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THE DEVELOPMENT OF THE INFORMAL SMALL-ENTERPRISE SECTOR IN EASTERN AND SOUTHERN AFRICA: FROM IMPORT SUBSTITUTION TO STRUCTURAL ADJUSTMENT

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Abstract

In spite of its growing importance in the African economies, the informal, small-enterprise sector still plays a dubious and little understood role in development. Due to lack of data it is often treated as if it was unrelated to the rest of the economy. However, a number og large surveys carried out in a number of African countries indicate that structure and development of the small-enterprise sector vary greatly both from country to country and over time, depending in a complex way on the national differences in socio-economic structures and policies.

In order to understand the relationships between the small-enterprise sector and the rest of the economy we shall here investigate how the development of the small-enterprise sector has been changing in different countries in Eastern and Southern Africa first under the import-substitution era and then under the structural adjustment period.

In the conclusion we present four theories of small-enterprise development often discussed in the literature and compare them to the development patterns found in the detailed analysis.

1. Development of the informal, small-enterprise sector in economy at large

It is now more than 30 years ago that the informal sector came into focus as an important part of the economy after publication of the famous ILO (1972) report on the informal sector in Kenya. However, in spite of its undoubted and growing importance and a rapidly growing number of empirical studies it still plays a dubious and little understood role in development.

An important reason for this is that our knowledge about it is mostly based on case studies and small local small-enterprise surveys. Therefore we know little about the way the informal sector develops over time and interacts with the formal economy. Many studies especially from the early and mid-1990s attempted to draw conclusions on the effect of structural adjustment on the bases of cross-section surveys, but we have very little factual knowledge. However, from the large small-enterprise surveys carried out during the 1990s we do know that there are large national differences in the size and structure of the informal sector apparently depending in a complex way on the size, structure and efficiency of the formal economy as well as of the gender, age and education of the labour force expelled from agriculture and the formal economy (for a more detailed discussion see Pedersen 2000; Liedholm and Mead 1999; Start 2001). We cannot explain this by studying the small enterprises in isolation from the larger societies in which they operate.

Our hypothesis here is that the informal, small-enterprise sector develops on an un-served market between the formal economy and small-scale agriculture. On the one hand, the informal sector absorbs surplus labour from both agriculture and the formal economy; on the other hand, in both rural and urban areas it operates on a market for goods and services not satisfied by the formal economy which is often inefficient and limited in scope. It comprises production as well as trade and services, but is often dominated by retail trade of both agricultural and industrial goods. To understand the development of the small-enterprise sector one must therefore look at the development of both agriculture and the formal, primarily urban, economy.

The informal sector was long assumed to be primarily urban, but at least in some countries small-scale rural non-farm activities were important already in the 1960s and 1970s. Thus Freeman and Norcliffe (1986) showed that in Kenya half of all rural household during the 1970s were involved in different manufacturing, trade or service activities, which also resulted in a rapid development of the small rural towns. However, in other countries such private activities were constrained by the government. This was for instance the case in Tanzania (Lerise 1991) and Ethiopia (Gebre

1991) during the socialist period. In Zimbabwe such activities also played a limited role before independence, but grew rapidly during the 1980 (Bonnevie 1987, Helmsing 1987).

The informal, small-enterprise sector thus developed in both the rural and urban areas, and although most small enterprises operate on very local markets, there has also developed dense informal linkages between the rural and urban areas to complement the formal rural-urban linkages which often have been weak. Such informal linkages most often consists of personal linkages within households with family members in both the rural and urban areas, but business-to-business linkages between informal urban businesses which buy inputs from or distribute their goods through informal rural business are also common. At the same time rural businesses increasingly move to the small rural towns in order to improve their access to product and input markets. The structure of these different informal rural-urban interactions to a large extent depends on the development and structure of the transport and communication system.

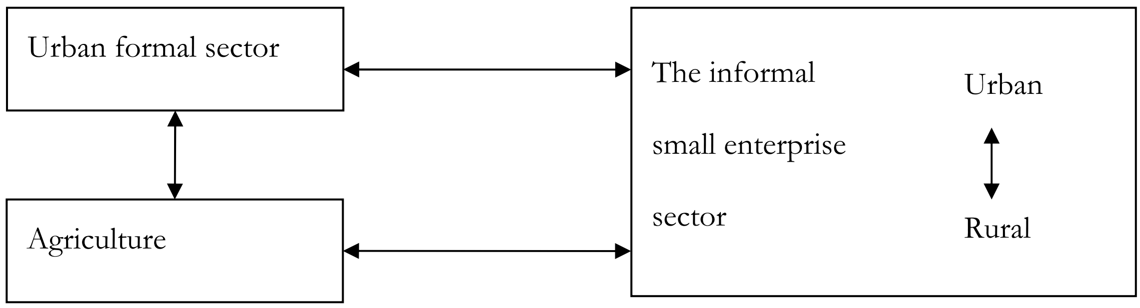

Fig. 1. Model of the role of the informal, small-enterprise sector in development

The purpose of this paper is to use such a model outlined in Figure 1 to look at the development of the informal small-enterprise sector over time, with special focus on the shift from import-substitution to structural adjustment. We shall first in Section 2 look at the development during the import-substitution period and then in Section 3 look at the development during structural adjustment. Finally in Section 4 we sum up the results.

2. The development of the informal, small-enterprise sector under import substitution policies

2.1. THE IMPORT SUBSTITUTION POLICIES

During the late 1960s and 1970s most African countries introduced import substitution policies. This involved a wide-ranging complex of regulations with the purpose of industrialising the countries:

- Development of an industrial sector primarily on the basis of the existing home market and import of machinery and often also the necessary production inputs;
- high custom barriers to protect the developing infant industries;
- an over-valued currency which reduced the costs of imported machinery and production inputs;
- agricultural policies which focused on export crops to finance the imports necessary for the industrialisation process, and a stable food production to guarantee food security and the supply of cheap food for the growing urban industrial labour force;
- development of agricultural services to support the development of agriculture; and
- development of social services, primarily education and health, in both rural and urban areas.

In detail these import-substitution policies were implemented differently in different countries, but at a more general level they were similar. Over time the policies had a number of often unforeseen negative consequences for development in general and more specifically for the development of the small-enterprise sector.

2.2. AGRICULTURAL DEVELOPMENT UNDER IMPORT SUBSTITUTION

The parastatal organization

During the post-independence period most countries in sub-Saharan Africa developed a highly government controlled agriculture with roots back in the later part of the colonial period. It was especially the main export and stable food crops and sometimes large livestock which were controlled, while other crops such as vegetables, fruits and small livestock generally were less controlled and traded at the market.

The major export and food crops were controlled by parastatal marketing boards. Most export crops were controlled by crop specific marketing boards, while food crops were controlled by grain marketing boards controlling grains and oil seeds and sometimes also a number of other less important crops. In addition to the marketing boards a number of other parastatals supported agricultural development, such as research and extension services and agricultural finance institutions. Farm input supplies were often also nationalised or highly controlled and in some countries heavily subsidised.

The purpose of the agricultural institutions and policies was, on the one hand, to support especially small-scale farming and rural development and, on the other hand, to expand the production of export crops, which in most African countries became a very important source of government taxation and foreign currency, and of food crops in order to secure sufficient and cheap food supplies for the growing urban areas and rural areas with food deficit.

The marketing boards were responsible for the post-harvest trade, collection and processing of controlled crops. To reduce seasonal speculation in agricultural produce and encourage smallholder production for the market, the government together with the marketing boards fixed annual farm prices, often as a pan-seasonal and pan-territorial price, either at the farm gate (as in Tanzania) or at more or less dispersed marketing depots (as in Zimbabwe). The farm prices were often fixed at a very low level, partly because pan-territorial pricing, poor rural infrastructure, farm input subsidies and inefficient organisation led to high costs for the marketing board, partly because the export crops often were heavily taxed, while farm price for food crops often were kept low to secure low urban food prices. In the case of cotton the ginneries (in e.g. Zimbabwe) were often required to deliver cotton to the domestic textile industry at prices below the world market price in order to support the industry (Larsen 2002; Pedersen 1997a).

Agricultural policies and extension services tended to focus on mono-cropping of the major export and stable food crops in order to secure government revenues and urban food supplies, but also because the limited resources and qualified personnel only allowed extension of standardised programmes.

In order to maintain the low prices trade and transport of controlled crops became a monopoly of the marketing boards. Private trade was only allowed within the same rural district and even here crop buying was usually only permitted by the parastatal or registered traders and at fixed prices and transport margins. The private rural traders, which during the colonial period had sold farm inputs and consumer goods to farmers, bought their crops and provided credit, often at a high profit, were reduced to general stores or even closed. The marketing cooperatives, which had developed in many rural areas before independence and during the 1960s, became increasingly controlled by the marketing boards.

Instead the parastatals set up farm credit schemes guaranteed by security in the crop. However, parallel trade made it increasingly difficult to secure repayments of the loans, and the parastatals had often difficulties paying farmers cash on delivery, which became a serious problem in the cash- trapped rural economies.

Agricultural processing

The highly centralised parastatal organisations resulted in a narrow sector planning, often for individual crops. For export crops this often led to concentration of processing industries in the large towns, partly because the control function of the parastatals became more important than the efficiency and partly because potential agglomeration economies at the local level were not taken into account. For food crops it led to a dual system of processing with large industrial mills and oil processors in the large towns to serve the urban population and small service mills and oil presses in the rural areas to serve the subsistence farmers for a fee.

Thus large commercial mills have dominated the milling industry in most African countries even though Bagachwa (1991;1992) on Tanzanian data has shown that there are virtually no scale economies in milling. In Zimbabwe where the milling industry has been very concentrated the few existing small commercial mills were not profitable, because the Grain Marketing Board sold grain to the mills at a pan-territorial selling price. The small commercial mills had therefore to pay the same price for grain as the large mills, although they only needed local supplies and therefore would have much smaller collection costs than the large which needed supplies from most of the country. This indirect subsidy to the large mills made the small mills uncompetitive (Pedersen 1997a).

Due to differences in parastatal pricing policies there are still large differences in the structure of the milling industry in different African countries. Although Tanzania also has a relatively centralised system of large mills, it is less centralised than in Zimbabwe; but in Uganda small and medium-sized mills have played a much larger role because the large-scale parastatal sector largely broke-down during the tumultuous years in the 1970s and 1980s (Nabuguzi 1994; Pedersen 1997b).

In Zimbabwe the concentrated milling industry in combination with prohibition of private inter-district trade in food crops meant that not only the large urban areas but also the rural grain deficit areas were supplied by the large urban mills with expensive industrially milled maize.

Similarly the monopoly of the grain marketing board, which only sold oil seeds to the large urban oil processors made it impossible for small oil processors to operate (Fold 1998).

This in combination with the high marketing margins of the marketing boards meant that the price farmers could obtain by selling food crops was much lower than the costs of buying food. Food crops grown for subsistence or local sales were therefore much more profitable for the farmer than marketed food crops. Many household only grew so much that they could hope to be self-sufficient even in dry years. In good years they would then have a surplus to sell. The amount of food crops marketed therefore became very sensitive to draughts, which again increased the costs of operating the marketing boards.

On the other hand, that many farmers primarily were subsistence farmers also meant that marketed crop was produced at marginal costs and that they therefore were willing to accept lower prices than commercial farmers producing full time for the market. Thus in Zimbabwe the commercial farmers stopped producing maize during the late 1980s when real maize prices started to go down, while the communal farmers continued to produce for the market. This was not the case in Kenya where large scale farmers in the political elite continuously have pressed for high agricultural buying prices. This is probably an important reason for the high commercialisation in the Kenyan rural areas and the early development of a rural non-farm sector (see below).

One of the seldom talked about consequences of pan-territorial pricing and strongly centralised processing of grain and oil seeds is that the bi-products of the processing are transported out of the rural areas at subsidised transport rates. These bi-products make up 20-30% of the weight of maize and 50-70% of the weight of oil seeds. They are used for production of stock-feed. However, as there in Zimbabwe was no transport subsidy on stock-feed it was too expensive to return it to the peripheral rural areas. In Zimbabwe it was in stead used by large scale dairy farmers in the rural areas near the large town (Pedersen 1997a). This therefore constrained the development of livestock and economic diversification in the peripheral rural areas. It also increased the demand for scarce transport capacity.

Processing industries for other crops, such as dairies and slaughter houses, were generally also large-scale, though there are both differences from crop to crop and from country to country. The economy of the processing industries, and the agricultural parastatals more generally, was often poor because the parastatals in many countries became sources of employment and profits used to fuel the political patronage system around the ruling party. There are a number of cases where farm prices were squeezed so much that farmers stopped producing, e.g. sugar in Kenya and cotton in Tanzania and Kenya, or where the processing plants had to close so farmers had nowhere to go with there crops.

2.3. INDUSTRIAL DEVELOPMENT UNDER IMPORT SUBSTITUTION

At independence the level of industrialisation in the African countries was generally low. Most industrial products were imported from the developed countries, mainly the former colonial power. The idea behind the import-substitution policies was to produce locally some of the goods which the country was now importing. This would save foreign currency and such goods would have a ready market. However, although such a strategy in principle might have saved foreign currency in the long run, it required foreign currency in the short run to buy machinery and production inputs and also often qualified labour not available locally. In reality the new industries therefore became highly import dependent. This was supposed to be paid for by agricultural export and donor support.

To reduce the costs of imports the currency was kept over-valued. However, this also reduced the incentive to export and resulted in scarcity of foreign currency. To encourage investments the formal interest rate were kept low, but this increased the scarcity of capital. Access to both capital and foreign currency therefore became limited and prone to government control in the form of government allocations and import licences.

The technology and machinery imported was generally European Fordist-type technology, often of older date because it was simpler and required smaller markets than the newest. It was therefore expected to fit better to the smaller African markets and lower labour qualifications. However, even this relatively simple technology required larger and more stable markets and access to more reliable infrastructures and input supplies than was available in the African countries, especially outside the capital cities. Therefore the new industries were difficult to maintain and mostly operated at low levels of capacity utilisation. In order to utilise their excess capacity and make up for an environment which could not deliver, they also developed into self-sufficient, vertically integrated closed entities.

Many of the new industries were developed as parastatals or as joint ventures between national development corporations (controlled by the government or the ruling party) and multinational companies. Many received large donor support. In spite original wishes to develop an indigenous manufacturing industry it became dominated by multinational companies and non-indigenous nationals, such as the Asians in East Africa, the Whites in Southern Africa and the Lebanese in

West Africa. Most governments seem to have feared the development of an indigenous entrepreneurial class which could compete for power with the existing ruling class (Mkandawire 1999).

The goods produced by the import-substitution industries were mainly goods consumed by the urban upper and middle class, because the majority of the rural population consumed very few imported goods. The market for the new industry was therefore highly concentrated in the urban areas. At the same time many industries operated on semi-monopolistic markets, where the level of production was constrained by the limited access to scarce resources. The industrial markets therefore remained a sellers market where almost anything could be sold often at the factory gate, so there was little incentive to develop effective marketing and distribution systems outside the capital city, let alone on the export market.

The expulsion of the Asian traders from the rural areas and the establishment of parastatal distribution companies which never functioned efficiently, became a hindrance for the development of efficient distribution in Tanzania, but less so in Kenya, where the Asians were in many areas substituted with Kikuyu traders. In Zimbabwe there were before independence a well developed privately operated distribution system covering the towns in the white settler areas, but very few trade and service activities in the African communal areas where the majority of the population lived. During the 1980s this urban distribution system was extended to comprise the largest of the new district service centres in the African rural areas. Especially in Zimbabwe and Kenya many industrial products were carried by work migrants back to the rural areas as part of the household level rural-urban linkages.

There were few attempts to adopt the production to the demands of the low-income rural or urban population. An example of such an attempt is the famous Chinese hoe factory build in Tanzania as part of the basic-needs strategy. It failed partly because the nationalised distribution system did not function (the regional trading companies which were supposed to buy and distribute the hoes had no money to do so) and partly because the demand for hoes was more differentiated than foreseen by the industry (Müller 2001).

2.4. DEVELOPMENT OF THE INFORMAL, SMALL-ENTERPRISE SECTOR UNDER IMPORT SUBSTITUTION

The development of the small-scale sector during import substitution was framed on the one hand by the parastatal monopolies and their limited ability to deliver, and on the other hand by the mostly urban and often inefficient formal industry and its inability or limited desire to serve the rural and low-income urban areas. The size of the small-enterprise sector is therefore to a large extent determined by the (in)efficiency of the formal sector and the (in)ability of the state to maintain the parastatal monopolies. At the same time their development was constraint by their limited access to credit and transport. Most of the small enterprises therefore operated at very local markets.

The informality of the small-enterprise sector was a result of the largely monopolistic economy in which it operated more than of the activities they carried out. The informal small-enterprise sector has often been seen by governments as illegal and tax-evading. Even in Kenya, where the attitude towards the informal sector has been relatively positive, suspiciousness and harassment has been the order of the day. However, in reality the small enterprises in most African countries are perfectly legal but operating under a different set of rules than the formal enterprises. They also pay licence fees to the local governments in stead of company taxes to the central government. There are of course small enterprises which try to evade the rules, but this is also true for the formal enterprises, and there are to my knowledge no investigation showing that the large, formal enterprises are more law-abiding than the small informal.

Small-enterprise access to financial resources

The small informal enterprises generally have no access to the formal markets for credit and imported goods, but rely on household savings and loans from family or friends. Capital is scarce and, although money mostly are borrowed without interest (though often with some expectation about profit sharing), the imputed interest is much higher than the formal interest rate. This is testified by profits in the small enterprises which increases rapidly with the amount of capital invested. Although small enterprises are generally labour-intensive and serious under-capitalised, together they represent a considerable capital, especially working capital, which plays an important role in the economic circulation especially in the urban low-income and rural areas. Thus the large small-enterprise survey carried out in Kenya in 1995 (Daniels, Mead and Musinga 1995) showed that the small enterprises together represented 3-5 billion K.sh. in 1994 or about the same as all the outstanding formal agricultural credit in the country (Pedersen 2001a).

Most African countries have had small-enterprise development organisation, dating back from the 1960s or 1970s and sometimes from before independence. They focused only on the development of small or medium-sized, formal manufacturing enterprises, although a major share of small enterprises is engaged in trade and distribution. The small-enterprise development organisations have often been supported by donors but been met with limited enthusiasm by the governments and therefore also have had limited success (see Sverrison (1993) on SEDCO in Zimbabwe, Havnevik et al. (1985) on Sido in Tanzania and Burisch (1991) and Ikiara (1991) on KIE in Kenya).

Development of transport under import substitution

Until the end of the 1960s transport was often seen as the most important factor for regional development, and during the 1950s and 1960s around independence transport infrastructure was improved in many African countries. However, a number of studies during the 1960s showed that there was no direct link between improved transport and development. In fact improved transport might open up for imports which killed off the local industries. Transport therefore was generally down-graded in the rural development programmes carried out during the 1970s and early 1980s. Plans for rural roads were sometimes included, but few new long-distance roads were built and due to lack of funds for maintenance they were often left to decay. By the mid-1980s they were often worse than they had been by the late 1960s (see e.g. Pedersen 2001b).

Where railways existed the agricultural parastatals were generally required to use them. However, in most countries the railways deteriorated as rapidly as the road transport and led to very long transport times (Pedersen 2001c, 2003a, 2004). Thus in Tanzania it often took more than a month to transport goods by rail from western Tanzania to Dar es Salaam (Pedersen 2001c).

Due to lack of foreign currency the truck fleet in most countries stagnated or even contracted. The trucks became increasingly concentrated in the state and parastatal organisations and other large enterprises and geared to collect the controlled crops and serve the large industries. Trucks were concentrated in the capital and the large regional towns where most industries and parastatals were located. From here crops could be collected and farm inputs distributed. Licences and import allocations to vehicles stationed in the rural areas, which would have supported an increased local and regional trade, generally were not given. This was partly because such trade was seen as undesirable and prohibited, but it contributed to the lack of diversification of productions and markets which made the rural areas very sensitive to climatic and other instabilities. An important exception to this is Kenya where *matatu* transport of passengers and freight in small vehicles without a licence has been allowed since 1973 (Alila et al. 2002).

Rural transport which before independence had mostly been carried out by the private rural traders was taken over by the marketing boards. They either invested in their own truck fleets or outsourced transport to state transport companies or sometimes to private trucking companies. This centralisation of transport was expected to increase the utilisation of the scarce transport capacity. However, in reality the efficiency rather went down, at the same time as the demand for transport increased over time because production of stable crops, as a result of the pan-territorial prising, improved extension services and subsidised farm input moved out to the peripheral areas where infrastructure was poor. The efficiency of rural transport is generally low because seasonality of the transport demand results in few return loads, but the traditional rural traders, who both bought a range of crops and distributed consumer goods and farm inputs, had a better chance of getting return loads than the specialised crop parastatal. The result was not only that the costs of the marketing boards increased, they had also increasing difficulties serving the farmers satisfactory. The strong focus on mono-cropping tended to increase the seasonality and thus reduce transport efficiency.

The strong concentration of the transport capacity in the specialised crop parastatals made it difficult to obtain transport for alternative crops and for distribution within the rural areas. Thus a major problem for many small-scale irrigation schemes was lack of transport to market their produce.

As a result of the lack of motorised transport in the rural areas most rural transport in Africa was carried by human porters, mostly women (see e.g. Barwell 1996; ILO 1997; Porter 2002).

The development of rural-urban household linkages

Strong concentration of services, poor infrastructure and an often inefficient formal economy has not only led to the development of a large informal economy, but also to the development of intense rural-urban-linkages at the household level: Food is carried from the rural areas to urban and industrial goods the other way, and many rural households depend on remittances from work migrants to the urban areas. In Eastern and Southern Africa these intense rural-urban linkages have their origin in the pattern of work migration and divided households developed during the colonial period when only men were allowed to migrate to town, but it has continued long after independence (see e.g. Tacoli 1998) .

Today these individualised rural-urban linkages play an important role in solving many of the problems for both rural and urban households caused by centralised development: poor access to services in the rural areas and expensive food in the large urban areas. However, as a long-run solution to development individualised rural-urban linkages are an expensive substitute for a institutionalised system of service and commodity distribution, and a substitute which has primarily developed because the present institutionalised and marked-driven rural–urban distribution systems function poorly.

3. Development of the informal, small-enterprise sector under structural adjustment

3.1 THE STRUCTURAL ADJUSTMENT POLICIES

By the early 1980s some of the negative and self-contradictory consequences of the import substitution policies had become evident and the World Bank started pressing for introduction of a new development paradigm called structural adjustment. It should transform the government controlled import-substitution economies into open market economies by

- devaluating the foreign currency to the market value, which would make imports easier but also more expensive;
- liberalising the external trade, by reducing the custom tariffs and opening up for imports;
- deregulation of the internal trade in agricultural produce and other goods which were earlier government controlled and 'setting the prices right' by giving up the parastatal monopolies and eliminating subsidies and excessive taxation;
- privatising or at least commercialising the parastatals, retrenching their excess employment;
- reduction of government spending leading to public sector retrenchments and reduced government services.
- Support the development of the private sector in general and especially the small-scale/informal sector by creating a so-called enabling environment, through provision of credit and training schemes for small entrepreneurs and policies to reduce the legal regulations and administrative practices which earlier hindered its development.

As a result of the introduction of structural adjustment policies during the late 1980s and 1990s policies have gradually changed, although there are large differences in the way and timing in which the new policies have been implemented.

3.2 AGRICULTURAL DEVELOPMENTS UNDER STRUCTURAL ADJUSTMENT

Food crops

When the structural adjustment polices were introduced, one of the main purposes was to increase the incentive to agricultural export by devaluating the currency and reduce the excessive taxation on export crops, and at the same time increase rural incomes and reduce the urban bias.

However, the experiences with reaching these goals have been mixed, partly as a result of the different ways and timing with which the policies have been implemented. (For a more detailed review of the consequences of structural adjustment for agricultural development see e.g. Friis-Hansen (2000)).

For food crops prices have generally increased. However, the currency devaluation and elimination subsidies on input supplies meant that the cost of inputs in many countries increased even more and in reality left farmers worse off than before. Even in Zimbabwe where the maize price increase more rapid than the input prices, because there had been no input subsidies (except after draught years), it was only the larger farmers selling most of there produce at the market, who benefited. The majority of the small communal farmers who are not self-sufficient, but rely on non-farm incomes and have had to buy a large share of the maize they consume, were hit by the increased prices on both maize and inputs. They had to cut back on their fertilizer purchases and often used their own seeds, which reduced their production.

At the same time, the elimination of pan-territorial prices meant that the cost of getting to the market in the peripheral parts of the country increased and often made the traditional agricultural production unprofitable.

The structural adjustment policies therefore tended to increase the income differences among small and larger farmers, as well as regionally.

The deregulation of the parastatal monopolies opened up new markets in both urban and rural grain deficit areas earlier served by the urban industrial mills. As a result new private enterprises in agricultural trade and processing have developed. However, this development has been constrained and structured by the lack of operational capital.

In Zimbabwe, where small service mills and oil presses had been mostly confined to the rural areas, new somewhat larger mills and oil presses, operating both as commercial and service mills, were established in both small and large towns with the result that the large commercial mills within a few years lost a large share of their market (Pedersen 1997a). Also new oil presses were established but they were less successful, partly because they had difficulties getting access to oil seeds which were short of demand and bought up by the large oil processors shortly after harvest in order to avoid competition.

The new mills were combined service and commercial mills. This was partly because the millers did not have capital enough to buy grain and partly because the large millers cum grocery whole-sales attempted to keep them out of the retail market, where they had a semi-monopoly status. Therefore the successful small-scale millers were millers with their own retail or wholesale outlets or able to sell to local institutions, such as schools and military barracks. Although it would clearly have been profitable for the small-scale millers to buy grain directly from the farmers after harvest, they continued to buy grain from the marketing board, because they did not have working capital enough to buy and store maize.

A lot of maize was also transported to the large towns by individual households and milled there by a large number of new service mills. This individualised food transport was partly based on the existence of extremely low gasoline and transport prices and seems to have come to an end when the gasoline prices tripled in 2000 (Bryceson and Mbara 2001).

In Uganda where the grain market was deregulated already in the 1980s (because the parastatals collapsed), Sørensen (2000) shows how maize trade in the town of Iganga by the mid-1990s had developed into a complex, partly hierarchical network of small-scale traders and millers exploiting their limited but differential access to working capital and transport capacities.

Deregulation has also led to rapid change in other agro-processing sectors. In Zimbabwe the Cold Storage Commission (CSC) in a few years in the middle of the 1990s lost 50% of their market to private abattoirs. This was the result of draughts which reduced CSC's intake from the communal areas at the same time as many commercial farmers shifted to private abattoirs (Pedersen 1997a).

In Kenya deregulation of the dairy sector in 1991 led to increasing milk prices and a rapid transformation of the dairy industry. During the first half of the 1990s many small-scale dairy farmers close to Nairobi shifted from Kenya Cooperative Creameries (KCC), which earlier had a monopoly, to a rapidly increasing distribution of raw milk (Owango et al. 1998). However, by the end of the 1990s a number of new dairy industries had also been established, KCC was reduced to a small fraction of its former size, and an international milk market had started to develop in East Africa.

Export crops

It was generally hoped that the trade in export crops after deregulation would be taken over by domestic traders. However, in reality large international trading companies (with large capital) have taken over most of the trade, except where only the domestic trade was deregulated while export remained under control of the marketing board. The inroad of international trading companies is partly due to a restructuring of the global commodity markets taking place during the

1990s. The commodity markets operating before structural adjustment were based on a series of international commodity agreements geared to supply standardised agricultural commodities to Fordist processing industries in the developed world by national suppliers responsible for the production and domestic collection of the crop. What happened within the developing country was not their concern. They bought the produce if it lived up to expectations or shifted to another supplier. During the last 10-20 years the requirements of the processing industries have changed. Their input supplies have increasingly been outsourced to multinational trading companies operating as so-called supply managers, which undertake to supply inputs to narrow technical and social specifications and also often within very narrow time windows, of days or even hours, in order to reduce the processor's own stocks. In order to supply the specified produce the trading companies often mix produce from different countries; and in order to meet the time requirements they have an interest in integrating back into the rural area in order to get access to produce and to control its quality and the whole transport chain. This requires both a large capital and a global presence which few domestic traders can live up to.

The farmers' share of the world market price has generally increased, but deregulation has seldom resulted in increased price competition. In many cases the privatised parastatal has remained a major actor at the market which set a price which is then followed by the private traders. In stead traders compete for a large market share by offering cash payment, collecting crops closer to or on the farmstead and accepting lower crop qualities. To reduce costs they often do not distinguish between the quality grades but buy everything at the low- grade price. The grading system therefore in many cases has collapsed. This is clearly problematic from a national point of view. The impact on the economy of the farmers is much less evident because the extra payment to farmers for higher grades was seldom related the extra input of labour and other resources needed to produce that higher quality.

Also the input supply systems operating before deregulation have mostly collapsed. Due to their market monopoly the parastatals could finance a farm input supply system with security in the harvest. Private traders with limited capital and competing for market shares are not able to do that.

Deregulation of the export crops and elimination of the parastatal monopolies have generally increased the farmers' share of the world market prices. However, liberalisation of the global agricultural commodity markets has also tented increase the price instability, and for some export crops, e.g. cocoa, the higher share of the world market price has amounted to less value in real terms, although due to devaluation they got a higher price in the national currency. At the same time devaluations and elimination of subsidies have increased the cost of inputs with the result that both the amount and quality of produce have been falling because many poor farmers use less fertiliser and pesticides and often recycle their own seeds. There is therefore large differences in the impact liberalisation has had on the development of different export crops, but the effect has generally been positive. However, as was the case with food crops, it has especially benefited the large farmers.

Deregulation has also in some cases led to decentralisation of new processing plants to the rural areas or smaller towns. This is the case in for instance cotton where there is a large weight loss in the processing. Thus in Tanzania and Uganda the opening of a number of new ginneries has resulted in a new growth of cotton production. In some places also plants for the production of cotton oil has been established. In Zimbabwe a new large ginnery was after many years of discussion established in Gokwe by the former parastatal. Ten percent of the cotton seed was in 2001 bought by a small-scale entrepreneur who had developed a small-scale refinery for extraction of the oil; but the ginnery had plans for investing in its own larger cotton oil production.

These changes in the agricultural processing industry are likely to have a positive impact on the development of the smaller urban centres. However, the location of the new processing industries varies clearly from sector to sector, and for most export crops new processing plants are likely to be located in the capital cities or major ports. In this connection it is worrying that the current discussion in the global value chain literature of upgrading possibilities in the developing countries (See e.g. Gibbon 2001) focuses only on the national level and do not discuss the location of upgrading activities within the developing countries.

3.3 INDUSTRIAL DEVELOPMENT UNDER STRUCTURAL ADJUSTMENT

When the structural adjustment policies were introduced the industrial sector in the low income countries generally perceived it positively, because import liberalisation would improve their access to imported production inputs and machinery. During the first years after introduction of structural adjustment the manufacturing industries in many African countries also experienced an increased capacity utilisation (Lall 1998). However, at the same time devaluation of the currencies increased the costs of imported inputs and machinery, while liberalisation of the money market led to increasing interest rates. Together this reduced their competitiveness, not only on the export markets where they were now expected to compete, but also on the home market which were increasingly opened for import of consumer goods, at the same time as the buying power contracted due to price increases and public sector retrenchments. Many manufacturing industries which were unable to restructure and improve their efficiency therefore had to close (Lall

1999). Especially clothing and shoe industries were hit by a rapid increase in the import of second-hand clothes from the USA and Europe and of end-of-runs and rejects form Asia. On the other hand, the import of cheap second-hand clothes means that one now rarely sees people in rags, and although I have seen no investigations of this, one would expect that the reduced spending on clothing would have benefited other sectors.

In many countries the effect of the increased import has been aggravated because politically favoured persons are allowed to evade the low duty which is left (in Kenya this involves especially second hand cloths and shoes, maize, and sugar), as a new way of financing the political patronage system when the agricultural parastatals are privatised or closed.

Most industries have re-acted to the contracting market with rather defensive strategies (Lall 1999). In Kenya many try to diversify their production in order to reach broader market segments, while the industrial associations primarily have argued politically for improved infrastructure, reduced electricity prices, anti-corruption measures and increased import control and limitation (McCormick and Pedersen 1999).

In one of the few studies of coping strategies of the formal manufacturing industry during structural adjustment in a large provincial town, namely Kano in Nigeria, Olukoshi (1996) similarly found that rather than restructuring the manufacturing production especially locally-owned firms diversified into non-manufacturing activities (especially large-scale agriculture), the labour force was shifted into casual labour, and the marketing system was informalised by using informal trade agents and paying workers part of their wages in goods for them to sell. They also attempted to expand their export, but mostly indirectly through traders from the neighbouring countries or other parts of Nigeria who bought their goods at the factory gate, rather than through their own concerted effort, and therefore also with limited success.

On the other hand, the multinational enterprises are increasingly restructuring their African activities (Olukoshi 1996; McCormick and Pedersen 1999). During the import substitution period they were forced to set up production in each country. Now they are specialising their production units and concentrating the production in fewer regional centres (in West Africa Abidjan, Lagos and Dakar, in southern Africa Johannesburg; in Eastern Africa Nairobi but also increasingly Johannesburg) and distributing their products from there. It is also the multinationals which are most active in setting up and outsourcing more efficient distribution systems. Some capital cities will gain from this process, but most small capitals will probably loose, and it is unlikely to result in dispersion of production activities to the provincial urban centres.

Few locally-owned industries have embarked on more offensive strategies to increase the efficiency by specialising, strategic outsourcing and expansion into export markets. Such more offensive strategies to increase the efficiency and adapt to the changing market have been made difficult by the high interest rates, poor public infrastructure and the generally low technological standard in the small-enterprise sector. The expansion of manufacturing into overseas export has therefore been limited. However, some manufacturing industries, especially in Zimbabwe and Kenya, have since the late 1980s successfully expanded into the regional export market, and partly made up for the shrinking home market. However, even in Kenya, which most successfully has done this, most industries still rely predominantly on the home market (Bigsten and Kimuyu 2002). During the late 1990s also this regional export has been met by increasing competition from the rapidly increasing South African export to Sub-Saharan Africa (McCormick and Pedersen 1999).

The limited success on the export markets appears also to be due to insufficient focus on market adaptation, marketing and distribution. Kenya's export to Uganda and Tanzania to a large extent is successful because it is based on a revival of often family-based trade connections which were closed when the East African Community broke down in 1979. However, many even large Kenyan exporting firms seems to have very little sales activity of their own, but mainly rely on importers from the neighbouring countries showing up at the factory gate (McCormick and Pedersen 1999).

Formal industries generally seems to be caught in a dilemma as to whether they should go for the high quality consumer goods market, where the home market is small and shrinking and their quality seldom is good enough to compete in the industrialised countries, or for the low quality consumer goods market, where the home market is growing but their production technology not good enough to compete with the cheap imports and in many case not with the small informal producers either. Their inclination mostly is to go for the high quality market for which they as import-substitution industries were 'born', but without an expanding home market are likely to fail. Therefore they blame the cheap imports for their shrinking home market. However, the competitiveness of the cheap imports is not just that they are cheap, but that the importers have managed to reform the distribution system by organising the informal sector and their small working capitals in a way the formal manufacturing industries generally have not been able to do.

3.4. SMALL- ENTERPRISE DEVELOPMENT UNDER STRUCTURAL ADJUSTMENT

Development of the urban informal sector

The contraction and retrenchments in the formal economy have together with the raising consumer prices led to reduced living conditions in the large towns where most of the formal sector is located. Although this has also reduced the remittances to the rural areas it has reduced the rural-urban differences (Jamal and Weeks 1988). It has also reduced the net rural-urban migration, both because fewer move to the large towns and because there has been a certain return migration to the rural areas. However, many of the return migration have probably returned to the small rural towns rather than to the proper rural areas and the latest population censuses seems to show that it is the smallest towns which are growing most rapidly.

The rapid contraction in the formal economy during the 1990s has also given room for a rapid growth in the number of small formal or informal enterprises, and most of the urban growth, especially in the small and intermediate urban centres, is likely to be based on small enterprises. Different data from the clothing industry may give an indication of the development. Thus in Johannesburg (and also elsewhere in South Africa though there is little indication of its geographical distribution) there has been a rapid development of small-scale clothing producers (Rogerson 2000; Harrison 1997). In Zimbabwe Pedersen (1997a) also found indications that the small-scale clothing sector in the small towns benefited from the closure of the large-scale clothing industries, though there are little detailed information about this; and in Kenya a census of small clothing enterprises in Nairobi showed that the number of small-scale producers almost doubled between 1989 and 1999, at the same time as the large-scale formal clothing industry contracted (McCormick et al. 2002).

However, there is no simple direct link between contraction of the large-scale, formal economy and the expansion of the small-enterprise informal sector. Thus the number of small-scale dressmakers and tailors per 1000 inhabitants is twice as large in Zimbabwe as in Kenya although the large-scale clothing sector in Zimbabwe is also much larger than in Kenya (Pedersen 2000). The reason for this is that small and large enterprises not only compete for the same market, they also complement each other. The small enterprises often serve low-income markets in both rural and urban areas and urban middle income niche markets left un-served by the formal sector, but small-scale clothing traders also, probably increasingly, distribute produce from both small and large producers as well as imports. In both Zimbabwe and Kenya trading has generally increased much more rapidly than production, indicating that there has been a rapid transformation in the retail distribution. Thus especially importers have increasingly organised networks of informal traders to distribute their goods in rural and low-income urban areas, while retail chains have developed rapidly in the large urban areas since the late 1990s (Reardon et al. 2003; Neven and Reardon 2004). The reason for this transformation of the retail trading probably is that increased commercialisation of both the rural and urban low-income economy now requires a much more differentiated distribution system than traditional parastatal and formal retailing could deliver.

There has generally been a rapid shift from production to trade in the small-enterprise sector. This is often taken as a sign of poverty, because there is assumed to be easier access to trade, which is assume to be less capital intensive, than to production. Contrary to conventional wisdom the large small-enterprise survey in Kenya (Daniels, Mead and Musinga 1995) shows that in reality small-scale traders in average are more capital-intensive than small-scale producers. The explanation is that while the costumer often provides the producer with materials, the trader needs working capital to invest in a stock. The shift from small-scale production to trade more likely is a result of a trading and distribution system which earlier was highly underdeveloped.

The attitude towards the informal sector has generally become less negative. E.g. in Zimbabwe where the district service centre and growth point of Gokwe in the early 1990s was planned to become a modern European-type town, dominated by modern retail chain stores and with the informal artisan activities pushed out in the periphery, the attitude had apparently changed by 2000. A number of the stores of large retail chains and parastatals had closed down and informal activities had moved into the town centre. Similarly Bryceson (2002a) indicates a shift towards a more positive attitude even to small-scale traders in the Tanzanian villages, (though Bryceson herself seems to doubt their economic viability). The attitude towards informal enterprises seems also to be changing in the governments' small-enterprise development organisations (Müller 2001).

Rural non-farm activities and increased agricultural diversification

The abolition of centralised agricultural crop planning has made it possible to take account of specific local conditions, resources and markets and possibilities for integration of different local production and services activities. In many rural areas this has led to an increased agricultural diversification both into new crops and into new markets for old crops. There is an increased trade directly between rural areas with a food surplus and areas with a deficit, which earlier was restricted or banned, and there are more competing channels for trade between the food growing areas and the urban areas. E.g. in Tanzania are vegetables from far away Uluguru Mountains are now sold at the market in Dar es Salaam (van Donge (1992); Ponte 2001). Trade deregulation and liberalisation has also led to increased, often informal, cross-border trade in food. Thus tomatoes, onions and potatoes are exported from northern Tanzania to the Kenyan market, and the grain trade in Iganga studied by Sørensen (2000) to a large extent was based on export to Kenya and sales to the World Food Programme.

There is also an increased diversification of agricultural production. In Zimbabwe the production of pigs and chicken, which depends on the access to grain or stock-feed for fodder has expanded especially around the towns; and Ponte (2002) shows that near urban markets production has shifted from grains and traditional export crops to fruits and vegetables. He argues that this is a shift from 'slow' crops with only one harvest a year to 'fast' crops harvested more than once a year or continuously. By growing such crops scarce capital can be re-circulated more than once a year, which is likely to both increase the surplus and reduce the risks of production. In addition, in rural areas with no access to banking it is less risky to invest in some production or capital good than holding on to the cash, at the same time as one get more continuous access to cash.

Structural adjustment has also resulted in a growth in rural non-farm activities, both production and services, but to an increasing extent trade in consumer goods, agricultural produce and farm inputs, which has grown because the commercialisation of the rural economy has increased, and because increasing diversification of the agricultural production requires a more diversified trade in agricultural produce and input. Based on case studies in six African countries, Bryceson (2002b) finds that 60-80% of all rural household by the late 1990s were engaged in rural non-farm activities against only an average of about 40% in the 1980s.

The rural non-farm activities are often part-time and seasonal activities combined with agriculture. Seppälä (1998) shows in his study of diversification in southern Tanzania that almost half of the rural non-farm activities were operated for less than six months a year. Both poor and wealthy households engage in rural non-farm activities, but there are large differences in which activities they participate. Poor households engage in traditional rural handicrafts based on cheap agricultural inputs or simple services requiring few resources and little investment. More wealthy households engage in different types of trade, the wealthiest in grain trade based on the recirculation of agricultural capital released after harvest (Møller 1998). Thus although the non-farm activities generally improve the livelihood of the participants, they generally do not reduce income differences (Ponte 2002; Møller 1998).

The role of capital in small-enterprise development

Expansion of the informal sector to comprise new groups of people, who ten years ago would not have dreamed about working in the informal sector, has contributed to this improved image. At the same time improvements in the level of education mean that many of the entrepreneurs today are better qualified than before (Alila and Pedersen 2001). 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 banking system which shows no interest in small savings, parents increasingly investment 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). Otunga et al. (2001) even found in a sample of women entrepreneurs in Eldoret in Kenya that the women earned more money than their formally employed husbands.

At the same time a new semi-formal credit market has been developing (often with donor or NGO support) to support the small enterprises. Although the share of small enterprises which obtain institutionalised loans is probably less than 5%, it has undoubtedly been increasing during the 1990s. 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 to the small enterprises where trade and services are often more important than production.

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 small enterprises. However, small enterprises in developing, mainly rural, economies operate in unstable environments with large seasonal, climatic and political swings where it is often extremely risky to borrow money against interest. It is therefore unlikely that they will be able to solve their financial problems through formal borrowing, unless the general risk in society is reduced.

The way African entrepreneurs try to solve the problem of capital scarcity is to use the scarce capital they have more efficiently by re-circulating it. In the rural areas the shift from slow to fast crops and diversification into non-farm activities 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 development of scotch cart production in Gokwe, a district service centre in a cotton-growing rural area in Zimbabwe, is another example. 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 producing 30-40 scotch carts a year. In 2001 there was a cluster of 50-100 producers in Gokwe producing at least 2000 scotch cart a year. This was the result of increased earnings from cotton production after deregulation of the cotton production. However, the market for scotch cart was highly concentrated in a short period after harvest, which was the only time farmers had 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 only had 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 time during the season. Even if one of the producers should have had more capital large year to year variation in the cotton production and thus of the market for scotch carts would make it very risky to produce 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 (Pedersen 2004).

A third example of such an organisation exploiting small amounts of capital is the hierarchical distribution network for second-hand cloths which has developed in Kenya during the 1990s and which gives a few large importers (often importing the goods illegally) access to both rural and urban markets all over Kenya (Rono 2001).

Most of the examples of what in the literature has called 'replication of activities' or 'sharing of a shrinking market' are probably also examples of such a credit sharing in unstable markets.

Development of transportation under structural adjustment

During the 1990s there has been an increased focus on the role of transportation in development. Improved transport (and other) infrastructure is an important ingredients in the so-called enabling environment seen as a precondition for successful privatisation. To the private traders taking over after the agricultural parastatals transport time and regularity is now as important as costs because they influence the costs of quality/damage and storage which are often larger than the transport costs. (Pedersen 2002b; Gulyani 2001).

During the 1990s donors rehabilitated or rebuild the main trunk roads which had, e.g. in Tanzania and Kenya, deteriorated to a degree where simple rehabilitation was not possible. Donors have also insisted on increased user participation in the road maintenance through road user funds financed by gasoline taxes, and improved control of truck overloading which is one of the major sources of road deterioration.

Truck transport licensing has generally been simplified or completely eliminated. This has together with the liberalisation of the import of trucks led to a rapid increase in the transport industry and the market for truck transport. The transport industry has further been enlarged because transport increasingly has been outsourced from the now privatised parastatals and other large transport users.

Donors have also supported the rehabilitation of railways and ports, but at the same time pressed for their rationalisation and privatisation. However, this has generally been a slow process due to the many vested interests especially in the ports which usually (in contrast to the railways) have given a large surplus to the state (as a result of large port fees) and also been the seat of 'control' of illicit imports. In contrast the railways have had increasing difficulties competing with the road traffic and generally operated with large deficits. In spite of this there is a considerable private sector interest in taking over the railways, which undoubtedly have an important future role to play, especially in bulk transport of minerals and in container transport between the seaports and inland container depots.

The deregulation of the truck licensing has in many rural areas led to an increased rural transport. For instance in Gokwe in Zimbabwe, where there in the early 1990s was only stationed one truck for hire, there was in 2000 more than 50 trucks for hire. They serve the growing cotton production but also a more diverse market for rural transport. (Not all of them were new to the area, but belonged to local traders who before deregulation of the truck licensing were not allowed to rent them out) (Pedersen 2004). In Moshi in northern Tanzania a large number of pick-ups have since the mid 1990s started to operate as taxies, serving not only the coffee industry in the area but also a wider demand for transport (Pedersen 2001c). In general large trucks appear to have been substituted by smaller vehicles better suited to a more diversified rural transport market.

Also non-motorised, so-called intermediate, forms of transport have been expanding in many areas, e.g. bicycle transport has increased in Eastern Uganda and western Kenya. In the cotton growing areas in Zimbabwe, Tanzania and Burkino Faso the number of ox-drawn scotch carts has grown rapidly (Pedersen 1997a; Gibbon 1998; Bryceson 2002a). In inaccessible rural areas there has been increased focus on building foot paths and the World Bank and a number of NGOs have, albeit with mixed success, experimented with different alternative forms for intermediate transport (Porter 2002).

This development has generally contributed to the diversification of the rural economy and the development of small enterprises. It has also supported the development of small rural centres by improving the accessibility between them and their hinterland.

The role of clusters in small-enterprise development

In many both large and intermediate towns in Africa there has been a development of small-enterprise clusters (McCormick 1999a; 1999b). However, the enterprises do not primarily cluster in order to obtain economies of scale and scope in the production processes, but because they as retailers of their goods attract more customers when located in the cluster than they would individually, because their customers get lower search costs when they trade in the cluster.

The ability of small enterprises to achieve agglomeration economies through what Schmitz (1989) calls collective efficiency or collective action has during the 1990s been widely documented and discussed in the Latin American and Asian literature. In Africa the experiences have generally been much less impressive. There seems to be a number of reasons for this:

- Firstly, while access to national or international markets in the successful clusters is often secured by large enterprises in the cluster, agents of external buyers or cooperative marketing activities, small African enterprises cluster primarily in order to attract more customers than they would individually, because clustering reduces the search costs of the customer. There is generally no collaboration about marketing and most enterprises continue to sell all their products from the workshop. Some of the clusters in for, instance Ghana and Nigeria have developed some regional export, but it is based on passive sales to traders from the neighbouring countries showing up at the workshop. By co-locating enterprises may also create a joint pool of specialised labour and services which they would not be able to attract individually, corresponding to the passive agglomeration and urban economies discussed in traditional economics. But as the differentiation and vertical specialisation within the clusters generally remains limited, the demand for such specialised labour and services is limited (for at further discussion see Pedersen 2003b). Therefore the trading agents and brokers are missing, which knit the successful clusters together and often are agents of change.

- Secondly, while the efficiency of successful Latin American and Asian clusters is based on extensive division of work both within and between the enterprises in the cluster, the division of work even within enterprises in African clusters is much more limited. The enterprises in the African clusters specialise horizontally in the production in different products, but generally not vertically. The only exceptions are first, that enterprises may share large orders with other enterprises, but all will make the full product, and secondly, that enterprises which have invested in expensive capital equipment often rent excess capacity out to other small enterprises, but this is due to capital scarcity rather than attempts to increase the efficiency. According to Sverrison (1997) the lack of vertical division of work is mostly due to the often extreme market instability in which the small enterprises operate.

- Thirdly, while the successful Latin American and Asian clusters generally comprise a whole town with both large and small production enterprises, traders and service providers, most African clusters are described much more narrowly as small-enterprise areas within a town. This limits the access to new technology and larger markets which in successful clusters is mostly obtained through large local producers or trading agents for outside buyers present in the cluster, but it mirrors the limited interaction which is usually found between the large formal industries and the small informal enterprises in Africa.

In order to understand the dynamics of cluster development Schmitz (1995) focused on what he called the turning points of development where growth and transformation of a cluster takes off. In a review of studies of relatively successful small-enterprise clusters in Africa McCormick (1997) indicates that the first turning point of a cluster often coincides with some windfall gain which permits the cluster to supply the market at competitive prices and therefore lead to increased production and sales. That windfall gain can for instance be import restrictions, collapse of the formal sector enterprises, low fuel costs which lower the cost of long-distance trade, or the discovery of the cluster by an external trading agent.

However, such a windfall gain never last for ever. After some time other clusters or large enterprises are likely to become cheaper, and traders will leave again unless the cluster has been able to utilise the windfall gain to increase it's productivity, improve it's products, diversify production, and make itself less dependent on the external traders. This is the second turning point. The successful clusters described in the literature all were able to make the transformation and develop into a new phase. None of the clusters in Sub-Saharan Africa reviewed by McCormick so far have been able to make that transformation into a higher productivity level.

In some enterprises technological change do take place in the form of acquisition of new machinery, but because the market is unstable this does not lead neither to reorganisation of production within the enterprise nor to vertical specialisation between enterprises (Sverrisson 1997). Lack of product standardisation and quality control is a major hindrance for this.

In some of the African clusters reviewed by McCormick (1997) some of the larger enterprises apparently have been able to overcome the crisis successfully, but they have not been able to extent their success to other enterprises in the cluster and take the lead in a process of technological change; but rather as the large enterprises, they integrate vertically and horizontally in order to free themselves from dependency on an undependable environment.

Brautigam (1998) describes one of the few most successful African enterprise clusters mentioned in the literature, a motor spare parts cluster of about 25 industrial firms with a total employment of about 2700 in the town of Nnewi in Eastern Nigeria. Many of the entrepreneurs are former spare part traders and according to Brautigam the success is based, first, on the existence of a ethnic based network of Igbo traders which secure its market access, and secondly, on close contact to spare part producers in Asia who supplied the technology. They use the ethnic trading network to overcome the general mistrust and lack of infrastructure. However, although the cluster has had some regional export it is primarily based on a relatively protected home market, and it has not been able to brake into the overseas export market.

Concentration of rural non-farm activities in small towns

Most of the rapidly growing literature on rural non-farm activities discusses them as if they were all rural, although they appear increasingly to be located in the rapidly growing rural towns. However, as long as the rural non-farm activities are subordinated seasonal agricultural activities and based on seasonally unemployed labour and capital most rural non-farm activities are likely to remain rural. However, the increasing agricultural diversification reported by Ponte (2002) and others indicates that this may be changing. The shift to fast crops requires more capital and labour year round. So farmers engaged in fast crops are likely to stop their non-agricultural activities and in stead diversify their agricultural production. Ponte's data indicate that such a process already is under way. On the other hand, poorer farmers with little land and capital are forced to continue diversifying into non-agricultural activities, and many of them are likely to move to the nearest small town where the market access is better (see also Box 1).

Box 1. Rural non-farm activities in a historic perspective

The growth of non-agricultural activities is not unique to today's developing countries. During the 1840s and 1850s Danish agriculture experienced a boom based on grain export to Britain. This led to a rapid commercialisation of the rural areas, which started off the very first industrialisation in the provincial towns (brick works, iron foundries for production of kitchen stoves and small machine workshops for farm implements), and during the 1850s a rapid development of small-scale rural non-agricultural activities (poor farmers went into different artisan work while wealthier farmers went into grain trade requiring more capital).

However, during the 1860s agriculture went into a serious crisis because Danish agriculture could not compete with the rapidly growing export of grain from Ukraine, America and Australia. The rural non-agricultural activities continued to grow, but now at a shrinking market. The migration to Copenhagen and overseas destination also increased. However, the rural non-agricultural activities remained rural until the 1880 when agriculture gradually shifted from grain growing to the diversified agriculture based on dairy cattle, bacon pigs and grain and beats for fodder, which became the original basis for Danish development. This reduced the seasonality of agriculture and required so much capital that farmers had to choose between agricultural and non-agricultural activities. Large farmers usually chose to invest in agriculture, which was seen as most prestigious, while farmers with little land and capital became full time traders or artisans and often moved into one of the small rural towns which as a consequence developed rapidly during the 1880s and 1890s.

Source: Pedersen (1990)

4. Conclusion on theories of small-enterprise development

Much of the literature on the informal/small-enterprise sector has tended to see it as independent of the formal/large-scale economy. As a result it has often been perceived as if it had the same structure in all countries and at all times. This has at least partly been a result of lack of detailed cross-section data and almost complete absence of time series data on the development of the sector. The large-scale small-enterprise surveys carried out in a number of countries during the 1990s, however, indicate that there are large national as well as time differences in both the structures and development of the small-enterprise sectors in the African countries. Thus many studies do recognise that there is a close interaction between the small-enterprise sector and the rest of the economy, but often perceive the interaction in rather simplistic terms. The literature gives at least four different macro-economic explanations or theories of the interaction between the informal/small-enterprise sector and the rest of the economy. We shall present and discuss these in the following and then compare them to the pattern of development found above.

1. Industrialisation and small-enterprise development

According to both traditional Marxist and classical economic theory, small enterprises are expected to be ousted by "modern", large-scale industry and thus gradually disappear as a result of industrialisation and economic development. These expectations were based on empirical findings that small enterprises tended to be less efficient than large ones, because the large enterprises achieved either scale economies or monopoly powers. Many studies of small African enterprises in the 1960s and 1970s expected this development (see e.g. Müller 1980), and after independence most African governments (and many donors) tended to see the small enterprises as a result of a stagnating formal industry and a sign of under-development to be suppressed.

Clearly some sub-sectors of small enterprises, like tailoring and some traditional rural handicrafts, do compete with industrial products (whether nationally produced or imported) and have been forced to contract or restructure (although Mihanjo (2001) show that traditional pottery in Tanzania has been able to adapt to the new competitive market conditions). However, in general small enterprises have disappeared neither in the industrialised nor in the developing countries. The problem with the argument and most of the empirical studies of scale economies is that the small and large enterprises are assumed to be doing the same thing in direct competition. However, the small enterprises generally do not do the same as the large ones. They tend to find small niches in the input or product markets where the large enterprises cannot exploit their scale economies and therefore cannot compete. Or they specialise in distribution to peripheral or low-income areas where the distribution costs of the large-scale sector are prohibitive. Therefore many enterprises specialise in trade. Even those small enterprises which we traditionally classify as producers mostly sell their products retail and often earn a larger share of their profit as retailers than as producers. Where the small enterprise would not be able to compete with the industrial producer he may be able to compete with the local retailer selling the industrial product. There will of course be an indirect competition between the formal and the informal producers, but not a complete subordination as assumed by the theory of petty commodity production. Therefore Müller (2001) could find that Tanzanian blacksmiths whose doom he had prophesied in the 1970s were still in operation and innovating in 1994.

II. Labour supply and small-enterprise development

The small-enterprise sector is assumed to develop in response to the growth in unemployment and to function as a place of last resort for people who are unable to find employment in the formal sector. Therefore the urban informal sector will grow in periods of crisis when the formal sector contracts or grows too slowly to absorb the labour force, in spite of its inefficiency and the generally low pay it affords its participants. However, in periods when formal employment grows the small-enterprise sector is assumed to contract again and thus develop anti-cyclical to the formal economy. A large part of the critical literature has taken this position in interpreting the growth of the informal sector after structural employment (see e.g. Brand et al. 1995; Meagher and Yunusa 1996 and Daniels 1994).

Although there is undoubtedly a certain element of truth in the theory, it suffers from a number of both empirical and theoretical problems.

Apart from the problems caused by lack of time series data, most empirical studies pursuing this argument tend to limit their sample to the poorest and smallest enterprises and eliminate the more "modern", capital and knowledge intensive, and successful enterprises beforehand, and therefore imply a certain element of tautology when they argue that small enterprises are inefficient and afford their owners low earnings.

Theoretically the theory perceives the informal, small-enterprise sector to function as a place of last resort, which implies that it is easily accessible. However, many studies show that this is only the case for a small part of the informal sector. It is sometimes argued that small informal businesses concentrate on trade because this is supposed to require less capital and knowledge than production. While it may be true that production requires more investment capital than trade (when we talk about very small-scale producers even that however may be doubtful), small-scale trade is likely to require more working capital in order to secure a certain income than small-scale production, partly because the value added is lower for the trader than for the producer, and partly because in small-scale production the customer will often be required to pay for the materials in advance, while the small-scale trader will have to give credit (even more often than large formal retailers). Therefore there is a strong limitation to the extent to which the small-enterprise sector can function as a place of last resort during crises. Scoones et al. (1994) have studied the development of non-agricultural activities during the drought in a drought-stricken area in Zimbabwe. He shows 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 nothing more to buy for. Therefore, especially in the rural areas, the informal sector plays only a limited role as a place of last resort. That place is rather reliance on family networks and patrons.

III. Output demand and small-enterprise development

The argument in this theory is that a prerequisite for the development of small-enterprises, whether formal or informal, is that there is a market for their products and services. Therefore the small enterprise sector will tend to develop pro-cyclical with the economy as a whole. However, the small enterprises will also develop in competition with the large enterprises in the formal sector, and their development will be constrained by formal sector monopolies. Structural adjustment policies which limit such monopolies and attempts "to create a level playing field" will therefore be an advantage for the small enterprises, because it may allow them to conquer market shares from the large ones. Proponents of structural adjustment tend to base their arguments on this theory.

Empirical studies based on this theory tend to focus on the upper end of the informal sector, often the manufacturing enterprises and the larger, more resourceful and successful small enterprises, which have a potential to grow into the formal economy (see e.g. the different sampling procedures in the two Nigerian studies made by Meagher and Yunusa (1996) who adhere to a labour supply theory and Dike (1997) who adhere to a output demand theory). Daniels (1994) shows (based on data from the large GEMINI surveys) that enterprises in high-profit sectors tend to follow the output-demand theory, while enterprises in low-profit sectors rather follow the labour supply theory.

IV. Commercialisation of the rural areas, urbanisation, and the development of rural non-agricultural activities

Most African countries are still predominantly rural with a large share of the agricultural production being non-commercial subsistence production. However, as a result of increasing commercialisation and urbanisation they are gradually being drawn into the money economy. This increases the demand for cash and urges people to engage in cash-earning non-agricultural activities, at the same time as increasing cash among people creates a growing market for rural non-agricultural goods and services. Therefore even if the economy as a whole stagnates increased commercialisation in itself lead to an increased rural market primarily for non-agricultural activities, but also to some extent for the informal and formal sectors in the urban areas, which supply the rural areas. This is the thesis of the theory of agriculture-led industrialisation (Mellor 1976; Adelman et al. 1989; Haggblade and Hazell 1989).

At the same time at least part of the new literature on de-agrarianisation relates the development of rural non-agricultural activities to the rural labour surplus, which either supplement agricultural production with non-agricultural activities or migrate periodically or permanently to the urban areas where they often become part of the urban informal sector and develop informal rural-urban linkages (Bryceson and Jamal 1997).

Contrary to the output demand and labour supply theories which linked the informal sector to a cyclical urban economy, this theory links the informal, small-enterprise sector, in both rural and urban areas, to the long-run, generally irreversible trends of urbanisation and rural development. It is supported by the fact that more than three quarters of the informal sector are generally located in the rural areas.

The informal, small-enterprise sector is not a homogeneous sector and different parts of it are likely to follow different development patterns. Thus all the above models seem to fit to some elements of the sector. However, given the small size of the formal sector in most African countries the informal small-enterprise sector is not likely to be influenced nearly as much by the development of the urban formal sector as by the development of the rural, agricultural economy. Mazumdar (2002) shows in a sample of 18 African countries that only 9% of the workforce in 1990 were employed in the formal sector; in half the countries less than 5% belonged to the formal sector, but in Kenya it was 14% and in Zimbabwe 30%. Even if 10% of the formal sector employees were fired and sought employment in the informal, small-enterprise sector (and the effect of structural adjustment was mush less) this would in most countries have only marginal impact on the size of the informal sector. This is generally supported by the small-enterprise surveys carried out during the 1990s, where the number of retrenches is generally negligible.

The development of the informal sector seems also to be much more in line with the long-run structural changes hypothesised by the theory about urbanisation and rural commercialisation than by the cyclical behaviour postulated by the labour supply and output demand theories.

However, while the size of both the urban informal sector and the rural non-agricultural activities (and also the urbanisation of these activities) are primarily influenced by the agricultural development, the sector composition and content of these activities are to a much larger extent dependent on the development of the urban formal economy. None of the four theories therefore are satisfactory and we clearly need a much more complex model to understand what is actually determining the development of the informal, small-enterprise sector and how it is integrated with agriculture and the formal economy.

After structural adjustment the informal sector has in both rural and urban areas shifted rapidly from production to trade. (This of course is only seemingly a shift because more than 90% of the small producers sell most of their goods from their workshop and often spend more time selling them and producing them and thus in reality is as much traders as producers). Many researchers see this as a sign of poverty. I think it is a healthy development and the first sign of the beginning of an integration of the domestic market, which was never before allowed to take place. Although small-scale producers still sell most of their produce from the workshop recent surveys indicate that more small producers than before use intermediate traders to reach a wider market; distribution and collection in the rural areas are no longer one-directional flows between the farm and the large towns, it is being diversified in both space and scope; and new forms of organisation of retail and wholesale trade is emerging, especially in the import sector, but there are also a few examples from the manufacturing industry. There also appears to be an increasing number of small enterprises engaged in export trade, especially at the regional markets. The development of new forms of both motorised and non-motorised transport is an important element in this development.

This reform of the trading system and the resulting market integration I think is a precondition for breaking the stalemate of both formal manufacturing industries and small-enterprise clusters. The development of a network of rural urban centres will be an important element in this process of market integration.

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