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MACROECONOMIC POLICY REFORMS AND SMALL BUSINESS POTENTIAL IN AFRICA

ABSTRACT
A single feature of government development strategy frequently dealt with is the impact of macro-economic policy transformations on the small business sector. This article deals with the impacts of macro-economic policy changes on small businesses in African economies south of the Sahara Desert. The methodology adopted in this paper is a survey of secondary literature. The main components of macro-economic policy reform agendas in this part of the world have typically encompassed reorganization of the import and export sector, financial sector policy shifts, civil sector transformations, and commercial sector decontrols. The effects of import and export sector restructuring on small businesses have been dependent on the degree of involvement of these businesses in international transactions. Deliberate and policy-induced depreciation of the domestic currency has tended to increase the operating expenses and decrease the profitability and performance of small businesses sourcing their production resources outside the country. This is because larger amounts of the domestic currency were now needed to import a given amount of production inputs for use by such small businesses. On the other hand, liberalization of the processes involved in the issuing of foreign currency to small businesses purchasing inputs on foreign markets would profit and promote the development of such businesses as they would now be able to source larger amounts of foreign currency with greater ease to buy productive resources. Nevertheless, they would in addition find themselves in a situation of more intense rivalry and contest from whole, completed commodities entering the country from elsewhere. If the small businesses sourced production resources principally from inside the country of operation, reductions in the value of the domestic currency would have the effect of siphoning out bigger businesses that formerly depended on foreign trade to obtain inputs. Macro-economic policy transformations in the form of lifting government controls on retail prices, together with a cessation of price support systems for necessities, and the trimming down of excess labour force to decrease government's burden of paying salaries to an over-size civil service work force, have combined to dampen the buying power of consumers and curtail the demand for small enterprise commodities. Due to the absence of substitute means of earning a living, the civil servants who were laid off from their jobs have moved “en masse” to join the small enterprise sector as emergent business people. The rising numbers of small businesses serving a depressed market

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have exerted a downward pressure on commodity prices, with the result that many small enterprises have been forced out of business due to increasing losses or declining profits. The majority of small businesses in Africa south of the Sahara belong to the informal sector, and has thus been unable to take advantage of tax incentives that come as part of the package of macro-economic restructuring agendas. Tax incentives in the form of tax cutbacks and tax holidays can only benefit registered and established businesses in the formal sector. Empirical evidence in the majority of studies conducted in Africa point towards a worsening situation of small businesses during and after macro-economic policy transformations. Reverse measures should therefore be implemented to support the development of the small enterprise sector in this part of the world. From a socio-economic perspective, small enterprises have been found to contribute positively to the development of African economies in many ways.

**KEY WORDS:** macro-economic, reform, policy, small enterprises, development

**INTRODUCTION**

A single feature of government development strategy frequently dealt with is the impact of macro-economic policy modifications on the small business sector. The major components of macro-economic policy changes on small businesses in African countries south of the Sahara have a similar structure from one country to the next. The effects of these changes on the small enterprise sector have been either beneficial or inimical to small business development (Steel, 1993). A principal objective of the removal of macro-economic controls under the Economic Structural Adjustment Program (ESAP) in Zimbabwe was to remove the rigidity in existing laws and statutes so as to institute a suitable environment for investment; support, prop up and sustain the growth and expansion of the small enterprise sector; and establish a conducive context for the operation of unregistered businesses outside the formal sector (Ministry of Finance, 1991). The reason behind the removal of economic impediments is to promote the intensity of rivalry and contest amongst small businesses in order to enhance competitiveness and cost-effectiveness, and improve accessibility to consumer goods by lowering domestic prices (MoF, 1991). The major aims of financial sector restructuring as part of macro-economic transformation policy in Zimbabwe were to harness savings and promote cost-effective utilization of investment finances through modifications in earnings rates on capital outlays, and the effective administration and control of the amount of cash in circulation in the economy (Daniels, 1994).

Prominent supporters of the macro-economic restructuring agendas implemented as an integral component of macro-economic policy reform were of the strong opinion that existing and soaring rates of joblessness, unprecedented low rates of economic expansion, and worsening livelihood situations among the population were an immediate or gradual culmination of well-orchestrated state and bureaucratic controls in sub-Saharan African economies (Mumbengegwi, 1992). Elimination of state authority and command over the economic affairs of the country would enhance the operating milieu of small businesses, allow business owners and operators to react swiftly to the up-and-coming market prospects and encourage competition that would advance effectiveness, competence, and output benefits (Mumbengegwi, 1992). Another primary purpose of the macro-economic restructuring agendas in African economies south of the Sahara was to enhance livelihoods, particularly for the most deprived segments of society (GoZ, 1991). This implied raising effective earnings and reducing joblessness, by spawning persistently greater economic expansion.

In Tanzania, the aims of the macro-economic restructuring agenda included raising the production levels of crops grown for domestic consumption and for sale on the international market to earn the country much-needed foreign currency. This would be accomplished by establishing the necessary measures for inducing and enticing agricultural producers to source more agro-inputs, generate more output, and increase their participation in agricultural markets (Aeroe, 1991). Another aim was to raise the level of use by the manufacturing and other economic sectors of the available equipment, machinery and resources. This would be achieved by ranking companies, business units and economic segments in order of preference, and issuing foreign currency in sequence, beginning with those at the top (Aeroe, 1991). The other objective of macro-economic policy reform in Tanzania was to re-establish and re-vitalize the roads, buildings, transport and communications to maintain and sustain production processes that contributed more immediately to the generation of the country’s Gross Domestic Product. The final objective in that country was to reconstruct the national wealth which was experiencing a harsh predicament, the depleted external trade accomplishment, and sluggish growth or declining agriculture output (Aeroe, 1991).

**MATERIALS AND METHODS**

The approach to data collection and analysis consisted of a thorough survey, examination and scrutiny of secondary data sources. These sources included refereed journal articles, research publications, organizational reports, books, and internet web sites.
RESULTS AND DISCUSSION

Macro-economic policy reforms

In Zimbabwe’s Economic Structural Adjustment Programme, the main statutes and laws targeted for deregulation were government determined prices, statutes governing investment, legislation on hiring, firing, remuneration and management of workers, conveyance and shipment legislation and other laws and statutes which were predisposed to discourage development generally, and small business progress and expansion specifically (ZERO, 1991). The major components of macro-economic policy reform in Zimbabwe incorporated deregulation, trade liberalization, macro-economic policies, and social dimensions of adjustment (Robinson, 1991).

Deregulation, in macro-economic policy reform terminology, is the elimination of the numerous limitations and constraints that have repressed and subdued the progress of enterprises, commerce and industry, and in this context small enterprises (Robinson, 1994). The obligation to appraise, evaluate and revise municipal, council or district by-laws that govern the designation of certain areas for the location of particular types of businesses, and the issuing and renewal of licenses, permits and certificates of operation was particularly relevant to small manufacturing businesses in Zimbabwe (Robinson, 1994). Appropriate modification of legal and official procedures that investors are required to go through in order to obtain government authorization and consent to embark on new projects or expand existing ventures, and the processes of acquiring and laying off workers, would simplify entry into, operation of, or exit from the small enterprise sector (Robinson, 1994). Effctual and valuable deregulation is all about the lessening or cutting back on the amount of rigid, authoritarian, dictatorial and domnic obstacles or impediments that dominate, influence, manipulate, limit, confine, curb, harmer and inhibit the access of aspirant emergent business people into the mainstream of the economy (Robinson, 1994).

As part of its efforts to implement deregulation, the government of Zimbabwe set up a Deregulation Project Team (DPT) in 1993. This Team would operate under the auspices of a Deregulation Committee (DC) (Robinson, 1994). Among other things, the DPT was tasked with compiling a data base of rules and regulations that govern the access and development of enterprises in the private sector, and the types of business operations and ventures in government, quasi-government and parastatal sectors (Robinson, 1994). The DPT was also given the responsibility of gathering data on the degree to which the diverse range of pieces of legislation hindered business advancement in both the cities and the countryside. The DPT was tasked with the additional role of providing counsel and advice to the DC for the alteration, modification, change, improvement or correction of the relevant laws as required. Finally, the Deregulation Project Team was supposed to scrutinize, examine, check and keep an eye on the novel and innovative legislation influencing the emergence and development of new businesses in the private sector, and to provide suitable advice to the deregulation committee (Robinson, 1994).

Domestic trade of agricultural commodities was also decontrolled. In the period prior to macro-economic policy reform, agricultural parastatals could only determine the prices at which they could buy or sell agricultural produce after close liaison with the Ministry of Agriculture. But following the deregulation of domestic trade of agricultural commodities, these quasi-government institutions were granted autonomy in establishing agricultural product prices. As a result, dairy product prices went up by over 200%, and an increasing number of dairy producers began to participate more actively in the distribution of milk to households and dairy product manufacturers. Beef, pork, grain and cotton marketing were also deregulated, and the elimination of monopolies dealing in these products benefited consumers through increased supplies at lower retail prices (Robinson, 1994).

The basic mechanisms for implementing macro-economic policy reform in Zimbabwe were an abrupt and astute reduction in the value of the Zimbabwean dollar, liberalization of the issuing of foreign currency to commercial and merchant banks, decontrol of external trade, elimination of government-determined pricing, establishment of programs for encouragement and support of imports, reductions in government expenditure, incorporating a swift movement towards significant job lay-offs, elimination of input and price support systems on quasi-government institutions, execution of cost recovery procedures particularly in health and education sectors, restrictions on the amount of cash in circulation so as to control the general price level, and removal of Central Bank influences on rates of interest on capital investments (Dawson, 1992).

Impacts of macro-economic policy reforms on small businesses

The immediate and medium range impacts of macro-economic policy reforms on small businesses are obscure and the different perspectives could be as numerous as the analysts themselves. Some small business development analysts contend that trade liberalization may lead to an influx of similar commodities into the country and this may
Another category of writers uphold the view that macro-economic policy reforms such as the devaluation of the domestic currency would sustain the market base of local businesses by making imports more expensive, thus giving locally produced goods a competitive edge price-wise. A third category of small enterprise development analysts subscribe to the perspective that the direction of effects of macro-economic policy reform on small scale businesses is reliant on the degree to which small-scale enterprises are sourcing productive resources on the international market, and the relative significance of their participation in national and foreign markets when they are selling the final products. The last group of small enterprise and macro-economic reform analysts are of the opinion that the sum total of the reforms result in an overwhelming demand reduction of small enterprise products, which poses a formidable bottleneck to their development potential.

**Reorganization of the international trade sector**

Macro-economic policy reforms by means of loosening up rules and regulations governing the movement or flow of finished goods into the country are likely to have had a detrimental impact on small businesses manufacturing similar products in Zimbabwe, but this move could have been advantageous to individuals and households consuming such products (Robinson, 1991). Tariff and non-tariff barriers to trade can protect domestic industries from competition with imported goods, but all too often this protectionism is unjustified on economic efficiency considerations, especially if the domestic industries being protected produce shoddy, sub-standard products at high production costs, which will result in the consumers paying exorbitant price premiums on low quality products. If this was the case before trade liberalization, then the formerly protected industries could have suffered as a result of import decontrols since consumers would now opt for the newly available products crossing the country’s borders from elsewhere in the world. In contrast, domestic customers might have been better off because external sector reform would have increased their access to the lowly-priced products of a superior quality (Robinson, 1991).

In Nigeria the fundamental conviction was that macro-economic policy reforms would be advantageous to small businesses (Dawson, 1992). However, it was discovered that macro-economic policy reform did not benefit this sector of the economy as originally anticipated. The original assumption had been that domestic small businesses in Nigeria played only a very peripheral role on the international market (Dawson, 1992). The assumed beneficiation would then arise through a sharp devaluation of the Naira since this was supposed to push up the price of imported products and so shield domestic small businesses from competition with goods from other countries. Contrary to popular opinion however, it turned out that the majority of small businesses in Nigeria were purchasing their inputs on the international market (Dawson, 1992). Since one of the effects of macro-economic policy reform was to push up the price of imported goods, regardless of whether they were raw materials, intermediate goods or finished products, the small business sector in Nigeria suffered tremendously. This predicament arose because the introduction of economic reforms pushed up the costs of production due to the heavy reliance of Nigerian small businesses on external markets to supply the resources of production (Dawson, 1992). The resultant declining profits, dwindling returns, and soaring economic losses caused many small businesses to close, discouraged new investment in this sector and led to a curtailment in the creation of additional jobs as entrepreneurs, managers or employees. Decontrol of the external trade sector has also led to an incursion of final commodities from other countries which erode the market share of domestic manufactured small enterprise goods, particularly in the apparel sector.

In Zimbabwe the effects of international sector reorganization on local small enterprises have been determined by the degree of involvement of such enterprises in foreign markets (Mumbengegwi, 1993; Daniels, 1994). Short range impacts of international trade reorganization on the small business sector in Zimbabwe were to raise the quantities of imports and expose domestic products to outside rivalry and contest for a share of the consumers’ market. In situations where small businesses sourced productive resources from foreign countries to manufacture goods for local consumers, the small businesses gained from increased availability of foreign currency to purchase foreign inputs (Mumbengegwi, 1993). However, they suffered from the adverse impacts of heightened market share rivalry and contest from externally manufactured final goods (Mumbengegwi, 1993). In situations where small enterprises utilized local resources to manufacture goods for the external market, expansion of world demand, approaches and tactics for increasing market share and establishment of mechanisms to motivate, induce and entice existing and prospective small business entrepreneurs to undertake greater investment, influenced the rapidity of expansion of the small enterprise sector (Muzari, 2011). In cases where small businesses sourced their production resources locally, they were...
better off following devaluation of the local currency since their large-scale competitors were siphoned out of production due to their heavy dependence on imported inputs, which were now more expensive. Studies conducted in Zimbabwe have indicated that the number of small scale enterprises which sourced materials and other resources from the import market was negligible, and this explains their enhanced operational status following devaluation of the Zimbabwean dollar (Muzari, 2011). Survey evidence also indicate that heightened rivalry and contest from finished commodities of foreign origin affected only a minute proportion of small businesses in Zimbabwe (Muzari, 2011; Daniels, 1994). Thus the overall conclusion is that trade liberalization was on the whole beneficial to small businesses in Zimbabwe.

Some analysts who contend that trade liberalization lowers the level of shielding of domestic industries from the threats of rivalry and contest from foreign products have also found that small enterprises have fared better in this contest as compared to bigger businesses (Steel, 1993). Small businesses are less rigid and highly supple and elastic when it comes to altering and fine-tuning themselves and adapting to new economic conditions, in contrast to the bulky large-scale enterprises under similar conditions. This finding is characteristic of countries like Senegal, Mali and Ghana where the removal of controls governing the movement of goods crossing their borders from foreign countries summarily annihilated the big industries which previously depended on macro-economic protectionism for their survival. Small businesses, on the other hand, managed to fine-tune their activities and were more innovative in exploiting new investment opportunities and producing more suitable commodities in response to emerging trends in demand and consumer preferences (Steel, 1993).

The constant devaluation of the Ghanaian monetary denomination as a macro-economic policy reform initiative pushed up the price of imported raw materials, worsening the acute resource constraints already confronting domestic small businesses sourcing inputs on the international market (Osei et al., 1993). This was aggravated by a general restraint on loan disbursements to the business sector to control the general level and stability of commodity prices in the country. As a result many small businesses, particularly those who were already struggling to survive, began to face insurmountable viability problems. Trade liberalization in Ghana opened up the domestic small business sector to threats of external competition from finished products, forcing a majority of them to drastically and permanently halt operations (Osei et al., 1993). Fiscal and monetary reform and public sector restructuring

As an integral component of macro-economic policy reform in Zimbabwe, governmental command and management of cash and currency issues and operations was gradually loosened up, allowing the forces of supply and demand to take up an increasingly decisive role in the determination of interest rates. This move exerted an upward pressure on interest rates on borrowed funds, pushing up their levels and making credit more expensive and relatively inaccessible to many potential borrowers. Limited access to credit was a formidable inhibitory factor to the effective development of small businesses which have traditionally been faced with acute shortages of finance for acquisition of new infrastructure, equipment, raw materials and other resources of production (Robinson, 1991).

In Ghana, Mali, Nigeria and Zimbabwe, the rising numbers of people falling victim to job lay-offs as a move by government to lessen the burden of sustaining payment of salaries to an over-size civil service work force, compelled numerous affected former civil servants to seek economic and habitat refuge in their original homes in the countryside (Muzari, 2011; ITZ, 1994; Osei et al., 1993; Dawson, 1992; Kessons and Lessard, 1993). In the past, prior to being laid off from their jobs, many of these individuals would set aside part of the cash from their regular earnings and send it to their families and relatives residing in the countryside for their sustenance and upkeep (Muzari, 2011; ITZ, 1994; Osei et al., 1993; Dawson, 1992; Kessons and Lessard, 1993). Some of this money would eventually find its way to the coffers of rural small business entrepreneurs whose products had been purchased by the initial recipients of the remitted earnings. Now that most of the income earners had been retrenched and left the towns and cities for the countryside, this source of demand for rural industry goods and services had essentially been eroded (Muzari, 2011; ITZ, 1994; Osei et al., 1993; Dawson, 1992; Kessons and Lessard, 1993). Urban small businesses in Zimbabwe, Mali, Nigeria and Ghana were also affected negatively because the former civil servants who patronized them had lost their jobs as a result of fiscal reform. Due to a scarcity in start-up capital, there was also a proliferation of easy-entry, low-capital urban small businesses that were started by former civil servants who were now out of formal employment. These small businesses found it hard to survive even in the short term because of intense competition amongst themselves and also because they were serving the same target market whose buying power was rapidly waning away (Muzari,
2011; ITZ, 1994; Osei et al., 1993; Dawson, 1992; Kessons and Lessard, 1993).

The slashing of company tax rates in Zimbabwe as part of fiscal and monetary reform was aimed at enticing and luring potential investors, including small-scale entrepreneurs (Daniels, 1994). The majority of small businesses in Zimbabwe belong to the informal sector, and has thus been unable to take advantage of tax incentives that come as part of the package of macro-economic restructuring agendas. Tax incentives in the form of tax cuts and tax holidays could only benefit registered and established businesses in the formal sector. Furthermore, approximate capital gains calculations have shown that over two-thirds of the informal businesses do not realize financial returns that are large enough to warrant tax deductions, and hence cannot exploit the opportunities arising from corporate tax cuts (Daniels, 1994).

**Domestic deregulation and liberalization of internal trade**

In Nigeria the relaxing of price controls, together with the elimination of price support systems on necessities or non-luxurious commodities and job lay-offs, resulted in the weakening and waning away of consumers’ ability to access goods on the local market, and this was especially prevalent among the poorer segments of society (Dawson, 1992). Poorer segments of society have historically been the most vibrant customers of small industry goods and services. The curtailing of their buying power has eroded the market base of small enterprises in Nigeria (Dawson, 1992). The advantages accruing to small-scale farmers as a result of decontrolling agricultural markets were overshadowed by the resultant exorbitant production expenses as the deregulation measures also allowed prices of inorganic fertilizers to soar (Dawson, 1992).

In Zimbabwe, the fundamental conviction had been that the loosening up of the government grip on prices would most likely raise production expenses and curtail access if the commodity was a resource of production. (Robinson, 1991). Conversely, if the commodity was a final product, small businesses would benefit from greater profits arising from increased prices. The liberalization of agricultural markets seems to have benefited agro-based post-harvest handlers and manufacturers (Robinson, 1991). For example, the elimination of monopoly parastatals in agriculture has allowed entry of a multitude of new small enterprises in the business of marketing and processing of beef, pork, dairy, cotton and other agricultural products (Robinson, 1994). Much to the contrary, the loosening up of the government grip on commodity prices prejudiced many small businesses as they now faced challenges in sourcing expensive inputs at inflated prices (Helmsing and Kolstee, 1993). Furthermore, the high cost of borrowed funds and the autonomy awarded to the banking sector (which has traditionally been biased against emergent small enterprises) in screening loan applicants tended to intensify the already acute financial problems facing many small businesses (Helmsing and Kolstee, 1993).

The general effects of the loosening up of the government grip on prices in Ghana and Tanzania have been to exert an upward pressure on prices, erode the buying power of the populace and curtail their spending power on non-essentials and non-basic goods. This has adversely affected the demand for small business products which do not fall in the categories of food, non-essential or non-basic goods sub-sectors (Dawson, 1991).

**Overall effects of macro-economic policy reforms**

Many of the macro-economic reform programs in sub-Saharan Africa have been implemented at the instigation and recommendation of the International Monetary Fund and the Washington-based International Bank for Reconstruction and Development (IBRD) (Muzari and Gwangwava, 2014). In the immediate run, these programs have had a detrimental impact on small businesses, by curtailing consumer expenditure on small enterprise goods and services and restricting access to resources of production (Muzari and Gwangwava, 2014). The decontrol of the import and export sector, the loosening up of the government grip on prices, and the elevation of interest rates, have combined to make the development of small businesses in sub-Saharan Africa more difficult (Muzari and Gwangwava, 2014). Decontrol of agricultural markets has had two opposing effects. On the one hand, the removal of barriers to entry (which has opened up markets to a wide diversity of agro-based small businesses), and higher producer prices, have favoured the emergence and expansion of agro-based small businesses. On the other hand, soaring prices of agro-inputs have militated against their emergence and expansion. The overall effect is the subject of an on-going empirical debate (Muzari and Gwangwava, 2014).

**CONCLUSION**

From the preceding discussion, it is clear that the execution of macro-economic policy reforms has resulted in a three-dimensional impact on the fate of small businesses in Africa south of the Sahara. These dimensions are either positive, or negative, or neutral impacts. The overall recommendation is for countries to treat impacts of macro-economic policy reforms on an industry by industry and commodity
by commodity basis to determine the direction of the effects in each case. Based on the findings, the advice is to take measures to reverse negative impacts, and capitalize on the positive impacts and opportunities arising from or created by macro-economic policy reform initiatives. The reasons for neutral impacts should be scrutinized, especially in situations where small businesses failed to take advantage of opportunities and incentives created by macro-economic policy reforms, with the aim of taking corrective action.

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