

Working Paper
01|2009

Ruth Kiraka

Innovative Private Sector Development Instruments – an African Perspective

Investing in the Development of Small and Medium Enterprises

www.ibwe.at

Ruth Kiraka Ph.D. ist Vorstand des Institute of Continuing Education an der Strathmore University in Nairobi (Kenia) und seit 2008 Direktorin des Strathmore Enterprise Development Centre. Ihr Forschungsschwerpunkt ist Betriebswirtschaftslehre der Klein- und Mittelbetriebe. Kiraka lehrt strategisches Management, Betriebswirtschaftslehre und Forschungsmethodologie. Davor war sie als Programmleiterin und Management-Konsultantin in der Entwicklungszusammenarbeit tätig.

Kiraka promovierte in International Development and Management an der Victoria University of Technology in Melbourne (Australien). Zuvor hatte sie in den Niederlanden ihr Masterstudium in Management of Agricultural Knowledge Systems abgeschlossen.

Impressum

Informationsbüro Wirtschaft und Entwicklung | Working Paper 01|2009

Ruth Kiraka

Innovative Private Sector Development Instruments – an African Perspective

Informationsbüro Wirtschaft und Entwicklung

ein Service der ICEP Wirtschaft und Entwicklung GmbH im Auftrag des BMWFJ

Möllwaldplatz 5, 1040 Wien

info@ibwe.at | www.ibwe.at

Working Paper

01|2009

Ruth Kiraka

Innovative Private Sector Development Instruments – an African Perspective

Investing in the Development of Small and Medium Enterprises

www.ibwe.at

Content

Abstract	2
1. Introduction	4
2. SME and Development	5
2.1. Importance of the SME Sector	5
2.2. Constraints facing SME	5
2.3. Interventions to Promote SME Development	7
3. The Case for Investing in the SME Sector: A Systematic Approach	9
4. Approaches to Investment in SME Innovations and Development	11
4.1. Technology Collaboration and Commercialization	11
4.2. Business Incubation	13
4.3. Industry Clusters	14
4.4. Building Indigenous Technology Capability	16
4.5. Funding for Research-Performing SME	17
4.6. SME Support Centres	19
5. Lessons Learnt: Key Success Factors for Investing in SME Innovations	21
6. Conclusion: Outcomes of Investing in SME Innovations	23
References	24

Abstract

Small and medium enterprises (SME) are viewed as a key driver of economic and social development in the African context. They represent a large number of businesses, generate a relative large proportion of employment and are widely considered to be vital for a country's competitiveness. To be competitive, they need one key ingredient: innovation. However, they are often unable to develop appropriate and innovative products due to a general lack of financial strength as well as technical and managerial skills. Apart from that, they operate in an environment with multiple challenges: On the macro level, these include bureaucratic legal and regulatory frameworks, poor physical infrastructure, and a multiplicity of taxes. On the meso level, the challenges include inadequate support in terms of business training and skills, the unavailability of information on markets, suppliers and partners, a limited access to finance as well as weak, fragmented and uncoordinated institutions supportive of SME.

Nevertheless, opportunities for investing in SME development are given, they include the commercialisation of SME innovations, the provision of resources to SME so that they are able to conduct research and market testing, business incubation, the funding of indigenous knowledge development and transfer, the development or rejuvenation of industry clusters, and the establishment of SME support centres

These initiatives can enhance SME competitiveness, create more opportunities for employment and economic development and address a number of the challenges listed above.

Klein- und Mittelbetriebe (KMU) sind ein entscheidender Motor für die wirtschaftliche und soziale Entwicklung in Afrikas. Sie stellen einen großen Anteil der Unternehmen, generieren verhältnismäßig viele Arbeitsplätze und leisten gemeinhin einen wesentlichen Beitrag zur Wettbewerbsfähigkeit eines Landes. Um selbst wettbewerbsfähig zu sein, brauchen KMU vor allem eines: Innovation. Aufgrund eines Mangel an Kapital sowie des Fehlens technischer und unternehmerischer Fähigkeiten sind sie aber oft nicht in der Lage, nachgefragte und innovative Produkte zu entwickeln. Abgesehen davon ist ihr Unternehmensumfeld von vielen Herausforderungen gekennzeichnet: Auf der Makro-Ebene sind das vor allem bürokratisierte rechtliche und behördliche Rahmenbedingungen, eine mangelhafte Infrastruktur und eine unübersichtliche Vielzahl von Steuerbelastungen. Auf der Meso-Ebene werden KMU unzureichend von schwachen und unkoordinierten Institutionen unterstützt. Business Trainings sowie Informationen über Märkte, Lieferanten und Partner sind kaum verfügbar und Kapital ist oft nicht zugänglich.

Nichtsdestotrotz gibt es Möglichkeiten, in die Entwicklung von KMU zu investieren: Zu nennen ist beispielsweise die Kommerzialisierung von KMU-Innovationen. Eine weitere Möglichkeit ist, KMU die notwendigen Ressourcen zur Verfügung zu stellen, damit diese Research und Marktforschung betreiben können. Andere Investitionsfelder sind: Business Incubation, die Finanzierung von lokalem Know-how, die (Weiter-)Entwicklung von Clustern sowie die Etablierung von KMU-Betreuungszentren.

Alle diese Initiativen können die Wettbewerbsfähigkeit von KMU erhöhen. Sie können mehr Beschäftigung schaffen, wirtschaftliche Entwicklung initiieren und eine Reihe der oben genannten Herausforderungen adressieren.

1. Introduction

It is widely accepted that market orientation has a positive effect on the performance of companies, both on large ones and on SME (Pelham 2000). Increased competition, continuous technological breakthroughs and rapidly changing customer requirements are manifest in today's business world (Shiu & Walker 2007). According to Lin and Chen (2007) innovation is a dominant factor for a company's competitiveness within this environment. It fuels organisational growth, drives future success and is the engine that allows businesses to sustain their viability in a global economy. Innovative companies are able to create and commercialize a stream of new products and processes, which extends technological frontiers – and keeps these companies two steps ahead of their rivals. Every organization therefore needs one core competence: innovation.

Consequently, the pressures on all business enterprises to continuously innovate, so as to enable themselves to develop and launch new products and services, are greater than ever. The successful development and launch of new products and services is fundamentally important to the survival and success of business enterprises, irrespective of their size (Wynarczyk 1997).

SME are viewed to be fertile ground with regard to innovation. Their advantages lay in their flexibility and in less rigid organisational structures, which on average promotes a higher speed of response. Due to their innovative capacities SME generally contribute to the creation of economic and social value (Crawford, 2003; Lin & Chen 2007). However, their readiness and capacity to develop innovative products and services can be impeded by a common lack of financial strength as well as technical and managerial skills (Gray 2006; Shiu & Walker 2007).

Therefore, interventions – aimed at addressing these common lacks – need to be considered in form of technological, financial as well as managerial support.

This paper contributes to the discussion on investments in SME by examining the challenges that SME face and outlining some of the interventions that have been implemented to address these challenges. It then discusses various specific approaches of investments in SME innovations in detail – as well as the respective outcomes and benefits.

2. SME and Development

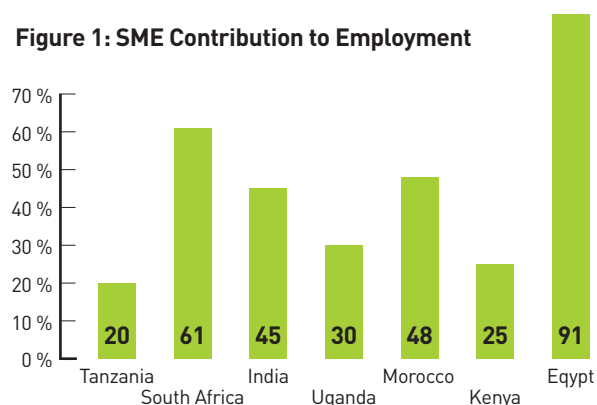
2.1. Importance of the SME Sector

Definitions of SME vary across countries. In Sub-Saharan Africa SME are generally defined as enterprises that employ between ten and 100 employees and have an annual turnover of between KES 5 million (USD 65,000) and KES 100 million (USD 1,300,000) (Elumba, 2008).

The critical social and economic importance of SME is undeniable. Throughout the world they are considered to be the backbone of healthy economies. Their growth is a fundamental component of economic development. In many countries, they account for more than 40 percent of all businesses. In developing and transition economies, they generally serve as an important engine for job creation and strongly contribute to the national Gross Domestic Products GDP, as figures 1 and 2 show below.

SME are a source of employment, competition, economic dynamism and innovation; they stimulate the entrepreneurial spirit and the diffusion of skills. Due to their widespread geographical presence SME also contribute to a more just distribution of income (OSCE, 2006).

Figure 1: SME Contribution to Employment



Source: IFC (2007)

2.2. Constraints facing SME

In order to (re-)establish a SME sector it is important to convince entrepreneurs to leave the informal economy. But if burdens outweigh potential gains, businesses will have little incentive to do so. Needless to say, an unfavourable environment with high taxes, corruption and an oppressive bureaucracy compromises the prospects of success in this respect (OSCE 2006).

Several challenges undermine the ability of the SME sector to develop, grow and contribute to the national economy, especially in Sub-Saharan Africa.

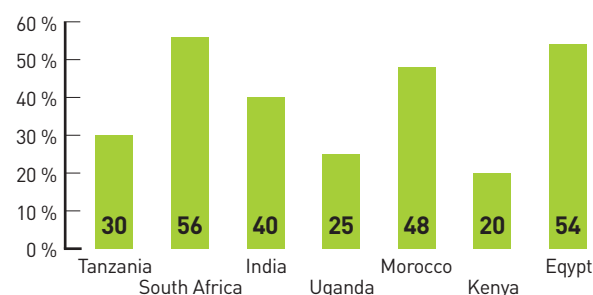
On the macro level, SME face the following challenges:

- Bureaucratic legal and regulatory frameworks
- Poor physical infrastructure
- A multiplicity of taxes (Aikaeli 2007)
- Corruption on the governmental side (Amakom 2006).

On the meso level, the challenges include:

- The inability to transform resources into goods and services
- Inadequate support in terms of business trainings
- Unavailability of information on markets, suppliers and partners
- Limited access to finance owing to the high costs of administering SME loans and the absence of specific dynamic SME credit windows
- Weak, fragmented and uncoordinated institutions that support SME

Figure 2: SME Contribution to GDP



Source: IFC (2007)

- Limited access to markets
- Limited access to support services as they are mainly located in urban areas (Aikaeli 2007)

On the micro level, the challenges include:

- An unwillingness or inability to take up new technology, partly owing to a lack of relevant information, but also due to an averseness to technology
- Low literacy levels among small enterprise owners – this limits their ability to access information and training opportunities
- A lack of motivated attitudes among entrepreneurs to invest in the development of their own enterprises (Olomi 2006)
- Workers negative attitude and behaviour, their unreliability and insufficient skills
- Poor organisational skills and a lack of qualified or experienced managers
- A lack of informal business plans as well as the inability to strategically think about business (Mambula & Sawyer 2004)

In addition to the mentioned challenges, SME are often starved for finance to support innovation – even when they have sound business and expansion plans worthy of investment. Why? They are considered to be risky because their innovative business ideas have not yet been “tried and tested”. SME therefore often find themselves in a vicious cycle of:

- Providing what already is in the market.
- Not being able to grow and expand as to realize their full potential due to a lack of funding and business support services to venture into unexplored business ideas (Aikaeli 2007).

This is highly problematic in social and in economic terms: For if the argument presented by Gray (2006), Lin & Chen (2007) and Aikaeli (2007) is true – namely that SME innovation is at the heart of a country’s economic competitiveness and economic development –, then the lack of support for SME innovation undermines the very economic and social development governments and development cooperation seek.

Sources of finance and other forms of support are needed not only for existing SME but also for those entrepreneurs who build SME in the near future and develop them into large businesses further down the road. These budding entrepreneurs will succeed, not by replicating the business models of the past, but by innovating new ways, products and services to reach an increasingly demanding market.

2.3. Interventions to Promote SME Development

Despite the challenges that SME face economists and development professionals believe that SME assume a critical role to realise the dual objective of economic growth through competitiveness and employment generation and income distribution. Not only do SME dominate the African private sector, the future is geared towards more flexible, modular, and small-scale industries due to their socio-economic and socio-ecological benefits (Elumba 2008).

SME centred development is the most suitable for Africa because:

- They enable a better use of existing local capacity thereby establishing the basis for sustained long-run growth and the opportunity to expand that capacity in the future – we need to start with what we have.
- They are more labour intensive and, thus, central to job creation and to the contribution of a more equitable distribution of income.
- SME provide an increasing measure of national self-reliance – the future of entrepreneurship in Africa should be in the hands of Africans.
- They are easier to start up as they require lower investment – SME are in the reach of Africa, and would enable them to take full ownership of their development and management.
- Because of their large number in different sectors in Africa there is likelihood to adapt new technologies in response to competitive pressure in domestic and regional (or international) markets.
- They play the role of invisible colleges that impart tacit knowledge through 'On the Job Training Units' for various kind of labour forces for the entire economy.
- They are one of the push factors for foreign investors to invest in a particular country. The potential to be reliable suppliers is credited by foreign investors who may wish to outsource their non-core activities to local suppliers.
- They are also necessary for the structural change of a country's economy, from an agriculture-depend-

ent economy to an industrial and service-oriented economy.

- They expand economic space and develop capacities in various industrial sectors whose combined impact will have profound implications for long-term economic transformation (Tambunan 2007; Elumba 2008).

A comprehensive growth strategy tailored to substantially engage SME would therefore achieve the mentioned dual objective and enable citizens to fully participate in the design and management of long-lasting development paradigms.

In this regard, governments and other stakeholders in many developing countries are making attempts to promote business growth by initiating interventions that support SME development. Most of these interventions have been situated on the macro level, e.g., the establishment of export processing zones, free trade zones or government strategic plans that aim at economic recovery based on the creation of an enabling environment for SME. On the meso level, governments have worked with donor organisations to finance capacity-building among service providers via technical assistance, skills and technology transfer, research and product development, sustainable domestic consulting and business support services. The underlying assumption of these interventions is that SME will be able to enhance their own development on the basis of these interventions (Amakom 2006). Here are some examples of macro level interventions:

In Tanzania the government initiated micro-business loans in 2007 with the intention of supporting small ventures through start-up capital.

Other initiatives include the *Mini-Tiger Plan 2020*, which is a *National Strategy for Growth and Poverty Reduction (NSGPR)*. The plan aims at fostering competitiveness of Tanzanian products on the global market, promoting exports, and creating special economic zones such as the *Tanzania Export Processing Zones* established in 2002 (Aikaeli 2007).

In Kenya, the government initiated the *Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC)* in 2003 with the intention to turn around the country's ailing economy. The strategy registered some success, with over one million jobs created in the period between 2003 and 2007, and the GDP growth rate rising from 0.6 percent per annum in 2002 to 7 percent in 2007.

Following this development, the government launched *Kenya Vision 2030*, which is the country's economic blueprint covering the period between 2008 and 2030. It aims at making Kenya a newly industrialised "middle income country providing a high quality of life for all its citizens by the year 2030." *Kenya Vision 2030* will be implemented in 5-year phases starting with 2008-2012. It is based on an economic, a social and a political pillar (Ministry of Planning and National Development, 2007). Some of the key initiatives planned for the first phase of the economic pillar referring to SME are:

- The establishment of "producer business groups" which will be based in rural areas and will feed different urban centres.
- The creation of two economic clusters (one sugar and one paper cluster).
- The creation of five SME industrial parks.
- The creation of a one-stop-shop for SME.
- The microfinance sector that mainly provides financial services to SME will be streamlined (Ministry of Planning and National Development, 2007).

The Kenya government also initiated the *Youth Enterprise Fund* in 2007, a KES 2 billion (USD 25 million) initiative aiming at the provision of start-up capital to small enterprises whose owners are below 30 years of age. A similar fund was set up to support female entrepreneurs. These funds are managed through *microfinance institutions (MFI)* and continue to receive government support. Anecdotal evidence suggests a positive impact of the *Youth Enterprise Fund*.

The Ugandan government is attempting to create a conducive SME business environment by providing for lighter regulation and effective legislation, a harmoni-

zation and rationalization of business laws as well as a simplification of registration and other administrative barriers to investment. Apart from that, the government (and international donors) is also supporting capacity building through technical assistance, skills and technology transfer, research and product development, sustainable domestic consulting and business support as well as development services (UNCTAD 2002).

Similar initiatives have been undertaken in Nigeria with the establishment of two *Free Trade Zones (FTZ)* and several *Export Processing Zones (EPZ)*. Within these zones, any manufacturing exporter who exports surpass 50 percent of his production receives a tax holiday of 3 to 5 years. Additional concessions are available regarding local raw material development as well as local value-added, labour-intensive or export-oriented activities that involve significant training. Enterprises situated in such industrial clusters are therefore expected to enjoy more benefits and suffer fewer shocks than other enterprises elsewhere. It is anticipated that they primarily focus on producing for export markets thereby helping to realize the targets of the economy in terms of industrial growth (Amakom 2006).

All the mentioned interventions, while noble, generally have had a relatively short life-span, which makes analysing their effectiveness difficult. Attempts to assess their impact are rare and, in most cases, data is unavailable. This obviously does not undermine the interventions as such, nor does it question the motivations of those who initiated them. But it does make it difficult to continually justify investing in some of them. Similarly, this paper does not estimate the net benefit of existing or previous SME development initiatives due to lack of data.

3. The Case for Investing in the SME Sector: A Systematic Approach

In 2000, the *World Bank* conducted a survey interviewing more than 20,000 poor people in 23 developing countries. The respondents spoke of their marginalisation, their powerlessness, lack of a voice and lack of freedom of choice or action. No matter where they lived, the poor said the same thing: they could only move upwards within society by gaining greater employment options through a chance to earn steadier wages in a formal sector job.

For many this would mean working in a SME, a sphere of economic activity that accounts for the major share of employment in many developing countries. Yet, despite its widespread, the SME sector is fragile. It is highly vulnerable to pressures of globalization (World Bank 2001).

The focus on SME centred industrialization and economic and social development is still very valid, and SME continue to be a significant driver to economic growth in Africa (Elumba 2008). What is needed are healthier, more competitive and more sustainable SME that can take full advantage of the opportunities before them, creating stable safe and secure jobs. But experience shows that they rarely evolve on their own. This is why carefully chosen, transparent and well-designed interventions are important; especially those interventions that expand access to critical resources such as capital, skills and industry information as well as those that help small businesses to move on faster, straighter paths.

Many development institutions – bilateral and multi-lateral agencies – have tried to intervene but found the SME sector especially difficult to serve. While many outstanding programs have been put in place, lasting and far reaching results have been few. Meanwhile, income gaps have widened in many countries, and population growth has increased the number of poor people. An integrated approach to serving the SME sector suggests working on the macro, meso and micro level simultaneously.

Macro level

On the macro level, emphasis needs to be put on following issues: weaknesses in local business environments, infrastructural development, market access and human capital development via vocational and tertiary education (with a focus on science and technology). Governments that adapt the right reforms in these areas can spark considerable new entrepreneurial activity (World Bank 2004). Other interventions could include promoting foreign direct investment to Africa through government designed schemes. Expanding outward promotion activities in Africa would be useful to collect up-to-date business information and ensure that appropriate investment and economic development vehicles are utilised (Elumba 2008). More generally, the government must deal decisively with high incidences of insecurity, and corruption in government (World Bank 2004).

Meso level

But working at the macro level is not enough. Small businesses unmet need for capital, information, technological innovations and knowledge is great. Interventions at the macro level are a necessary but insufficient condition for SME development. Interventions at the meso level will help SME to access needed resources on a sustainable basis. They include building-up effective local service providers, such as financial intermediaries, consulting companies, e-business outlets, research institutions, academic institutions and others (World Bank 2004). The types of support provided by these institutions vary ranging from capital assistance, training facilitation (e.g., for promotion activities and business meetings between producers and potential customers), information about potential markets, suppliers and facilities, to guidelines about production process, management and standardization. These institutions also help advance technological innovations that are useful and can be commercialised by SME (Tambunan 2007).

Micro level

Obviously, the effectiveness of these interventions correlate to the ability of SME to take them up and utilise them. In other words, on the micro level, SME

must have the capacity to utilise and benefit from the various interventions. This means that they must be willing to access formal training and a shift in attitude, especially regarding the willingness to take calculated risks that enable businesses to grow beyond the subsistence level. It has been said that entrepreneurs are not enthusiastic about trainings, especially when they last several days, as returns are not immediate. Trainings are often perceived as a cost, not as an investment. Therefore, in order to reduce costs, entrepreneurs often end up taking fragmented courses that do not enable them to build the competences they need to run their businesses effectively. In addition, many of them do not recognise the need for technical assistance because they have the impression that they are already masters in their own productions. When problems do occur, they do not believe external assistance is necessary. Any interventions at the micro level must therefore focus on shifting these mind-sets (Tambunan 2007). Hosting entrepreneurial open days, exchange visits, entrepreneurship mentorship programmes and portraying role models are some of the interventions that may promote SME development at micro levels (Mambula & Sawyer 2004). Often, however, these interventions must be implemented by a donor who has a vision of their long-term benefits. Development institutions therefore have a major role in helping local SME to obtain these key inputs for growth.

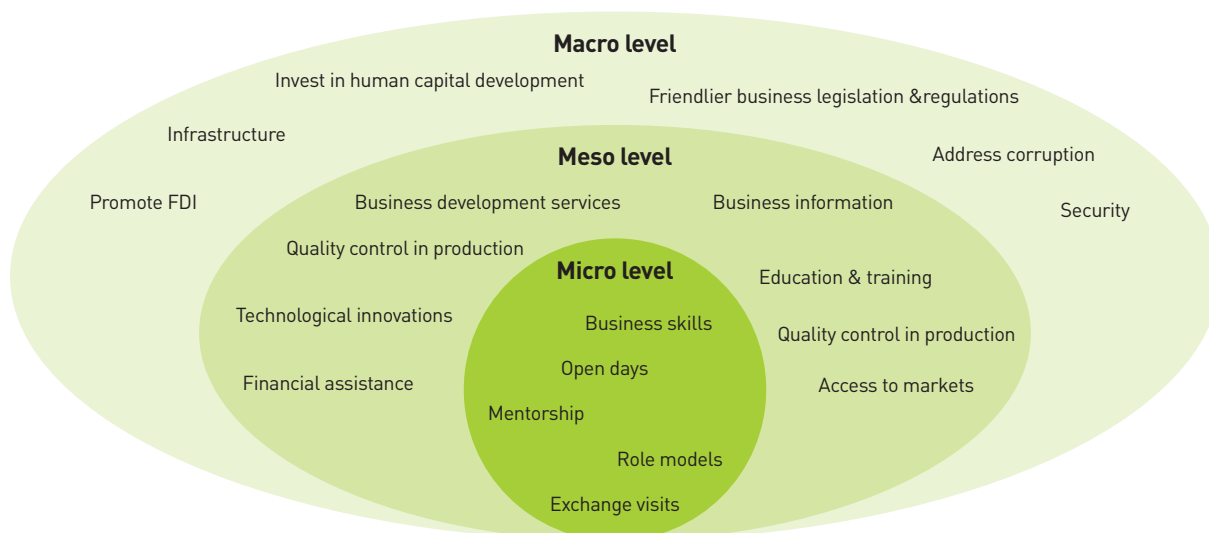
The described systematic approach to SME development may be conceptualized as demonstrated in Figure 3.

Interventions are especially important in the many low-income countries that receive little foreign investment and thus do not have many multinational corporations on the ground serving as a conduit for the introduction of vital new skills, technology and capital.

However, a key question still remains. What specific kinds of initiatives should the private sector and/or multilateral and bilateral agencies invest in? How should they approach investments in the SME sector? The questions are crucial as studies show that past initiatives, although noble, have often been unsustainable and may not always have achieved the desired effect.

The rest of this paper looks at examples of investment approaches that have been attempted in African countries. Several of these approaches are in their pilot phases and thus have not been assessed yet. Even for those that have existed for a while, data on their performance is scarce or altogether unavailable.

Figure 3: Interventions for SME Development



4. Approaches to Investment in SME Innovations and Development

The argument presented in this paper is as follows: If SME become the drivers of Africa's economic and social growth, a key input will be investment in new technologies and innovations that are competitive in the global marketplace. This should be coupled with a supportive business environment that enhances the innovations to be commercialised thus allowing various stakeholders to benefit from the returns.

This section of the working paper examines six approaches to investing in SME. For each approach, the problem to be addressed is outlined, the intervention is explained and anticipated outcomes are discussed. General lessons are drawn at the end of the section.

4.1. Technology Collaboration and Commercialization

4.1.1. Problem

As discussed earlier in this paper, one of the challenges facing SME is technological innovation. They are not able to innovate themselves owing to a lack of resources and skills, and they are not able to access innovations from academic and research institutions due to absence of appropriate networks. Yet, innovations are needed by SME to be competitive in the marketplace.

In general, most of the high-level research personnel are in universities, suggesting that universities own a myriad of research capability that can be exploited by industry to pursue innovation and technological development. Theoretically, the missing R&D resource capacity among can be improved by collaboration with universities.

There are however, two dimensions of challenges to implementing such collaborative efforts: On the one hand, innovators at universities are motivated by professional curiosity, upward mobility and publication. Once this is achieved they usually move on to new spheres of work. They are neither motivated nor funded to commercialise their innovations, thus, many university innovations rarely enter the public domain

(SME Today 2008). On the other hand, SME lack resources and have difficulty to access information. They therefore are relatively unable to build a cooperative relationship with academia. To promote collaboration between SME and academia, both funding and other forms of incentives should be provided to universities to support specific SME technological innovations (Sheu 2007a).

4.1.2. Intervention

Universities should develop project proposals that demonstrate exactly what kind of innovations they will invest in, and how such innovations will support SME development and growth. They would then be funded to research, develop and test their innovations (based on needs identified by the SME). This will increase the success rate of technological innovations owing to their relevance and demand in the market. As more technological innovations and collaborations are realised, policy frameworks may then be developed with input from those who have been involved in collaboration with the relevant government agencies.

Support for the universities could include increased research funding and partnerships with the private sector that provide an opportunity to develop relevant innovations for the marketplace.

In Kenya, the *British Council* is working with four universities and several businesses in a project known as the *Africa Knowledge Transfer Partnership (AKTP)*. The *AKTP* is a partnership between private sector organisations and *Higher Education Institutions (HEI)* in Sub-Saharan Africa and the United Kingdom. They leverage research, scientific knowledge and skills through innovation.

The objectives of the partnerships are to:

- Facilitate the transfer of knowledge and the spread of technical and business skills through innovative projects undertaken by high calibre, recently qualified graduates with the joint supervision of the company and university.

- Provide company-based training for graduates in order to enhance their business and specialist skills within the context of the partnership.
- Stimulate and enhance business relevant education and research undertaken by higher education institutions.
- Increase the extent of interactions of businesses with universities as well as the awareness among businesses regarding the contribution higher education institutions has on business development and growth.

The partnership is initiated by a company's need to address a problem of strategic importance. This may be a need for improvement of product quality, new product innovations or a need to improve a production process. The company employs a recent university graduate ("associate") who implements the project transferring knowledge from the higher education institution to the company. The partnership is structured as shown in Figure 4.

The AKTP benefits all the partners:

- The company benefits from the use of knowledge and boosts the quality of processes and/or products and services.
- The associate can bridge the gap between academia and the private sector and benefits from the opportunity to be trained as a future business leader

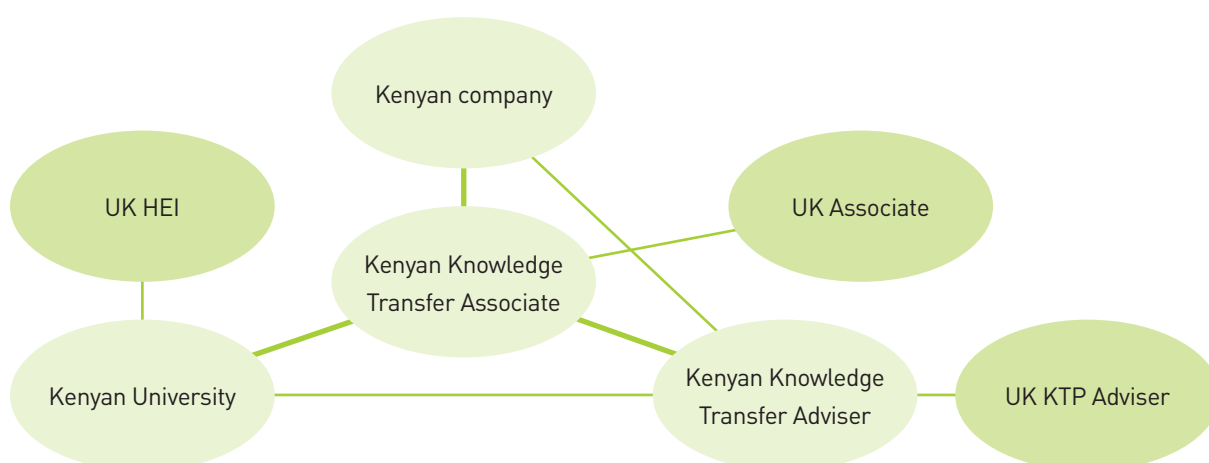
apart from enhancing his or her managerial and technical skills acquired in a commercial setting. If the associate has an entrepreneurial mind, the partnership is an excellent opportunity to set up his or her own SME.

- The higher education institution develops future higher education curricula (in science and technology) relevant to the private and public sector. It also benefits from the implemented, joint research.

4.1.3. Anticipated Outcomes

The project is in its pilot stage. It was started in 2007 in Kenya, Uganda, Ghana and Nigeria (British Council 2008). Through the partnerships, it is expected that key innovations beneficial to the private sector can be transferred and commercialised. The project is structured in a way as to overcome the previously mentioned challenges of linkages, high innovation costs for businesses and motivation for universities to get involved. The success of the project will be determined by the follow-ups on businesses' competitiveness. Given that the project is in a pilot phase, it will be important to start with easy to implement and convenient innovations that can be realised in a short period of time.

Figure 4: AKTP Structure



4.2. Business Incubation

A business incubator is a place where individuals or enterprises nourish their new products, new businesses and new technologies and engage in enterprise transformation and upgrade. Its aim is to create a better cultivation environment for new enterprises and thus to help new ventures survive from fragile infancy. Therefore, business incubators provide SME many kinds of integrated services needed for entrepreneurship and innovation. These services include experimental facilities at the pilot stage, operational space, technical support, administrative assistance, business services, fundraising services and other assistances for businesses to foster innovations and growth (Sheu 2007b).

Following aspects are critical to the success of a business incubator program:

- Management that develops and orchestrates business, marketing and management resources and relationships tailored to the needs of the business clients.
- Shared services, training, technology support and equipment.
- A selection of clients and acceleration processes by which businesses become more independent and thus make progress towards graduation.
- Assistance in obtaining the needed funds for business growth.
- Access to appropriate rental space and flexible leases (Sheu 2007b).

4.2.1. Problem

Although academic institutions conduct a lot of research and develop multiple innovations, they often lack the business skills and funding to commercialise their innovations. Often, commercialization is not a priority to them. Bridging the gap between technological research and the market is therefore far from being easy. Students taking science and technology courses often develop exciting innovations which they are unable to commercialise owing to both a lack of skill and

funds. Business incubation helps to nurture innovative business ideas, to test and market them; a process which ideally results in successful businesses.

4.2.2. Intervention

In 2005, the *Kenya Kountry Business Incubator (KeKoBI)* was founded to provide business incubation services to help budding entrepreneurs transform their ideas into real businesses. *KeKoBI* is a private ICT-based incubator that was started with support from the *World Bank's Information for Development Program*. *KeKoBI* offers fast speed internet access, office space, training, networking, business expertise, skills development and business counselling for budding entrepreneurs to ensure they succeed in their endeavours. *KeKoBI* started with eight companies that were given full support including helping them formulate workable business plans. Today 37 companies are under *KeKoBI* incubation. None of the enterprises have graduated so far (SME Today 2008a).

Business incubation stakeholders have come together to form the *Business Incubation Association of Kenya (BIAK)* in order to provide better support mechanisms for SME. There are currently seven business incubators registered under the association including *KeKoBI*, and more are expected (SME Today 2008a). Here's an concrete example of their work:

Bridgeworks Africa, one of the incubators registered with *BIAK*, is a private investment firm incubating businesses associated with addressing social problems of environment, health and education. It integrates three approaches to SME development presented in this paper: commercialization of technological innovations, business incubation and building indigenous knowledge and technology capability. It was founded in 2004 as a way of linking science from research institutions with the market.

Bridgeworks Africa started operations in 2005. Its first project dealt with botanicals for use as herbal cosmetics, medicinal products, biopesticides and fertilizers,

microbial pest control products for application in crop protection and public health, and insect attractants, repellents and traps. Several of these initiatives utilize indigenous knowledge.

Bridgeworks Africa gets involved in the idea stage, when creativity, entrepreneurial spirit and integrated thinking have to be combined. Ideas are carefully assessed for their potential and economic viability. It then contributes to the incubation of the new venture in several ways:

- As a partner, challenging ideas from “a bird perspective”.
- In developing a sound business plan.
- As lead investor for seed and first round financings.
- In forming the initial management team or providing support to the management team with its skills.

Empirical research is required to determine the types of innovations commercialised so far and their impact on society.

4.2.3. Anticipated Outcomes

Incubation initiatives aim at turning viable business ideas into profitable business ventures. Although data is not available on how the seven incubators in Kenya are performing, the scope and opportunities are immense. If the initiative is implemented well, it would have far reaching implications. It could, e.g., help alleviate the “brain-dran” phenomenon: It is estimated that there are over 100,000 students who have left the country to study overseas in recent years and have opted not to return to Kenya for fear of becoming jobless.

In the case of *KeKoBI*, the incubator has a three-year contract with the SME and considers strategies for a post-incubation programme. The plan is to work with strategic partners to establish industrial parks in various parts of the country. This initiative will support economic development and job creation in the country.

4.3. Industry Clusters

Clustering refers to a geographic concentration of companies, academic institutions and research labs. Combined, they can achieve synergetic effects in terms of sharing the results of technology development, human resources and information. A cluster also includes financial institutions and other service providers to support various business services (Porter 1998).

Interest in clusters stems from the fact that innovation and knowledge creation still benefits greatly from face-to-face communication among participants. Cluster promote innovation and learning through co-operations and improved flows of information and knowledge. They act as magnets for the most competent firms and the best trained labour force; they provide a favourable environment for launching new firms; they spur economic growth, upgrade competitiveness and create jobs (Nauwelaers 2003).

Clusters are characterised by five defining features:

- Geographical concentration
- Presence of the appropriate firms and institutions
- Specialization in particular fields
- Well developed networks connecting firm and institutions
- Promotion of innovation (Bok 2007)

4.3.1. Problem

In instances where a country's products are competing in the global marketplace (mainly in exports) the competitiveness of that country (or region) is propelled by firm competitiveness – a circumstance that requires an innovative network of relationships to thrive. Porter (1998) argues that the best way to raise productivity and innovative capacity, and subsequently the competitiveness of a country's products, is through local clusters. Kenya exports several agricultural products including tea, fruits and vegetables, cut flowers, coffee and pyrethrum. As the world prices of these products tend to be volatile (owing to increased competition) the need to efficiently manage the production process

is increasingly important. Coffee prices, for example, have been extremely volatile in the world market, yet the factors of production in the Kenyan environment continue to rise. This has put enormous pressure on growers. Clusters were viewed as a way to address these problems.

4.3.2. Intervention

Kenya Coffee Cluster

Coffee farming and exportation in Kenya dates back to 1910. A number of institutions that were set up in the early 1900s to support the growth and marketing of coffee are still in existence and form the current coffee cluster. The institutions include the *Planters Cooperative Union*, the *Coffee Board of Kenya*, the *Ministry of Agriculture*, the *Coffee Research Foundation*, 569 coffee cooperatives, the *Nairobi Coffee Auction* and over 700,000 smallholder coffee farms. The cooperatives are intended to provide extension services, farm inputs, run coffee processing factories, provide access to credit and manage the marketing of coffee. While coffee from individual farms is processed separately, it is often mixed together with cherries from other farms at the milling stage and sold by lot to exporters. This reduces incentives for smallholders to produce quality coffee because they are paid based on revenue generated from the lot and not for the quality of their own products (Condliffe, et. al. 2008).

Nigeria Leather Cluster

In Nigeria, a similar cluster initiative was started for the leather industry in 2000. The cluster was established by the government as a way to address constraints in exporting leather products. Such constraints included a difficult business environment, limited access to finances and technical and human resource capabilities as well as a lack of investment in key infrastructure. In Kano, Nigeria, which is the centre for tanneries and leather raw materials, reloading points were situated in the *Export Processing Zones*. The enterprises situated in these clusters were expected to enjoy more benefits and suffer fewer shocks than other enterprises and be primarily focused on producing for

foreign market thereby helping realise the targets of industrial growth (Amakom 2006).

4.3.3. Outcome

Kenya Coffee Cluster

The performance of the *Kenyan Coffee Cluster* has been steadily declining in terms of output and quality since its peak in 1987. Exports fell from 2.1 million to 0.9 million bags between 1987 and 2007 and the world market share has declined from 3.1 percent in 1986 to 0.6 percent in 2006 (International Coffee Organization, 2008). The quality of coffee has also declined making it harder for Kenya to demand a premium on commodity prices. Declines in production volume have been driven in part by declining crop yields (as farmers stopped investing in fertilizers owing to their high cost). Falling world prices and rising production costs squeezed margins, particularly for growers (FAO 2008).

An analysis of the cluster shows that while it was built on the back of strong factor inputs (including good growing conditions and the port of Mombasa) the strength of these factors has eroded over time. The main challenges have been underinvestment in basic infrastructure, poor knowledge transfer and the underdevelopment of financial institutions. Furthermore, heavy government intervention, a complex market structure, high levels of corruption and mismanagement has limited the output and led to declining profitability of the cluster. Finally, although the institutions were intended to operate as a cluster, weak linkages between them have hampered cluster typical development (Condliffe, et. al. 2008).

Nigeria Leather Cluster

In Nigeria however, the intended benefits have not been realised. The leather cluster witnessed a steady decline. Processed skins, e.g., which accounted for 36.84 percent of non-oil exports in 2004 dropped significantly to 20.4 percent of non-oil exports in 2005. The number of cluster-enterprises dropped from 500 in 2000 to 150 in 2006 owing to incessant power outage. Small enterprises proved to be very vulnerable due to

increasing operational costs including administrative costs of business registration. Generally speaking, the factors that have contributed to declining cluster performance include inadequate infrastructure, lack of access to credit, high utility costs and corruption. (Amakom 2006).

Both in Kenya and Nigeria, where clusters have been introduced as a way of making the country products competitive in the global marketplace, the results have been disappointing. But the reason for that is not the cluster concept, but rather the lack of political will to manage them effectively.

Anecdotal evidence suggests that the Kenyan cut-flower cluster is performing very well. It has been suggested that high levels of privatization and absence of government interference (such as government-appointed boards and shareholding) has significantly contributed to the success of the cut-flower cluster. More data is needed to harden this perception.

4.4. Building Indigenous Technology Capability

As noted by Elumba (2008), various development strategies in Africa have had little success due to a lack of ownership among the local development partners. This often roots in an inadequate perception of “indigenous” know-how and technology; meaning know-how and technology that is developed locally by communities to address their needs and resulting in traditional medicines or innovative household items such as energy-saving cooking stoves. If communities are to be supported to attain economic and social empowerment, any forms of intervention should utilise or at least complement indigenous know-how and technology. Otherwise interventions may fail altogether.

4.4.1. Problem

The main economic development policies in many developing economies hardly consider the development

of indigenous technological capability as an integral factor in the process of industrialization. The promotion policy of foreign direct investment as a main economic development policy, e.g., was aimed at generating inward foreign capital flow and employment – and made developing economies rely on the foreign capital and technology. In other words, the industrial and investment policy of developing countries overshadowed the need to develop local initiatives and indigenous technological capability.

There is no doubt that inadequate technology, outmoded production processes and low management capabilities are constraints for developing economies to take advantage of the linkage with foreign firms (Intarakumnerd 2005). But indigenous know-how and technology, in fact, has the potential to be developed into differentiated products and services that would give its initiators the mentioned advantages.

4.4.2. Intervention

Bridgeworks Africa, an initiative already discussed in this paper, utilizes indigenous knowledge. Together with the *International Centre of Insect Physiology and Ecology (ICIPE)* it embraces areas such as botanicals for the use as herbal cosmetics, medicinal products, biopesticides and fertilizers, microbial pest control products for application in crop protection and public health, as well as insect attractants, repellents and traps.

4.4.3. Anticipated Outcome

Empirical research is required to provide data on the success rate of these interventions. But given the number of herbal cosmetics and traditional medicines available in the Kenyan market today, it is fair to say that the partnership may be yielding positive results.

4.5. Funding for Research-Performing SME

4.5.1. Problem

To be able to compete, businesses are on the constant lookout for new and innovative ideas, which will give them a competitive edge in the marketplace. Yet, despite the efforts of SME to innovate, many good ideas get lost or, in many cases, companies simply lack the R&D resources to fully utilise and implement their ideas.

4.5.2. Interventions

Developing and capitalising a *Proof of Concept Fund* may be what is needed to enable SME to jump this hurdle. This type of fund finances the costs of testing technology and benchmarking it to competition and alternatives. Some examples:

Prosperity for Africa Award Program

In 2007, *On The Frontier (OTF)* initiated the *Prosperity for Africa Award Program* to recognise and reward the most innovative business ideas coming out of small business. By celebrating the success of Africa's leading entrepreneurs the award – which is sponsored by *Legatum Capital*, a long term value-oriented portfolio investor – seeks to draw attention to a few of the many success stories in Africa. Demonstrations of home-grown prosperity encourage greater entrepreneurship among people in the participating countries, while also attracting greater international capital and investment into a continent that has had an outdated reputation for persistent poverty and dependency. In 2007, the prime winner of the programme was selected from among 450 applicants and was awarded USD 100,000; five other applicants were rewarded with USD 50,000 each.

FORTUNE Technology Prize

In addition, *Legatum Capital* founded the *FORTUNE Technology Prize* in 2008 based on the conviction that sustainable, scalable, technology-driven business

enterprises offer the most effective means to promote prosperity and bring people out of poverty. Through this initiative, a prize fund of USD 1,000,000 is awarded to organisations, or individuals, whose application of technology solutions demonstrably improved the quality of life amongst impoverished populations.

Diamond Bank Bright Ideas – The Launchpad

A similar initiative has been undertaken by the *Diamond Bank* in Nigeria. It started in 2006 as the *Diamond Bank Bright Ideas – The Launchpad* and finances innovative ideas from participants who are below 30 years of age. Each year, over 500 individuals apply for the award. A short-listed 10 are then taken through a six-week entrepreneurial training designed to help them shape their business idea into a workable business plan. The then selected winner receives NGN 10 million (USD 100,000) and is assisted in the process of commercialising and patenting his or her innovation. One of the awarded innovations is the *AJ-SX Security Device for Cars and Houses* that is benefiting over 10,000 customers.

Diamond Bank Bright Ideas – The Launchpad has been running for three years. The winners have turned their innovations into million dollar businesses. And those who did not win the award received entrepreneurial training and support to develop viable business plans followed by on-going mentoring to turn innovations into businesses. About 30 SME have benefited from the programme, and although the value of their businesses is not documented, they have been able to hire over 1,000 people. That means: Young people who may otherwise not have found employment, not only have jobs, but are able to provide employment to many more (Enterprise Development Services 2008).

Africa Enterprise Investment Fund

CARE and the *Canadian International Development Agency* also started an initiative – the *Africa Enterprise Investment Fund* – aimed at funding innovative business ideas: It was established in 2008 and aims to be a niche enabler in East Africa by providing investment capital and business advisory support to entrepreneurs with innovative business ideas that are com-

mercially viable and demonstrate clear social impact. A core focus of the fund is social entrepreneurship – for profit businesses that demonstrate commercial success while incorporating a pre-determined social impact objective and thereby contribute to sustainable poverty reduction through wealth creation, enhanced economic opportunity and more efficient services to underserved communities.

The fund targets early-stage and ready SME that are entrepreneur driven, and commercially viable. It also focuses on enterprises and business models that enhance and promote the agricultural economy as well as businesses that increase access, opportunity and services for the poor and underserved. The target countries are Kenya, Uganda and Tanzania.

Investments are assessed and monitored against a set of clear investment principles and performance standards, which include:

- Financial viability and sustainability
- Entrepreneurship, innovative approaches and local ownership
- Positive and measurable social returns
- Effective governance and corporate conduct

The fund will provide equity, quasi-equity and/or debt to enterprises seeking investment capital between USD 100,000 and USD 1,000,000. It will only assume minority equity positions and aim to exit from an enterprise within five to seven years. The fund's life-cycle is eleven years.

4.5.3. Anticipated Outcome

Key drivers to financing SME business ideas are funds – as described above – and those involved in creating and managing them. To be successful, this type of fund needs on-going support from financiers who envision the long-term viability of their initiative (which obviously does not undervalue the importance of early success). Follow-up that demonstrates the enhanced competitiveness and job creation capacity of the award winning businesses is an important success indicator.

Reviewing the criteria upon which SME are judged, a number of key outcomes and benefits for the SME and society can be identified: The firms are expected to demonstrate a culture of innovation; they have to perform efficiently on the basis of their financial viability and sustainability; good leadership has to be visible as does good corporate governance and conduct (especially with regard to their commitment to employees and society). Social enterprises are expected to provide positive and measurable social returns.

Funding for research-performing SME, therefore, will not only result in better run and more competitive SME, but also in an enhancement of a country's economic development and job creation.

4.6. SME Support Centres

SME support centres are intended to provide on-going business support to business creation, new start-ups and business innovation. The centres not only provide management strategy, marketing and consulting services to SME and entrepreneurs, but also support specific management issues of each SME.

4.6.1. Problem

As discussed earlier in this paper, SME play a major role at all levels of economic development in many countries. They generate a relative large proportion of employment and are considered to be vital for competitiveness and economic growth. However, as globalization intensifies, competitive pressure on these enterprises also grows. Only a small segment of the SME sector is capable of making full use of new business opportunities. It is widely agreed that smallness confers some inherent competitive disadvantages for SME. Therefore, services to promote and enhance SME competitive performance are required.

4.6.2. Intervention

One Stop Shop

The *World Bank's Micro, Small and Medium Enterprises (MSME) Competitiveness Project: 2005-2010* enhances the transition from the informal to the formal sector. Specifically, the project is aimed at reducing the costs of compliance with business regulations for the formal sector and at creating incentives for informal businesses to graduate to higher levels of formality, and thus to facilitate their access to resources for growth. Although the transition from informal to formal enterprise is critical both for the enterprise and the government, transition has been slow and, at times, altogether avoided by informal businesses. A prohibitive business environment – high taxation, cost and time of business start-up and compliance with business regulations – are among the main reasons why firms prefer to operate informally. Until recently, it

took about six months to register and legally run a business in Kenya. But this has now gradually been reduced to about 15 days. However, the tax regime is still quite punitive and complex and many small businesses are unable to comply, which leads to severe penalties.

Through the *MSME Project* the *World Bank* will assist the Kenyan government in implementing a simplified taxation regime for small businesses and in reducing the costs of starting-up a business through a *One-Stop Shop (OSS)* approach. The primary objective is to enable prospective entrepreneurs to comply with business start-up regulations and tax liabilities in a single interface with government institutions. With time, the *OSS* could be expanded to cover the *Expert Dispatch Programme*, which provides the long-term and continuous dispatch of experts in management, technology, finance and legal affairs in order to target specific and difficult management problems inherent in SME.

Kenya is adapting the *OSS* model from Egypt. There, the number of *OSS* agencies increased from nine in 2003 to 42 in 2008. Each agency includes and represents the *Ministries of Trade, Agriculture and Energy* as well as the *Chamber of Commerce* and the *Egyptian Tax Authority*. So far, Egypt's *OSS* reduced the business-registration time from three weeks to three days. Forms required to enter into contract agreements have also been simplified and small businesses can complete them without having to incur astronomical legal fees. By abolishing all tax incentives and reducing the tax rate from 40 percent to 20 percent upon the establishment of the *OSS*, the Egyptian government paved way for a swell in income and sales tax revenue – from EGP 68 million (USD 12 million) in 2002/03 to EGP 120 billion (USD 21.5 million) in 2007/08. To ease licensing, Egypt issues a temporary 15-day license to enable participants to commence operations. This places the burden of hastening the licensing processes on the authorities, without inconveniencing investors (MSME 2008).

Business Development Services

The business development services are probably the most prevalent of the interventions discussed in this

paper. Today, there are well over 1,000 BDS providers in Kenya.

These providers often combine business consulting with training and management education. Areas of support include business plan development, pre-venture feasibility, marketing, financial planning, cash flow management, loan packaging, record keeping, personnel and training issues as well as production and general management for the small business entrepreneur (Han 2007).

The *GroFin East Africa Fund (GEAF)* is a business development and finance company providing business support and appropriate finance to viable entrepreneur-owned businesses in Kenya, Rwanda, Tanzania and Uganda. The majority of start-up and growth businesses in East Africa cannot access risk capital due to the lack of skills, collateral and track record. *GEAF* therefore seeks innovative business ideas that are considered to be risky by conventional financial service providers. It provides business development assistance and finance specifically developed to address the needs of SME. Its integrated approach reduces the risk of transaction, significantly increases the business success rate, develops the local skills base and increases financial and development returns. *GEAF* started its investment activities in 2006 and, by February 2007, had invested more than USD 7 million in 21 enterprises, facilitating employment for nearly 600 people. An additional 70 enterprises have and will benefit from *GEAF*'s investments in 2008 and 2009.

4.6.3. Anticipated Outcomes

One Stop Shop

The introduction of an *OSS* in Kenya will combine the current partial legalization (e.g., single business permit) with the other necessary legal obligations (e.g., receiving PIN, trade license, business name registration) and tax liability, thereby significantly enhancing the business environment. Kenya has well over 150 business licenses that make licensing for small businesses very complicated (World Bank 2004).

Business Development Services

The expected outcome is better managed and successful businesses. However, data is scarce and given the numerous service providers, it is difficult to assess effectiveness. Anecdotal evidence suggests that when business support services are integrated into one of the other interventions previously discussed, the likelihood of success is higher owing to the interrelatedness of, e.g., technology transfer and Business Development Services .

When Business Development Services are offered as a stand-alone initiative, by small and hardly known consultancy firms (as often is the case), the likelihood of low returns or complete failure is high. This is because these service providers have remained fragmented, almost un-known and (often) unregistered. Why? Because they are not held accountable for their work. They therefore often do not document their initiatives making it very difficult to judge them. In some cases, SME owners have complained that BDS providers have done more harm than good. There are calls from those who have been working with SME that the “business support services sector” needs to be regulated in order to exclude unscrupulous providers. Further research is required into the impact of BDS providers to SME growth and development.

5. Lessons Learnt: Key Success Factors for Investing in SME Innovations

The interrelationships between the various investment opportunities are evident. Business incubation, e.g., leads to technology transfer and commercialisation as well as to the formation of industry clusters. Indigenous knowledge may also be commercialised after a period of incubation. Funding SME also results in one or more of the other interventions – besides, the funded innovative idea could be based on indigenous knowledge and it could result in technology transfer and commercialization. Finally, SME support centres support all of these initiatives. Due to the interdependence of the mentioned initiatives the outcomes and lessons learned of this paper will be discussed in an integrated manner.

Focus on science and high-tech

Since economic growth and job creation are mainly based on the formation of new firms, any initiative that focuses on the commercialization of scientific research results and on the high-tech start-up companies is appropriate to invest in as these lend themselves to new businesses and employment opportunities.

Merit-based competition and post-incubation

Where business incubators are supported, the incubator should maintain a thorough merit-based competition – from the selection of SME to the provision of financial assistance. This ensures that those SME with the greatest potential for success and impact are supported. In addition, it is important to have a post-incubation programme, as SME settle comfortably in incubators and are reluctant to leave. The incubation duration should be long enough to allow for the business to be viable, and the post-incubation programme should allow for a smooth transition/graduation of the SME. Industrial parks may be a viable post-incubation programme option.

Decentralised and network-based clusters

As the number of SME tends to be large in any country to provide effective direct support for SME innovation, a decentralized and network-based cluster formation is a feasible way to promote SME innovations. Geographical proximity of research, technological and academic institutions within clusters minimises barriers to

effective collaboration, creates synergies and, thus, enhances the efficient usage of scarce budgets.

Of note, some of the mentioned clusters have not had the desired outcome. This tends to happen when multiple actors do not share a common purpose, as was seen in the case of coffee in Kenya and leather in Nigeria. Cluster development needs to be viewed as a deliberate effort of individuals or institutions who champion its forthcoming, and who seek to bring together divergent views in ways that builds rather than undermines the cluster. As government interventions tend to undermine the effectiveness of clusters their role should be that of an enabler, not of a stakeholder. State corporations involved in the clusters ought to be privatized.

Investment opportunities – success indicators

The SME investment opportunities discussed in this paper fall under one or more of the following three categories: those that need a partner to conduct research to solve a problem that a SME has; those that have a viable business innovation and need resources to incubate and test it; and those that have developed technology and require resources to commercialise it.

Investments in any of these categories need significant amounts of resources. It is thus important to develop indicators for measuring success throughout the investment period – and success should be registered as early as possible. This motivates the financiers and allows new technologies to be made available to the market early, which enhances the competitiveness of SME.

Indigenous technology

Indigenous technology is important to support and promote SME development as it is responsive to local economies and results in distinctive products and services. Initiatives to support indigenous technology should therefore aim to link SME with technology specialists in order to generate an enabling environment that develops technology capacity. This is likely to result in a great performance of the SME as it provides differentiated products, services and technical services in accordance with the resources available and the market needs in the context of that SME.

One-Stop Shop support centres

The One-Stop Shop SME support centres can provide comprehensive and systematic management consultation services. The use of an expert dispatch program, which provides long-term and continuous dispatch of experts in management, technology, finance and legal affairs, implies that SME can grasp practical and appropriate solutions which can easily lead to management restructuring in terms of efficiency gains and enhanced productivity.

Benefits of an integrated approach

An integrated approach to serving SME – combining technical, managerial and financial support reduces the risk of transactions, significantly increases the business success rate, develops local skills bases and increases financial and development returns.

Implementation challenges

The ability to successfully implement these initiatives assumes that the challenges on macro, meso and on the micro level (previously discussed in this paper) are comprehensively addressed. On the macro level, issues such as having an enabling business environment free of punitive legal and regulatory requirements, complex tax regimes and high incidences of corruption as well as insecurity must be addressed. Apart from that, basic infrastructure has to be in place. On the meso level, the actors supporting SME development – donors, academic and research institutions, business development service providers, incubators, investment funds and financial institutions – must be credible, legitimate and accountable to the SME. On the micro level, the SME must be willing to embrace positive change brought about by technology transfer, better management practices and an improved business environment, so that they can reap the full benefits of their efforts.

6. Conclusion: Outcomes of Investing in SME Innovations

When the investments are carried out meticulously, benefits will be derived on the SME level, on the level of support services providers (researchers, universities, business development service providers and financiers) as well as on the national level.

On the SME-level the following benefits can be derived from such initiatives:

- Enterprises have access to consulting services in areas of manpower cultivation, financing, information provision and operational management. Although SME already had access to these kinds of services in the past, these on-the-spot investments can help SME drive their markets, as opposed to simply accessing what is provided.
- Product development processes can be geared up as testing services for new products would be available sparking a quick marketing of new products and services.
- Success within the framework of these initiatives would give SME the incentive to invest in their own development by, e.g., hiring the right people (as opposed to hiring whomever is available), training staff member and upgrading their technologies.

On the meso level, the following benefits can be derived from such initiatives:

- The expenses and risks of establishing a start-up or developing innovative technologies and products can be reduced which increases the success rate of entrepreneurs and innovators.
- The support for the development of new technologies and new products is enhanced.
- The ability to commercialise high quality research, thus making service providers initiatives more relevant, is increased.
- Collaboration forms between industry, universities, research institutes and other services providers are initiated which supports the development of industry clusters (that would provide opportunities for new partnerships, collaborations and networks with synergistic benefits) and strong, coordinated and integrated institutions that support SME.
- The availability of information on markets, suppliers and partners is boosted. Within cluster settings

this increased amount of information (as well as its sharing among cluster actors) can be managed very well.

On the macro level, the following benefits can be derived from such initiatives:

- Increased employment opportunities for the nation, both in quality (better jobs) and quantity (more jobs)
- Promotion of the development of the national and local economy.
- Inter-country collaborations in which ideas are conceptualised or adapted from other contexts and translated into new businesses, is strengthened.
- The testing of new policies and regulations to ensure their continued relevance and support of the SME sector is made possible.
- Economic development continues to provide resources for infrastructure development and upgrade.

References

- Aikaeli, J. (2007) Improving Competitiveness for SMEs to Harness Available Trade and Investment Opportunities: The Case of Tanzania. Paper presented at the International Conference on SMEs and International Trade, Dar-es-Salaam, 27th – 28th September.
- Amakom, U. (2006) Export Constraints of the Kano Leather Industry: A Study of Industrial Clusters in Nigeria, Nnamdi Azikiwe University, Awka, Nigeria.
- APEC (2006) Best Practices of SME Innovation Policies in APEC, Asia-Pacific Economic Cooperation, 2006
- Bok, D. (2007) Clusters, Development of Human Capital for SME Innovation Policies: Turning Technologies into Business Value, APEC, Singapore, pp. 3-42.
- British Council (2008) Africa Knowledge Transfer Partnerships: Innovation through Collaboration. British Council, Nairobi.
- Condliffe, K., Kebuchi, W., Love, C. & Ruparell, R. (2008) Kenya Coffee: A Cluster Analysis, Microeconomics of Competitiveness, Harvard Business School, Boston.
- Crawford, M. (2003) New Product Management, McGraw-Hill, Boston, MA.
- Elumba, J.D.N. (2008) SMEs/SMIs centred industrialization for inclusive sustainable growth in Africa – How can Japan help? Graduate Institute for Policy Studies (GRIPS) Development Forum.
- Enterprise Development Services (2008) Enterprise Development Services Digest, Vol. 5, p.12
- European Commission (2008) SMEs Keep Local Go International: Opportunities for Transnational Research, European Commission, Brussels.
- Gray, C. (2006) Absorptive capacity, knowledge management and innovation in entrepreneurial small firms, International Journal of Entrepreneurial Behaviour & Research, Vol. 12, no.6, pp.345-360.
- Han, K.S. (2007) Business Counselling, Development of Human Capital for SME Innovation Policies: Turning Technologies into Business Value, APEC, Singapore, pp.339-397.
- Intarakumnerd, P. (2005) Government Mediation and Transformation of Thailand's National Innovation System, Science, Technology and Society, Vol. 10, no.1, pp.87-104.
- IFC (2007) SME Debt Financing in Emerging Markets, Geneva, International Finance Corporation.
- Lin, C.Y. & Chen, M.Y. (2007) Does Innovation Lead to Performance? An Empirical Study of SMEs in Taiwan, Management Research News, Vol. 30, no. 2, pp.115-132.
- Mambula, C.J. & Sawyer, F.E. (2004) Acts of Entrepreneurial Creativity for Business Growth and Survival in a Constrained Economy: The case of a small manufacturing firm, International Journal of Social Economics, Vol. 31, no.1/2, pp.30-55.
- Micro, Small and Medium Enterprises (MSME) Competitiveness Project (2008) MSME Perspectives, December, Issue 2.
- Ministry of Planning and National Development, Kenya (2007) Kenya Vision 2030: A Competitive and Prosperous Kenya, Nairobi, Government Printer.
- Nauwelaers (2003) Innovative Hot Spots in Europe: Policies to promote trans-border clusters of creative activity, Background paper on Methods for Cluster Analysis, European Commission, Brussels.
- Olomi, D. (2006) Policy Dialogue Seminar Paper on Opportunities and Challenges for Rural SMEs Development in Tanzania, Economic and Social Research Foundation (ESRF) Forum, Dar-es-Salaam.
- OSCE (2006) Small and Medium Sized Enterprises: Development and Promotion, Best-Practice Guide for a Positive Business & Investment Climate. Vienna, Organization for Security and Cooperation in Europe, Chapter 7, pp.114-132.
- Pelham, A.M. (2000) Market orientation and other potential influences on performance in SME manufacturing firms, Journal of Small Business Management, Vol.38, no.1, pp.48-67.
- Porter, M. (1998) Clusters and the New Economics of Competition, Harvard Business Review, Nov-Dec, pp.77-90.
- Sheu, R. (2007a) Technology Collaboration, Development of Human Capital for SME Innovation Policies: Turning Technologies into Business Value, APEC, Singapore, pp.43-85.
- Sheu, R. (2007b) Business Incubation, Development of Human Capital for SME Innovation Policies: Turning Technologies into Business Value, APEC, Singapore, pp.86-137.
- Shiu, E. & Walker, D. (2007) New Product Market Visioning in Small Enterprises, Journal of Small Business and Enterprise Development, Vol. 14, no. 1, pp 81-92.
- SME Today (2008a) ICT Enabled SMEs and Business Incubation, Small Medium Enterprises Today: Scaling the Heights of Entrepreneurship, September, no. 19, pp.40, 42.
- SME Today (2008b) Tapping into the Innovation Bug, Small Medium Enterprises Today: Scaling the Heights of Entrepreneurship, Oct, no. 20, pp.14-15
- Tambunan, T. (2007) Entrepreneurship Development: SMEs in Indonesia, Journal of Developmental Entrepreneurship, Vol. 12, no.1, pp.95-118.
- United Nations Conference on Trade and Development (UNCTAD), 2002, Proceedings of the Symposium on Modalities for Financing SMEs in Uganda, United Nations, Geneva.
- World Bank (2004) Project Appraisal Document for A Micro, Small and Medium Enterprise Competitiveness Project for Kenya, Washington, World Bank.
- Wynarczyk, P. (1997) The economic success of UK innovative small firms. Paper presented at the 42nd World Conference on International Council for Small Business, San Francisco, CA.

www.ibwe.at

Das Informationsbüro Wirtschaft und Entwicklung IBWE ist eine Initiative von ICEP im Auftrag des Bundesministeriums für Wirtschaft, Familie und Jugend mit dem Ziel, die strategische Kooperation zwischen Entwicklungszusammenarbeit und Privatwirtschaft zu fördern und die Rahmenbedingungen für das Engagement österreichischer Unternehmen in diesem Bereich zu verbessern.

Das IBWE möchte zu einem wirtschaftlicheren Verständnis von Entwicklungszusammenarbeit beitragen und die Komplementarität von Wirtschaft und Entwicklung stärker im öffentlichen Bewusstsein verankern.