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FINANCING SMALL AND MEDIUM SCALE BUSINESS IN AFRICAN COUNTRIES: PROBLEMS AND PROSPECTS

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ABSTRACT

Access to finance has been noted as one of the major challenges impeding the survival and growth of the SME sector in most of African countries. This review paper provides a comprehensive discussion on access to finance by the Small and Medium Enterprises (SME) sector in African countries. The problems of access to finance, gaps and the reasons for the gaps in SME financing in African countries are discussed. Gaps in SME financing were discussed in relation to Stiglitz and Weiss (1981) credit rationing theory which advocates that agency problems and asymmetric information are the main reasons for the credit rationing behaviors of credit providers to SMEs. The paper reveals that access to finance by SMEs is still a major challenge impeding the realization of the full potential of SMEs as engines of poverty alleviation, employment creation and economic growth in Africa. Therefore it is recommended that policy efforts aimed at solving access to finance challenges must be monitored and empirically tested on a regular basis to enable informed policy thrusts that would enhance SMEs access to financing.

Keywords: *Access to finance, Small and Medium Entreprises, Financing, Poverty Alleviation*

1.0 INTRODUCTION

The development of the private sector varies greatly throughout Africa. SMEs are flourishing in South Africa, Mauritius and North Africa, thanks to fairly modern financial systems and clear government policies in favour of private enterprise. Elsewhere the rise of a small-business class has been hindered by political instability or strong dependence on a few raw materials. In the Democratic Republic of Congo, for example, most SMEs went bankrupt in the 1990s as a result of looting in 1993 and 1996 or during the civil war. In Congo, Equatorial Guinea, Gabon and Chad, the dominance of oil has slowed the emergence of non-oil businesses. Between these two extremes, Senegal and Kenya have created conditions for private-sector growth but are still held back by an inadequate financial system. In Nigeria, SMEs (about 95 per cent of formal manufacturing activity) are keys to the economy, but insecurity, corruption, poor infrastructure and inaccessibility to finance prevent them from being drivers of economic growth.

Africa's private sector consists mostly of informal microenterprises, operating alongside large firms. Most companies are small because the private sector is new and because of legal and financial obstacles to capital accumulation. Between these large and small firms, SMEs are very scarce and constitute a "missing middle." Even in South Africa, with its robust private sector, micro and very small enterprises provided more than 55 per cent of all jobs and 22 per cent of GDP in 2003, while big firms accounted for 64 per cent of GDP. SMEs are weak in Africa because of small local markets, undeveloped regional integration and very difficult business conditions, which include cumbersome official procedures, poor infrastructure, dubious legal systems, inadequate financial systems and unattractive tax regimes. Many firms stay small and informal and use simple technology that does not require great use of national infrastructure. Their smallness also protects them from legal proceedings (since they have few assets to seize on bankruptcy) so they can be more flexible in uncertain business conditions. Large firms have the means to overcome legal and financial obstacles, since they have more negotiating power and often good contacts to help them get preferential treatment. They depend less on the local economy because they have access to foreign finance, technology and markets, especially if they are subsidiaries of bigger companies. They can also more easily make up for inadequate public services.

Africa's SMEs have little access to finance, which thus hampers their emergence and eventual growth. Their main sources of capital are their retained earnings and informal savings and loan associations (tontines), which are unpredictable, not very secure and have little scope for risk sharing because of their regional or sectorial focus. Access to formal finance is poor because of the high risk of default among SMEs and due to inadequate structures that could provide credence to financial facilities.

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2.0 OBJECTIVE AND SCOPE OF THE PAPER

The main thrust of this paper is to identify and consequently analyze the most effective and efficient way through which small scale enterprises could be financed and promoted taking cognizance of the various attenuating conditions such as economic, political, social, psychological etc. under which small-enterprises operate in African countries. The paper, therefore, provides an in-depth analysis of the various strategies through which SMEs can be empowered to make positive contributions towards African economic development.

In pursuit of the broad objective, the study focused on the following:

(i) Reviewing the roles of governments towards promotion and development of small-scale enterprises in African countries.
(ii) Identifying the economic potentials of small-scale enterprises in the countries.
(iii) Identifying the constraints confronting the development of small-enterprises in African countries.
(iv) Assessing the financial support given to SMEs in African countries.

3.0 CONCEPTUAL FRAMEWORK

What is an SME?

The issue of what constitutes a small or medium enterprise is a major concern in the literature. Different authors have usually given different definitions to this category of business. SMEs have indeed not been spared with the definition problem that is usually associated with concepts which have many components. The definition of firms by size varies among researchers. Some attempt to use the capital assets as definition criteria, while others use skill of labour and turnover level. Others define SMEs in terms of their legal status and method of production. Storey (1994) tries to sum up the danger of using size to define the status of a firm by stating that in some sectors all firms may be regarded as small, whilst in other sectors there are possibly no firms which are small. The Bolton Committee (1971) first formulated an “economic” and “statistical” definition of a small firm. Under the “economic” definition, a firm is said to be small if it meets the following three criteria:

• It has a relatively small share of their market place;
• It is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure;
• It is independent, in the sense of not forming part of a large enterprise.

Under the “statistical” definition, the Committee proposed the following criteria:

• The size of the small firm sector and its contribution to GDP, employment, exports, etc.; and
• The extent to which the small firm sector’s economic contribution has changed over time.

The Bolton Committee applied different definitions of the small firm to different sectors. Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have 5 or fewer vehicles. There have been criticisms of the Bolton definitions. These centers mainly on the apparent inconsistencies between defining characteristics based on number of employees and those based on managerial approach.

The European Commission (EC) defined SMEs largely in term of the number of employees as follows:

• Firms with 0 to 9 employees - micro enterprises;
• 10 to 99 employees - small enterprises;
• 100 to 499 employees - medium enterprises.

Thus, the SME sector is comprised of enterprises (except agriculture, hunting, forestry and fishing) which employ less than 500 workers. In effect, the EC definitions are based solely on employment rather than a multiplicity of criteria. Secondly, the use of 100 employees as the small firm’s upper limit is more appropriate, given the increase in productivity over the last two decades (Storey, 1994). Thirdly, the EC definition did not assume the SME group is homogenous; that is, the definition makes a distinction between micro, small, and medium-sized enterprises. However, the EC definition is too all-embracing to be applied to a number of countries. Researchers would have to use definitions for small firms which are more appropriate to their particular “target” group (an operational definition). It must be emphasized that debates on definitions turn out to be sterile, unless size is a factor which influences performance. For instance, the relationship between size and performance matters when assessing the impact of a credit programme on a target group (Storey, 1994).Weston and Copeland (1998) hold that definitions of size of enterprises suffer from a lack of universal applicability. In their view, this is because enterprises may be conceived of in varying terms. Size has been

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defined in different contexts, in terms of the number of employees, annual turnover, industry of enterprise, ownership of enterprise, and value of fixed assets.

Van der Wijst (1989) considers small and medium businesses as privately held firms with 1 – 9 and 10 – 99 people employed, respectively. Jordan et al (1998) define SMEs as firms with fewer than 100 employees and less than €15 million turnover. Michael et al (1999) consider small independent private limited companies with fewer than 200 employees and López and Aybar (2000) considered companies with sales below €15 million as small. According to the British Department of Trade and Industry, the best description of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owner and having a small market share (Department of Trade and Industry, 2001).

The UNIDO also defines SMEs in terms of number of employees by giving different classifications for industrialized and developing countries (see Elaian, 1996). The definition for industrialized countries is given as follows:
• Large - firms with 500 or more workers;
• Medium - firms with 100-499 workers;
• Small - firms with 99 or less workers.
The classification given for developing countries is as follows:
• Large - firms with 100 or more workers;
• Medium - firms with 20-99 workers;
• Small - firms with 5-19 workers;
• Micro - firms with less than 5 workers.

It is clear from the various definitions that there is not a general consensus on what constitutes an SME. Definitions vary across industries and also across countries. The definition of SMEs depends mainly on the level of development of the country. In most developed market economies like the United States of America (USA), U.K. and Canada the definition criterion adopted a mixture of annual turnover and employment levels.

To contextualize the meaning of SMEs in African countries, the definitions adopted by selected African countries provides a benchmark. For instance, the definition of a small business enterprise in Zambia, by the Small Enterprise Development Act of 1996 is as follows:
a. Organizations whose amount of total investment, excluding land and buildings, does not exceed (in the case of manufacturing and processing enterprises), fifty million Kwacha (K50 million) or (US$ 25,000); and (in the case of trading and service providing enterprise), ten Million Kwacha (K10 million) or (US$ 5,000), in plant and machinery.
b. Whose annual turnover does not exceed eighty million Kwacha (K80 million) or (US$ 40,000); and
c. Who employs up to thirty (30) persons.
Furthermore, Uganda defined SMEs as follows:
a. A Micro enterprise is an enterprise employing maximum of 4 people; annual sales/revenue turnover of maximum Uganda Schillings 12 million and total assets of maximum Uganda Schilling 12 million.
b. A small Enterprise is defined as an enterprise employing maximum 50 people; annual sales/revenue turnover of maximum Uganda Schilling 360 million and total assets of maximum Uganda Schillings 360 million.
c. A medium Enterprise is defined as an Enterprise employing more than 50 people; annual sales/revenue turnover of more than Uganda Schilling 360 million and total assets of more than Uganda Schillings 360 million

Wheelen and Hunger (1992), from Rwanda, defined SMEs as a small business enterprise independently owned and operated, not dominated in its fields and does not engage in innovative practices.

In Nigeria, the Small and Medium Industries Enterprises Investment Scheme (SMIEIS) defines SME as any enterprise with a maximum asset base of N200 million (or $1,400,000) excluding land and working capital and with a number of staff employed not less than 10 or more than 300. Nwokoye (1988) defines Small and Medium-Scale business as “any enterprise employing between five and one hundred workers with an annual turnover of about four hundred thousand Naira (N400,000). The Federal Ministry of Commerce and Industry defines SMEs as firms with a total investment (excluding cost of land but including capital) of up to N750,000, and paid employment of up to fifty (50) persons. SMEs often fall into two categories, that is, urban and rural enterprises. The former can be sub-divided into “organized” and “unorganized” enterprises. The organized groups have registered offices and paid workers, whilst the unorganized ones are mainly made up of artisans.

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Rural enterprises are largely made up of family groups and individual artisans. The activities in the SME sector range from pottery and ceramics to manufacturing of spare parts and electronic assembly.

SMEs in Ghana and South Africa have a lot of similarities in terms of their characteristics as well as the vital role they play in the two economies. However, they differ in terms of size and regulation. For instance, the cut off point for the various categories of SMEs in Ghana are much lower than that of South Africa. Secondly, whereas a national legislation defines SMEs in South Africa, no such Act exists in Ghana.

It commonly observed that SMEs constitute a vital element of the development process, and their contributions in terms of production, employment and income in developing countries is widely recognized. SMEs in African countries are seen as the backbone of the economy and a key source of economic growth, dynamism and flexibility. The SME sector provides, on average, 50% of Nigeria's employment and 50% of its industrial output. Indeed, there appears to be an agreement that the development of SMEs in Nigeria is a step towards building a vibrant and diversified economy. SMEs exist in the form of sole proprietorship and partnership, though some could be registered as limited liability companies. They are characterized by: simple management structure, informal employer/employee relationship, labour intensive operation, simple technology, fusion of ownership and management and limited access to capital. Major sources of funding available to SMEs in Nigeria include: personal resources, family and friends, partners or business associates, informal financial markets, banks, specialized funding facilities e.g. NERFUND and specialized financial institutions e.g. NBCI, BOI, NIDB etc. The roles of SMEs in economic development includes: technological/industrial development, employment generation, technology acquisition, capacity building, promotion of economic growth, increased standard of living, industrial dispersal or spread, servicing of large-scale industries, export promotion, structural transformation of rural areas, flexibility and low take-off requirements.

4.0 LITERATURE REVIEW

In practice, credit rationing is a common phenomenon. Many borrowers cannot get the loans they need even if they are willing to pay a higher interest rate than lenders are asking (Tirole, 2006).This observed phenomenon deviates from the standard neoclassical assumption which would predict that lenders can always increase the price, or the interest rate, of loans to clear the credit market leaving no room for rationing (Xunhua, 2010). Therefore, the literature resorts to imperfections in the credit markets to provide the rationale behind credit rationing, e.g., asymmetric information between borrowers and lenders (see Jaffee and Russell (1976) and Stiglitz and Weiss (1981)).

SMEs consistently rank access to finance as one of the top three constraints to their growth. While there is no statistic documenting the severity of the financing constraint for the entire continent, evidence reported in country or regional surveys suggest that the funding gap is acute. For instance, 45% of all surveyed firms in Sub-Saharan Africa cited access to finance as a major constraint to growth (Demirgüç-Kunt and Klapper, 2012). Surveys conducted in North Africa show a similar pattern. In some countries, access to finance represents the dominant constraint, as in Burkina Faso (for more than 70% of surveyed firms), Benin (for more than 70%), Malawi (for more than 50%) and Algeria (for more than 50%). In most Africa countries, a larger share of small firms report access to finance as a major constraint compared to medium and large firms. Per interviews of 29 leading banks across six emerging markets around the world, poor business structures were cited as a critical factor for credit declines. Financial institutions perceive poor customer information availability as a critical barrier to lending (McKinsey & Company, 2012). In Africa, addressing both elements is crucial for enabling a more inclusive environment for vibrant and growing SMEs. In particular, improvements in the credit information systems, collateral registries to reduce the information asymmetries, and capacity building and business development services at the firm level need to be addressed in order to accelerate financial inclusion on the continent. In addition, Africa's financial systems, decline services to the SME sector as it is perceived to be unprofitable. This contrasts with the findings of a recent study showing that MSME banking revenues are worth USD 150 billion today, and are expected to double over the next 5 years (McKinsey & Company, 2012). For Sub-Saharan Africa alone, revenues are also projected to grow significantly from USD 5 billion to USD 12 billion in 2015, mainly due to recent technological advances according to the banks surveyed in the study (McKinsey & Company, 2012). Hence, in Africa, provided that banks understand and cater for SME sector's needs, there is a tremendous business opportunity. A deeper understanding along with innovative products could reduce risks related to business with SMEs and push the costs downward (McKinsey &Company, 2012).

Non-bank financial institutions have also an important role to play to address the SMEs funding gap in Africa. Indeed, greater involvement of non-bank financial institutions will not only expand and diversify product offering to SMEs, but also address some of the barriers preventing them from accessing finance. For instance,

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private equity funds offers equity which is not available from banks, and helps address the limited capacity of African SMEs. Similarly, leasing does not require collateral which have, often, been cited as one of the main impediments for SMEs to access lending from mobile payment solutions.

5.0 PROBLEMS OF SMEs AMONG AFRICAN COUNTRIES

Small and medium enterprises (SMEs) are considered the backbone of economic growth in all countries. They contribute to national development by positively influencing the distribution of income in both functional and nominal terms. In emphasizing the importance of SMEs, Rogers (2002) stated that: they enhance capacity building as they serve as entrepreneurial training avenues; they create more employment opportunities per unit of investment because of their labour intensive operations; they achieve a much more relatively high value added operations because they are propelled by basic economic activities that depend mostly on locally sourced raw materials; they provide feeder industry services as they serve as major suppliers of intermediate goods and components to large-scale industries as well as major agents for the distribution of final products of such industries; they provide opportunities for the development of local skills and technology acquisition through adaptation. Despite the catalytic role of SMEs in the economic emancipation of countries, some of their major operational challenges among African countries include:

I. Financial Problems:

About 80% of Small and medium enterprises are stifled because of poor financing and other associated problems. The problem of financing SMEs is not so much the sources of funds but its accessibility. Factors identified to be inhibiting funds accessibility are the stringent conditions set by financial institutions, lack of adequate collateral and credit information and cost of accessing funds. Harper (1984) believes that the capital shortage problem in the small firm sector is partly one, which stems from the uneconomic deployment of available resources by the owner-managers. This view was shared by Ihyembe (2000) who claimed to have seen businessmen take loan for expansion projects only to turnaround to marry new wives, acquire chieftaincy titles or buy houses abroad. Bruch and Hiemenz (1984) in a study of SMEs in Asia observed that financing working capital needs was the most frequently mentioned problem. This is also a common problem in Africa. Binks and Ennew (1996) expressed the view that the funding problem of SMEs is primarily due to the behavior of banks and imperfection of the capital markets. According to Adepoju (2003), and Osamwonyi (2010), factors inhibiting funds accessibility by the SMEs are the stringent conditions set by financial institutions, the lack of adequate collateral and credit information, and the cost of accessing funds.

II. Management Problems:

Lack of trained manpower and management skills also constitute a major challenge to the survival of SMEs in Africa. According to West and Wood (1972), "…90% of all these business failures result from lack of experience and competence." Rogers (2002), also added that inefficiency in overall business management and poor record keeping is also a major feature of most SMEs; technical problems/competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misapplication, coupled with wrong and costly decision making.

III. Inadequate Basic Infrastructure:

Government has not done enough to create the best conducive environment for the striving of SMEs, the problem of infrastructures ranges from shortage of water supply, inadequate transport systems, lack of electricity to improper solid waste management. For instance, Nigeria's underdeveloped physical and social infrastructures create a binding constraint to SMEs growth, since; they heavily rely on the inefficiently provided state of infrastructures as they cannot afford the huge cost of developing the infrastructures themselves.

IV. Socio-Cultural Problems:

Most Nigerian Entrepreneurs do not have the investment culture of ploughing back profits. Bala (2002) stressed that the attitude of a typical Nigerian entrepreneur is to invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against made in Nigeria goods is significant. Most Nigerians have developed a high propensity for the consumption of foreign goods as against their locally made substitutes.

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V. Strategic Planning Problems:

SMEs often do not carry out proper strategic planning in their operations. Ojiako (2000) stated that one problem of SMEs is lack of strategic planning. Sound planning is a necessary input to a sound decision-making.

VI. Location/Economic Problems:

Market stores are dominated by absentee landlords who charge exorbitant rates. The ownership of market stores by politicians is crowding real small-scale operators out of the market. The high rents charged by store owners on good locations have forced real small-scale operators into the streets or at best into accessible places. Also, domestic economic problems of deregulation and removal of protection as well as the global financial crisis have been detrimental to SMEs.

VII. Poor Accounting System:

The accounting system of most SMEs lack standards hence, no proper assessment of their performances. This creates opportunity for mismanagement and eventually leads to the downfall of the establishment.

VIII. Multiple Taxation:

This has become a major problem especially given the role of tax consultants and agents hired by local governments. They are often crude in their operation, excessive in their assessment and destructive in their relationship with the production process. They tax everything in their bid to generate revenue without considering the net effect to household incomes and employment.

IX. Unstable policy environment:

Instability in government policies have caused some SMEs to collapse. One of such policies is that of the 1980s when government of Nigeria specified that cocoa should not be exported in raw or unprocessed form after a specified deadline. Many SMEs had to import machineries only for government to reverse this policy. This negatively affected so many SMEs in the cocoa industry. The present high mortality rate of SMEs in Nigeria is awful to contemplate and constitute danger to the entire economic system. It represents serious financial pressure on the nation's economy as well as a waste of valuable resources. The business owner should always consider challenging situations and be prepared to meet them with preplanned strategies. The survival of SMEs is only possible through a systematic analysis of the problems they are facing and mapping out appropriate strategies of overcoming them, through a proper understanding of the business environment. For a business to survive in unfriendly environmental conditions it should adopt a strategy that utilizes its strengths to exploit opportunities while avoiding its weaknesses.

6.0 PROSPECTS OF SMEs IN AFRICAN COUNTRIES, WAYS FORWARD

I. Improving Business Conditions:

Proper information, a key to deciding whether to make a loan, would be helped by adopting clear accounting standards, setting up independent, competent and reputable accounting firms and creating more credit bureaux supplying data on the solvency of firms. An impartial legal system that can help settle contract disputes, commercial law reform and drafting and clarifying land titles, as well as effective bankruptcy procedures, are vital for growth of the business sector. A country's tax laws can either coax small businesses into the formal sector of the economy or keep them out of it. Governments should also make sure that they pay SMEs promptly, since public contracts are vital to the financial security of these firms.

II. Helping SMEs meet the Requirements of Formal Financing:

Apart from the need to boost SME capacities, some financial instruments can help provide missing information or reduce the risk stemming from some SMEs' lack of transparency. Franchising, which is very popular in Southern and East Africa with the encouragement of South Africa government, allows use of a brand name or know-how that reduces the risk of failure. Warehouse-receipt financing (in South Africa, Kenya and Zambia) guarantees loans with agricultural stocks. Other financial instruments, such as leasing and factoring, can reduce risk effectively for credit institutions but are sparingly used in Africa. Credit associations, which reduce risk by sharing it, are more common. They help financial institutions choose whom to lend, by guaranteeing the technical viability of projects. Pushing for agreements between financial bodies and credit associations will help make up for lack of capacity and reduce costs by more efficient division of labour. Making loans to intermediaries (NGOs and associations of SMEs) with the job of allotting funds to members can also help cut administration costs. Solidarity between banks, especially setting up inter-bank financing to (as in Nigeria) pool money to be invested in SMEs, reduces the extra risk of lending to SMEs, as well. Working with banks boosts the financial viability of micro-credit institutions and can also help informal financial bodies to move towards the formal sector.

III. Expanding the supply of Finance through the Non-financial Private Sector

Financial institutions are not the only source of money for SMEs. Apart from remittances by nationals working abroad, which are a key boost to private-sector growth, the interdependence between SMEs, large firms and sectoral "clusters" is a major potential source of finance, as shown in Asian and Latin America.

IV. Making the Financial System more Accessible to SMEs

Most African financial systems are fragmented. The "missing middle" in the pattern of size of firm is matched by one in the range of financing available. Lack of funding for SMEs has partly been made up for by micro-credit institutions, whose growth is due to the flexible loans they offer small businesses. In Angola, Novobanco provides loans free of bank charges, without a minimum deposit and with informal guarantees (property assets and a guarantor), as well as permanent contact with loan managers. Though adapted to local needs, however, micro-credit institutions remain fragile and modest-sized. As well as lacking trained staff, micro-credit institutions face limited expansion because of their limited funds. Operating mainly on short-term finance implies that they cannot easily turn their savings into medium or long-term loans. They are also up against the cost of refinancing through the formal banking sector and have no access to refinancing either by the central bank or by venture capital.

Microcredit institutions could be put on a firmer financial footing by developing and adapting long-term savings products that exist elsewhere, such as life insurance and home-saving plans, and encouraging the setting up of specialised refinance banks such as Mali's "solidarity bank" (Banque malienne de solidarité), or working more closely with the formal banking sector (Benin's SME support organisation PAPME and the local Bank of Africa). Some countries (such as Kenya) have dealt with the lack of funding by supporting growth of smaller commercial banks or (in Ghana) of rural banks, so as to bring traditional banks and SMEs closer geographically and business-wise. South Africa passed two laws in early 2005 to expand the banking system to include savings and loan institutions (second-tier banks) and co-operative banks (third-tier banks) while easing banking regulations so the newcomers could still be flexible in providing loans. In many countries, commercial banks are also setting up their own micro-credit services. Removing the obstacles to access for SMEs' to finance requires that commercial banks, micro-credit institutions, community groups and business development services do a lot to help SMEs get finance more easily by transferring resources (money and factors of production) and guaranteeing SMEs solvency with financial institutions.

Links with major companies can also help SMEs get export credits, which are especially important in countries with weak institutions, since commercial partners are better informed than other creditors (especially financial institutions) about the ability of their customers to repay debts. Export credits have been proved useful in Zambia's agro-food industry. Subcontracting is still uncommon in Africa, but has grown rapidly in South Africa since 1998, though there is increasing scepticism about it because it may confine SMEs to low-skill informal activities.

Clusters of SMEs, which are very active in Asia, enable member firms to seek finance together, provide collective guarantees or even set up their own financial body. The threat of expulsion from the cluster ensures that promises are kept, which allows the network to overcome shortcomings in the legal system. Frequent interaction with financial authorities, as well as the role that reputation plays in the cluster, can greatly increase confidence between firms and financial institutions and thus make it easier to get loans and lower rates of interest. Working together also means firms can get supplier credits and can borrow from each other when necessary, which reduces general costs. Such clusters, however, are very little developed in Africa and are concentrated in South Africa, Kenya, Nigeria, Tanzania and Zimbabwe.

SUMMARY, CONCLUSION AND RECOMMENDATION

This paper reviewed various definitions of SMEs and also discussed the characteristics, contributions of SMEs to economic development, and the constraints to SME development in Africa. In reviewing the definitions of SMEs, it was concluded that there is no single, universal or uniformly acceptable definition of SMEs. Several measures or indicators have been employed to define the SME sector. The most commonly used is the number of employees of the enterprise. However, in applying this definition, confusion often arises in respect of the arbitrariness and cut-off points used by various official sources. The development of SMEs in Africa is constrained by a number of factors such as, lack of access to finance, lack of access to appropriate technology, limited access to international markets, the existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training. However, limited access to finance remains the greatest concern for the majority of SMEs.

This study suggests that, to improve access to credit to SMEs, entrepreneurs should be encouraged to form cooperatives since financial institutions believe that peer pressure often reduces the risk of default. Secondly, the government through tax incentives can encourage certain training institutions and NGOs to provide training to entrepreneurs on simple record keeping and managerial know-how. Also, a national legislation to define what constitutes an SME and their legal as well as tax obligations will help to integrate a number of informal enterprises into the formal framework. This should be complemented with steps to minimize the legal procedures involved in doing business in African countries. It is also suggested that technology transfer through simple, inexpensive and adaptable technology should be promoted to enhance the financial inclusion of SMEs in Africa.

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