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Support for Microenterprise: Some Issues

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Support for microenterprises, some issues

Theme b: The impact of government policies and the regulatory framework on the microenterprise sector; possible improvements in policies to stimulate the growth and development of these enterprises.

Group III: Collective groupings and institutional aspects, self-help, collective activities of groups of microenterprises including savings and credit cooperatives, informal associations, mutual support groups for micro businesses and women.

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1. Introduction

After the second World War it was believed that if a country wished to become developed, it had to build up its industrial sector and particularly its manufacturing activities. In many developing countries, the primary purpose of planning was to promote industrialization.

In the seventies there was a move away from central planning, focusing on the industrial development of the country and an upsurge of interest in the urban informal and in the agricultural sector. Creating the right policy environment for stimulating small entrepreneurs and farmers became more important.

Some 15 years of increased attention for the role of microenterprises have passed since the term informal sector became popular in 1973. Various policies and programmes were formulated for small enterprises, non-agricultural activities, income-generating activities for the poor or microenterprises as we call them during this conference. The terminology seems less important than the attention given to these productive employment opportunities for the poor.

We have gained considerable experience with policies and projects for microenterprises. A number of lessons can be drawn and a number of issues will be discussed in this paper. Namely:

1. The role of government policies and the regulatory framework;
2. The role of non-governmental organizations;
3. Participation of small entrepreneurs;
4. Cooperatives or self-help activities;
5. A single- or multi-factor (integrated) approach;
6. The role of donors.

Before we will look at the problems as defined by small entrepreneurs themselves. This provides a yardstick to judge policies and programmes: do they help to solve these problems?

2. Problems of small entrepreneurs

In many Third World cities about 50% of the population makes a living through microenterprises. The challenge is to increase labour productivity in these enterprises, without taking recourse to capital intensive investments, ensuring an increase in employment.

Our research in Ouagadougou and Dakar (Van Dijk 1987a and b) suggested that the most important problems of the small entrepreneur are: too few clients and irregular sales; competition from other large and small enterprises and imported products; no access to credit for buying raw materials or equipment; and a workshop that is too little, badly located and often occupied without a legal title.

Which problems are specific to which activities in a particular country requires policy-oriented research. The development of microenterprises depends on the entrepreneur, the bottlenecks he/she faces, demand, but also on actual government policies, existing competition and available technologies.

3. Impact of government policies

What experience has been gained with policies and programmes for microenterprises?

Many donor organizations learned in the 1970s that small enterprise development projects cannot be successful if the policy environment is not positive. For instance, Guinea Conakry under Sekou Touré was an extreme case where small enterprises officially did not exist and were unable to procure even the necessary raw materials, tools and spare parts officially (Van Dijk, 1983).

Microenterprises do not function independently from medium and large-scale enterprises. Reserving certain products for production by small enterprises is a policy that can enhance the success of projects focusing on particular activities. However, according to Levitsky (1985), such a policy had negative effects in India, where large enterprises either did not invest, or tried to circumvent the policy. Stimulating subcontracting could be a good alternative for the development of small enterprises.

Other policies affecting microenterprises are fiscal, monetary, trade, industrialization and physical planning policies, but the effects are not the same for each microenterprise.

Differences exist in respect to access to education and training, to credit and government orders. Microenterprises often have less access to these and may have more problems in obtaining raw materials and spare parts and in marketing their product, while they face more competition.

The effect of government policies on microenterprises or on medium- and large-scale enterprises may be very different. These policies may have different effects for different types of microenterprises.

4. Policies and programmes not designed for microenterprises
Many policies and programmes influencing the development of microenterprises were not specifically designed to do so. Government policies and regulations and competition from medium and large-scale enterprises and from imported goods do influence the performance of microenterprises, however.

The effects of this "environment" vary for different activities and sometimes from one enterprise to another. In Africa for example blacksmiths compete with imported products and with medium and large-scale enterprises. Traditional blacksmiths also compete with metal workers using modern welding equipment, ^{but} some of the blacksmiths using traditional techniques have managed to stay in the business, while others have failed.

The interrelatedness of the prospects for micro- and for larger enterprises has consequences for the formulation of policies and programmes, although these implications are not always recognized. Modern factories may receive for example a lot of government support (through investment codes, government guaranteed loans, investments in industrial zones and infrastructure), while the effects of these policies on existing small enterprises are not taken into account. They rarely receive a preferential treatment. Also structural adjustment programmes may have serious effects for small enterprises that were unexpected. Privatization, liberalization of imports of industrial products and more difficult access to foreign exchange may change the industrialization process. It may also mean that microenterprises take over activities previously undertaken by modern factories that are forced to close down after a structural adjustment programme. Such was the case in Niger where the fabrication of agricultural implements, metal beds and jam was taken over by microenterprises (Van Dijk et al. 1985).

5. Experience with projects for microenterprises

Since the early seventies the number of projects for microenterprises increased. These projects often concentrate on only one component, such as the ones listed in table 1, although the single-factor approach is likely to be ineffective. Their success is discussed in Van Dijk (1988).

Table 1 Components of informal sector promotion projects

- A Education, training and technical assistance
- B Marketing
- C Credit programmes
- D Appropriate technologies for microenterprises
- E Organizational problems:
 - a. Internal organization of microenterprise
 - b. Collaboration between microenterprises
 - c. Organizations to defend the interests of microenterprises
- F. Industrial estates or handicraft zones
- G. (Government) institution building/strengthening.

Institutional support often takes place within the framework of specific projects, reinforcing a particular training or credit institute. This sometimes leads to an unequal distribution of funds, when institutions receiving external support have more financial and other means at their disposal than regular government services.

Just like in the case of policies, some of these projects were not particularly designed for microenterprises but do affect them. For example appropriate technology projects may provide opportunities for local microenterprises to manufacture or maintain these technologies, and as such have positive effects, while credit programmes for medium-scale enterprises affect small enterprises, when these enterprises do not have access to credit at similar rates of interest.

Four biases can be detected in government programmes with respect to small enterprises: a concentration on financial and technical assistance, on urban areas, on the somewhat

bigger industry type of enterprises, and, finally, on male entrepreneurs and workers.

Allal and Chuta (1982: 56) also conclude that in most developing countries industrial policies are directed towards urban-based modern small businesses, while handicrafts and cottage industries may even be penalized. The competitive capacity of modern small-, medium- and large-scale enterprise is enhanced while that of the very small handicrafts and artisanal production units is dramatically diminished.

Levitsky (1985) concludes that most major assistance programmes to help small enterprises have concentrated on providing financial and technical assistance for urban small industries.

Finally it has become clear from various evaluations that most programmes focus on male entrepreneurs. Female entrepreneurs are usually neglected, although they have received more attention recently.

6. The issues

- 6.1 **The role of government policies and the regulatory framework**
Export-based growth in the Asian NICs was accompanied by considerable government intervention and regulation, "with the visible arm of the state being more evident than the invisible hand of the market" (Kirkpatrick, 1988). Two factors were extremely important for the success of Asian economies in their use of interventionist policies according to Kirkpatrick: "The adoption of appropriate economic policy measures and effectiveness in implementing these policies".

The role of the government in the development of microenterprises is a key issue. In some countries all policies and programmes are initiated and controlled by the government. There is a tendency at present to try to limit

the role of governments to creating an environment conducive to microenterprise development. In this view the institutions involved should not be controlled by the government.

Government institutions were often not very effective because they were poorly staffed and their field workers badly paid. Government organizations tend to be too centralized and bureaucratic and their activities may be influenced by political considerations.

Private (non-profit or commercial) organizations may be more effective in fields such as finance, training and marketing. A degree of organization in the form of chambers of commerce or through unions of small entrepreneurs is then still required. More attention needs to be given to the possible roles of such informal organizations. They may vary from an association of tailors in Dakar fixing minimum prices, to a training institute set up by the beneficiaries themselves. Full participation of small entrepreneurs in the formulation and implementation of policies and programmes for microenterprises does not seem to have taken place yet, however.

6.2 The role of non-governmental organizations

Non-governmental organizations could provide more technical assistance to stimulate microenterprises. However, some NGOs have been hesitant in supporting commercial operations because they do not feel at ease with profit-oriented activities. The role they could play is organizing small entrepreneurs, testing of credit systems, organization of training and marketing outlets.

Levitsky (1985) suggests that NGOs can be of great significance for the development of small enterprises in the rural areas. They are able to deliver services (such as credit and technical assistance) in rural areas at much lower costs. They can also establish closer contacts with the rural population (Sarvodaya in Sri Lanka is a good

example). Finally they could provide training opportunities for extension workers for microenterprises.

NGOs can also help small entrepreneurs to fill in loan applications and teach them how to deal with the bureaucracy of banks and government organizations. NGO funds are usually too limited to allow them to set up credit systems with a substantial revolving fund.

USAID uses the private sector as much as possible in development cooperation. This includes a role for private voluntary organizations, the usual name for NGOs in the United States. Some experience has been gained by USAID with assistance of small enterprises in the rural areas and with the implementation of appropriate credit systems (Ashe, 1985).

Small-scale enterprise development efforts are usually directed at individuals. Experience has shown that forming a group may mean the end of entrepreneurship. As one NGO staff member said: "If you don't like hard-nosed characters then keep away."

6.3 Participation of small entrepreneurs

Small entrepreneurs are generally not consulted in the design or implementation of microenterprise programmes and policies. Consequently these activities were often inappropriate to their needs and ignored by the small entrepreneurs.

More attention should be given to solutions proposed by small entrepreneurs themselves. To be heard they need to be organized, however, in formal or informal organizations. The issue is how this can be promoted, if it does not take place spontaneously.

Chambers of commerce for small enterprises were set up in a number of Francophone countries. The problem is often that

only the bigger enterprises participate in these 'formal' institutions.

6.4 Cooperatives or Self-help activities

Collaboration between entrepreneurs may take the form of cooperatives. This can be especially useful in organizing small entrepreneurs in the rural areas where the units are smaller and further away from markets. Cooperatives are more successful when concentrating on particular activities, such as sharing equipment, stimulating savings and receiving credit, or purchasing raw materials as a group.

Marketing is typically an activity that can be improved by small enterprises through self-help activities. Special-purpose associations or cooperatives (focusing for example on marketing or input supply) are usually more successful than production cooperatives. Such organizations will concentrate on marketing or input supply and will help individual entrepreneurs to increase their sales.

In Zimbabwe a lot of attention is paid to the formation of self-help groups, which will become 'pre-cooperatives' and eventually cooperatives. In Africa, for example, cooperatives are usually not very successful, particularly when they are initiated from above, which is often the case. With the possible exception of the Scandinavian countries, donor organizations are reluctant to support government structures for cooperative development.

Indigenous institutions are important to stimulate the development of microenterprises. Preferably existing institutions, formal or informal, should be strengthened rather than new institutions created.

Zegers (1988) stresses the importance of cultural factors in the case of small enterprise development projects. In the case of management training for small enterprise owners in the Gambia she found that kinship obligations and other

obligatory social relations, the status of women and social values influenced the behaviour of small entrepreneurs.

There is a need for flexible organizations that can work with initiatives from below. An example of a decentralized approach to small enterprise development is that of Brazil, where every state has different programmes to develop small enterprises. India has many organizations at the national level to coordinate programmes and projects, but they often do not work very efficiently. The Brazilian approach seems to allow more for initiatives from below.

- 6.5 A single- or a multi-factor (integrated) approach
- Many policies or programmes concern only one or a limited number of branches. Neck (1977: 35) states already that most programmes of assistance for small enterprises have usually adapted a single-factor orientation. Staley and Morse (1965) had pointed out already that such a single-factor approach is likely to be ineffective. On the other hand integrated microenterprise development projects are often very expensive and may have only a limited impact in terms of number of enterprises reached.

Staley and Morse proposed integrated programmes for small enterprises as early as 1965. Such programmes should be supported by financial and technical assistance agencies proposing coordinated policies, structures and programmes for developing small enterprises.

In the 1970s the World Bank was also very much in favour of integrated assistance packages. According to Nouvel (1977) assistance to small-scale enterprises has to combine various degrees and forms of technical and financial assistance.

The problem with this approach is that it is more expensive than focusing on one component such as credit or training. But each activity and enterprise has its particular problem. Policies and assistance must be flexible enough to take these specific problems into account. Research can help in

the design of such policies and projects, but should first provide insight into these particular problems. One approach that might solve the dilemma that the multi-factor approach is expensive is what I would call the successive bottleneck approach. A microenterprise will receive assistance to solve its major problem, but would then be left alone until the next problem becomes a real bottleneck for further development. This approach would avoid nursing just a limited number of enterprises as is often the case in traditional integrated small enterprise development projects.

6.6 The role of donors

Foreign donors often cannot reach the informal sector directly. They need intermediary organizations such as development finance companies or existing training institutes. Since microenterprise promotion programmes often cannot be financed by the government itself, it is crucial that the donor chooses the right intermediary. If no appropriate government structures exist, donors can work directly or indirectly (via developed country NGOs) through local NGOs. The risk of the foreign supported programmes is that they end when the external financing ends, which might mean that not much is achieved - particularly not if no local institutions were involved.

Concluding remarks

We have not paid attention to macro-economic developments that affect micro-enterprises. Griffin's (1988:9) remark that "one person's restructuring is another person's de-industrialization" also seems to have some relevance for microenterprises.

The various policies and programmes discussed tend to focus on only some of the problems identified by the small entrepreneurs themselves (paragraph 2). Stagnating demand for products of microenterprises is often taken as given, as a variable that cannot be influenced by the authorities. Competition usually takes place, but we find little evidence that Third World

governments are really willing to reinforce the position of microenterprises in this respect. The problems of too small a workshop, its bad location and the lack of a legal title remains a reality which is rarely taken into account in microenterprises programmes or policies.

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