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"Euro-Med cooperation on SME clustering: Who, Where and What"

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Industrial Districts and Local Clusters:
An Alternative Pattern of Development and Economic Integration in the Mediterranean

Abstract

SME cluster is a form of industrial organization which may be competitive at international level. Economists have analysed SME clusters in diverse regions, identifying types of clusters, technological dynamism and external linkages. Policies prescriptions have been put forward. Collective, cumulative and customer oriented measures for SME cluster development are highlighted.

SMEs in Southern Mediterranean countries constitute the large part of the private sector and the main employment source. But their contribution to economic growth is modest. Numerous constraints and weakness limit SME development. Nevertheless some SME clusters are dynamics and they may represent an important target for the industrial policy.

Some researches on SME in Egypt are commented as regards the identification of potential cluster through a geo-economic analysis, factors of cluster development, identification of types of entrepreneurs able to create interfirm linkages and to implement technological dynamism, strategies of flexible production of SME clusters. However, the lack of information and analysis on SME clusters in Southern Mediterranean countries is evident.

So far industrial policies in Southern Mediterranean countries have not considered the potentialities of SME clustering. The major part of policies regarded SMEs as a social buffer for sustaining employment and surviving strategies. Scarce organization and coordination and bad designed measures are limiting the public action. The measures for SME development involve only 5% of the SMEs. However some programmes, like a USAID project in Alexandria, are effective and lessons may be drawn.

In the final chapters we propose a selective approach for the international cooperation on SME clustering that is based on analysing who, where and what carrying out as proactive measures. Last proposals regards the launching of a new Euro-Med cooperation policy that encompass a research programme, new soft loans and technological aid for SME clusters, decentralised cooperation for Euro-Med territorial partnerships, cooperation on labour mobility and SME cluster internationalisation.

Contents

1. SME CLUSTERS IN DEVELOPING COUNTRIES

In the last years a new interest on small and medium sized enterprises (SMEs) clustering has spread from developed to developing countries. Success SME clustering stories in Italy, Germany, Spain and other countries have pushed economists to discover similar cases in developing countries (DCs). SME clusters can be an important form of industrialization in DCs to address social and economic objectives. They can be competitive in the global economy, generating and spreading innovations, creating employment, distributing broad base income and welfare.

External economies, agglomeration economies, economies of scale and of specialization, collective efficiency and institutions are at the core of the economic theoretical framework explaining the increasing returns and competitive power of SMEs clustering. Marshall skewed the first representation of SME clustering with the concept of industrial district, which recently has been enriched by the analysis of European economists. The Marshall's concept considers industrial district as a form of industrial organization that reaches economies of scale through the networking – deepening and widening of the division of labour through groups of enterprises - and the exploitation of external economies of agglomeration. The essence of a Marschallian industrial district are constituted by four features: interfirm dependence, structures of sociability, "local industrial atmosphere" and "institutional thichness" (Amin, 1994).

Applying this concept to Italian location of SMEs, Italian economists discovered the importance of local social and cultural trust linkages, formal and informal local institutions, and history (Beccattini, 1990; Brusco, 1989). In this sense, path dependency development and learning cumulative processes are relevant in the creation of competitive SME clusters. These are elements emphasised also by the neo-institutional economics when it describes the effects of different economic and institutional systems on growth (North, 1994). To sum up,

> *"the main attributes of industrial districts are: geographical proximity, sectoral specialization, predominance of SMEs, close interfirm collaboration, interfirm competition based on innovation rather than lowering wages, a socio-cultural identity which facilitates trust relations between firms and between employers and skilled workers, active self-help organizations, and active regional and municipal government which strengthens the innovative capacity of local industry" (Schmitz and Musyck, 1994).*

Given the model of industrial districts as a theoretical epitome, economists studying SMEs clustering in DCs propose a more general approach where they use a simpler definition of SME clusters as sectoral and spatial concentrations of firms.

> *"Using this wider category makes sense when studying real-life situations where it would be difficult to isolate such elements as the 'industrial atmosphere' that economic agents breathed in Lancashire or are still breathing in Prato or Biella" (Volpi, 2000).*

The great variations of clustering in DCs are studied and codified according some basic factors which indicate the different competitive degrees. Case studies have been analysed for instance in Pakistan (surgical instrument manufacture in Sialkot), in India (light-engineering industry in Ludhiana and cotton knitwear industry in Tiruppur), in Indonesia (rural roof-tile manufacture in Karanggeneng), in Mexico (footwear industry in Leon and Guadalajara), in Peru (garment manufacture in Lima).

Furthermore, the concept of collective efficiency defined as the competitive advantage derived from local external economies and joint action has been put forward (Schmitz and Nadvi, 1999). Where local external economies arise from proximity and imply a passive economic behaviours of small entrepreneurs, while joint action represents an active economic behaviours of small enterprise groups.

It is important to remember that the economic and social setting of SMEs in developing and South Mediterranean countries is very different from the European one. The large part of SMEs in Southern Mediterranean countries is made up by micro and small enterprises which have a social "buffer" function for the surviving strategies of poor people. It is very hard to imagine an industrial policy for these "SMEs". However some economists point out that emerging SME clusters exist and they may constitute an important target for the private sector development policy in Southern Mediterranean countries.

Until now economists have searched to define different types of SME clusters in order to fix the analysis according to some basic factors: the general level of technology of firms in the cluster, the extensiveness of change of the cluster over time and the degree of coordination and networking among firms located within the cluster. The aim is to identify the competitive capacity of the different clusters, and to propose industrial policies according the different time stages and national and regional institutional features of the clusters.

UNCTAD (1998) classified cluster in five types: informal, organized, innovative clusters, technology parks and incubators, and export processing zones. However, if one considers the spontaneous dynamics, the more important SME clusters divide in DCs is between incipient (informal) and more advanced (organized and innovative) types.

Informal clusters are the predominant form existing in DCs and they are characterized by micro and small enterprises with low technological level, informal employees with low skills, no continues learning, low coordination and networking between firms, little trust and little information sharing, poor infrastructure, weak backward, horizontal and forward linkages, no exports. The majority of the micro enterprises doesn't survive to trade liberalization. Few groups of firms that upgrade their skills and technologies are able to overcoming structural adjustment programmes (Powell, 1995).

Table 1. Informal clusters

Country	Cluster's location	Specialization	Type*
Bolivia	Santa Cruz de la Sierra	Clothing	Micro and small enterprise networks
Burkina Faso	Ouagadougou	Motor vehicle repair; tailoring; electrical repair; blacksmithing; grain milling	Informal clusters
Ghana	Kumasi	Vehicle repair; spare parts manufacturing	Informal clusters
Honduras	San Pedro Sula	Forniture; metalworking; food processing (sauces)	Micro and small enterprise networks
Indonesia	Central Java	Palm sugar; vermicelli; roof tiles	Small scale and cottage industry
Nigeria	Awka; Zaria; Lagos	Blacksmithing; leather works; woodwork	Informal clusters
Uganda	Katwe and Jinja Iganga	Metalworking; food processing (maize milling)	Formal clusters

Source: UNCTAD secretariat

* As given by the researchers who studied the clusters

Organized clusters may count on infrastructure facilities and in some cases on institutional services. There are small and medium enterprises (some with over 200 employees) that upgrade their technological and export capabilities. Backward and horizontal linkage with specialized suppliers are relevant for learning processes and application of incremental innovations. Interfirm cooperation

and networking are diffused. In some cases collective actions are realized for improving production quality, introducing innovative production processes, and widening export markets.

Innovative clusters exist also in DCs (f.i. the software cluster in Bangalore in India and the ceramic tiles clusters in Santa Catarina in Brazil). Those clusters

> *have the capacity to keep pace in world competition ... to target niches markets, to improve quality, to use multi-task production technologies and to introduce rapid changes in the organization of production (UNCTAD, 1998).*

Table 2. Organized clusters

Country	Cluster	Specialization	N. of firms	N. of suppliers	Output exported %	Share of world exports %	Workers	Other salient data
Brazil	Sinos Valley	Shoes (leather)	500	1,000	70	12.3 (1990)	153,000	Exports: US$ 900 million (1992)
India	Tiruppur	Knitwear (cotton)	1,500 (1985)		Yes		40,000 (1985)	
Nigeria	Nnewi	Auto spare parts (metal rubber)	17		Yes		2,256 (1991)	80% of Nigeria auto spare parts
Pakistan	Sialkot (Punjab)	Surgical instruments	300	1,500	90	20 (1996)		Second world exporter US$ 130 million (1993)

Source: Compiled by the UNCTAD secretariat from various sources

Recently a new theoretical proposal has been put forward in order to pass from a static analysis on models of SME clusters to a dynamic analysis on trajectories of SME clusters. Here the fundamental question is understanding how SME clusters may evolve reaching more advanced stages of international competitiveness. The technological dynamism of SME clusters is of special relevance. Bell and Albu (1999) propose to analyse the clusters of firms in the framework of the technology systems or knowledge systems. The study of innovation dynamism emphasizes

> *the dual structure of internal change-generating resources (internally organized capabilities) and links to external sources of technology – both other firms and more specialized knowledge-generating organizations like universities or R&D institutes. (...) If future research on industrial cluster can combine a focus on the interfirm networked structures and relationships, with an exploration of the change-generating resources and learning processes occurring within technology-using firms and cluster institutions, then we may move closer to understanding the basis of technological dynamism and the sustainability of competitiveness in clusters. (Bell and Albu, 1999).*

The perspective of technological dynamism for new researches on SME cluster is related to another question regarding the external linkages of clusters. Learning processes generated and diffused through linkages with foreign manufacturers are important for the upgrading of SME clusters, as well as trade networks for incipient clusters that try to insert their products in external markets. From the other side the insertion into global buyer-driven chains – while raising competence in production – may block improvement in design and marketing (Schmitz and Nadvi, 1999).

Finally, a third track for future research in SME clustering is indicated in the comparisons with other types of production organization and between successful and less successful clusters. Here what is relevant is the transformation process of SME clusters. Emerging medium sized enterprise may transform the organizational characteristics of the cluster. External competitiveness pressures

may recombine interfirm linkages. Information technologies and growing external linkages may reduce the importance of external economies of agglomeration and change the nature of SME clusters.

Some policy prescriptions arise from the analysis of SME clustering cases in developing countries. Here we present an overview of the main normative suggestions on the promotion of SMEs clustering in developing countries.

The Commission on Enterprise, Business Facilitation and Development Expert Meeting on Clustering and Networking for SME Development of UNCTAD put forward an issues paper with lessons for promoting SME clustering (UNCTAD, 1998). According to those lessons, the main strategic actions should be tailored to local conditions and based on a participatory, demand-driven, bottom-up approach. Three main actions are proposed:

> *"a) implementing programmes targeting inter-firm networks, supply chains and sectoral clusters targeting knowledge as a major objective;*
>
> *b) enhancing the role for intermediary institutions – such as development and promotion agencies – with the private sector taking the lead;*
>
> *c) stimulating the emergence of horizontal institutional networks through regional alliances, partnerships, and concertation processes." (UNCTAD, 1998).*

Another overlapping approach for supporting SME cluster is proposed by Humphrey and Schmitz (1996). Their "Triple C" approach is collective-cumulative-customer oriented. The policy target should not be a single firm but a collectivity of enterprises. In this sense incentives and services should stimulate the upgrading of SMEs clustering considered as a self-organization and production system. It has two advantages:

> *"It has lower transaction costs than assistance to individual enterprises; it helps generate relationships between enterprises, improving their efficiency and maximizing the potential of the group through the development of mutual learning".*

SMEs competitiveness is a dynamic objective focussed on the technological capabilities development and in the formation of knowledge systems (Bell and Albu, 1999). Those assets are cumulative processes that requires continuous improvements. They should be attained by the dynamic interplay of SME clustering and through institutional proactive measures.

Incentives and services should be customer oriented according to the local and specific demands of SME clusters and not supply pushed by supporting institutions. Demand driven measures should favour in the medium term the creation of markets and sustainable institutions.

Romijn (1998) adds to the Triple C approach other policy recommendations which constitute a "Nine Fold C" approach to supporting SMEs. The others C are:

> *Capability focus on enhancing SME knowledge and skills about how to choose, use and improve technology;*
>
> *Context, that is the presence of growing and technologically dynamic markets that constantly provide new potential opportunities for technological upgrading of SME;*
>
> *Complementarity of the assistance to SMEs according to the real demand and time appropriateness;*
>
> *Concentration of research and assistance on commodity-specific sub sectors, by giving considerable weight to the study of interactions between firms of different sizes and at different stages in the supply chain;*
>
> *Competence and credibility of the supportive measures and institutions overcoming inadequate professional and educational background of the assistance personnel;*

Coordination of assistance to SMEs, introducing "one window" delivery and reducing duplications, lack of transparency and inefficiencies;

Carrot-and-stick approach combining potential rewards that motivate participants with sanctions against free riders and opportunistic behaviours.

2. SME IN MEDITERRANEAN COUNTRIES

Small enterprise development is internationally acknowledged as an important aim of economic policy. These enterprises are important because they create jobs and spread income, both in industrial countries and in developing ones. Therefore, specially the social aspects of the importance of SMEs are the most emphasised ones. However, some analyses on new industrial organisations (for instance the networks of enterprises – OCDE, 1992) and on flexible specialisation (Piore and Sable, 1982), and the Italian experience in industrial districts (Beccattini, 1987), highlight the importance of SME clusters in economic terms of productive growth contribution, market formation and expansion, technological development and creation of industrial competitive systems. Development of local SME clusters is a strong argument also for the industrial policies of Southern Mediterranean countries. It may give a relevant contribution to the growth of domestic markets as well as to the integration in the international markets.

Our starting point is the Mediterranean world of small enterprises[1]. Here, starting in the 80ies, a process of market liberalisation began with scope for private initiatives. Gradually, an important cultural and political change took place. The most relevant openings concerned foreign investments and, recently, involved also trade liberalisation, mainly as a consequence of Association Agreements with the EU for the creation of a Euro-Mediterranean free trade area. However, as we will show subsequently, there still is no effective policy for SME development, despite rhetorical announcements and a series of financial and technical programs in favour of small enterprises.

SMEs represent 90-98% of all enterprises[2], and they are the principal occupational basin of the active population in Southern Mediterranean countries. However, if we consider the SME contribution in terms of productive and competitive growth, their scarce relevance is evident. For instance, in Egypt SMEs contribute with only 10% of private investments to capital formation (Ministry of Economy, 1998). Generally, SMEs in Southern Mediterranean countries are poor, weak and fragile. So, it is necessary to consider the problems affecting SMEs and to distinguish their characteristics in order to identify possible dynamic trajectories of SME clusters.

Limitations intrinsic to the small size of enterprises are well known, mainly: low capitalisation and limited access to the capital market, poor productive specialisation and technological backwardness, management and marketing inefficiency and, last but not least, the close ties to the personal and family affairs of the owners.

Actually, SMEs have to face three sets of competitive problems (Lall, 2000): disadvantages of small size per se that inhibit the exploitation of scale economies; segmented factor markets (missing markets and asymmetry) which reduce their access to resources; policies and institutions that can be biased against SMEs.

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[1] For SME analysis in the Mediterranean see also Di Pietro G. and Gomez y Paloma S. (1998), and Bianchi P. (1996).

[2] Term SME is used in its wide connotation and for practical purposes tied to the availability of data. It comprises micro-enterprises (employing from 1 to 5 individuals), small enterprises (from 5 to 14) and medium size enterprises (from 15 to 39). This definition is used by the Egyptian Ministry of Economy and corresponds to the data collected by the Tunisian National Institute of Statistics. It is also fairly similar to the method used in the research in other Southern Mediterranean countries.

Economic literature and analyses of the countries we are studying show an important series of distortions and limitations to the SMEs development. Negative effects ensue when economic policies create distortions in the market functioning in favour of large enterprises and foreign companies. Measures to attract direct foreign investments have not had significant effects on the development of local productive systems. Normally, foreign industries operate in areas separated from the local economic context; as they are unable to establish relations with the local SMEs they prefer to keep in contact with foreign supply sources and markets. On the other hand, local SMEs lack the necessary productive capacity to meet the requests of foreign companies.

SMEs do not "exist", given the excessive costs of formalisation. They have no access to credit and have to rely on self-financing or on the informal market which means paying higher interest rates. Besides, SMEs have greater difficulties in getting access to existing facilitations and to the recently created industrial areas. Further, they have no access to technological and market development opportunities.

In the case of segmented factor markets, limited credit access is traditionally stressed as the main problem affecting the growth of SMEs. The following table summarizes the credit gap for SMEs in the Arab world.

Table 3. Credit gap for SMEs in the Arab World

Country	**Outreach gap** (number of borrowers)	Micro-financing gap (mill. of US$)
Egypt	1,475,000	371
Jordan	145,000	54
Lebanon	36,000	37
Morocco	485,000	194
West Bank & Gaza	33,000	17
Yemen	649,000	97

Source: Brandsma and Chaouali, 1999.

Another problem that SMEs are facing is the shortage of trained technicians and mid-level managers. The explanation lies in the preference of young people an parents for high-school diplomas and university degrees, while professional training is considered as a stigma.

> *"As for the State it has, perhaps unwittingly, reinforced this attitude by maintaining the policy of reserving professional training to those who fail at any stage in the 'classical' educational path leading up to a university degree" (Chourou, 2001).*

This shortage may have important negative consequences in the technological learning process of SMEs. Consequently their competitive stance is limited and they cannot enter in new markets.

In Southern Mediterranean countries micro enterprises play an important role in absorbing the labour forces excluded from the formal market. However, it should be kept in mind that new small enterprises emerged also during economic growth phases. This goes to show that SMEs do not only have a social "buffer" function in facing economic crisis, but that they contribute also to increasing national productivity and competitiveness.

Therefore it is essential to try to distinguish potentially dynamic SMEs from those mainly tied to daily survival strategies of poor families. A taxonomy of SMEs comprises: SMEs in traditional production areas which have a social function in alleviating poverty; market-niche-finding SMEs which can contribute to the development of domestic markets and long term growth; avant-gard SMEs which are the more relevant for private sector development and export oriented growth (El-Gamal, El-Megharbel, Inanoglu, 2000).

Unfortunately there are no statistical surveys and analyses, but only data on case studies which confirm the presence of small dynamic enterprises in Southern Mediterranean countries[3]. If we consider that the commercial sector is the one that absorbs most of the "poor" micro enterprises, we thought it preferable to concentrate our attention on the manufacturing sectors, working out a geo-economic analysis of the Egyptian case, which will be synthesised and commented further on. Other researches on clusters in Egypt are illustrated in the following chapter. In effect, the analysis should be concentrated in discovering SME cluster as a form of competitive industrial organization (in the sense of informal, organized or innovative cluster highlighted by UNCTAD), since the preceding taxonomy covers only individual firms, failing in appreciating the potentialities of the networking between SMEs.

The private sector development policy of Southern Mediterranean countries should not restrict themselves to merely sustain foreign enterprises and large national companies. Dynamic SME clusters should become central to industrial development policies. Clustering and self-help organisations will enable SMEs to overcome problems of resource access and to elaborate their own structure in order to develop productivity and competitive capacity.

> *"Small Egyptian enterprises, considered separately, are relatively weak, isolated and therefore vulnerable. It is on the local level that they can develop survival strategies and become prosperous. It is, again, on a local level, that collective type institutions can be created or strengthened so as to facilitate a better access to products, markets, training and technological innovation" (Sisken Daniel, 1996).*

It is important to stress that cases of specialisation exist within and between SMEs, and also cases of sub-contracting relations with large enterprises. According to the Egyptian Ministry of Economy, 25% of the large companies sub-contract other enterprises (Ministry of Economy, 1998). In a field inquiry in Cairo, advanced forms of division of labour between SMEs in furniture and footwear, have been observed (Sisken Daniel 1996). In such cases we see both a division of labour inside the single enterprises, as well as a labour specialisation due to sub-contracting. In some cases the quality level of products is higher than that of large companies. SMEs of this sector, specially the medium size ones, have shown an important capacity of restructuring and thus improving their technological level.

Also in Tunisia, cases of SMEs development have been noted, for instance in leather products, shoes and textile sector (CeSPI, 1999). Despite great difficulties, these developments succeeded in improving product quality and in working with offshore companies. There are possibilities of tying the informal micro-enterprises sector to formal economy, precisely because of the magnet effect exerted by the central Moroccan development pole -namely the Casablanca-Rabat axis-, where not only a great part of the country's industrial activity is centred, but also the most dynamic experiences of micro-enterprises take place (Fouzi Mourji, 1998).

Finally, the economic environment is more effectively favourable to SMEs when these countries adopt liberalisation policies. SMEs that are more dynamic become part of the process of economic restructuring and show a strong tendency to invest, provided liberalisation reforms continue and new credit institutions emerge. This proves that the conditions exist to start a decisive development policy in favour of SMEs.

3. SME CLUSTERS IN EGYPT

In order to establish a new development policy for small, technologically specialised and dynamic enterprise systems with good marketing capacity, it is essential to analyse the context and especially

[3] See f.i. Sisken Daniel S. (1996), and Fouzi Mourji (1998).

the local environments in which one can detect clustering germs of firms potentially capable of starting development strategies.

Unfortunately, in Southern Mediterranean countries few reliable and thorough statistical surveys exist. Therefore, it is impossible to apply specific statistic analysis methodologies to detect the presence of SME cluster development. In the case of Egypt, a first statistical analysis could be made on SMEs concentration and on the productive and geographic specialisation (CeSPI, 1999). This represents the only survey of its kind existing so far. Such a lack of information is bound to damage both the accuracy of a systematic approach to development factors of SME clusters, as well as the precise definition and analysis of the effectiveness of economic political instruments meant to sustain such development. Hence the necessity to promote field statistical analysis and inquiry.

The geo-economic analysis of Egypt has allowed outlining geographic areas on which to concentrate our attention in order to identify SMEs clusters. The results of the SMEs geo-economic analysis are indeed revealing as guidelines for better and more effective competitive and occupational development support policies. These analyses also help localise SME targets and areas apt to contribute to an increasing economic and social development which, in turn, will have multiplying effects, and thus make it worth while concentrating national resources and international cooperation in them.

In the case of Egypt, we worked[4] on data gathered in the 1996 census on productive units. Analysis was centred on manufacture and on three main political-administrative levels: Governatorates, districts and cities.

One of the first facts to be stressed is that when we consider manufacturing SMEs, 75% of them is made up of micro-enterprises (with less than 5 workers). In the second place, manufacturing SMEs are present mainly in five sectors: food, textiles and garments, leather and footwear, woodwork and furniture, metal products and equipment.

We proceeded analysing SMEs geographic specialisation in the industries that are present in a greater number and we used the localisation quotient as adjustment method for removing the size-component. We calculated the localisation quotient which allows measuring SMEs concentration-density for each single industry among the various localisation's. This quotient has been calculated at Governance and district level, for the cities of Cairo and Alexandria, and for the five manufacturing sectors mentioned above.

The results of this analysis are the following:

1. *Concentration of food industry SMEs seems relatively higher in two districts of the Sharkiyya Governorate (Husayniya and Habu Hammad) and in seven districts of the Minia Governorate;*
2. *Mahalla el Kubra district in the Rarbya Governorate and five* qisms *in Cairo are specialised in textile, garment, leather and footwear industries;*
3. *Furniture SMEs are concentrated in the Damietta Governorate districts and in the qism of Bastein in the Great Cairo area;*
4. *The Damietta district and the Tukh, Giza and Badrashauyn quisms in Great Cairo are specialised in the woodwork industry;*
5. *Metal product industry is concentrated in the districts of Talkha and Mit Ghamar in the Governorate of Daqaliyya, of Qanatir in Qaliubiyya and in the industrial city "6 of October" in Giza and in the qisms of Bulaq, Shubra, Minsha'at at Nasir and Madinat Nasi in Great Cairo.*

[4] Owing to the data-bank created by the Cairo *Centre d'Etudes et de Documentation Economique, Juridique et Sociale (CEDEJ)* and to the elaboration of Helene Cottenet and Marion Sèjounè

Notwithstanding the superficial statistical analysis, results are important for a first identification of SMEs potential clusters. Statistical cooperation on SME clusters mapping may represent an important action in the framework of the Euro-Mediterranean industrial cooperation policy.

As concerns geographic specialisation factors in Egypt, an interesting study with econometric analysis (Elleithy Amr, 1996) shows a correlation between the creation of small enterprises in the region of Sharkia and various variables therewith connected. The results show how important the local context is in favouring the creation of enterprises. Namely, in detail, it is important that there be: SMEs and also large enterprises, an industrial specialisation (high localisation quotient), a fair degree of schooling and of managerial and technical experience, an important local demand and a growing economy, infrastructure networks and facilities.

The main elements which explain the creation of new small enterprises on a regional level are a proportionally high presence of small productive industrial unites and available capital.

Another method followed by this research is the cluster analysis, a basic way of inquiring thoroughly into SMEs. This analysis was used to define the capacities and some characteristics of small Egyptian entrepreneurs according to their respective locations. The criteria in classifying these enterprise-owners were education, division of labour, enterprise size and location. As a result, small and medium entrepreneurs were subdivided into four types, as follows:

The higher education-level manager, who leads medium-size enterprises (with an average of 23 employees) where there are labour specialisation and division of labour. These firms are mainly present in new industrial areas;

The highly qualified technician (one third of those who were interviewed had degrees in some technical branch). He runs a small enterprise (5 workers in the average) where productive specialisation is flexible and which is located in urban centres;

The artisan having only basic schooling and basic training. He leads a micro-enterprise with an average of 2 workers. No division of labour exists. Mostly the firm is located in rural areas;

The foreman, who has poor skills, runs a small enterprise, with an average of 5 workers. No division of labour exists and location mostly in urban centres.

These results are confirmed by another survey on the educational level of entrepreneurs by firm size in Egypt (Nathan Associates, 1997).

Table 4. Educational level of entrepreneurs of surveyed SMEs (in%)

Enterprise size	Micro	Small	Medium
Educational level :			
Post Graduate	0	3	4
University Graduate	20	39	52
Technical	20	19	8
High School	6	8	4
Basic Education	18	6	16
Read and Write	23	23	12
Read	4	0	0
Illiterate	9	2	4

Source: Nathan Associates, 1997.

The definition of those entrepreneur-types is important in helping to understand development potentialities and select various measures of support. As concerns SMEs cluster development, the first two types (manager and technician) are the ones who are most interested in being part of SMEs

concentrations and possible productive cooperation interactions. These two types offer more possibilities of productive specialisation and technological development.

Finally, the research highlights the fact that mainly medium-size enterprises (more than 25 employees) are those which create employment[5]. The survey is very important as concerns labour policy: in fact, if the purpose is a greater effectiveness in job creation, the best choice is to back medium size enterprises and strengthen their ties to small and micro-enterprises.

A third long term analysis on the field shows the economic strategies of small-scale manufacturing enterprises in Cairo during structural adjustment (Meyer, 2000). Between 1986 and 1998 the author carried out five surveys studying the development of all manufacturing enterprises, for a total of 2,415 workshops, in six selected areas in the metropolitan agglomeration of Cairo. In each of these areas there are strong concentration of manufactures: shoemakers in Bab esh-Sha'riya where multi-story manufacturing centers were built to accommodate up to 70 workshops in one building; small aluminium workshop manufacturing, kitchen utensils, other metal workshops and handicraft production in El-Gamaliya in connection with the greatest tourist bazaar of Khan el-Khalili; woodworking and metal workshops, and artisans in the squatter settlement Manshiyet Nasr, in close relation to the traditional centers of production and distribution in the old city; workshops of carpenters and tailors in Matariya, Manshiyet Bulaq ed Dakrur and Dar es-Salam. The major part of these workshops belong to the informal sector.

The reduction of demand, caused by the structural adjustment programmes implemented in Egypt after 1986, had diverse effects according the different branches and strategies adopted by the small enterprises.

Generally,

> *"the major advantage of the small enterprises lies in their flexibility. They are able to immediately adapt their production to the changing demand – especially where fashionable goods are concerned – by manufacturing small series and specializing on niche products. Their informal structure makes it possible for them to employ only low-paid women and children or unpaid family members and even to close the workshops temporarily as a reaction to an economic crisis" (Meyer, 2000).*

Two kinds of flexibility are stressed: a "positive" flexibility when cluster of SMEs improve its capacity to face crisis periods through technological upgrading and changing production in niche products; a "poor" flexibility when workshops react reducing the number of wage labourers and increasing the child and family labour.

It is interesting to observe that in the case of shoemaking there is a cluster of small entrepreneurs. This cluster has an extensive network with suppliers of raw material and accessories, micro entrepreneurs specialized in specific steps of shoe production, wholesalers, intermediate and retail trade in the nearby shopping streets. This system is highly flexible and capable of changing products along with fashion trends and new demands. Particularly it has increased the linkages with the local and domestic market reacting successfully to the structural adjustment programmes. Their production substituted imports with prices too much higher for the decreasing spending power of the middle class.

The metal workshops faced the crisis with the introduction of new technology, thanks to micro-finance and upgrading technology programmes of the Social Fund for Development, and changing products (from aluminium to copper or glass products). In many small enterprises there are advanced machineries and equipments. From the other side, the diffusion of new technologies in the cadre of a low demand level, compelled many workshops which were not able to innovate, to close

[5] 44% of the new jobs have been created by 14% of the firms employing more than 26 workers (Elleithy Amr, 1996).

down. In the case of aluminium workshops the net effect was a reduction in the number of production units and in employment.

> *"As a result, more old jobs were destroyed in this branch than new income possibilities created by the credit programme" (Meyer, 2000).*

Finally the study highlights the importance of the macroeconomic policy, foreign exchange and trade policies in affecting the development possibilities of SMEs. Trade liberalization may provoke a high mortality of SMEs in the short term, while a devaluation of the national currency has a protective effect. A development policy for SMEs may not be based only on supply-side measures. A demand-side policy is necessary.

However, the weakness of statistical data and exhaustive knowledge on SME clusters in South Mediterranean countries prevents the formulation of new industrial policies. The improvement of the collection of information, application of new statistical methodologies, and new researches on the field are indispensables.

4. SME DEVELOPMENT POLICIES IN MEDITERRANEAN COUNTRIES

Generally speaking, Southern Mediterranean government policies do not clearly acknowledge the market and institutional failures towards SMEs, the potentialities of cluster development, and do not step in with effective measures. The policies adopted consider it more important to attract foreign investments and to restructure large companies making them competitive despite a poor fall-out for SMEs development. In this respect government policy has proved distorted in relation to the conditions of SMEs.

> *"The widespread use of investment and import licences and controls, direct credit, location incentives, infrastructure provision and so on may favour firms with better resources and connections" (Lall, 2000).*

Furthermore, bad designed incentives have negative effects on SME development:

> *for instance, tax privileges given to small firms – and the effective exemption of micro and informal enterprises from the tax system – provide strong incentives to 'stay small' rather than grow large (Lall, 2000).*

In Tunisia:

> *"the Code on Investment Incentives may be too generous towards potential investors since the State offers to finance up to 90% of the cost of some projects. As a result projects are often oversized, too ambitious and not always cost-effective (...) Public authorities find themselves in a difficult position. On the one hand, most micro and small enterprises are created without direct State help or involvement. On the other hand, when promoters seek support for their projects, the State feels obligated to grant that support. The ultimate result is often anarchy and a waste of scarce resources" (Chourou, 2001).*

However, this does not mean that Southern Mediterranean governments have not considered working out a policy for SMEs. Public funds, institutions and international cooperation programs actually exist to sustain private initiatives, even though such initiatives are ineffective, especially as regard the support to dynamic SME clusters. The major part of policy measures consider the support to SMEs in its social relevance, as a way to distribute employment and to alleviate poverty. Southern Mediterranean countries have adopted a variety and multiplicity of policy approaches in favour of SME development, applying a series of mutually poorly coordinated measures.

In Egypt, the Ministry of Economy is trying to work out an operation-framework for the development of SMEs (Ministry of Economy, 1998). But despite the new guidelines, it seems that, so far, the attempt to unify, or at least coordinate, the various lines of action proposed by single ministries and international cooperation centres has not succeeded. Equally, in Morocco and

Tunisia, various ministries and cooperation programs overlap, even if in the case of Morocco a tentative to set up a comprehensive policy is underway (Ben Ali, 2001). This complex, or rather muddled structure has its operative counterpart in numerous institutions managing different SMEs assistance instruments. Generally these scarcely efficient and effective public institutions are sustained by international cooperation in an effort to bring about reorganisation.

This approach is considered inefficient, costly, yielding no results in growth and job creation. Further, this approach suffers from preceding statist approach according to which during initial development stages a strong action on the part of the State is necessary, considering the weakness of the private sector. But such action proves suffocating and ineffective and, besides, it is encumbered by political and red-tapy procedures and controls limiting the freedom of movement and self-organisation of entrepreneurs.

An interesting evaluation of a public credit programme for SMEs was carried out in the case of the *Fonds de Promotion et de Decentralisation Industrielle* (FOPRODI) of the Tunisian government (Bechri, Najah and Nugent, 2000). Some lessons may be inferred from this analysis.

FOPRODI was enacted in 1974 for the creation of new SMEs, decentralize manufacturing activities and increase employment. But:

> *"of the 929 FOPRODI projects during 1976-1990 that actually reached the production stage, in 1992, 48 were bankrupt, 325 were facing severe hardships, and only the remaining 556 were considered to be operating successfully" (Bechri, Najah and Nugent, 2000).*

The failure of the programme (with a loan repayment - about 50% - among the lowest in the world) can be attributed to the following elements.

Highly subsidized credits spurred rent seeking behaviours. Adverse selection and moral hazard problems were accentuated. Firms were encouraged to borrow more than they needed, undermining the incentive for banks to investigate the viability of the projects. Lengthy procedures in delivering credits reduced the potential demand of SMEs.

The dominant role of publicly owned commercial banks and the lack of competition did not stimulate the emerging of a credit market for SMEs. The existence (before 1996) of mandatory credit allocations with low penalties conducted banks to maintain funds delivering less credit to SMEs perceived as high risky clients. When mandatory credit allocation was cancelled, credit to SMEs precipitated even more (only 5 operations in 1997) showing the scarce bank interest in the FOPRODI programme.

High transaction costs, low commission rate and delayed compensation did not favour banks' interest in selecting high return and risky projects. A bias towards traditional activities with low innovation rate resulted because banks had more information on those sectors and more opportunities to liquidate traditional machineries as collateral requested from SMEs in default. Moreover, a bias towards small enterprise with low capacity to create employment was observed.

Poorly designed and ineffective credit guarantee (*Fonds Nationale de Garantie*) and bankruptcy schemes reduced banks' propensity to grant credit. Difficulties in the compensation, limited incentives in obtaining repayments, low FNG's fees on borrowers and a high share of the lending institution in the risk of non-repayment were the main factors inhibiting the role of the banks in the implementation of FOPRODI.

The evaluation suggests the following lessons:

> *"assistance given at start-up should not minimize the equity stake of projects owners (...) a radical reform of Tunisian financial sector including FNG would seem necessary (...) The banks must be offered incentives to grant loans and to undertake the needed screening and monitoring and the legal framework be changed to allow prompt settlement of bankruptcies. In this respect, banks should be allowed to set*

their own loan rates (...) there is no reason why industry association and credit bureaus could not provide potential means of financing (Bechri, Najah and Nugent, 2000).

In the Egyptian case, the various cooperation programs in favour of small enterprises cover no more than 5% of the total number of SMEs. In Morocco, an inquiry has shown that only 0,2% of small enterprises has made use of the advice of the *Conseil National de la Jeunesse et de l'Avenir*. In Tunisia, another survey found that only 5% of small entrepreneurs applied for credit to the national fund for promoting crafts and professions (FONAPRAM), and 2,5% to the Tunisian Solidarity Bank (Chourou, 2001). This data shows the limited impact of official measures to promote small enterprises development.

Consequently, it is hard to imagine that public direct programs will change the development opportunities of SMEs. Therefore, the aim of official programs, and thus also of international cooperation, should be to set induction mechanisms in motion, to sustain processes and operators in order to enable the market to develop the necessary services for the promotion of SMEs development. In this context we recall an approach already suggested 50 years ago by Albert O. Hirschman (1958), on "backward and forward linkages", "inducement mechanisms" and "pacing devices ". Obviously, it is equally important to acknowledge and encourage hidden resources in developing countries, such as capacities to undertake business and to create clusters.

Despite the fact that this is the actual situation, initiatives exist which have successfully sustained SMEs development: in the first place the USAID initiatives for the creation and support of private agents specialised in sustaining self-help organisations. These initiatives are extremely interesting as they yield some indications concerning proposals for a new SME cluster development policy. The USAID project for micro and small enterprise development in Egypt (44 million dollars financing) is undoubtedly an example of success presenting many valuable indications.

In the first place, the Alexandria Business Association (ABA) is directly involved and interested in making sure that the aims set be reached. The principle of "project ownership" is actually put into practice. The more so, if the instruments used also offer a return in terms of profit and development of the Association itself (the ratio between project operating costs and produced income is one of the best worldwide). All services have to be paid and credits are granted at commercial rates.

In the second place, the applied methodology is important: the credit system is decentralised, it covers a limited geographic area and is meant to sustain the growth of small enterprises and to lead them into the formal capital market. ABA uses a neighbourhood-strategy, which brings it close to its clients through 12 affiliates spread over the territory, and publicises it through the existing social networks. Credit is progressive: from a small initial credit for working-capital, in successive phases more substantial credits are granted for fixed investments. In this way ABA can follow the growth process of small business to which it can also offer technical assistance services, training and information. An important point is the use of local banks in the distribution of credit. ABA assists small enterprise in introducing it into the formal capital market. This will enable small business to get access independently to commercial banks in a near future. On the other hand, also local banks develop by knowing and assisting small enterprises as clients. These steps represent important "induction mechanisms" making decisions and investment programs possible.

Finally, the manufacturing sector represents 65% of the client portfolio. In the Alexandria Centre for Small Enterprises (which is part of the project and is run by ABA), some sectors have been selected (garments, wood work and others) to which training, information and technical assistance services are offered, mainly centred on technological and marketing aspects. In this case, collective-cumulative-customer oriented measures (the Triple C approach) are implemented according the suggestions proposed by the analysis on SME clusters development.

5. INTERNATIONAL COOPERATION ON SME CLUSTERING

Trust linkages and self-organization of SME clustering should be considered a priority in the political and social environment of Southern Mediterranean countries. Small dynamic entrepreneurs should be the protagonists of their development. It is essential in national political environments which have so far limited individual initiative. It is important for the sustainability of industrial policies which have strong constraints in the framework of the stabilisation macroeconomic policies, and that have little impact on SMEs development.

Given its limitations, public action should concentrate on selective induction measures so as to allow the market to develop services and products necessary to SMEs development.

> *"In recognising their limitations, governments should encourage the private production or provision of public goods and services, and also involve NGOs and the local users of the services and investments in their design and implementation." (The World Bank, 1991).*

Firstly, WHO. Market agents, such as banks, service agencies, technical institutions, SMEs associations, are central in a new meso approach for firms clusters development, not limited to the macro setting and to a micro-atomistic level. Southern Mediterranean governments and international cooperations should privilege these agents' relations and their induction and empowerment. Above all they should encourage initiatives for the SME self-organisation promotion (collective oriented measures). Stimulating actions should produce emulative effects and multiply enterprise organizations initiatives. This would ensure a gradual diffusion of successful experiences and be an invitation to repeat them in similar contexts. Finally, the timing of these measures to encourage and support market agents is equally important. There is no greater mistake than making business associations dependent on national or international aid.

Secondly, WHERE. One must keep in mind how important it is, in Southern Mediterranean countries, to strengthen development poles, industrial local systems with strong growth, income creation and employment potentialities. Only SME clusters showing a productive specialisation increase, are in a condition to make productivity and competitiveness "leaps", not the isolate small enterprises. Consequently, it is important to detect these potential qualities, dynamic SMEs clusters, in whatever locations they are and then induce them to self-help.

Thirdly, WHAT. A productivity "leap" requires investment decisions and adoption of product and production innovations. Investment is best encouraged where those who run small enterprises are granted more power and access to resources. But it is probably more important still, that there be an organised system of connections and division of labour among enterprises, the cluster, so that the single investment project ties in with other complementary ones, mostly in a sequential way. In such a setting, risk is subdivided among the various participants in the system.

Furthermore, this industrial organization, the cluster, should be considered in the framework of the local knowledge system for analysing its technological dynamism and competitive development trajectory. The analysis of SMEs clusters and their relationships with local knowledge systems and external linkages should indicate cumulative oriented measures for sustaining the technological upgrading.

In order to implement these theories, we must learn more about the different SME clusters and knowledge systems. In other words, the existing differences must be understood in order to be able to select targets and policies. This is why Southern Mediterranean field analyses should be further encouraged, as we still know very little about SMEs in those countries.

A better and more detailed knowledge of SMEs characteristics should enable us to adopt a selective target approach on three W:

Who, the target level: identification of SMEs groups and entrepreneurs with promising development chances, acting as examples for stimulating imitation also in other regions in similar circumstances;

"Assistance to enterprises is probably more effective when offered to a well defined group of SMEs sharing the same characteristics and operating under the same conditions" (Elleithy Amr A., 1996)

Where, the geographic level: identification of the areas presenting the greatest productive specialisation, proto SME clusters, and from which the greatest growth can be expected;

What, the inter and intra-system level: identification of local meso institutions, especially as regard the knowledge system, but also institution of local governance, which are relevant for SME cluster development.

On how sustaining the SME clusters development, the Nine Fold C approach presented in the first chapter applies. Here we suggest other specifications.

In general, in favour of the selected targets, inductive mechanisms and capacity building measures should be taken to create and strengthen forms of self-organisation and of SME clusters. Self-organisations with shared participation and responsibility should be granted help, but only at sustainable conditions, for the creation of new market-agents (associations for credit guarantee, groups for quality standardization, buyers groups, export associations), and for the further growth of the existing ones which have already started services and goods production for the SMEs. From the legal point of view, the acknowledgement of these new types of organisation will require new, or changed, rules.

Policy measures facilitating connections and economic collaboration between SMEs and favouring the creation of various forms of self-organisation should be identified throughout the SMEs development factors: credit, technology, training, marketing.

As concerns credit, beside the financial companies specialising in SMEs services (micro finance but also leasing and venture capital), the creation of associations for lending and credit guarantee between small enterprises should be encouraged. Various forms of shared participation by different local, national and international institutions may support these associations. Inductive mechanisms facilitating the access to the formal market should also be favoured according the ABA example. On the other hand, commercial banks should be induced to develop their own organs and procedures to open SMEs' access to finance.

As concerns technology: in the first place, it is important to circulate and strengthen the already existing instruments with which small enterprises have equipped themselves in acceding to services such as technical sharing systems. It is equally important to encourage market agents who already offer technology utilisation possibilities (for instance by improving the private workshops, which rent machinery). For instance, in the case of furniture production, in Egypt some private workshops rent machinery to small enterprises: they are called *makana* (Sisken Daniel S., 1996). In Tunisia, maintenance engineers have recently created an association (ATUMA-Tunisian Maintenance Association) that intends

"help SMEs deal with this problem by elaborating common maintenance programmes, financing group purchase plan of spare parts, and encouraging the creation of local shops that can make èarts to order (such shops could also become suppliers for the original equipment contructors)" (Chourou, 2001).

Small-scale flexible technologies could be adopted, as well as new information technologies, which lead to the creation of SMEs networks (information technologies for networking). Technologies could be selected according to their relevance for flexible production and they could be circulated through market agents rather than public service centres. Another way of spreading technological knowledge is to popularise knowledge through trained technicians connected with SME groups, and with the producers of the machinery through commercial representation contracts. In view of the oncoming privatisation, public technological centres will have to establish close service connections

with SMEs, and to this end it will be necessary to develop services permanently geared to the needs of leader enterprises and innovation-oriented enterprise groups[6].

In order to acquire technological capabilities, training and skill improvements are essential. These will be the more effective, the more they are connected to a local industrial system. The importance of a strong tie between a decentralised schooling system and the local industrial system is obvious. It is preferable to encourage training programs closely tied to local SME systems, for instance apprenticeship-systems, technical and management-schools invigorating their ties with industrial associations through various types of training (stages*)* in the SMEs or in the market's institutions serving SMEs. Field research has shown that training should be adapted to the entrepreneurs' target.

> *"In this context, the new generations of entrepreneurs having technical qualifications and a good level of training, are more inclined to create SMEs clusters, adopt new technologies and new financing methods" (Elleithy Amr A., 1996).*

Priority should be given to training technicians and skilled workers to enable them to work in dynamic medium enterprises, which demand more labour than the smaller size ones.

Also market access and marketing capacity have to be developed starting out by supporting agents already serving SMEs (retailers and wholesalers who do not hold oligopoly or monopoly positions, so as to increase competition also in the commercial net). Equally, the above mentioned capacities have to be developed by promoting the creation of common marketing systems, quality and standardisation networks. In this respect, a campaign by the local enterprise associations to publicise the advantages of unifying commercialisation efforts is important. As concerns export channels, efforts to simplify European non-tariff barriers are necessary, and also mutual agreements between European and Southern Mediterranean commercial associations connected to local SMEs systems.

A final comment on institutions is necessary. Culture and politics as well as regulations and institutional transaction costs are factors decisive for the emergence of SME clustering. Particularly, the issue of local governance is considered of strategic relevance for the growth of competitive SME clustering. In this sense a multidisciplinary approach at local and regional level should be designed for identifying problems and measures to overcome the weakness of small entrepreneurs in Southern Mediterranean countries.

> *"The emphasis is too much on what central government could and should do and too little attention is paid to what for example local governments could do, or on the role of the private sector and private sector organization (...) Strategic determinants of competitiveness are institutional flexibility, an effective local government and the ability to conclude public-private partnerships. (...) Good urban and regional managers can play an important role in the development of competitive local clusters" (Dijk, 2000).*

The adoption of a policy favouring the development of SMEs clusters through a specific geo-economic target approach should be accompanied by a coherent decentralisation policy. The energising of SME clusters and their self-organisation and autonomy should be accompanied by an energising of official power at the local level: the municipalities. They should create an enabling environment for SME development at local level and make development not only economically, but also socially, environmentally and politically sustainable. SME clusters development is closely tied to local development and to interactions with the local administrative and social system, as the experience in Italian industrial districts shows.

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[6] Also here, if these centres are to be increasingly more outstanding and sustainable, it is important to identify targets and to develop service contracts. At any rate, downsizing operations will be necessary, as well as dismemberment and specialisation of service agencies, and the creation of more decentralised and agile institutions.

In this respect, the de-concentration process in Southern Mediterranean countries is extremely slow and problematic. However, there are vast spaces for action, and if decentralisation is considered a measure consistent with development actions of SMEs, it becomes essential to proceed in two directions: 1) to back reforms of regulations and bureaucratic procedures at local level; 2) to improve the institutional capacity of local authorities. In this case European institutions could organise a common approach for the institutional support of the Governorates and Municipalities in South Mediterranean countries. They should support projects of decentralised cooperation among partners and twinned local authorities, involving enterprise associations and SMEs.

6. PROPOSALS FOR AN EURO-MED COOPERATION ON SME CLUSTERING

The proposal to promote and strengthen SME clusters in Mediterranean DCs should be a special feature of the European and Italian cooperation. Particularly, this proposal may represent a typically Italian contribution that can qualify and innovate the Euro-Med cooperation. Italy can show the success of its industrial districts and the competitive strength of its own SMEs as an example also for the development of small enterprises in the Mediterranean Basin. This model is requested both at the official level as well as at the level of the entrepreneurs in Mediterranean DCs. Actually, the necessity of improving SMEs development policies is perceived in general, and the Italian experience in this field is undoubtedly one of the most interesting internationally.

First of all, an Euro-Med cooperation in SME clustering should increase the very scarce knowledge on proto clusters in Southern Mediterranean countries. There is no doubt that a large-scale applied research work is needed to study the local contexts of SMEs in Southern Mediterranean countries. A series of researches on the field would be of great value for understanding the constraints and development opportunities of SMEs clusters. The analysis should identify the different types of clusters and the Mediterranean differences with respect to clusters existing in other regions. A second series of researches should deepen the analysis on the dynamics and transformation of clusters, with a special emphasis on linkages between Euro-Med SMEs systems. Knowledge on who, where and what is extremely useful. Also in this case, Italian experience could be made available to research centres in Mediterranean countries. For instance, the Italian experience could be useful in statistical analysis and field inquiry to detect the localisation of SMEs proto clusters. To this end, a special research programme on SME clusters through the FEMISE network and/or the Unimed network of employers' organizations could be implemented (European Commission, 2001).

This research effort should be applicable in formulating new approaches to the SMEs cluster development, as we have tried to suggest in the present paper. It is essential to identify the targets, the industrial production and knowledge systems, the localisation of SMEs clusters and, above all, it is important to identify which dynamic local forces and market agents to encourage, strengthen and accompany with cooperation policies. The cooperation mechanisms for the various situations should be tuned to these targets in order to formulate a flexible program for the development of SMEs clusters, depending on the individual contexts.

New cooperation initiatives may be launched on the basis of a more exhaustive knowledge on SME clusters. Some general guidelines may be put forward.

Soft loans of European cooperation for SMEs in Southern Mediterranean countries should be diversified and delivered towards SME clusters. This requires the strengthening of the institutional capacity of local Authorities, to select local SME clusters through enterprise associations spread over the territory and financial institutions specialised in SMEs credit lines. In the framework of the Mediterranean finance restructuring and liberalisation, new finance mechanisms and institutions

may be sustained with special emphasis to lending and guarantee funds organised by entrepreneurs associations.

Linkages between credit and technological upgrading should be investigated aiming at improving the cumulative learning process of SME clusters. As before commented, some proposals encompass the strengthening of local private agents already operating to this end; the creation of more adequate technological services, independently-managed and sustained by SMEs groups; the creation of new professional activities, such as, for example, that of promoting the circulation of information and know-how about flexible small scale and networking technologies.

External linkages of Mediterranean SME clusters for their technological dynamism should be identified and supported (f.i. subcontracting between SMEs, linkages between Multinationals and local SMEs, linkages with universities through incubators). European SMEs producing flexible and small-scale technology suitable for Southern Mediterranean SMEs should be involved in the process.

Another line of action for SMEs cluster development could consist in a decentralised cooperation program for the creation of international territorial partnerships between European industrial districts and small enterprise systems in Southern Mediterranean countries.

Decentralised cooperation represents the best way to collaborate to the creation of international partnerships between local institutions. Decentralised cooperation is based on the direct participation of both the protagonists and the beneficiaries of co-development, i.e., among others: small enterprises and their associations, trade unions, solidarity organisations and basic communities, immigrants and local authorities. The aim is local development and it includes SMEs cluster support. The technicalities of those projects consist mainly in transferring know-how and capabilities.

So far Euro-Med decentralised cooperation has a negative record, especially as regards the programmes involving local authorities (Med-Urbs) and also small enterprises (Med-Invest). Med-Urbs functioned few years and than it was suppressed. Med-Invest is a third-class programme with no assessable results. The identification of Mediterranean clusters and their local support at institutional level may constitute a strong argument for re-launching an Euro-Med decentralised cooperation programme.

Italian authorities are just starting new twin-partnership relations with the local authorities of Southern Mediterranean countries. In this context, we can recall that the Ministry of Foreign Affairs and the Ministry of Foreign Trade, is favouring the internationalisation of Italian Southern territories through international territorial partnerships (Ministero Affari Esteri e Ministero del Commercio Estero, 1999) [7]. Southern Italian Regions are just implementing measures for creating linkages between SME systems in *Mezzogiorno* with SME poles in Mediterranean countries. In the same way other Italian Regions, with Toscana as leader, are taking advantage of the European Commission INTERREG programme for the implementation of projects promoting linkages between SMEs in the Mediterranean Basin.

These initiatives should have its starting point in local social and economic interests coalitions, in artisan and SMEs associations who see in the program the necessary institutional framework, incentives and guarantees, permitting to share costs and risks of transferring knowledge, skills, investments. It is necessary, in the first place, to start out with the existing international territorial relations, for instance:

monitoring the existing Mediterranean relationships of SMEs associations

[7] Ministero Affari Esteri e Ministero del Commercio Estero (1999), Proposta di Linee Guida per l'attuazione della politica di internazionalizzazione economica e culturale del Mezzogiorno, mimeo, Roma.

implementing a strategic analysis on weakness and strengths factors of Mediterranean partnerships

proposing effective agreement between local authorities for creating an enabling environment for Euro-Med SMEs relationships and strengthening of clusters

encouraging the growth of the local institutional environments (creating contacts between more and less advanced situations, putting experiences on line, highlighting best practices, implementing projects of training and standardization, ...).

A final new action line might consider the linkages existing between labour markets (migrations) and SME clusters internationalisation in the Mediterranean Basin. International territorial partnerships arise from business interests about the development of international linkages on labour market and production complementarities among European industrial districts and SMEs poles in Southern Mediterranean countries.

The backbone of this program should consist in projects of job orientation and qualification in Europe and in Southern Mediterranean countries, according the labour demand of selected SMEs systems in the cadre of the dynamics of the Mediterranean and international division of labour. This requires analyses of the labour markets in European industrial districts, in order to define the scenarios of labour demand, planned immigration quotas and qualification courses. These analyses should be implemented taking into account delocalisation and internationalisation processes of European SMEs. Similarly, it will be necessary to analyse: dynamic SMEs poles in the Southern Mediterranean countries, scenarios of these poles' relations with the international market (hypothesis of sub-contracting with SMEs in European industrial districts, investments and labour mobility), opportunities for the start up of new SMEs and training programmes.

Cross-checking these analyses, important indications could emerge concerning the regional integration of capital and labour mobility, opportunities of economic relations between Southern Mediterranean and European SMEs systems, and of international territorial partnerships on labour market development. In this case, we can recall the experience of Regione Piemonte which is supporting projects for the start-up of SMEs in the Moroccan region of Chaouia – Ourdigha, the qualification of workers, and the development of production linkages and labour mobility with SME clusters of Piemonte.

As regards immigrants, CeSPI researches (CeSPI, 1999 and 2000) highlight the increasing importance of migrant flows in the Mediterranean Basin. The transnational characteristics of migration are creating new economic linkages between Italy and Mediterranean countries (Grillo, 2000). Migrants are more and more small entrepreneurs who support the Euro-Med integration. Their contribution to the development of origin countries is macro relevant through remittance flows as well as micro important for the starting up and strengthening of local SMEs (Elleithy, 1996). In this sense migrants may be agents of development with particularly emphasis towards the creation of relationships between Euro-Med SME clusters.

A large choice of immigrant training and mobility projects may be formulated, such as: management and international marketing training, specific technical courses on local products having international competitive advantage. The choice includes further: training and support to immigrants in the identification of investment opportunities in their countries of origin and incentives to projects of SMEs groups who want to invest in Southern Mediterranean countries; training for immigrants who want to become popular technique-information agents having connections with European SMEs which produce appropriate technologies.

In sum, it is possible to sustain opportunities of

"promoting human and financial resources and of prompting the immigrants to plan more occasions to return to their own countries, to participate more actively to projects of creating or strengthening enterprises and to associate with other partners in order to promote development" (Garson, 1994).

Finally, a particularly adequate group of immigrants could be selected with whom to carry out a specific training program on agents of development[8]. This means choosing highly qualified immigrants capable to know SME clusters cases existing in the countries of origin, to work out actions to sustain these clusters, and to involve and organise business people, local authorities and trade unions of the European industrial districts so as to strengthen decentralised cooperation program.

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[8] See experiences and reflections on the role of development agents described by Claudio Donegà (1998).

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