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Support for Microenterprises
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SUPPORT FOR MICROENTREPRISES

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1. INTRODUCTION

1.1. The economic crisis in Africa rather diminishing has over the past few years increased considerably in intensity. Production in both industry and agriculture is declining, inflation is rising with concomitant effect on household incomes. Exports are having serious problems finding markets at equitable prices. Servicing of external loans contracted previously is getting to be impossible. Capital flows are for many countries negative. The servicing of external debt as a percentage of export earning or GNP has attained alarming proportions.

1.2. Given these circumstances, many African countries are seriously rethinking their development strategies and the structure of their economies. Individuals too in these countries, some of whom have been adversely affected by the crisis are looking for avenues to support themselves and their families and in some way contribute to the development of their economies.

1.3. Since independence in the 1960's, African countries have lived in one way or another through various sizes of enterprises. These were large scale public enterprises, large scale, private enterprise, after which emphasis was and is still put on medium and small scale enterprises. The large enterprises especially the public ones on which concentration was put have failed to give satisfaction, riddled as they were with deficits, debts, heavy staff expenditure and general mismanagement. These have in fact contributed in some way to the present economic crisis of these countries.

1.4. The response of individuals as it were to the every day hardship imposed by the present situation has manifested itself in the springing up of individual initiatives some of which we classify as micro-enterprises. For the purpose of this paper, microenterprises refer to very small non-farm

income generating units in the informal sector and or engaged in artisan operations, family business or cottage industries employing five or less persons and with minimum capital assets.

1.5. Many of these micro-enterprises have developed mainly in a crisis situation. Some are doing well others are having problems but all are generally in a large way fulfilling some of the demands of their promoters. They are also contributing to the development of the various economies by providing employment, producing goods, service and generally filling the gap left by the large scale public enterprises.

1.6 Since the mid-1970s, the role of small or microenterprises in the development of African economies has become a major concern among policy makers and the international donor community. In 1980, for example the African Heads of State met in Lagos to seriously review the development of the continent its problems, constraints, possible solutions and they drew up a strategy and agenda for future action. This is the Lagos Plan Action.

1.7 The paper will attempt to analyse the problems of microenterprise development, particularly those encountered in helping women small scale entrepreneurs. Then it will propose ways in which governments, business community and donors could assist in microenterprise development.

2. MAJOR CHARACTERISTICS OF MICROENTERPRISES IN AFRICA

2.1 Major characteristics of microenterprises could be summarized as follows: small size, loose informal structure, ease of entry, requiring very little capital to start up, high flexibility, little or non formal education required, tends to be labour intensive, generally a one person or family business, depends on the business acumen of proprietor/promoter. A large percentage of these are operated by women, they often use local raw material/input, and cater on for local/surrounding markets.

2.2. The bulk of microenterprises in Africa are concentrated in production of simple consumer goods and services catering primarily for the needs of relatively low income urban and rural households. Microenterprises cover a whole range of activities in manufacturing, trade and services. The most

important types are: clothmaking and tailoring, food processing and vending; dry cleaning; restaurants and food kiosks; handicrafts; vehicle, shoes, electrical and bicycle repairs; grainmilling; hairdressing and butcheries to mention a few.

In unfavourable economic conditions where: the majority of the population is still rural; raw materials and markets dispersed; transport costly and difficult; and markets small, microenterprises are becoming more important and also efficient providers of incomes, goods and services. They also provide a tool for more equitable income distribution as the rural and urban poor, the landless and women who fail to share in the returns of agriculture and formal industrial development, depend on non-farm microenterprises.

2.4 While some business are one-man units, others work on a family basis and some hire labour or train apprentices. Though hired labour is a minor component of these activities, apprentices play a major role in these operations especially in West Africa. The proprietors and family workers involved in micro-enterprises usually have : little formal education, generally acquired technical skills as apprentices in other small enterprises of family business, and lack training in marketing, finance and management.

3. WOMEN AND MICROENTERPRISES

3.1. As we saw earlier a large percentage of the microenterprises in Africa are operated by women. One therefore wonders why this is so. A look at the major characteristics of microenterprises might help us find some answers. Some of the features which account for women's predominance are: ease of entry, loose and informal structure, requiring very little capital to start, little or no education required, high flexibility in terms of time. This latter enable women to reconcile more easily their different roles. Apart from those women who are proprietress, many of the microenterprises employ women to work in them.

3.2 Women in microenterprises are involved in both production and services. The most common activities are the garment industry, handicrafts, spinning and weaving, food processing, oil extraction, fish smoking, beer

brewing, leather works and soap manufacturing to mention a few. Service industrial activities operated by women in households, road sides and market places include; food kiosks, hairdressing, baking, retail and grocery shops, butchery and transportation among others.

3.3. It may be appropriate here to discuss those characteristics or factors which tend to give strength to microenterprise and so make them a dynamic developmental force. The first factor is the high motivation of the promoter. The fact that one is working for oneself gives impetus to the business. There is no rigid timetable and one can stay up/or open till late. The drive to attain ones objective is high. The fact that personal profit or income could be a function of one own action helps maintain the momentum. In fact the time spent by the promoter in doing divers activities related to the smooth running of the business is hardly ever quantified and costed.

3.4. Microenterprise generally requires little capital to start. This could be obtained from ones own savings, friends or relatives. For few micro-enterprise promoters have recourse to formal credit institutions with their interminable questions and paperwork. This helps to make decisions to start up microenterprises easier and this account for their proliferation. The small size of capital required limits expansion but make it such that only a limited surrounding market is caterred for.

3.5. The flexibility, another factor, further ensures that the products or its packaging is adapted to clients tastes, no Boards of Directors or Committee has to meet first. Let us take the case of women in Cocody, Abidjan, Côte d'Ivoire making and selling "Atieke", prepared food made from cassava. These women employ about three to four girls/young women in the preparation. The atieke is prepared starting from late evening around 1600/1700 hours, by 1900 hours the processing is finished and the girls/young women then take the finished product to the nearby local market. In the late 1970's the atieke was sold, wrapped in broad "food wrapper" type leaves. These do not retain heat well (atieke is best eaten when hot just after preparation) and not the best, from the hygiene point of view.

3.6. This "leaves packaging" is suitable for those like industrial workers, who, after work, want to eat it with their fish on the spot or in nearby eating kiosks. But as the clientele broadened to the middle level white

collar and professional groups and under pressure from the authorities the packaging changed; small plastic packets are now used.

3.7. Another element of dynamism of these microenterprise could be in their possibility of adaptation and should we say diversification. In Seychelles, where tourism is a major industry and tourists of all classes go, formal reception structures such as hotels are not always sufficient depending on the period of the year. Individuals have taken up the challenge and are providing these services in guest houses. These are mainly owned and run by women, who make extra income through letting out two or more spare rooms. In this way they supplement the income earned by their husbands.

3.8 In one particular case with which we are familiar, the proprietress has always been approached by guests/tourists who would like souvenirs, things made in Seychelles. Because of these frequent and persistent requests, the lady has diversified into making of small inexpensive objet d'art at home, printing of "made in Sychelles type" T-shirts. This has now grown to the extent that as her few guests cannot absorb the output of herself and her three helpers, she has now been able to rent a shop in the town centre to sell her own output. Because the shop is there, other small guest house owners who produce similar souvenirs, have asked her, for a consideration, to display their own output as well.

3.9 Microenterprises thus have features, which if exploited and the energies of their promoters are careful harnessed, can make them more dynamic forces at the level of the "quartier". Of course, there are certain areas which given their size and other characteristics, they can not enter or cannot do with the same efficiency. In fact we do not want to convey the impression that all microenterprises, or even microenterprises run by women are successful. No, far from it. For there are things which need small and/or medium enterprises to function effectively or effeciently. Many microenterprises can function more effeciently and contribute much more to the provision of income and employment if certain constraints are removed and problems they encounter could be solved.

3.10 In the following paragraphs these constraints and problems are discussed and possible ways of support enumerated.

4. CONSTRAINTS TO MICROENTERPRISE DEVELOPMENT

4.1 The major constraints to and problems to the development of microenterprises in Africa revolve around: financing, markets, appropriate low cost technologies, government policies, data on microenterprises and social norms as well as institutional and legal structures, poor management, weak accounting methods, in certain areas, poor product finishing.

Shortage of Financing

4.2 As stated above, available evidence indicates that the main sources of microenterprise financing are personal savings, friends, occasionally retained earning and very limited funding from formal financial institutions. Access to formal institutional credit is difficult for most small scale entrepreneurs, especially women because of the small nature of their operations which makes their needs small and loan administration becomes costly and unattractive to established credit institutions. Lack of adequate collateral and unfamiliarity with complicated loan application procedures and paper work further limits microenterprises access to formal credit. The problem of collateral more seriously affects women, who in some African societies have no legal right to ownership of tangible property like land and other valuable assets such as real estate. They usually have to rely on their husbands or male relatives to obtain formal credit no matter how viable their ventures are.

4.3 Though the minimum start-up capital required for establishing microenterprises makes entry easy, in absence of funding for expansion, it leaves the microentrepreneurs caught up into a vicious cycle of low investment, low incomes, low profits and savings for reinvestment. There is also the problem of insufficient network of financial institutions with enough branches to permeate the rural areas where the majority of microenterprises are located. All these problems coupled with small scale entrepreneur's lack of basic management skills necessary for keeping proper records and financial accounts normally required by the credit system terribly limits their access to financing.

Marketing Problems

4.4 As already noted the products and services of microenterprises primarily target the needs of relatively low-income urban and rural households. These primary markets are nearby and small. They are defined not only by local effective demand but also the entrepreneurs ability to: reach the market, know the preferences of the market channels and competition as well as be able to physically deliver the goods and services to the market.

4.5 While nearby markets are easily accessible, they tend to have the disadvantages of low effective demand because of relative poverty, especially in the rural areas and saturation of products due to commonality of raw materials and skills in most areas. Though often the micro entrepreneurs are capable of production activities, they hardly have any product design and not much marketing skills. Hence they produce standardised products for sale in slowly growing markets. Women entrepreneurs are the most lacking in marketing skills and usually plunge into production without any marketing advice. Because of the characteristics of microenterprise, such as ease of entry there tends to be a proliferation of microenterprises in the same location catering for the same clientele. We find at times one promoter having set up a dress making workshop or hairdressing saloon being followed by several others in the same street. This tends to increase competition considerably and may have a negative effect on income earning and employment generation. The weak linkage between large and small scale enterprises aggeravates the market situation as it limits subcontracting arrangements.

Inadequate access to technological information

4.6 Microenterprises are often unaware of technological options which could assist them in increasing their productivity and business income. Though not in abundance, there are some simple low-cost appropriate technologies and tools which microenterprises could benefit from. Usually microenterprises have no access to such information partly because of difficiencies in institutional network (e.g. industrial extension services), especially its inability to supply such information at a cost affordable to microenterprises and in simple packages they can readily utilise. The little information on simple technologies is often not tailor-made to match the absorptive capacity

of small entrepreneurs. So this leaves person-to-person contact among them and simple imitation through observation as the main limited forms of disseminating technological information among small scale.

Weak accounting

4.7 Many microenterprises have weak accounting methods and often no accounts are even kept. A fellow I know who runs a small automobile repair workshop hardly keeps any records at all. It is not uncommon to see him draw open his till, take some money out to give to his spouse to go to the market or to his children to buy their lunch. No record is kept of such monies spent on non business expenditure.

Government Policies

4.8 Since the mid-70s many African Governments' policies have shown support for the growth of small scale enterprises. Most Government policies on industrial development, interest rates, foreign exchange, trade and tariffs are rather biased in favour of large and medium scale producers, often at the disadvantage of small entrepreneurs.

4.9 Interest rate ceilings make it unprofitable for financial institutions to lend to small entrepreneurs because of the high administrative cost involved and the higher possibility of default than is expected of more established firms. In the absence of personal savings, microentrepreneurs are forced to resort to more expensive forms of credit for their needs. Thus the Government policy aimed at protecting small borrowers from bearing the full cost of their credit needs, forces them to more costly alternatives like money lenders who in some cases charge over 100% interest rate.

4.10 Due to inadequate or lack of lobbying on the part of small entrepreneurs and inadequate sensitisation on the part of policy makers, formulation of trade and foreign exchange policies often take little account of the needs of this group of entrepreneurs. An example of this is that in Rwanda and indeed in many other African countries, microenterprises do not benefit from import subsidies granted for industrial stimulation as unlike medium and large scale enterprises, they do not import their inputs directly

but buy locally from local importers who are subject to higher tariff rates. This bias is evident also in countries like Nigeria, Ghana, Sierra Leone where well established textile industries co-exist with small textile producers. The large textile producers under the cover of the country's industrial incentives can import industrial machines duty-free while the basic inputs of micro scale tailor, the sewing-machines are classified as luxury goods and taxed accordingly. This differential treatment with regard to foreign exchange and tariffs affect most imported inputs.

4.11 Small enterprises are also often disadvantaged with regard to access to raw materials. In situations where the government controls distribution of industrial inputs to avoid excessive mark-ups, or aimed at regulating supplies of imported inputs, there tends to be a bias in favour of larger producers at the expense of small entrepreneurs.

Social Values, Institutional and Legal Structures.

4.12 Women microentrepreneurs are the ones most affected by these constraints. Social attitudes concerning women's values, abilities and proper roles often internalised by women themselves tend to be in certain circumstances limiting factors to women's entry and success in small microenterprises. This combined with their family commitments and responsibilities in certain field tend to limit their performance as entrepreneurs.

4.13 In many African societies, a task is devalued when it becomes women's work. Planners and policy makers often reflect societal attitudes regarding women and their productive activities as non-existent, unproductive or limited by child-bearing and rearing roles, thus undermining governments support to women in microenterprises and other sector of the economy. Due to certain societal constraints however, the wealth and value contributed by women to their economies do not fully accrue to the producers in full.

4.14 Institutions normally reflect societal norms that often create administrative and organisational barriers to the development of microenterprises, particularly for women. Various aspects of the legal framework in most African countries especially concerning

succession/inheritance and property ownership are biased against women and impede their access to and control off key productive reSSources like land and capital. In the Akan group of tribes in West Africa for example, at the death of her husband, a woman has to surrender all valuable assets including furniture and household goods, acquired over years by the family to the relatives of her deceased husband. It is not uncommon for instance to find successful business women not to mention women microentrepreneurs being denied credit until guarantee is obtained from somebody of the masculin gender.

Unavailability of Data

4.15 There is very limited data on microenterprises for planners and policy makers to go by. Despite greater recognition lately given to the importance of small scale enterprises in development, most of them are very small and difficult to quantify especially in rural areas. This problem of invisibility is even more severe with women's microenterprises because often neither themselves nor the rest of the society thinks of them as business people. Women entrepreneurs are often on the borderline with their subsistence occupations. Working without remuneration makes women participation in microenterprises even less visible. Due to lack of data, contribution of microenterprise, especially women's goes largely unrecorded making it difficult for planners to take their participation and contribution into consideration during policy formulation.

5. SUGGESTIONS ON POSSIBLE SOLUTIONS

5.1 In the past, African Governments and Donors' attention to small scale enterprise development has focused on targeted projects and programmes as opposed to policies, practices and attitudes which seem to be major impediments to microenterprise development. In absence of supportive policies and incentives, the past efforts in microenterprise development were not as effective as originally expected. There is therefore urgent need for both Governments and Donors to review and revise the existing policies and practices with a view to promoting the development of small scale enterprises to enable them to make their full potential contribution to economic and social development. With regard to this the following actions are being proposed.

5.2 The following actions could increase microenterprises' access to financing. Both Governments and Donors should explore ways of developing innovative credit programmes using intermediary channels or institutions closer to the target groups, such as entrepreneurs associations, cooperatives, women's associations/clubs and other grassroot association. It may be worthwhile to try out group lending methods which have proved quite successful in some parts of Africa like Ghana and Zimbabwe. Given the status of target borrowers, credit under such programmes should be screened on the basis of character, project viability and not purely on the availability of collateral. To ensure effective use of business credit, mechanisms should be developed which could allow for awarding credit for personal consumption in times of need. For it would be impossible for a microentrepreneur not to use money, even it is business credit, to pay hospital bills or buy medicines for a sick child. Whenever feasible, credit in kind should be seriously considered.

5.3 Interest rate and loan terms should be flexible enough to allow for the repayment capacity of the different microentrepreneurs. No one is saying that they have to be very low, otherwise local banks may be unlikely to step in and continue the credit flow on termination of the subsidied Government or Donor funding.

5.4 Recent microenterprise studies have revealed that working capital rather than fixed capital is the primary financial constraint to microenterprise development. Credit programmes should therefore focus on working capital in order to effectively address financial problems of microenterprises. In the consideration of credit to microentreprises, caution should be exercised with regard to the assessment of the real needs of the target group for these kinds of credit programmes.

5.5 Governments and donors could also take the following steps to encourage formal credit institutions to finance microenterprise developments:

- help to pay a share of the administrative cost for financial institutions or other financial intermediaries.

- Some countries like Ghana and Sierra Leone have credit guarantee schemes for small borrowers. This could be extended to other countries to enable credit institutions to learn about lending to small producers and so develop confidence in that type of credit portfolio.

- provide technical assistance to financial institutions to enable them to develop low-cost screening mechanism for lending to small producers and assist them in modifying the loan procedures to meet the need for small scale entrepreneurs.

5.6 To have access to formal credit, microenterprises are required to keep clear records of their operations. Most small entrepreneurs, particularly women do not possess the basic managerial skill it takes to keep such records. Governments and donor agencies could contribute considerably to the development of microenterprises through technical assistance programmes for small scale entrepreneurs in basic managerial skills like book keeping, inventory management, record keeping, etc. Such programmes would be more cost-effective if they are based on existing formal institutions like vocational training centres or informal ones like apprenticeship particularly dominant in West Africa. A simple package of technical assistance covering basic managerial skills with emphasis on financial management, simple marketing and product design, aimed at increasing the small entrepreneurs' ability to manage their operations could go a long way in easing their two most critical problems of finance and marketing.

5.7 The marketing problems faced by small producers can best be addressed through supportive Government policies geared at increasing rural incomes which form the bulk of the market for microenterprises. Such Government policies, particularly Agricultural pricing and other supportive policies would have significant multiplier effects on the development of microenterprises.

5.8 Assistance for microenterprise development should as already noted, ideally focus on basic training in marketing and product design to increase the small producers knowledge of the market as well as their ability to reach these markets. In as much as possible Government policies should encourage strong linkages between small scale, medium and large scale enterprises as

this would provide more opportunities for increasing the market for small producers through subcontracting arrangements. For instance in the 1970s the subcontracting arrangement between handicraft microenterprises and the large Botswana craft company provided the missing marketing link that was needed to support commercial production of handicrafts in rural Botswana. A similar subcontracting arrangement with a view to providing a more effective link with external markets would provide a breakthrough for microindustries like those making cloth in several African countries, whose products seem to be fairly highly demanded in Western markets.

5.9 The demand for microenterprise products and services could also be increased through elimination of unfair competition in the form of subsidies given to large-scale producers. Often, barriers to the trading companies which market the products of small firm exist and these should be eliminated. Governments can also directly enlarge the markets for microenterprises, through inter alia improvement of the infrastructure in rural and poor urban areas.

5.10 With regard to availability of appropriate technology for microenterprise development, changes in Government policies leading to a reduction in subsidies for imported machinery, would stimulate domestic engineering industry and machine shops potentially important for addressing technological needs of small producers. Technological information can be disseminated to small scale producers through demonstration of technological alternatives using exhibitions, trade fairs, films, etc.. In the absence of such facilities, informal arrangements like apprenticeships and trade associations can be channels for dissemination of technological information. Research in appropriate technologies for microenterprises would greatly enhance microenterprise development efforts.

5.11 African Governments and the donor community need to adopt supportive policies for promotion of microenterprise development. Differential treatment of large and medium scale operations with respect to foreign exchange, access to inputs, credit and tariffs which tends to be biased against microenterprise development should be reviewed and whenever possible be eliminated. With regard to access to industrial inputs, the Governments should work towards a system based on reduced Government control and intervention in distribution of

inputs. On the whole, Governments should strive to regularly review and revise their existing policies with a view to providing propitious environment with incentives and opportunities for more effective microenterprise development.

5.12 Social, institutional and legal constraints are the most difficult to address as they require change of attitudes which take a long time to achieve. Increased sensitisation of policy makers, decision makers and micro entrepreneurs themselves, particularly women with a view to influencing change of attitudes and review of institutional and legal framework impeding development of women entrepreneurs need to be vigorously conducted by all concerned. This could be done through training programmes aimed at increasing the awareness of all parties concerned and through policy dialogues.

5.13 Microenterprise data bases should be developed at country levels to quantify the contribution of microenterprises to the development process and to facilitate planners and decision makers in planning for more effective and integrated development of microenterprises. Governments and the Donor community should cooperate in providing technical and financial assistance for development of these national microenterprise data bases.

6. CONCLUSIONS

6.1 Because of certain dynamic elements in their characteristics, microenterprises contribute significantly to the development of African countries, particularly in employment creation, resource utilisation, as well as income generation and distribution.

6.2 In the past, effective development of microenterprises encountered limitations some of which could be traced to Government policies. The other major constraints hindering development of microenterprises related to deficient demand, shortage of financing especially working capital, inadequate technological information as well as social, institutional and legal structures which do not take into account the needs of the small producers.

6.3 In order to effectively address these problems and foster development of microenterprises, African Governments and the Donor community must adopt a more comprehensive view of looking beyond the traditional sphere of industrial policy and should also include agricultural pricing and income policies as well as general trade and foreign exchange policy. They must also strive to develop inovative credit programmes and appropriate packages of technical assistance suitable for the needs of the small entrepreneurs.

30 May 1988