FISCAL AND MONETARY POLICIES: CHALLENGES FOR SMALL AND MEDIUM ENTERPRISES (SMES) DEVELOPMENT IN TANZANIA

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ABSTRACT

The role of the Small and Medium Enterprises (SMEs) as a catalyst for economic growth and development has been well documented in the economic literature and it is recognized that fiscal and monetary policies played a great role to robust such economies in most countries. SMEs depend on features such taxations, spending decision of the government, optimal use of money, level of employment and interest prevailing in the economy. In Tanzania, SMEs enjoy a competitive advantage over large enterprises in servicing dispersed local markets. It presumed to play the leading role in developing the sector on their ability to identify and exploit opportunities for the sector's future rests. The paper based on secondary data with a review on the fiscal and monetary factors in Tanzania that have repercussions on SMEs development as to recount the way forward in improving SMEs development in the economy. The review reveal that fiscal policy in Tanzania is pro-cyclical due to rise in inflation rates that crowd out SMEs investment, it realized that offsetting the fiscal stimulus is necessary to control price because pro-cyclical behavior of fiscal policy affects SMEs development. From the review it observed that although main challenge is fiscal and monetary policies as macroeconomic factors but other challenges are historical determinants, business environments and growth opportunities still challenges SMEs development.

Key Words: *Fiscal and Monetary Policies; Small and Medium Enterprises*

Introduction

The role of the Small and Medium Enterprises (SMEs) as a catalyst for economic growth and development has been well documented in the economic literature (Sanusi, 2003) and it recognized that fiscal and monetary policies played a great role to robust such economies in most countries (Tamara, 2006). For instance, in the Netherlands, SMEs account 98.8% of all private sector companies which contribute 31.6% of Gross Domestic Product (GDP), and employ 55% of total workforce (EIM Business & Policy Research, 1999). In Italy, SMEs contribute to USD35 million in exports and absorb 2.2 million of national labor force (Patrianila, 2003). In Thailand, SMEs are increasingly seen as creator of new jobs (Swierczek & Ha, 2003) while in Vietnam, SMEs employ 64% of industrial workforce. Furthermore, Wilfred (2004) emphasized that in economic and industrial development, a critically important role is played by micro-small and medium enterprises (SMEs) which on average make up 90% of enterprises and account for 50-60% of employment in particular in the developing world. Olomi (2006) on the other hand pointed out that SMEs are critical for supporting livelihoods as well as overall prosperity and progress. The technologies used by SMEs are easier to acquire, transfer and adopt, even for people with little education and training; therefore have greater potential to complement large enterprises through partnerships and subcontracting relationships (URT, 2002). SMEs results to creation of employment at relatively low levels of investment per job; value to local resources; equitable income distribution and better position to meet local needs in small markets which largely depends of such features like taxations, spending decision of the government, optimal use of money, level of employment and interest prevailing in the economy (Lewis and Leith, 2002).

In the Tanzania economy, SMEs enjoy a competitive advantage over large enterprises in servicing dispersed local markets. It presumed to play the leading role in developing the sector on their ability to identify and exploit opportunities for the sector's future rests. It is estimated that about a third of the GDP in Tanzania originates from this sector. The International Finance Company (IFC) estimated that there are approximately 2.7 million enterprises in the country, out of which about 60% are located in urban areas (IFC, 2005). Majority of these (98%) employ less than 5 people and most (66%) have annual turnovers of less than US $2,000. Although SMEs are found in all sectors of the economy, they are dominant in trade (54%) followed by services delivery (34%). Despite the fact that SMEs are important at all levels of development, empirical study shows that at the lower income levels typical for developing countries, the prevalence of SMEs is particularly pronounced (OECD, 2004). Also as the average income increase, the size distribution of firms typically moves upwards, with the share of micro-enterprises going down and that of more sophisticated medium enterprise rising close to 80% of Tanzania's formal are SMEs, each employing between 5 and 99 people.

Over the past fifteen years, Tanzania embarked on an ambitious and long process of these reforms to improve the business environment and to increase economic growth and reduce poverty (Mfaume and Leonard 2004). For example Economic Recovery Plan in 1986 to ensure that Tanzania is committed to a market economy whereby the private sector will take the lead in creating incomes, employment and growth (IGC, 2010). In this case, the private sector will be a producer of public goods and the State will just play a regulatory role to create conducive environment for the sector to take the lead in driving economic growth (IGC, 2010). However, the payoff of this strategy was not realized which necessitated the reforms in the mid 1990'sto ensure sustained improvements in economic performance. The task of reducing poverty and improving the living standards of the Tanzania population economy had not provide or generate the job adequately at the national sector because of low performance in the economy during (1970's-1996's) from 76.1% to 18.8% that bring majority to pierce in the form of Small and medium enterprises (SMEs) business thus expanding the private sector economy those decades was improved from 23.3% to 79.6% (Mfaume and Leonard, 2004). However, a long history of development efforts; SMEs including the informal sector, were perceived rather as a synthetic construction mainly of "social and political" importance especially throughout the 1980's and up to late 1990's mainly due to the fact that private sector development strategies advocated for and implemented in Tanzania were skewed towards to large-scale business, including foreign invested ones;

Despite the on-going reform programmes like; National Development Vision 2025 and National Strategy for Growth and Poverty Reduction (NSRGP/MKUKUTA) in 2010 has embarked on various economic empowerment initiatives so as to turn around the economy through participation of SMEs; For example Sustainable Industrial Development policy (SIDP) 1996/2020; indicates how to promote a strong indigenous private sector, in accessing credit, licensing and training, Provision of technological and economic information on product profiles and small-scale investment opportunities and Establishment of a business advisory service facility; Economic Empowerment Programme, (J.K Fund) 2006/07 through President fund known as J.K empowerment fund; 21 billion shillings distributed throughout the regions of Tanzania; again Small Entrepreneurs Loan Facility (SELF) in 2000 Project was initiated to aim in increasing financing accessibility services mainly in rural areas by issuing concessional loans; through microfinance institutions and empowering them in capacity building to invest their fund professionally and acquire more profit while engaging in entrepreneurship (URT, 2008); this is due to a number of factors, one of which is a persistent culture that has not recognized the value of entrepreneurial initiative as SMEs as part of it in improving the lives of the people. Other factors include complex, bureaucratic and costly legal, regulatory and administrative environment where SMEs are at a greater disadvantage than their counterparts that are larger in size. The high cost of compliance to regulations may discourage the potentiality of SMEs to their businesses, while driving some existing enterprises out of business and those working for them into unemployment. Also due to insufficient competition and inadequate information on the credit markets of Tanzania, banks are discouraged and not willing to lend to SMEs. For instance; it is important to note that almost 50% of bank deposits belong to small and medium depositors but, small and medium enterprises get only 30% of the loans. In this situation SMEs mostly depend on non-institutional sources which are often inadequate and costly. Legislation and regulation on collateral exclude movable assets as mortgages, thereby putting smaller businesses that own more of these assets into a disadvantaged position Vis -à-Vis their larger business counterparts. SMEs have lower demand for business development services such as training, counseling, advising and consultancy due to cost considerations and lack of knowledge about the benefits of external services in improving competitiveness.

Characteristics and Definition of SMEs

The SMEs taxonomy is used to mean micro, small and medium enterprises. It is sometimes referred to as Micro, Small and Medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SMEs which is the one of the main challenges of SMEs (URT, 2002). A number of efforts aim to streamline and harmonize SME definitions (OECD, 2004), although the heterogeneity of SMEs themselves and the nature of the economy they operate in might mean that establishing a global definition is not feasible. Different countries use various measure of size depending on their level of development. The commonly yardstick are total number of employees, total investment and sales turnover. (IFC, 2009), SMEs are commonly defined as registered businesses with less than 250 employees Though the definition still varies from country to country and even from bank to bank. In this respect The EU and a large number of OECD(2002), transition and developing countries set the upper limit of number of employees in the SMEs between 200-250, with a few exceptions such as Japan (300 employees) and the USA (500 employees). At the lower end of the SME sector, a large number of countries define a group, which is a mixture of the self-employed and “micro” enterprises, with less than 10 employees. Irrespective of the level of development of an economy, a significant proportion of micro and, sometimes, small enterprises are found in the informal sector or the shadow economy. Schneider (2003) compared the size of the informal sector in 22 transition (former Soviet Union and Central and Eastern Europe) and 21 OECD economies from 2000-2002 and found that the size of the informal sector amounted to an average of 16.7%, 29.2% and 44.8% of GDP in OECD, Central and Eastern Europe and the former Soviet Union economies, respectively.

Table 1: SME Policy 2002 categories of SME definition as per Tanzania

Type Of Business(Category)	Employees	Capital Investment In Tshs
Micro business	1-4	Up to 5 million
Small business	5-49	Above 5 million to 200million
Medium business	50-99	Above 200 million to 800 million
Large business	100 and above	Above 800 million

Source: URT (2002)

Literature Review

Theoretical Review of SMEs

The issue of fiscal and monetary policies relationships has attracted the attention of researchers in recent years. A great deal of analysis takes the conduct of monetary and fiscal policies as diversion between governments and their respective central banks (Nasir et al. 2010). The question arises why SMEs development depend the linkage between the government and monetary authorities. This is because of inflation, or the value of currency, through changes in monetary policy tools. Sargent and Wallace (1981) established that, a persistent budget deficit in a fiscally dominant regime will cause inflation in the economy. For example when inflation rises, the central bank typically raises interest rates. High inflation makes the costs of goods higher. This has direct proportion in economic effect, if SMEs pre capital income increases contribution of SMEs to GDP and employment increases. Shabbir and Ahmed (1994) on other hand argue that budget deficits have a positive and significant direct effect on inflation, through the formation of price expectations, which is a viable channel of transmission. For example, if the government seeks to deflate AD1 by reducing taxation, or by increasing government spending, then this may lead to a budget deficit. To finance the deficit the government will have to sell debt to the private sector. Attracting individuals and institutions to purchase the debt may require higher interest rates. A rise in interest rates may crowd out private investment and consumption, offsetting the fiscal stimulus is necessary to control price; for instance (Saito and Kim 2009) the cyclical behavior of fiscal policy generally has some effects in the economy; empirical literature reveals that fiscal policy in these developing countries to be pro-cyclical developing countries due to increasing number of advanced and emerging market economies including SMEs have introduced some type of fiscal rule to address deficit bias and pro-cyclicality, which are well-known problems for fiscal policy in contrast to high-income countries where it is usually found to be countercyclical; A degree of policy discretion is in principle desirable, since it provides flexibility to respond promptly to economic shocks. However, unconstrained discretionary choices may involve “wrong” incentives due to political economy factors (e.g., common pool problems, time inconsistency of governments, etc.); poor fiscal management; and off-budget fiscal activities. Further, lags in the formation and implementation of discretionary policy and financing constraints during downturns often lead to pro-cyclical policy In this regard, fiscal rules can help avoid misuse of discretion and promote fiscal discipline by placing durable constraints on fiscal discretion.

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[1] **AD** is the total demand for final goods and services in the economy (Y) at a given time and price level. It is the amount of goods and services in the economy that will be purchased at all possible price levels

In other hand to rescue the situation fiscal policy can be used to stimulate aggregated demand either through tax cuts or rise in plan government spending the government as to control AD as to avoid risk that inflation gap will emerge. In the diagram below AD shifts out beyond potential output (shown by the LRAS curve and lead to rising inflation causing inward shift of SRAS curve where SMEs may lead to increase the price in the market to overcome such interest rates.

Again Altig et al. (2004) and Christiano, Eichenbaum, and Evans (2005) elucidate that to save the monetary shocks response in inflation real wages, nominal interest rates, money growth, output investment, consumption, labor productivity and real profit have been designed in fiscal policy for which an economy model developed indeed to rescue SMEs development. SMEs depend on capital market environment (Olawe and Garwe, 2010). For instance lending decision to finance growth is key indicator in interest rate that might have an effect in exchange rate during importation, this have supported by cancer that a stable exchange rate is very important for SMEs because they would make most of their contracts in more stable currencies exposing themselves to exchange rate risk. Also SMEs have been more likely than larger firms to be denied new loans during a financial crisis. For example, Hallberg (2000) argues that the events of the 1990s in Latin America and East Asia confirm this proposition. More recently, in the aftermath of the global financial crisis, SME Performance Review (EC, 2009) reports anecdotal evidence pointing to insufficient market demand as the prime obstacle faced by SMEs, followed by difficulties in accessing finance. Gonzalez (2007) SMEs use trade credit to supplement the scarcity of bank debt especially on the period of financial growth. According to Demirguc-Kunt et al (2002) also SMEs might be affected due to country's legal system is directly related to usage of bank debt. In case of less established legal system (investor protections, legal rules and the quality of law enforcement), discourage large banking system to provide more opportunities to SMEs to borrow from banks in which this counterparts i.e. government firms receive more financing source such as development banks, moneylenders, public and other sources, but in case of restrictions on banks' ability to hold ownership stakes in their borrowers, trade credit is more utilized to rescue SMEs development

Policies Interdependence Framework and SMEs Development

Poor debt management may force the fiscal authority to change its current course of policy as poor debt structures can suddenly increase the costs of SMEs operation as a result of government to cut planned expenditures in order to meet its debt obligations. Conversely, poor fiscal policy can impact the effectiveness of SMEs development as tax imposed and expenditure policies determine the levels of primary surplus/deficit and the amount of debt that needs to be issued. When this level is excessive, the SMEs will be demanded by financier at higher risk premium and may constrain credit managers from issuing the desired credit instrument at reasonable costs and achieves the targeted credit composition.

Monetary policy can also constrain SMEs development, as exchange rate and interest rate policies can limit SMEs due to the unstable exchange rate. For example, SMEs may perceive constrained issuing long-term, fixed rate, domestic currency loan or be forced to issue such debt at very high cost because, for example, investors expect higher inflation or devaluation in the future due to loose monetary policy stance. Under such circumstances, investors may prefer debt indexed to inflation rates or short-term interest rates, short maturity debt or foreign currency indexed debt. In turn, poor debt structures with large shares in short-term debt, floating rate debt or foreign currency debt can constrain the central bank's willingness to increase interest rate or to depreciate / devalue domestic currency, as this can precipitate a debt crisis. Finally, monetary policy and fiscal policy are interdependent as high and volatile inflation and real interest rates may reduce government revenue by slowing down economic activity of the private sector, and central bank sterilization and quasi-fiscal deficits can directly increase the level of debt. Poor fiscal management and high levels of debt can jeopardize monetary policy objectives as it can increase inflationary expectations and cause real interest rates to rise, and/or the currency to depreciate. From the above arguments there is indispensable consideration need to be integrated to these policies as to accelerate SMEs development as identified by Nasir (2010).

Research Methodology

This paper relied on secondary data by reviewing previous research reports on fiscal and monetary issues, strategies and programs for poverty eradication in Tanzania, financial institutions and other international documents for economy and finance, entrepreneurships, trade and development

Research Findings and Discussion

Fiscal and Monetary Factors challenges

Inflation Rate and Budget Deficit

However Sub-Saharan Africa's recovery from the crisis-induced slowdown is well underway, with growth now back fairly close to the high levels of the mid-2000s. The region's output expanded by 5 percent in 2010 and was projected to grow by some 5½ percent in 2011 Higher commodity prices and that for oil, in particular had been a boon for SMEs development in several countries while adversely affecting many others. In the table below reflecting there is a recent sharp increases in food and fuel prices, inflation was set to be higher last year while remaining in single digits.

But in Tanzania was marked another way for example; Inflation was (13.5 percent at year-end) in 2008 and accelerated in 2012 up to 17.4 percent(may 2012) driven mainly by lagged effects of the spike in international food and fuel prices and more recently by regional food supply shocks. Nonfood inflation has been modest (5.8 percent). Kim and Saito (2009) Solid growth in tax revenues for the past five years and substantial donor support have allowed the government to expand spending rapidly with only limited recourse to domestic financing this was led the SMEs to shrink in cost of operation and the market due to customers incapable to afford prices of SMEs product

Global financial crisis Economic Developments and GDP Performance

However the GDP grew from 7.0 percent in 2010 from 6.0 percent in 2009 economic recovery still weak and uneven, For instance According to the World Economic Outlook (WEO) report of September 2011, global economic recovery is still weak and uneven. The global economy was grown by about 4.0 percent in 2011 from 5.1 percent in 2010. This is spearheaded oil crisis in the Middle East that where SMEs came under stress on their production costs, mainly on account of the depreciation of the shilling exchange rate that kicked-in following the sharp movements in currencies associated oil price to being high with the sovereign debt crisis. This subsequent affect mainly SMEs in export-import oriented businesses in the country, through increased cost of imported raw materials and intermediate goods used in the production cycles.

Government Spending

Government spending is another fiscal tool that is used for policy adjustment. Government expenditure comprises of two distinct strands i.e. current expenditure and development expenditure. Development expenditure is further divided into two strands; Public Sector Development Programme (PSDP) and other development expenditures. SME related development expenditure is largely covered under PSDP through programmes/ projects undertaken by various government ministries and departments. The changes in PSDP expenditure most relevant to SME because it tend to be overlooked or underestimated however the contribution to GDP is counted soaring

Experience from Pakistani showed that the overall size of Public Sector Development Programme (PSDP) for 2010-11 is Rs 663 billion that is 30% above the revised estimates 2009-10 while the PSDP size for SME sector related divisions has decreased (Table 4). Although the above quoted statistics are based on mere budget allocations and do not represent actual expenditure, they correspond to government's fiscal stance for the year. Irrespective of an estimated increase in development expenditure by 25.3% and PSDP by 30% in 2010-11 over the revised estimates of 2009-10, government has cut down its budgeted spending on Food & Agriculture by 9.4%; Livestock & Dairy by 36.7%; Industries & Production by 25.1% and Textile Industry by 45%. It indicates that government has a contractionary fiscal policy stance as far as spending on SME Sector related development projects is concerned. Bringing down development expenditure in these divisions is likely to hamper SMEs’ development and growth.

Loans Interest rate

A broad range of business environment factors are linked to SME performance. For example, Ayyagari et al. (2007) found out that high costs of entry and bureaucratic procedure in accessing credit information sharing are associated with the SME sector; the overall banking structure is another important factor. Shen et al. (2009) also revealed that SMEs are facing high interest rate for instance microfinance institutions(Table 5) (6%) and banks (19%), others thought that banks (10%) and microfinance institutions though by a few respondents, include lack of collateral and conditions to form groups especially for accessing services from microfinance institutions resulted to lack of SMEs transparency and underdeveloped financial systems was the main obstacles, this has been facts from most of banks in Middle East and North Africa. At the same time Beck et al. (2008b) indicated that most commercial banks perceive the SME sector as not profitable due to non performing loans repayment

This has been witnessed by UNCTD (2005), commercial banks are generally biased towards large corporate borrowers because they preferred as the higher in performing of loans repayment and which provide better business plans, more reliable financial information, better chances of success and higher profitability for the banks and have credit ratings. When banks do lend to SMEs, they tend to charge them a premium for assuming risk and apply tougher screening measures, thus driving up costs on all sides. Commercial banks in developing countries and countries with economies in transition often prefer to lend to the government and thus the public sector crowds out the private sector. Lastly, there is also the problem of insider lending and/or cronyism, which diverts finance away from SMEs.

Government borrowing

Increased government borrowing restricts the scope of SME sector in particular and private sector in general to gain from the available credit. Furthermore, rising SME sector's nonperforming loans (NPLs) also encourage risk-averse banks to prefer government borrowing requirements over SME sector's investment. The reporter of This Day of October 25th 2010 showed that during the year ending July 2010, the national debt stock soared by more than $1.185 billion to a staggering $10.1 billion, according to Bank of Tanzania figures. At the end of December 2006, the country's national debt stood at around $7 billion. This means that the national debt has increased by a whopping $3 billion since President Jakaya Kikwete's government came into office towards the end of 2005. Also In the fiscal year (2010/11) the Government borrows Tsh. 2,128.832 billion (2.1 trillion) on commercial terms domestically and from abroad: the government sold new treasury securities (bills and bonds) to pay for the redemption of maturing ones. This typically keeps debt at more or less the same level. The other Tsh. 1.3 trillion shillings was new debt which according to the Minister for Finance paid for infrastructure developments. With an additional Tsh. 1.21 trillion net borrowing on concessional terms (soft loans) the stock of debt is expected to grow by about Tsh. 2.54 trillion or Tsh. 54,300 per Tanzanian, give or take a few shillings, by June 2011. From that aspect it is cleared that banks are more lending government rather than SMEs

Exchange Rate

The SMEs came under stress on their production costs during the fourth quarter of 2009 and first quarter of 2010, mainly on account of the depreciation of the shilling exchange rate that kicked-in following the sharp movements in currencies associated with the sovereign debt crisis. However an average growth rate of about 45.6 percent was recorded during the twelve months to December 2008 and an average of 28.3 percent in 2009. Bank monitors closely the movements in the exchange rate for any deviations from market fundamentals in order to address the situation according to its foreign exchange policy. But still the shilling continuing to depreciate in the past two years, the shilling has come under pressure twice and sharp movement behave continuous (Financial stability report, 2009)

From fiscal and Monetary factors shows that pro-cyclicality of fiscal policy has contributed to macroeconomic imbalances (high inflation, crowding out of private investment especially SMEs development and indefensible current account deficits or unsustainable public debt). Fiscal balance was not financed in a non- inflationary way and was inconsistent with adequate credit for the SMEs sector and a sustainable path of public debt. Public expenditures and revenues are not flexible to adapt to shocks, and the provision of public goods was note adequate to support growth also Aggregate demand policies have generated macroeconomic imbalances and raised the risk of (or led to) balance of payment crisis; monetary/exchange rate policies have not been oriented towards price stability; and public spending has been crowding out SMEs investment. Again Interest rate spreads are high, and private sector credit (percent of GDP) is low, given the economy's size and sophistication. Microfinance is inefficient. Moreover Payment and clearance systems and credit reporting systems are underdeveloped. Small percent of the population has access to formal sector financial services. SMEs face significant limitations in access to finance so legal and regulatory framework burdensome to financial services.

Non Fiscal and Monetary Factors challenges

SMEs Business Environment

Registration, regulation, license fees and the processing time was bureaucratic, time consuming and corrupted which does not to provide SMEs to start and to survive, also budget shock and unsuitable infrastructure, example rural SMEs, scarcity of flexibly skilled labor force seen as disapproval of among SMEs society at large and access to non-labor inputs at competitive prices due to high cost associated in business operation like salaries and wages and encourages them to work without proper registration leading them to end up into shadow economy. As well as Legal requirements in bids for procurement contracts is difficult to SMEs because of government does not assist the unregistered ones where majority of these hiring unreported labor and evading taxes lead them not to participate in bid issued.

SMEs Growth Opportunities

SMEs at their early stages of activity are subject to bankruptcy risks. Survival rates of SMEs are not high particularly after the first year. So, it is essential for SMEs to obtain sufficient financing at their early stages of growth. SMEs, often lacking their own funds, have to resort to borrowing. So, for long-term growth they have to rely on the banking sector to obtain funds for investment purposes as reasonable costs. For Example Daniels (2007) argues that loans repayment rates among SMEs in Africa are sometimes below 50% while costs for maintenance of such loans is higher. Banks offer loans only to resort to lending only to SMEs that meet conditions. As a result, there is a gap in the amount of credit offered by banks and that demanded by SMEs. A sufficiently well functioning infrastructure in terms of providing services such as policing, power is another challenge that weak SME to growth. SMEs cannot be expected to provide basic services privately unlike large enterprises because it would be too expensive.

SME Development and Historical Determinants

Historically businesses located in favorable geographic locations tend to survive and grow.

Furthermore, the fertility of land plays a crucial role as well. Businesses established in favorable environments where mortality rates are low tend to grow and prosper over time. Demographics are also a determining factor. In areas where there are ethnic fractionalizations SMEs are negatively affected since this introduces political instability. As part of demographics religion play a role in the growth and development of SMEs.

Way Forward to SMEs Development in Tanzania

The reviews revealed that, key policies issues was not well addressed that considered as an accelerating factor to enhance the SME development therefore it better for SMEs Sector to be featured on the following aspects

1. Advocacy SMEs Development should adequate addressed into practices: At broader national development and poverty reduction programmes should be encouraged and help SMEs links to play a part effectively in national dialogues that help set the strategic frameworks for development, so that the contribution and the policy and support needs of SMEs are fully recognized as central to growth, employment and poverty reduction.

2. Foster SMEs into broader range from local to global: Policies should encourage SMEs to provide information on markets and standards, advice on strategies, and access to technology and innovation coupled with appropriate financing packages. Promote tools,

such as value chain analysis, which enable SMEs to see what problems and challenges they need to address within and beyond their own borders and what kind of partners they need to help them.

3. Promote policy coherence at regional, national and international level: Work to support whole of government approaches so that trade and investment policies and standard setting are aligned with development co-operation objectives and policies.
4. Maximize the overflow of management skills and knowledge from multi-national enterprises to local SMEs: Spillovers of knowledge and management skills to local firms are one of most critical benefits of foreign direct investment for host countries. Support policy frameworks and multi-national enterprise behavior that facilitate such spillovers and better document real-world cases to increase public understanding of the contribution of foreign direct investment in progression of development.

Conclusions and Recommendations

Government must attempt to ensure that both necessary fiscal and monetary conditions for SMEs development are in place. These conditions include: Political stability and conducive macroeconomic conditions (in the sense of low inflation and a competitive real exchange and interest rates); low levels of import protection (in the sense of an absence of quantitative restrictions and relatively low uniform tariffs) and an efficient legal system. Having noted the importance of fiscal and monetary conditions, it shows that the policy instruments and support measures at national sector and firm-level should be well addressed and should be classified into three broad types.

Enticement Policies

Seek to remove economic distortions created by past government actions discouraging SMEs development and competitiveness. Measures like tax incentives, export incentives and promotion, streamlining of bureaucratic procedures on SME activity and exporting, and reform of public institutions all fall under this heading.

Supply-side policies

To overcome systems collapses which impede collective learning processes and the creation of new competitive advantages by SMEs, these include a variety of support for SMEs including education and training, technology support, industrial and export finance and other forms of services for small firms. Business service market development is also included under this heading. Whereas the second element involves largely non-sector specific measures, the third element.

Bunch Policies

Emphasizes on detailed actions need to improve the competitive of specific bunches of SMEs and its associate partners (financial institutions) in country. Intervention is directed towards acquiring technological capabilities, promoting upgrading and improving links between different parts of the cluster. Policies might range from industry-specific tax measures to the provision of specialized institutional support facilities for a particular cluster. Joint actions (e.g. setting up a specialized training school) between a business association in the cluster and an aid donor or a government agency are also commonplace.

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