international or national retail or wholesale trading companies often securing the export market and small local traders often securing a differentiated input supply and the coherence of the cluster (Schmitz and Knorringa 2000; Sonobe, Hu and Otsuka 2003; Weijland 1994, 1999) .

However, in Sub-Saharan Africa such clusters are rare and generally much less successful (McCormick 1999; Pedersen 2003). The producer networks found in Africa tend to be simpler and more limited in scope than the networks found in the industrialised and industrialising countries. Only two types of networks seem to be common (see e.g. Sverrisson 1993):

- In order to take on large orders small enterprises may subcontract part of the order to other small producers in the network. However, such subcontracts would usually not be based on division of work among the enterprises (just as division of work within small enterprises tend to be limited), but all the enterprises would produce the full product.

- Small entrepreneurs without machinery would contract out specialised production functions to other small producers owning specialised machinery, such as a carpenter with a lathe, a smith with a welding machine or a dressmaker with a buttonhole machine, but this would typically be in order to increase the production or produce something which could not be produced without the machinery, not in order to cut the costs.

The limited division of work both within and between small production enterprises is primarily due to the limited and unstable market. Most small enterprises produce primarily to individual orders and although small enterprises may also produce batches or short series for the market or for large orders, such orders tend to be too unpredictable and far between to risk reorganising the production (Sverrisson 1993). Therefore partial mechanisation seldom leads to improved productivity. This does not mean that innovations do not occur, but innovations tend to be product innovations (se e.g. Müller 2001 and Mihanjo 2001) rather than process innovations. Few producer networks in the low-income African countries have therefore been able to develop into full-fletched innovative production clusters.

However, there are at least two other reasons why small enterprises in Africa cluster, but they are both based on a 'trader's logic rather than on a 'producer's logic'. Firstly, they cluster in order to improve their access to the market. When enterprises cluster potential customers reduce their search and transport costs, therefore clusters are able to attract more customers than the enterprises would have done individually. In principle the enterprises could market their cluster jointly but usually information about the cluster is only spread by way of mouth, and collective action in sales is rare in Africa. This is the type of agglomeration economies implied in Christaller's and Loesch's central place theories and is the *raison d'etre* of most market centres and artisan clusters in Africa.

Secondly, enterprises cluster in order to exploit a specific market which the individual small enterprise has insufficient capital (or other scarce resource) to serve satisfactorily, but which on the other hand is too unstable to be attractive to a large enterprise/investor. The small scale scotch cart (oxcarts) production which has developed during the late 1990s in the cotton growing Gokwe district in Zimbabwe is an example of this (Pedersen 2004). In the early 1990s there was in Gokwe an agent of a formal sector scotch cart producer in Bulawayo, who sold carts in Gokwe. There were also two small-scale producers making 30-40 scotch carts a year. In 2001 there was a cluster of 50-100 producers in Gokwe producing at least 2000 scotch carts a year. This was the result of increased earnings from cotton production after deregulation of the cotton production. However, the market for scotch carts is highly concentrated in a short period after harvest, which is the only time when farmers have money to buy. A single producer wanting to exploit this market would therefore need a large capital to produce a stock of scotch carts ahead of the harvest. The largest of the producers only had capital to produce 50-70 vehicles. Many of the producers only operated during the season. They had only capital to produce a few vehicles before harvest, but bought new raw materials when they had sold the first, and thus re-circulated the scarce capital several times during the season. Even if one of the producers should have had more capital, large year to year variations in the cotton production and thus of the market for scotch carts would make it very risky to produce many scotch carts before one got an idea about the size of the harvest. This must be one of the reasons why the Bulawayo producer had not taken over the market.

Such clustering due to unstable markets and lack of capital is not limited to production enterprises but is also found among traders. For instance, Pedersen (1996) found in an analysis of small rural centres in Zimbabwe served by a number of general dealers, that although in principle they carried the same goods, in practice at any one time they tended to stock different combinations of goods because regularly they ran out of stock due to lack of working capital, transport or irregular supplies, so that any single one of them would not be able to serve the market satisfactorily. In principle a trader with a strong capital basis would be able to change this. However, in practice this seldom happens, because of the economic instability. In one of the Zimbabwean centres investigated by Pedersen one of the shops was actually bought by such a trader with capital, who for some time seemed to be able to take over most of the market from the others. However, he was hit by a traffic accident in which his debtor file burned and he himself was incapacitated for half a year so that the situation in the centre fell back to "normal".

6. Small-enterprise networking strategies

That producer networks of the type discussed in the theory of production clusters are rare in Sub-Saharan Africa does not mean that enterprises do not network, but rather that they network in other ways, namely in social or trader networks. Each of these exist both as horizontal networks of small enterprises and as vertical networks where small and large enterprises interact, most often in a hierarchical way.

SOCIAL NETWORKS AND PATRON-CLIENT RELATIONS

Small and micro-enterprises operating under conditions of large resource scarcity and market instability often rely on social or family networks, or what Hydén (1983) called the economy of affection. Such social networks are generally the most important source of credit for small enterprises often allowing them to survive even deep individual crises, but also often requiring extensive reciprocity during more prosperous times. This corresponds to Barr's (1999) finding from Ghana that local networks of small enterprises tend to aim at reducing uncertainties rather than enhancing growth.

While horizontal social or family networks of equally poor people may be able to alleviate individual crises, they tend to break down during widespread drought or other societal crises which hit everybody in the network at the same time so that nobody has anything to share. Therefore in the absence of state social security or large-scale insurance schemes the only alternative is to rely on a wealthy patron to support you through the crisis (Fafchamps 1992). Therefore, in spite of often high costs hierarchical patron-client relations play an important role for small entrepreneurs, as for most people in poor developing economies.

On the other hand, in order to reduce their risk the larger businessmen or patrons tend to diversify their investments into a variety of mostly local businesses in different sectors, rather than building a large enterprise (Seppälä 1998).

Traditionally social networks and patron-client relations have primarily been local but with the growth of urban migration, they have increasingly become the basis for the development of rural-urban linkages, and more recently with increased international migration for the development of small-scale international and cross-border trade.

TRADING NETWORKS

For small entrepreneurs such social networks often become the basis for horizontal trading networks, while patron-client relations are often based on relatively stable vertical trading networks. Such trading networks develop where the operation of markets is constrained by a general lack of trust, where capital and commodity markets undergo large swings, both seasonally and over the years, and where capital is generally scarce, infrastructure poor and the access to capital and infrastructure segmented. In such situations enterprises tend to compete, not on price, but on delivery services, such as credit, transport, willingness to trade in small quantities and a certain guarantee of supplies in times of crisis, and people often accept (or are forced to accept) to pay a higher price for their supplies (or get a lower price for their produce) in exchange for different delivery (or collection) services. This was the *raison d'etre* of the traditional rural trader who bought produce and sold household goods to peasants in a rural area often at a high profit, but who also provided a series of much needed services. The agricultural marketing cooperatives and later the parastatals were originally attempts to substitute the hierarchical and often exploitative patron-client relations with more equitable types of network, but as African history since independence has shown, they generally turned into new, no less exploitative forms of patronage.

In periods of uncertain and irregular supplies of production inputs small enterprises similarly tend to accept higher input prices in exchange for a guarantee (or higher probability) of input supplies in times of commodity scarcity. This was often the case during the import substitution period when supplies were often insufficient and irregular. Since the introduction of the structural adjustment policies input accessibility has generally improved, but the need for supplier credit and transport has not decreased and market access has often become more difficult due to the increased competition from imported goods.

In principle the structural adjustment policies should have increased competition and opened for a shift from fixed supplier linkages to a higher focus on trading and marketing agents with contacts to national or international markets which could consolidate the produce of many small producers and channel market information back to the producers in order to secure a continuous upgrading of products and production processes. However, in reality most small enterprises in Eastern and Southern Africa sell all or most of their products retail from their workshop (Liedholm and Mead 1999), and a traditional fear of middlemen at all levels of society prevents the development of intermediary traders or trading organisations which could help enterprises expand into wider national or international markets, as it has happened to a much larger extent in Asian countries (Weijland 1994).

At the same time the strong rural- urban family linkages developed in many African countries (Tacoli 1998), originally as a result of the long-distance work migration forced upon the Africans during the colonial period, have led to a large informal distribution of consumer goods which has been a constraint to the development of an organised and more efficient distribution system.

Except in groceries and general trade, wholesale businesses which could help small and medium-sized producers to reach a larger market have generally been little developed. However, there are large differences in the way wholesale trade has developed in different African countries.

In Zimbabwe large retail chains developed before independence especially in garment and furniture. Some of these chains were extensions of large South African retail chains. Before independence these chains only operated in the urban areas, but during the late 1980s they extended their branch networks to the larger rural centres. The retail chains operate their own closed in-house wholesale trade, and therefore reduce the potential market for an open wholesale sector. At the same time the chains buy in so large quantities that the small and medium-sized producers generally are unable to supply the orders. Many medium-sized producers in Zimbabwe therefore felt forced to set up their own small local or regional retail chains in order to reach their market, rather than investing in improved production efficiency (Pedersen 1996).

In order to secure a market for indigenous Kenyan traders the manufacturing industry in Kenya has since the 1970s been prohibited from establishing their own retail outlets. At the same time the Asian traders were ousted from the rural areas. This led to the development of hierarchical networks of intermediate wholesale traders, which have distributed industrial goods from Nairobi and other large towns to the rural and small town markets. These networks are briefly discussed in Kongstad and Mönsted (1980) and Freeman and Norcliffe (1985), but newer and more detailed studies of the structure and organisation of these networks does not exist. This is at least partly because the development of these, primarily Kikuyu, networks has been a politically very sensitive issue. However, it seems evident that they have only to a limited extent been able to support the development of an efficient distribution system for the growing informal sector. This is partly because few small African producers are able to deliver products of uniform standards and to precise measurement which would be necessary for them to expand their trading networks (Müller 2001). On the other hand, the wholesalers have not been able to promote and pressure for such a standardisation, as it has happened in many Asian countries.

The resent studies of global commodity or value chains in Africa have pinpointed the important role of large multinational trading corporations in securing access to overseas markets (Gibbon 2002, 2003). However, the industrial export from Sub-Saharan Africa created by multinational traders so far has been based on large-scale productions mostly set up by foreign investors, and has in Kenya and most other African countries had little or no impact on the small-scale producers.

Therefore small-scale producers continue to distribute their produce directly from their workshop or sometimes through shopkeepers and traders in the family network in order to reach beyond the local market. However, such horizontal networks are seldom large and stable enough to allow small producers to expand their productions and achieve economies of scale.

On the other hand, there is probably an increasing number of more hierarchical small to medium-sized organisations set up in order to reach cheaper supplies and wider markets. Examples of this are groups of market women who send a representative to buy supplies from distant markets or long-distance/cross-border traders linking producers and consumers in different towns or regions or even overseas. Many studies document the importance of such long distance/cross-border trading networks (see e.g. Ackello-Ogutu and Echessah 1997, Macamo 1999, Gibbon 1997 and Møller 1998). However, such bottom-up trading networks generally result in large transaction costs. Lack of institutional trust makes it risky to send money and goods unattended with the result that a large share of the out-of-town trade is carried out by the individual traders who carry all the goods and money and pay cash on delivery. Although long-distance traders usually carry goods both ways and are based on semi-barter trade, this clearly limits the amount of trade and makes it an expensive way of distributing goods (Fafchamps and Minten 2001).

There are also more top-down examples of importers who have been able to mobilise networks of small-scale traders to distribute their wares at a large scale. Such networks have been the basis for the rapidly growing trade in second-hand cloths and other cheap import goods (see e.g. Rono 2001). But there is very little research on this.

7. Policies of small-enterprise development

The employment in small enterprises has been growing because the number of small enterprises has increased, but the number of people working in each enterprise has actually gone down. This decrease in the size of enterprises has been interpreted as a result of poverty and shrinking market shares for the individual enterprises. However, it could also at least partly be interpreted as a result of the shift from small-scale manufacturing to retail trade where the average employment is smaller, but the value-added make up a larger share of the revenue (Central Bureau of

Statistics 1999, Table 5.1). There is therefore a need to look much more closely at the role of the small-scale traders in the economy.

The lack of focus on trade and marketing is partly rooted in the import-substitution period, where the formal industries without any effort could sell all they could produce on the local urban market, and therefore trade and marketing activities were unnecessary. But it is also deeply rooted in traditional economic theory, which often considered trade and services as a cost rather than contributing to the value-added (Illeris 1996). As a result of this lack of concern for trade and marketing, small firms in general, but also many large, have difficulties reaching even the larger national market, let alone the export market; e.g. for many large, formal industries in Kenya, which claim that they export, the export primarily consists of sales at the factory gate to importers from the neighbouring countries, while the active effort to export is very limited (McCormick and Pedersen 1999). Therefore most of the international trade is organised either by multinational companies or by groups of non-indigenous citizens with international family or other social relations to enterprises in the industrialised world, such as white settler communities, the Asians in East Africa and the Lebanese in West Africa.

To expand the market from the local to a wider national and international market is costly and profit on non-local sales will inevitably be lower than on local sales, therefore unless the firms are able to transform increased sales into increased productivity and thus reduce the production costs more than the marketing cost have increased, an expansion of the market is not interesting. Few small enterprises in Africa seem to be able to do this.

The difficulties for small production enterprises in expanding are that an expansion of their market beyond the local retail area will require a radical change in the way they distribute their production. This is likely to increase their distribution cost dramatically and make them uncompetitive unless they are able to translate the larger market into a higher productivity. This means that to succeed they will have to change both the internal production system and the marketing system at the same time. For small enterprises with limited management capacity this is difficult.

To expand small enterprises often invest in one or a few machines However, as Sverrisson (1993) shows this generally does not result in increased division of labour in the enterprise because the market is too unstable to risk a reorganisation of the workforce. The increase in productivity is therefore small. The owner of the machine may lend machine time to other small enterprises but again the regular division of work between the enterprises is rare because the market is too unstable, and productivity increases therefore small.

In order to expand the market the entrepreneur may develop his own marketing organisation. However, in the typical small enterprise this means that the entrepreneur spends most of his time on the road and is unable to manage the production efficiently. He could also choose to sell to a wholesaler or distributor or hire a trading agent, but most small entrepreneurs hesitate doing this, because of the wide-spread fear of being exploited by 'middlemen'. This results in a vicious circle which is difficult to break. To break the vicious circle much more focus is needed on the structure of both retail and wholesale trade. The present growth in the trade is not just a sign of poverty it is also a response to a rapidly growing need for trade and distribution in the economy in both the small- and large-scale economy. Small traders are increasingly involved in the distribution of both domestically produced and imported consumer goods. Especially the importers (of e.g. cheap consumer goods and second hand clothes) seems to have been efficient in organising distribution networks of small traders and this is probably an important reason why the domestic manufacturing industry is so hard hit by competition from imports. The role of small traders is also increasing in the marketing of agricultural produce as a result of liberalisation of agricultural trade and increasing diversification of the agricultural production.

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