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From Multiple Rural Activity to Rural Industrialization:
The Role of Microenterprise in the Development Process

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FROM MULTIPLE RURAL ACTIVITY TO RURAL INDUSTRIALIZATION

The Role of Microenterprise in the Development Process

MARIA NOWAK

INTRODUCTION

As Confucius said long ago, "it's hard to find a black cat in a dark room, particularly when the cat isn't there." This same observation easily applies to present-day development policy.

The economic and financial crisis battering the Third World in general and Sub-Saharan African nations in particular is also a crisis of models and reasoning based on a theoretic representation of reality. And today's reality, as experienced by the overwhelming majority of economic agents, is no better understood than that of Seventeenth Century Flanders, the preferred field of study for European proto-industrialization.

Despite their importance having been underscored in the 1979 World Bank report on world development, rural microenterprises have been largely obliterated from the minds of donors by structural adjustment problems. However, they are, once again, attracting increasing attention with the rise in unemployment, a problem which neither agriculture, industry nor a decelerating public sector is in any position to resolve. Rural microenterprises are the very embodiment of a spontaneous adjustment mechanism.

Anchored in concrete facts, my paper on microenterprise is based primarily on Sub-Saharan Africa, drawing on the experiences of other continents for optimal clarification.

For lack of precise, exhaustive statistical data, the paper will attempt to isolate and identify different facets of reality. Only by enhancing our knowledge of reality can we effectively promote spontaneous economic growth without countering its own internal dynamics.

1 - INFORMAL OR REAL ECONOMY?

1.1 Importance of Rural Microenterprises

While the science of economics has been refining its analytical and measurement tools for the past fifty years, the economy has taken a perverse pleasure in eluding scientific analysis.

Hidden in the virgen forest of the informal economy, rural microenterprises are no exception to this rule. Most studies are conducted at the agricultural subsector level. Baseline surveys, which have become increasingly rare in Africa since the Sixties, concentrate on farming, making no attempt to investigate nonfarm activities. And yet, nowadays, such activities which, at one time, were associated with subsistence economies, seem to be gaining increasing importance as the result of a variety of different factors such as the population explosion, the growing scarcity of farmland, volatile markets and the inability of the formal sector to generate employment.

According to data compiled by Peter Kilby and Carl Liedholm (1) on 13 less developed countries, 14 to 49% of the rural labor force is engaged in a nonagricultural primary occupation. Actually, the percentage share of nonfarm employment and income is really much higher to the extent the foregoing statistics fail to consider secondary occupations and female labor.

The patterns uncovered by these authors are largely confirmed by studies conducted in other countries. Surveys in Madagascar and Niger show farm income accounting for no more than 50% of total rural household income. At the SAA in Cameroon, 72% of all heads of rural family units have secondary sources of

(1) The Role of Nonfarm Activities in the Rural Economy, World Congress of the International Economics Association, New Delhi, December 1986.

income enabling them to double their primary earnings. (1) A nationwide survey of rural household budgets and consumption conducted in 1982/83 in Rwanda showed craft production accounting for 20% of household income, as compared with commerce (27%), services and other sales (11%) and agricultural output, representing a mere 19% of monetary earnings.

In Thailand, according to the national average, only 37% of the income earned by the country's farmers is actually derived from their farms. The remainder is divided between nonfarm income (80%) and farm income earned for work performed on other farms. (2)

The phenomenon of diversified rural activity is not restricted merely to low-income countries. In the United States, the share of total farmer income corresponding to net farm income fell from 58% in 1960 down to the 36% mark in 1982. In Japan, a nation of primarily small-scale farming activities, 75% of the income earned by the nation's farmers in 1980 was derived from other sources of earnings. The difference is that, in Third World nations, nonfarm activities are virtually exclusively informal activities while, in the industrial countries, a large percentage of such activities lie within the formal sector.

1.2 Characteristics of Rural Microenterprises

These rough aggregate statistics dispel our traditional image of the farmer devoting most of his time to working the land without, however, giving us a clear view of rural activities.

- (1) E. Baumann, *Informal Rural Activities: The Case of the SAA Farmer Center in South/Central Cameroon*, University of Bordeaux, 1984.
- (2) Myren Garin, *Multiple Rural Activity in Thailand*, IREP, Grenoble, 1988.

The general definition of a microenterprise as an entity employing less than five persons and generating income from nonfarm production, services and trade encompasses a wide range of activities filling all the cracks and crevices left by agriculture, including:

- year-round or seasonal enterprises tuned to the agricultural cycle;
- full or part-time enterprises. (In rural areas, rarely do we find tradesmen or shopkeepers who are not also farmers);
- individual or family enterprises or enterprises employing full-time or casual outside labor;
- fixed or mobile enterprises, particularly in the small trade or commerce sector;
- enterprises with a sole line of business or with multiple activities, substituting one for another according to market needs, or clustered to better share corresponding risks and avoid becoming too visible or socially prominent.

Microenterprise covers a broad range of activities, the most common of which are listed in the following table:

Rural Activities in Africa and Madagascar

<u>Products</u>	<u>Services</u>	<u>Trade & Commerce</u>
Wood and Byproducts	Health	Grain Storage and Resale
Housing, Construction	Hairdressing	Other Farm Products
Metal Products	Mechanical Repairs	Livestock
Skins, Horns & Byproducts	Radio Repairs	Farm Inputs
Textiles, Garments	Wood Gathering	Staples, etc.
Agro-based Food Products	Transportation, etc.	
Chemicals, Plastics		
Pottery, Wicker Products		
Craft Products		

1.3 Grass Root Strategies

Rural microenterprises are associated with a broad spectrum of farmer strategies ranging from mere survival strategies to actual development strategies.

1.3.1 Survival Strategy

Survival strategy in the small-scale rural enterprise area is the oldest of all strategies, with primitive forms of cottage industries associated with hunting and fruit picking dating back prior to the advent of farming. Robinson Crusoe is but the Western version of this myth. This type of strategy is frequently followed by small farmers on rainfed farms in Subsaharan Africa, as well as by landless Asian peasants.

Data collected by Peter Kilby and Carl Liedholm on five Asian and African nations shows a negative correlation between the portion of household earnings represented by nonfarm income and farm size. On farms in the smallest size category, nonfarm income generally accounts for over 50% of household earnings, and as much as 70 to 88% in the specific case of Asia.

In Africa, where the scarcity of land is not yet quite as critical as in Asia, the importance of small-scale rural activities is not as directly related to farm size, enabling households to supplement their income from relatively low-yielding farms, mitigating the effects of adverse climatic factors and the impact of sudden large swings in agricultural prices.

In the Sahel, earnings during the long dry season often surpass farm income. Although it is becoming increasingly difficult to do so, men can still work in the city or on coastal plantations. Women, however, have no choice but to remain behind with the children and old people and try to survive through small-scale trade and crop processing activities.

1.3.2 Development Strategy

While rural microenterprises are rooted in ancient traditions, in many ways, they are also vehicles of progress:

-- promoting the accumulation of capital, often through price speculation by storing grains after the harvest and subsequently reselling them several months later at triple their original value and through small-scale trade requiring little investment. It is only at a later stage that capital is invested in the production of goods. This transitory phase of small-scale trade and commerce corresponds to the historical development of trading activity in European countries.

-- promoting the acquisition of management skills, especially important in an environment lacking a strong business tradition, as well as technical know-how, perfected with each succeeding generation through trading and transfers of urban technology. (1)

-- enabling the general population, and particularly youth and women, to acquire greater economic independence from the powers that be;

-- introducing new consumption models and needs.

Multiplying through division rather than expansion, they reshape and vitalize the rural economy by attempting to establish direct linkages with the formal sector, for which they hope to become subcontractors like their counterparts in more advanced areas.

1.4 Role of Rural Microenterprises

Rural microenterprises are at the helm of the development process. In

(1) At the SAA, six out of every ten microenterprise owners learned their trade in the city.

less developed economies characterized by market fragmentation, heterogeneous cultures and training levels and constant interruptions of flows, compared by François Perroux to wadies lost in the desert, they are the essential point of contact and articulation between the past and future, between agriculture and industry, between the city and the countryside, as well as between production and consumption patterns.

1.4.1 Link Between the Past and Future

While found at different levels of progress, survival and development strategies are actually closely interrelated.

In Africa, sons of blacksmiths belonging to a traditional caste whose members mined local iron ore for centuries before adapting to the use of scrap iron learn welding, allowing them to progress from the production of simple manual tools to the manufacture of more complex equipment.

We find this same important social foundation in other parts of the globe.

Thus, Vittorio Capecchi underscores the influence of the traditional sharecropping system in northern Italy on the development of rural microenterprises, in turn providing area farmers with important management skills. (1)

Jean-Raphaël Chaponnière highlights the invisible linkages between intensive rice growing and modern technologies requiring sustained concentration and strict coordination of multiple tasks. In Taiwan and Korea, "the same young girls attentively fitting together components in a present-day

(1) Vittorio Capecchi, Development of Flexible Industrial Activities in Emilia Romana.

assembly line, at one time used to carefully transplant rice plants from seed beds into rice paddies." (1)

But mental attitudes can also work in the opposite direction. According to Gourmantché tradition (Eastern Burkina Faso), destiny and fate are a routine, inevitable cause of failure. To defuse destiny and prevent the pure and simple abandonment of an entrepreneurial activity on the grounds that "you can't fight God's will," the Association for Productivity supplying credit for rural microenterprises warns borrowers in advance of examples of mismanagement for which they will be held personally accountable.

But while rural microenterprises are rooted in past traditions and their development appears to be associated with a long and patient process of maturation of attitudes and aptitudes, they are also vehicles of culture shock which, in essentially self-sufficient agrarian societies, ferments change and creates the driving forces of industrial economies.

The Emilia Romana region of northern Italy and the Wenchou region of China are excellent illustrations of this phenomenon. While their experience is not transposable by any means, still, in different forms and at different levels of development, all societies seem to carry within them certain dynamics asking only to be allowed to unfold through "controlled growth," which has the advantage of avoiding oversized units of output and of laying the foundation for sound management.

1.4.2 Meeting Point for Agriculture and Industry

In the ongoing debate over the respective roles of agriculture and industry in the development process, rural microenterprise is still the "no

(1) J.R. Chaponnière, *Fleas and Rice - Growth in Southeast Asia*, Armand Collin, 1985.

man's land" of economic theory and policy.

-- As far as industrial development is concerned, dreams of an economic "takeoff," the concept of "industrial poles" and policies favoring large-scale projects, 80% of which are currently inoperative (1) according to an African study, have largely evaporated over the past twenty-five years. Haven't we confused the point of arrival with the point of departure, as suggested by Pierre Judet? Can we create industry without a prior industrial fabric?

-- Results in the agricultural development area have been equally disappointing. Producers of cash crops are reeling from the effects of slumps and wide swings in world market prices. In 1986, the cost to Ivory Coast of the slump in cocoa prices was as high as the total value of aid channeled through the Special Facility for Africa. The production of food crops has been stifled by food surpluses in the industrial countries, with Africa currently dependent on outside sources for over 15% of its food supply, which percentage is expected to soar to 40% by the year 2000. (2)

In this desolate landscape, the emergence of even the most tenuous new forms of production is grounds for optimism, particularly since rural microenterprises facilitate a smooth transition from farming to industrial activities, with important spinoff effects improving yields and enhancing agricultural output.

(1) Towards a Genuine Industrial Partnership with Africa, Evaluation and Future Prospects of African Industry, Business Institute (North/South Center), Paris, May 1985.

(2) Jean Coussy, Philippe Hugon, Olivier Sudrie, Food Dependency and Urban Development in Subsaharan Africa, Nanterre, CERED, 1984.

1.4.2.1 Improving Farm Yields

Rural microenterprises supply farmers with a portion of their equipment, including not only traditional manual tools, but farming, transportation and processing equipment as well. The modernization of African agriculture (animal traction, mechanization, irrigation) simply cannot be envisioned without a network of tradesmen providing needed equipment maintenance and repair services.

The prices charged by these small-scale enterprises are often highly competitive with those of government enterprises, although quality is not always consistent. A comparative study of government enterprises and small-scale independent manufacturers in Madagascar yielded the following price data:

Prices of Farm Equipment (1)

	<u>Government Enterprises</u>	<u>Independent Manufacturers</u>
	(FMG)	
Hoes	970 to 2,000	600 to 750
Plows	25,000	8,500
Seeders	100,000	40,000
Decorticators	1,000,000	225,000
Wheelbarrows	30,600	25,000

In Senegal, thanks to equipment repairs, small-scale local manufacturers are replicating imports. An imported windmill shell costs anywhere from 1 to 1.5 million CFAF. Manufactured by the large national enterprise, it's sold at 400,000 CFAF. Produced by a small-scale manufacturer, the cost is between 200,000 and 300,000 CFAF. (2)

- (1) Small-Scale Commercial Enterprises in Madagascar, Elisabeth Humbert, GRET, 1986.
- (2) Promoting Rural Equipment Manufacture by Small-Scale Enterprises in the Metalworking Sector, Small Business Administration, Senegal, July 1986.

However, microenterprises satisfy only an extremely small percentage of market demand (between 5 and 10% of the demand for farm equipment in Madagascar) due to a series of obstacles, hopelessly similar from one country to another, as examined in the following paragraph.

The fact that only 10% of Burkina Faso's 500,000 - 600,000 farmers have plows manufactured by state-owned enterprises sold on credit repayable over a five-year term through a long, tedious process involving farmers' groups, regional development offices and farm loan banks while plows produced by the few independent small-scale manufacturers with a welding set are bought for cash or on credit repayable in six months time is rather baffling to say the least.

The use of animal traction, whose introduction to West Africa back in the Sixties was a long and difficult task, is, nowadays, both an acceptable and desirable farming practice. Thus, the adoption of new technology often takes a round-about course, resurfacing like an underground river where you least expect it.

In Niger, plows were being discarded by small farmers lacking the necessary straps and fittings to harness their teams of oxen. In Guinea, where the Sekou Toure regime forced farmers to purchase animals on credit, the farmers later sold the oxen in Sierra Leone, paid off their plows and left them sitting under a mango tree. Nowadays, they use them without having to be prompted and try unsuccessfully to purchase new plows. The supply of farm equipment is so limited that, as recently as May 1987, there was not a hoe to be bought anywhere in the bush after ten o'clock A.M.

In surveys conducted in Madagascar, farmers ranked their needs as follows: Equipment was first, followed by credit, with agricultural extension

in last place. All interviews conducted in African villages confirm the priority accorded to equipment and credit over extension services.

In addition to equipment, rural microenterprises also supply other farm inputs such as certified seeds and plants, fertilizer and plant health products. Longtime victims of government monopolies, nowadays, these enterprises are likely to be bullied by traders and moneylenders who, with their large stores of capital, keep them in a state of dependency.

Microenterprises could potentially play a hundred percent larger role in supplying farm inputs than is presently the case, which would certainly be a more reliable means of improving farm yields than the army of extension agents offering area farmers no concrete inputs other than a technical message of extremely limited worth, particularly as concerns food production. (1)

1.4.2.2 Enhancing Agricultural Output

Microenterprises have equally important downstream effects on agricultural output, ensuring essential marketing and transportation services which, in an African economy with fragmented markets and inadequate infrastructure, are, by nature, of fundamental importance. They enhance agricultural output through processing activities slowly progressing from the household to the village level. Ten or fifteen years ago, there were no privately or group-owned grain mills or oil presses to be found anywhere in

- (1) To illustrate this point, in Madagascar, a simple rotary hoe produced by small-scale local manufacturers used to weed rice fields enables a farmer, working alone, to weed 15 ares a day (approximately 1800 square yards) or six times more than by hand, and from a much more comfortable upright position to boot. Studies by Dobelman have revealed that timely weeding can mean significant improvements in yields. Compare the following figures:

4.6 tons/hectare for rice fields weeded in a timely manner;
4.0 tons/hectare for fields weeded behind schedule;
3.3 tons/hectare for non-weeded fields.

rural Africa.

Demand for finished products serves as an incentive to increase production. In Ivory Coast, sales of "attiéké" (cassava semolina) prompted local women preparing and selling it on area markets to create a veritable upstream production apparatus, leasing land and hiring laborers to produce the cassava.

The technological revolution in the food processing and preparation industries of industrialized countries could be a godsend for low-income countries, enabling them to expand exports of fruits and vegetables through labor-intensive activities. The biotechnological revolution is only beginning! The use of crop residues for fuel production or the production of animal feed could be further developed. One way of reducing Africa's dependence on offshore raw materials markets is by improving agricultural output. There are many interesting options for future endeavors in this area.

1.4.3 Linkages Between Production and Consumption Patterns

A common argument against rural microenterprise development is that of the exiguity of area markets, an argument based on a static view of the economy. If markets were not expandable, there would be no such thing as development.

The few existing surveys of rural household budgets and consumption show locally manufactured products have the highest income elasticity. In Sierra Leone and Nigeria, a 10% increase in income will produce a 13-14% rise in expenditures on local goods and services (except food), as compared with only 11% for imports. (1)

(1) See studies by P. Kilby and Carl Liedholm and by E. Baumann.

In fact, progress from a less developed to an industrialized economy is characterized by an articulation between patterns of production and consumption, which are either intensive or extensive. Intensified production reflects an increase in per capita fixed capital. Intensive consumption is associated with a broader use of durable goods, while extensive consumption is limited essentially to traditional products.

According to the production/consumption grid developed by C. Courlet (1), Africa still has extensive patterns of both production and consumption, while the Asian nations with their high levels of rural industrialization have progressed to an intensive/extensive pattern, moving towards the intensive/intensive patterns of industrialized countries.

Under present conditions, market size is limited by humble household incomes. However, by creating a local trading network, the development of small-scale rural enterprises has an expansionary effect on the size of the local market. The experience of the Grameen Bank in Bangladesh proves that one group's income is invariably another group's market.

This line of reasoning can be carried even further. Studies of certain areas show negative price elasticities of supplies of farm crops when farmers are unable to secure needed consumer or capital goods on the local market.

In Mozambique, imports of wage goods financed by a Central Bank loan helped increase the production of cashews, which farmers were simply not gathering as long as they had nothing to do with their money.

In many regions of Africa and particularly in areas where the recent introduction of one or more cash crops has produced a sharp rise in monetary

(1) C. Courlet, Accumulation of Capital, Social Dynamics and Industrial Restructuring in Industrialized Countries.

income, money is being squandered on beer for want of goods and services available on local markets. Thus, growth does not necessarily go hand in hand with development, requiring an intensification in local trading.

1.4.4 Relations Between the City and Countryside

All Third World countries have a common problem of unbridled urban growth, in turn creating infrastructure, supply and employment problems. At the beginning of the century, only one tenth of the world population lived in cities. By the year 2000, industrialized countries will be 80-90% urban and Third World nations, whose populations are growing at a much faster pace, will be close to the fifty percent mark. (1) It's impossible to resolve this problem without a spatial view of development with greater emphasis on the construction of infrastructure in secondary population centers and rural areas. But, over and beyond such a policy, the only possibility of slowing the rural exodus is through the creation of rural nonfarm employment.

China has achieved the most remarkable results in this respect, with rural industry presently employing 20% of the rural labor force estimated at 370 million workers and accounting for 25% of total industrial output. This rapid expansion in recent years is directly linked to the breakup of collective farms. The rural population engaged in nonfarm activities tripled over the period from 1980 to 1986, from 25 to 75 million inhabitants, while the number of enterprises rose from 56,000 to over 12 million and the gross value of production increased five-fold, with rural industry responsible for

(1) The Third World population, measured at approximately 5.8 billion inhabitants in 1985, will swell to 8.9 billion by the year 2100, with the Southern Asian population doubling, that of Latin America tripling and the population of Africa experiencing a five-fold increase.

half the increase in rural income over the five-year period. (1)

On an entirely different level and without having thus far achieved results nearly as spectacular as those reported by China, a small African nation, namely Rwanda, has taken a similar approach, instituting a new three-pronged decentralized rural industrialization strategy in 1984 focusing on: (1) the development of rural employment; (2) the development of industries with forward and backward linkages with the agricultural sector; and on (3) reducing its trade deficit through the creation of import substitution and export-oriented industries. The wisdom of this approach lies, not only in its shielding Rwanda from the effects of an industrial policy doomed to failure which, according to its President, "dreams only of large industrial units through deceiving "airdrops" of turnkey factories costing more than they earn," but also in its deliberate effort to promote a balanced development of urban and rural areas and, thus, stifle social unrest.

Gandhi first said it back in 1940, long before Michael Lipton's studies of the urban bias. "The exploitation of rural areas is, in itself, a form of organized violence. If our society is to be founded on nonviolence, then we must give our rural areas the stature they deserve."

Trading between urban and rural areas clearly plays a catalytic role in this spatial balance. Thus, rural microenterprises will prosper first and foremost in peri-urban areas.

2 - PROMOTING SPONTANEOUS ECONOMIC DYNAMICS

In his travels to neighboring planets, Saint Exupéry's "Little Prince" meets a king who commands the sun to set, taking care to, first, confirm the

(1) Tu Nan, Rural Industry: China's New Impetus for Development, CERES, November/December 1986.

time -- an elementary wisdom which should also apply to the development process. Experience has shown the futility of going against deep-rooted social currents, of burning bridges and of trying to centralize and program decisionmaking by all economic agents.

Evaluations of integrated rural development projects by the World Bank and other donors over the past twenty years reveal a semantic confusion at the project design level. While the criterion for project design was for 50% of such projects to directly benefit poor farmers, in the minds of development officials, the approach was to mount multisectoral, multipurpose projects. As a result, the projects were of greater benefit to government than to the farm population and, in Africa at least, over 50% ended in failure. It was obviously a mistake to attempt to reconstruct economic complexities, but wouldn't the results have been the same if, rather than erroneously applying the tables of the law, developers had placed more emphasis on familiarizing themselves with the rural reality?

2.1 A Different View of the Economy

There are different ways to read the economy. Engineers approach it by subsectors; economists with market models and economic aggregates. In industrialized countries, their judgements are used only to back political decisions subject to the pressure of public opinion.

But in the grand theater of development, this adjustment is simply not made for want of substitutes. Experts play leading roles, while economic agents are merely extras, although it is they who ultimately assume all the risks. (1)

(1) This brings to mind a passage from Ionesco: "Reason is but the madness of the mighty. Madness is but the reason of the weak."

The failure of all technocratic development policies, whether of socialist or liberal inspiration, and the spontaneous emergence of new patterns of production in reaction to the economic crisis or simply to the easing of government-imposed constraints, as in the case of China, shows the development potential inherent in the rural environment and its ability to adapt to existing constraints and opportunities.

The development of economic concepts and methods is, by nature, slower than real life developments. Economic agents fight to survive and better themselves, while we fashion molds in which to pour them, according to a principle formulated by Jean Cocteau, namely that "since we've been overtaken by events beyond our control, at least let's try and organize them."

The growing gap between economic theory and reality has, however, produced new schools of thought. In France, leading the way are vanguard studies of the informal sector by Jacques Charmes and Philippe Hugon, of ecodevelopment by Ignacy Sachs, of spontaneous development by Marc Penouil, and of new forms of industrialization by Pierre Judet.

In Italy, the spectacular development of the Emilia Romana region over a twenty-year period from an area with a poor agricultural base to a rich industrial area with a positive migratory flow enabled Italian economists (Vittorio Capecchi and G. Garofoli) to observe the progressive growth of small-scale flexible industries rooted in local agrarian structures and cultural and political traditions, at the same time drawing on increasingly diversified technologies and markets.

Based on observations of industrial reality in various advanced countries, Michael Piore and Charles Sabel with the Massachusetts Institute of Technology developed an alternate system of industrial organization replacing

the old Fordist model based on economies of scale, job specialization and the division of labor, described in their book "The Second Industrial Divide."

This system, based on small units of output made possible by innovative technology, corresponds to the present-day uncertain economic climate and the inability of the overly cumbersome and rigid classical industrial apparatus to resolve the unemployment problem.

Thus, taking into account regional specificities, varying levels of development and differences in opinion from one researcher to another, the study of informal economies transcends the sphere of competence of economists considered by their colleagues engaged in more sophisticated research on the formal sector as "journalists, dissidents or poets" and is becoming increasingly acceptable." (1)

Market economy models detached from social reality have proven partially if not totally inadequate in dealing with the development-related problems of dual economies and their imperfect markets. We are duty-bound to broaden our vision by attempting to grasp the living complexities of present-day reality. Only through a better knowledge and understanding of reality can we avoid commanding the sun to rise before daybreak and effectively support rather than ineffectively replace individual initiative in the development process.

2.2 Policies Supporting Microenterprise Development

Rural development is a long-term systematic process of change in which it is futile to attempt to control all intervening factors. We can, however, create more favorable conditions for microenterprise development and replace extension and assistance policies by self-development policies at the grass roots level.

(1) Paul Streeten, Development Dichotomies, World Development, 1983, No. 10.

2.2.1 Creation of a Favorable Environment

There's no magic formula for the transition from multiple rural activity to rural industrialization. Such a transition is invariably the result of a unique set of circumstances. However, there are obviously certain bottlenecks which must be eliminated.

2.2.1.1 The Mimetic Bias

Industrial policies have systematically promoted the formation of large-scale economic units relying on capital-intensive technologies.

-- Overvalued exchange rates facilitated imports of capital goods at much lower prices than if currency values on foreign exchange markets had accurately reflected real domestic price levels.

-- Interest rates set at levels below the cost of money (and negative interest rates during inflationary periods) encouraged heavy investment over labor-intensive systems of production.

-- Existing investment codes provided for capital goods to be imported duty-free or at preferential rates, granted temporary income tax exemptions and allowed for the tax-free accelerated depreciation of fixed assets.

-- Wage policy and social legislation favored a small minority of formal sector wage earners representing a maximum of 5% of the African labor force and, at the same time, limited employment opportunities in the formal sector.

2.2.1.2 Obstacles to Rural Microenterprise Development

Compared with the privileges bestowed on the formal sector, the informal sector has been ignored and neglected. Rural microenterprise owners from Senegal to Madagascar all face the same problems:

-- Inadequate supplies of raw materials: In order to make a pitchfork

sold for 6.5 kg of beans, a blacksmith in Rwanda must first spend three or four days in the city combing repair shops for an old car axle and hauling it back to his shop in the country. It is impossible for small-scale tradesmen and enterprise owners to obtain import permits, with corresponding applications processed through intermediaries with little interest in importing goods in small quantities. Customs duties on certain inputs are as high as 40%. Thus, a regulatory solution will not suffice. The rural climate of scarcity makes it essential to organize the supply process, eliminating intermediaries and relying on trade organizations receiving initial support.

-- Primitive, inadequate equipment: Tradesmen in African villages continue to rely on primitive tools. Blacksmiths work with only an anvil, tongs and hammer. Several carpenters often share a single plane. Wood supplies are oftentimes limited by a lack of saws. Many microenterprise owners do not even own their own equipment, whether it be a sewing machine or refrigerator, which remains the property of the official or trader supplying him with capital under conditions approaching those of traditional sharecropping arrangements. (1) The solution to these elemental, yet significant, bottlenecks are simple: adequate market supplies of essential equipment, creation of technical assistance centers to advise tradesmen on the availability of necessary equipment and investment credit.

-- Little or no working capital: Most microenterprise owners are forced to rely either on task work or on middlemen, which cuts down their

- (1) A survey of tool and equipment ownership in Africa revealed a number of strange situations. We found a shoe shiner in a small rural village in Burkina Faso turning half his income over to the owner of his box of brushes and polish. The box couldn't have cost more than 2,000 CFAF. With his daily earnings of 200 to 400 CFAF, he could have paid back a loan in two months time and doubled his income.

earnings considerably.

-- Fierce competition from imports sold at predatory prices: How can we expect to develop small-scale clothing factories while continuing to flood Africa with a torrent of second-hand goods, the very symbol of beggary! Nowhere in the world, including Southeast Asia, has an industry prospered without at least some measure of protection.

-- Inadequate rural infrastructure: Just like the mimetic bias in the choice of technology has favored the formation of large-scale units of output, the urban bias has favored more glamorous public works projects, to the detriment of rural infrastructure. The need to build secondary and access roads, to establish telecommunications service in rural villages and towns and to bring water and energy to rural inhabitants are just a few of the prerequisites for the development of rural microenterprise and industry. Local government could obviously play an important role in this area.

-- Marketing: While sales of locally consumed goods and services pose no particular problem, efforts to expand exports immediately run up against a number of marketing problems. In advanced countries, the adaptation of goods produced in small-scale rural factories with flexible product lines for world markets and international commerce is ensured by state-of-the-art computer and telecommunications technology. Africa is not yet at this stage, but is, nevertheless, making rapid progress in this direction. As in the case of raw material supplies, the successful marketing of products produced by small-scale rural enterprise requires organizing the supply of such products and adapting them to external market demand. Moreover, the development of trade organizations should also make it possible to better control product quality and quantity.

Criticisms of the informal sector usually attack its ability to profit from economic distortions (1) and circumvent taxation. But it is up to the federal government to correct such distortions, better adapt its system of taxation and see to it that rural microenterprises draw on positive rather than negative elements of the economy.

2.2.2 Recognizing the Entrepreneurial Rights of Would-be Microenterprise Owners

Despite considerable rhetoric about satisfying basic needs, fighting poverty and, more recently, equitable development, in many Third World nations poverty is still on the rise, fueled by high rates of population growth and structural adjustment policies.

This rise in poverty, which also reflects a major failure of foreign aid programs, cannot be checked through assistance and charity. However, it could certainly be attacked more effectively if, aside from creating propitious conditions for self-advancement and microenterprise development, socialist and liberal governments alike would recognize the entrepreneurial rights of their respective citizens by providing access to capital, training and technology.

2.2.2.1 Access to Capital

In view of the importance of nonfarm activities, access to capital is as much a major obstacle to rural development as is access to land.

The amount of capital needed to start a rural microenterprise is negligible, considering the small, if any, investment in plant and equipment. Women open small businesses with \$80 to \$100. Tradesmen equip their shops with \$300 to \$400. With \$4,000 to \$5,000, they can buy modern equipment and their own generator as well.

(1) This is especially true of border trade and black market operations.

But capital is a scarce commodity. If bank failures are, nowadays, running rampant, it's certainly not the fault of small-scale producers who, aside from isolated projects, have never even reaped the benefits of banking. Microenterprise owners obtain their capital by working on large plantations, entering into agreements with officials or traders, joining in a tontine arrangement or borrowing from a moneylender. And money is far from cheap! In Cameroon, tontines with values ranging from \$300 to \$1,500 (1) in rural areas are snapped up at auctions at double the asking price. In Ivory Coast, the informal interest rate is 25% per month and, in Burkina Faso, as high as 500% a year. Compared with relatively inexpensive (12%) if inaccessible official credit, a farmer-operated savings and loan association in Mali pays 20% interest on savings and charges 40% interest on loans to member farmers. Earnings from dry season activities are sufficient to redeem its capital and pay a relatively high rate of interest.

Solutions to rural credit problems, all of which are well-known, are based on two different approaches:

-- In the first approach, village-level savings and credit cooperatives, which are largely self-managed and operated, attract deposits from their members, redistributing a portion of such funds and placing the remainder with a central facility, providing refinancing as necessary. We find these cooperatives operating in a large number of countries, with varying degrees of success. Between 1970 and 1985 in Zimbabwe, the Savings Development Movement created 5,500 savings clubs with 140,000 members, the majority of which are women. Ghana's and Cameroon's credit unions, Burkina Faso's savings

(1) Bruno Bekolo-Ebe et. al., Study of the Small Business Guarantee Fund Intervention Strategy, Douala University Center, 1986.

and loans and Rwanda's and Burundi's people's banks were all inspired by Germany's Raiffeisen System, France's "Crédit mutuel" (mutual savings bank) or Canada's "Caisses Desjardins."

However, these cooperatives have not been entirely effective in satisfying the credit needs of microenterprise owners. Their creation is a slow-moving process and they've proven more successful in attracting savings than in distributing loan funds. Ignoring the old English adage "loans make deposits," they require that borrowers have savings accounts and, in principle, lend only to members able to put up collateral for their loans. Thus, only an extremely small portion of their deposits are invested in rural areas, with most of their funds placed with banking institutions.

-- In the second approach, specialized agencies or bank windows drawing their resources from outside sources of funding lend to smallholders or landless peasants, enabling them to mount productive activities. The model for this credit scheme is Bangladesh's Grameen Bank formed in 1983 in a pilot operation mounted by Professor Yunus. Today, it has over 300,000 members, with a default rate of under 2% and a 50% annual growth rate. The secret of its success basically lies in the following three elements:

-- an indepth knowledge of the surrounding environment, facilitating the design of appropriate procedures responsive to its needs and to existing constraints. The pilot project, originally launched in 1976, has been gradually expanded. There is a year-long management training program conducted virtually exclusively in the field;

-- giving borrowers freedom of choice, who assume full responsibility for their respective undertakings, which are expanded in stages according to their resources and capabilities, in a radical attempt to prevent failures and

avoid the market problems inevitably created by central planning;

-- financial restraint, based on joint and several grass-roots organizations, independent agency management, commercial interest rates and the mandatory creation of savings and insurance funds.

A recent mission to two Sahelian countries whose members included the Assistant Manager of Grameen Bank revealed an a priori possibility of overcoming existing obstacles (while, at the same time, profiting from the advantages offered by the local environment) to establish a system responsive to local financing needs based on these same concepts. To be sure, the attempted graft could easily end in failure if reliant on a simple, mass transplant without, first, adapting the various elements involved. But, since we can't always expect the worst, we might as well hope for the best, namely that the system developed by the Grameen Bank will take hold in Africa.

This optimism is further encouraged by the results of a number of credit programs for larger-size microenterprises operating in different countries and particularly in Burkina Faso and Senegal with USAID support.

2.2.2.2 Access to Training

In his study of food security for Africa, Dr. Swaminathan, one of the architects of the green revolution in India, observes that: "poor farmers in rural areas will invariably miss out on new technological opportunities unless immediate steps are taken to train rural men and women for the intelligent and effective use of new technology such as biotechnics and personal electronics. In fact, rural development should be defined as the transformation of unskilled persons into skilled individuals." (1)

(1) Sustainable Nutrition Security for Africa: Lessons from India, World Food Council, Rome, October 1986.

Without denying the merits of such an ambitious undertaking, we cannot help but notice how far we are from attaining this goal. What do we find in most African nations? On one hand, we find inadequate education systems cranking out graduates taking their place among the ranks of the unemployed. On the other hand, we find a young generation performing feats of valor, migrating, leaving their country in search of basic technical training. Training is indeed a scarce commodity. African apprentices, like other apprentices, work for their masters. But, more importantly, a large percentage pay for the right to work as an apprentice. (1)

Vocational training centers are accessible only to a privileged few, whose hope upon graduating is to find salaried employment and who, in the interim, receive free lodging and a daily food allowance. Scanning the spectrum of technical training projects addressing basic rural needs, we come, first, to the Nyabisindu government-operated smithy in Rwanda training blacksmiths and providing them at the conclusion of the training program with the basic equipment required to practice their trade. Programs associated with agricultural development projects often report spectacular results. In Southern Mali, the CMDT trained 192 blacksmiths over the five-year period from 1970 to 1975 and helped them get started by offering them term loans, resulting in a three-fold increase in local production of farm machinery and equipment and ensuring necessary maintenance and repair services. The net income of area blacksmiths quadrupled in three short years.

A number of institutions or nongovernmental organizations (particularly INADES) are doing remarkable work in the area of skills training and

(1) At the SAA in Cameroon, the average price paid by 80% of area apprentices is around \$250.00.

management development. But despite government and ILO-sponsored efforts in this area, we're still light years away from the SPARK program providing training for a million young professionals each year to help promote the modernization of small-scale rural enterprise in China under the Seventh Five-Year Plan.

2.2.2.3 Access to New Technology

The third and last part of the triptyque is research/innovation.

A "symphonic" system of agriculture, to use the eloquent term coined by Dr. Swaminathan, a pleasant change from the well-worn concept of "integrated rural development," should encompass environmental conservation, the processing of farm crops and crop residues and the rationalized use of biomass, implying a need both for multidisciplinary research and for access by rural inhabitants to appropriate technologies.

It's not a question, as we've seen in certain African television programs, of showing films on the use of weather forecasting models by Midwestern farmers in the United States, equipped with their own microcomputers. Fortunately, African farmers, who do not have television sets, did not hear the narrator's concluding remarks, namely "let's hope our farmers will soon be doing the same."

The immediate goal is to provide rural microenterprise owners with currently inaccessible, compartmentalized information often available at the domestic level and, at any event, from international sources, through supporting services rendered within the framework of trade organizations.

This information will not necessarily come from highly skilled experts, but rather from skilled tradesmen who, though rare in Africa, can still be found in certain parts of Europe and, to a much greater extent, in Asian

countries such as India and China, representing vast stores of appropriate technology. (1)

Only by supplying the missing links for the organization of local enterprises and access to credit, training and vanguard technology can we hope to improve the absorptive capacity of the African economy, which is suffering less from a global shortage of capital than from the impossibility of investing in productive undertakings.

CONCLUSION

Echoing Confucius, in his book entitled "Black Labor and Tomorrow's Economy," Alfred Sauvy asks himself "is there light after darkness?"

Third World rural microenterprises are but one illustration among many of how economists have lost control over the economy, whose sole purpose is, in effect, to create wealth for the satisfaction of human needs. Given the huge volume of unsatiated needs multiplying at the explosive rate of population growth and the enormous potential of presently unused labor, our adjustment policies are but a reflection of our impotence.

By creating even the most minimal value added, which is multiplied many times over (2), and breaking down rigidities in the economic system, rural microenterprises make a valuable contribution to economic growth while, at the same time, ensuring a more equitable distribution of income.

- (1) A project mounted in Rwanda with assistance from the Technology Institute for the Promotion of Codevelopment brought technical assistance from French craftsmen to trade organizations in Rwanda in woodworking, metalworking and the processing of animal hides and horns.
- (2) Actually, the value added created by these enterprises is more significant than you may think. Surveys of Tunisia's informal sector by Jacques Charmes show that per capita value added in the formal manufacturing sector is only 1.2 to 1.7 times greater than in the informal sector.

Rather than focusing all our efforts on the privatization of the public sector under conditions which cannot always guarantee success, wouldn't it be more constructive to support the real private sector which, in Africa, is 90% rural and urban microenterprises?

Such a policy would not be very costly. It relies on the creation of trade organizations (1) much more than on cumbersome extension services. Instead of subsidies, it requires lending at commercial interest rates, with the government basically responsible only for the cost of infrastructure, research and training.

In light of the negligible cost involved, the benefits to government are considerable. At a level of zero development, multiple rural activity would check the impoverishment of marginated rural communities and reduce the potential burden on the nation-at-large. At a more advanced level of development, rural industry generates more wealth per capita than agriculture and becomes not only a means of preserving hard-earned foreign exchange, but a source of government revenue to boot. In China, taxes levied on rural enterprises represent two thirds of rural tax revenues, despite new enterprises being accorded tax-free status during their first two years of operation.

The last and certainly the most convincing argument in favor of such a policy in light of the explosive rate of population growth and the growing scarcity of financial flows is that the cost of creating a job in a small-scale or microenterprise is between \$300 and \$10,000 at most, as

(1) The creation of such organizations is further promoted by credit programs.

compared with anywhere from \$100,000 to \$250,000 in a small or medium-size business.

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"Lost among the ranks of those of humble birth, I was forced to utilize more science and mathematics merely to survive than was used in the past hundred years to govern all of Spain," cried Figaro, in a comedy by Beaumarchais and a presentiment of the approaching French Revolution. Two hundred years later, this cry remains a troubling present-day reality for Third World microenterprise owners. If this conference inspires one thought and one thought only, I hope it will be that of the right of all participants in the development process to engage in an entrepreneurial activity.