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Characteristics of Small Scale Enterprises and Proprietors in Conakry

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CONTENTS

	Page No.
INTRODUCTION	1
IMPORTANCE OF INDEPENDENT ENTERPRISES TO HOUSEHOLD EARNINGS	2
CHARACTERISTICS OF ENTERPRISES	2
CHARACTERISTICS OF MAJOR PROPRIETOR	4
GENDER	5
CONCLUSIONS	6

INTRODUCTION

One of the most challenging issues facing policy-makers in sub-Saharan Africa is the need to create small enterprise jobs. This need is especially acute in the urban centers of countries undergoing economic reforms for a number of reasons. First, rapid growth of the labor force in cities, due to a combination of high fertility rates and rural to urban migration, has placed demands on governments to ensure adequate economic opportunities. Second, the role of the state as an employer has diminished under economic reform and former state run or state protected enterprises, the largest employer of formal sector workers in many cases, are closing. Third, economic reform programs' commitments to market liberalization are seen as providing a framework under which small enterprises can become an engine of economic growth.

Inevitably, a large share of employment creation will be in the non-wage sector instead of the wage sector. Further, there is an important role for the state in stimulating small enterprise growth and employment both by setting the correct legal and regulatory framework for market activities and ameliorating key constraints such as credit. Yet we know very little about the nature of small enterprises, their constraints, or their contribution to economic growth since the beginning of economic reform in Guinea. This lack of knowledge is apparent is Conakry, the mega city where 86 percent of households are headed by someone who migrated, and where 51 percent of total employment is in the non-wage sector.

The purpose of this bulletin, therefore, is to provide baseline information on the characteristics of the firms that comprise the non-wage sector. In doing so, the intent is to broaden the appreciation of the small enterprises sectors position in the economy and its potential as an engine of growth. This is especially important since, by virtue of the fact that they pay little or no taxes, are not formally registered, and are of such small size, their importance in the economy is often ignored or unrecognized.

IMPORTANCE OF INDEPENDENT ENTERPRISES TO HOUSEHOLD EARNINGS

In Conakry, more than half the households have an enterprise which involves the participation of one or more of the members (Figure 1). Further, of households with enterprises, nearly one-third have two or more enterprises. Among those households that have one or more enterprises, the average share of household revenue coming from these activities is 76.3%. Conversely, wage employment contributes 21.1%, and agriculture and fisheries 2.6% (Figure 2). In examining the relationship between the share of income from enterprises and the wealth of households, we find that on average, households with lower per capita consumption receive a higher share of their revenue from independent enterprises (Figure 3). Thus, not only are small enterprises important in general, but particularly for the poor.

CHARACTERISTICS OF ENTERPRISES

In terms of the nature of the enterprises, 72.5% involve commercial activities at the retail level (Figure 4). The next largest category, comprising one-tenth of the enterprises, is small industry. Interestingly,

there is a difference in the nature of enterprises according to their date of inception. Figure 5 shows that among existing enterprises, those that came into being more recently were more likely to be engaged in retail commerce. Conversely, while only 5% of the currently existing enterprises started between 1988 and 1990 were categorized as small industry, this was the case for 13% of the enterprises started before 1985. Two factors may be involved in the observed changes in sectoral composition of small enterprises. First, the failure rate of retail enterprises may be higher than the rate of other industries. Second, trade may have expanded rapidly under the economic reform program, thus fueling rapid expansion for retail commerce. However, the results also suggest manufacturing jobs, which must form the basis of sustained small enterprise growth in the post-reform period, have been slow to develop in the non-wage sector.

Most enterprises are extremely small, with the median net revenue per month being only GF 28,667, equivalent to approximately $44 per month in 1990 (Table 1). For comparison, average civil service compensation in 1990 was GF 93,000 per month. Interestingly, the most profitable enterprises pull up the average size of these business so that the mean (106,907), corresponds to approximately the 90th percentile of enterprises net revenue. Most enterprises also have few expenses outside of material costs, (median GF 40,000 per month). In fact, the median expenditures on salary payments, and capital expenditures are zero. On the gross revenue side, small enterprises provide an important secondary benefit of, on average, GF 9,713 of goods for own household consumption per month.

It is also noteworthy that enterprise revenues and expenses are higher amongst those that came into being prior to 1985 (Figure 6). This, again, is expected given the axiom of the survival of the fittest. But what is unusual is that those enterprises formed most recently (1988 to 1990), have higher revenues (and expenses) than those formed in the period immediately after the beginning of the economic recovery program. This suggests that capital constraints to small enterprise development may have been higher in the 1985 to 1987 period than the 1988 to 1990 period, when more capital intensive enterprise appear to have been born.

CHARACTERISTICS OF MAJOR PROPRIETOR

Most small enterprises are individually owned and managed, (91 percent of the enterprises profits are retained by a sole proprietor and only 11 percent of enterprises employ wage labor). However, labor contributions by other family members, especially children, are often significant. In the following analysis for the main proprietor is defined as the individual receiving the largest share of revenue from the enterprise.

Table 2 show that while the majority of small enterprise owners are females, a significant percentage are also male and household heads. Further, these proprietors have, on average, lower levels of education than the general labor force and are more likely to be members of households in the bottom two quintiles of per capital household consumption.

GENDER

Small enterprise differences, by gender, are shown in Table 3. Most striking is the fact that the sectoral composition of small enterprises differs dramatically by gender. Female headed small enterprises tend to be almost exclusively in the retail commerce sub-sector, while male enterprises tend to be disbursed between retail commerce, small industry, construction, and service enterprises. Further, female proprietors have, on average, slightly less education and are far more likely to reside in households in the lowest per capita consumption quintile.

Correspondingly, as shown in Table 4, mean and median monthly net revenues (profits) are far lower for females. The structure of enterprise finances also differ by gender. Males monthly enterprise expenses are on average a little more than three times those of females; however, capital and salary expenses are on average ten and six times greater, respectively. Monthly gross revenues are also roughly three and a half times that those of females. However, females actually donate more on average of their gross revenue to the household through transfer of goods.

Interestingly, the ratio of female to male headed enterprises changes by the age of the enterprise. Proprietorship of enterprises started before 1985 is almost equally divided between females and males. However, amongst enterprises born between 1988 and 1990, the overwhelming majority, 73 percent, are female. This change in gender of ownership of the age of the enterprise is probably due to the higher survival rate of large enterprises, which as we

have seen are predominantly male. Given the dramatic difference in enterprise characteristics, it is clear that targeting by gender is an effective means of addressing very different sub-groups within the small enterprise sector. Diversification and increasing the scale of female enterprises appear to offer substantial opportunities for ameliorating the welfare of the poorest households. Additional research is also needed into factors contributing to differential survival rates.

The age and education of the proprietor also appears to be related enterprise earnings. Table 5 shows that proprietors over 35 years of age have substantially higher net monthly revenues, both at the mean and median, than those 35 and under. This difference is primarily due to the large size of enterprises in the older age groups, since the gross revenue to cost ration for the two groups is practically identical.

Average net revenues also increase with education, though not evenly within education categories. (No clear trend emerges in comparing the medians of each categories). Interestingly, the gross profit to expenses ratio is much higher for individuals with secondary and university educations. Thus, education appears to increase the expected returns on enterprise outlays.

CONCLUSIONS

This research bulletin has shown that revenue from the small enterprise sector is an extremely important component of household income in Conakry, particularly among poorer households. At the same time, median monthly net-

revenues are very low, approximately $44 per month and derived overwhelmingly from small retail trade. Equally disturbing, small scale manufacturing, an important engine for growth of the small enterprise sector, does not appear to have responded to the economic reforms introduced between 1985 and 1987 and represents only 5 percent of the small enterprises started between 1988 and 1990.

However, within this general characterization of the sector, several clear stratifications appear which have important implications for targeting development assistance. First, female proprietors, while tending to have similar returns on costs, have much smaller enterprises, are concentrated in the retail trade sector, and usually come from among the poorest households. This suggests small enterprise credit programs, targeted at female proprietors, could be effective as a poverty alleviation measure. Second, because of the disproportionate number of retail enterprises in the sector, programs to nourish the diversification of the sector, particularly the development of manufacturing, would have strong multiplier effects throughout the rest of the sector. Finally, low education levels, especially lack of basic math and literacy skills, appear to be a major constraint to enterprise profitability. Entrepreneur skill development programs should be part of any major initiative to assist small enterprise development.

Table 1: Characteristics of Enterprises

	Mean	Median
Monthly Expenses (GF)		
Total	220,010	52,500
Capital	22,677	0
Salaries	3,632	0
Materials	181,192	40,000
Taxes	1,967	1,250
Other	10,542	0
Monthly Revenue (GF)		
Value of Production	380,917	98,400
Sold	366,463	88,400
Consumed by Household	9,713	233
Donations	4,454	0
Monthly New Revenues (GF) (Percentile Distributions)	160,907	28,667
90%		169,620
75%		72,333
50%		28,667
25%		11,200
10%		-4,167

Table 2: Personal characteristics of main proprietor

% Female	57.1
Average age (years)	37.2
Position in household (% of total)	
• Head	40.9
• Spouse of head	45.2
• Other family member	10.3
• Non family member	3.6
Level of Education (% of total)	
• None	77.9
• Primary	16.5
• Secondary	4.5
• University	1.0
Distribution of proprietors by household per capita consumption quintiles	
• lowest	27.6
• 2nd	23.9
• middle	19.5
• 4th	16.5
• highest	12.5

Table 3: Enterprise type, education, and household consumption by gender of proprietor

	Gender of Proprietor		
	Male	Female	All
Type of enterprise			
• Retail commerce	45.8	92.5	72.47
• Wholesale commerce	5.4	0.8	2.77
• Small Industry	19.0	3.2	9.97
• Transportation	4.8	0.0	2.06
• Construction, Utilities, Nat. Res.	13.7	1.7	6.8
• Services, misc.	11.4	1.8	5.93
Total	100	100	100
Education level of proprietor			
• None	74.0	80.9	77.9
• Primary	18.1	15.4	16.5
• Secondary	5.7	3.6	4.5
• University	2.2	0.1	1.0
Total	100	100	100
Distribution of proprietor by household consumption quintile			
• Lowest	18.8	34.2	27.6
• 2nd	23.1	24.5	23.9
• Middle	19.5	19.5	19.5
• 4th	16.5	13.7	16.5
• Highest	12.5	8.0	12.5

Table 4: Characteristics of enterprise by gender of proprietor

	Male		Female	
Monthly net revenue (GF)				
Distribution (percentiles)				
10%	(12,267)		(17)	
25%	15,167		8,825	
50%	44,800		20,817	
75%	128,100		44,775	
90%	374,188		99,770	
Mean	275,743		74,859	
Monthly expenses (GF)	Mean	Median	Mean	Median
Total	368,611	80,000	108,662	42,010
Capital	46,751	1,250	4,638	0
Salaries	6,819	0	1,244	0
Materials	293,772	50,000	96,835	35,000
Taxes	3,267	1,500	993	758
Other	18,002	0	4,952	0
Monthly Revenues (GF)				
Value of production	544,354	150,000	183,521	70,300
Sold	528,014	140,000	170,480	60,000
Consumed by household	8,496	0	10,625	2,000
Donations	7,658	0	2,054	0

Table 5: Characteristics of enterprise by age of proprietor and education

	Mean	Median
	Monthly Net Revenue (GF)	
Age		
≤ 35	91,085	22,700
> 35	228,017	34,842
Education		
None	101,081	27,858
Primary	118,003	33,000
Secondary	918,440	30,833
University	2,057,467	22,500
	Monthly Expenses (GF)	
Age		
≤ 35	133,823	39,167
> 35	302,852	74,880
Education		
None	179,868	50,633
Primary	258,461	59,583
Secondary	663,229	68,750
University	696,897	275,000
	Monthly Gross Revenue (GF)	
Age		
≤ 35	224,908	74,000
> 35	530,869	125,500
Education		
None	280,950	92,000
Primary	376,464	112,000
Secondary	1,581,669	104,000
University	2,754,364	297,500

Figure 1: Number of independent enterprises in household

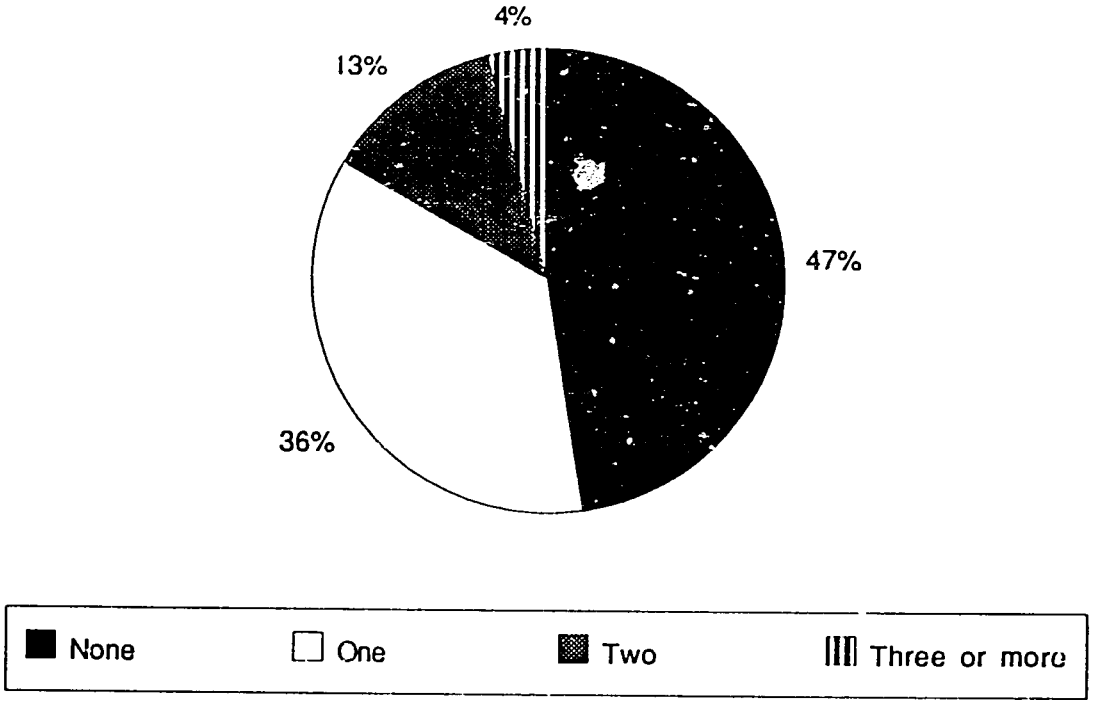


Figure 2: Average share of total household revenue, by sector, among households with individuals involved in small enterprise

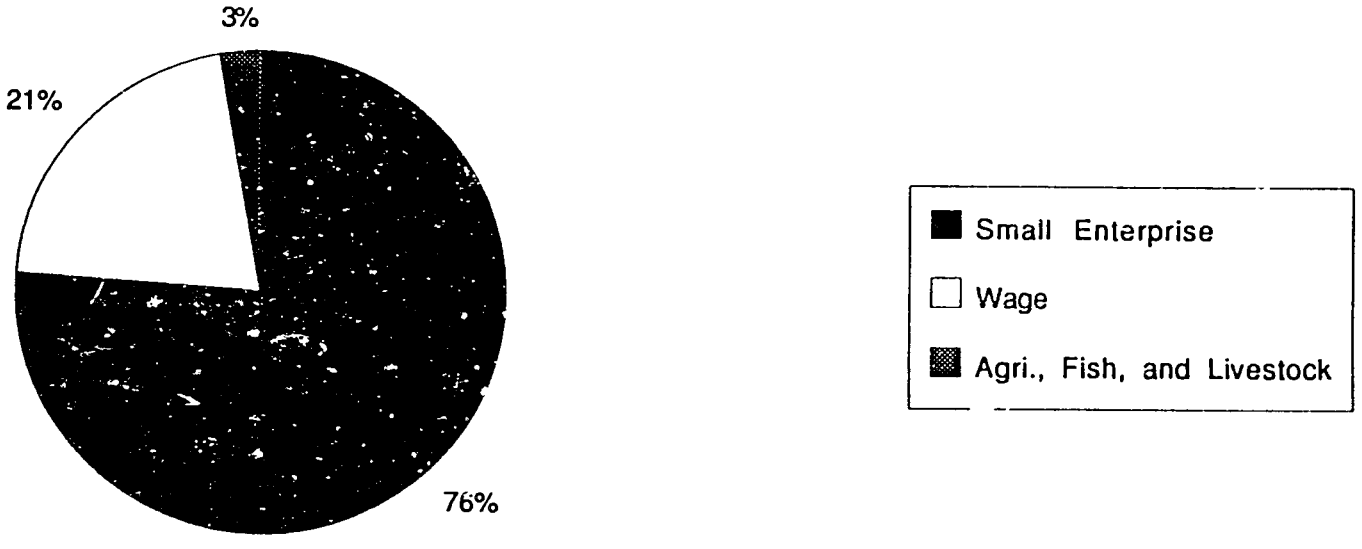


Figure 3: Average share of household revenue from the small enterprise sector, by consumption quintile

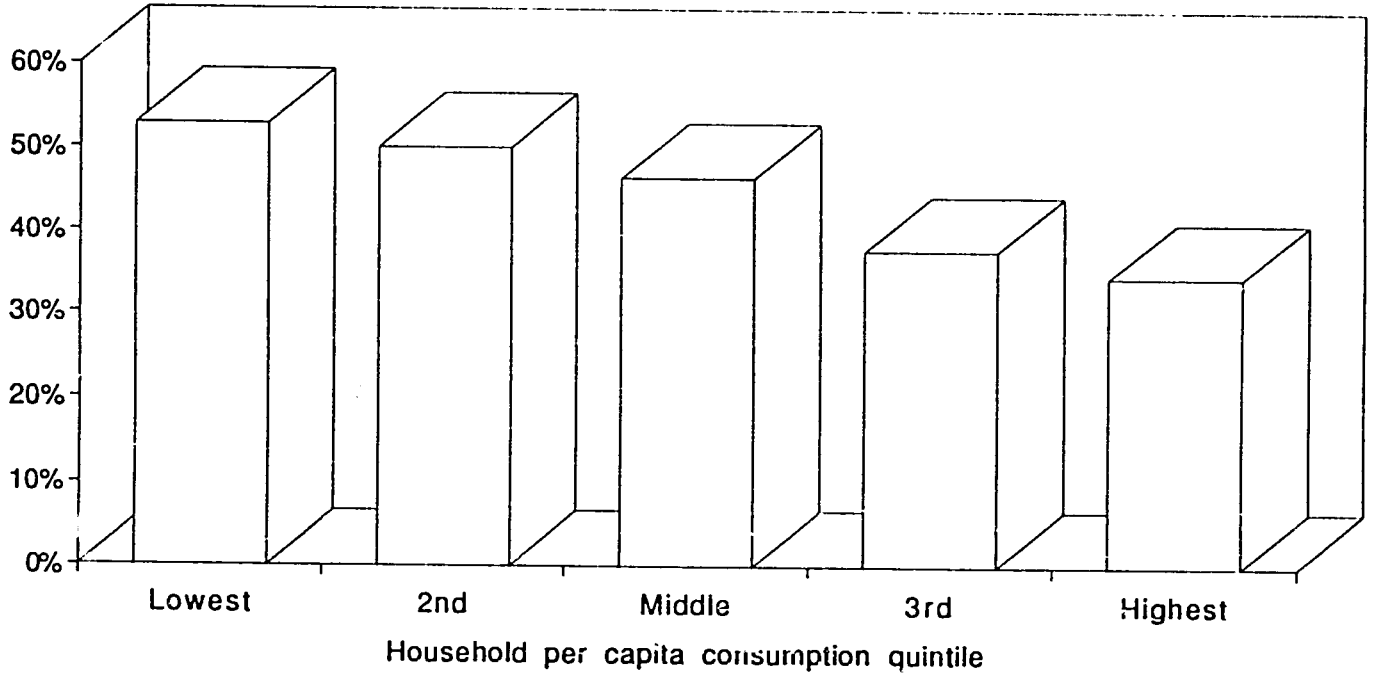
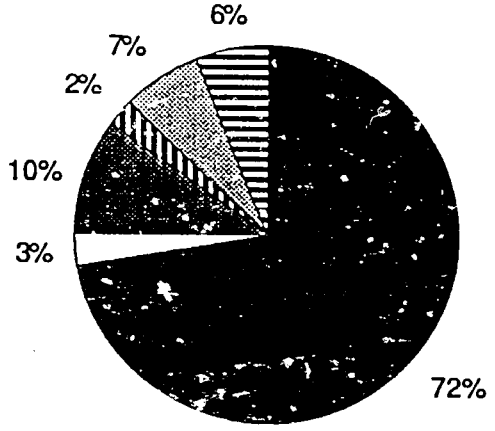


Figure 4: Types of independent enterprises



■ Retail commerce
□ Wholesale commerce
Small Industry
Transportation
Construction, Utilities, Nat. Res.
Services, misc.

Figure 5: Enterprise type by period of inception

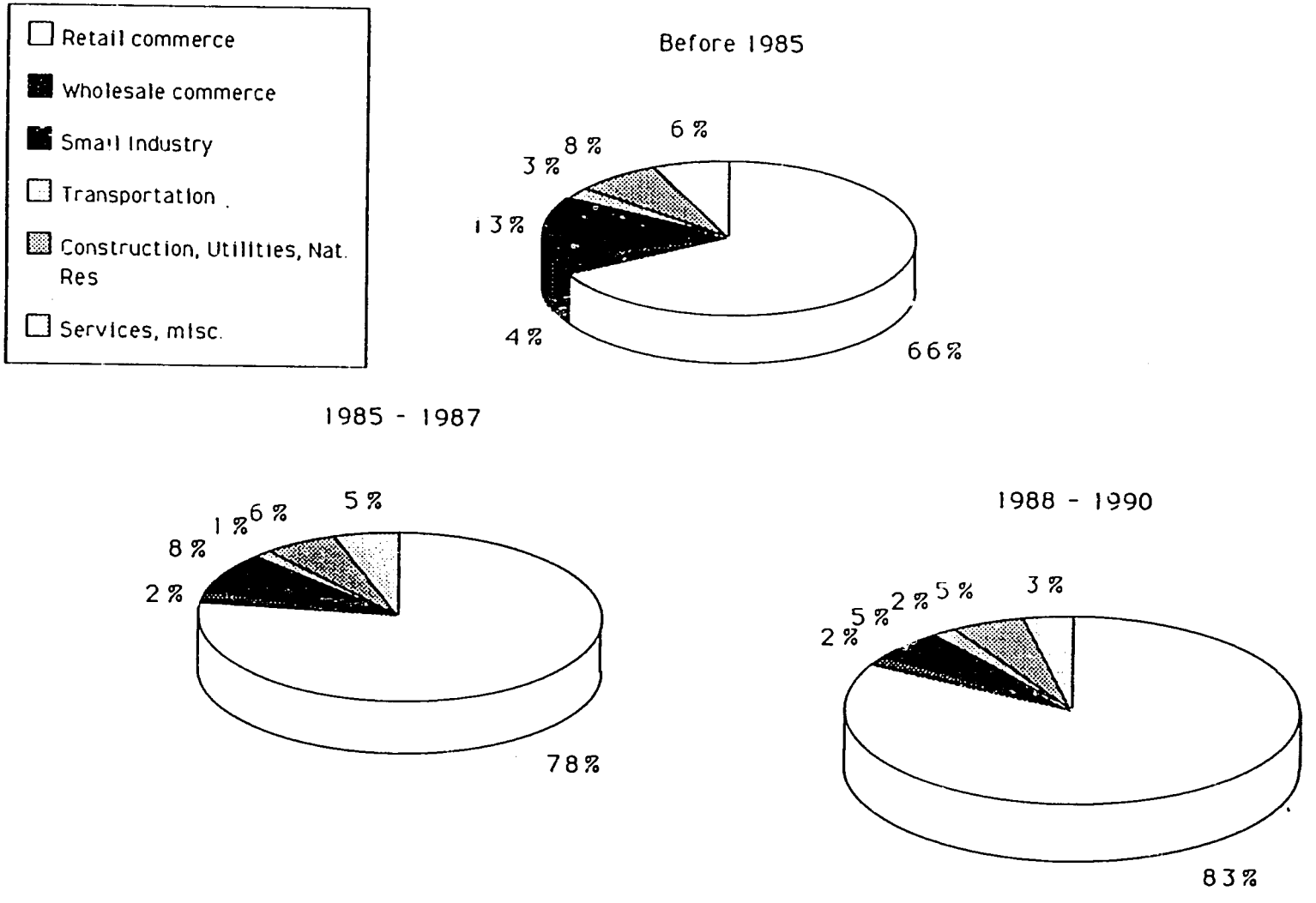
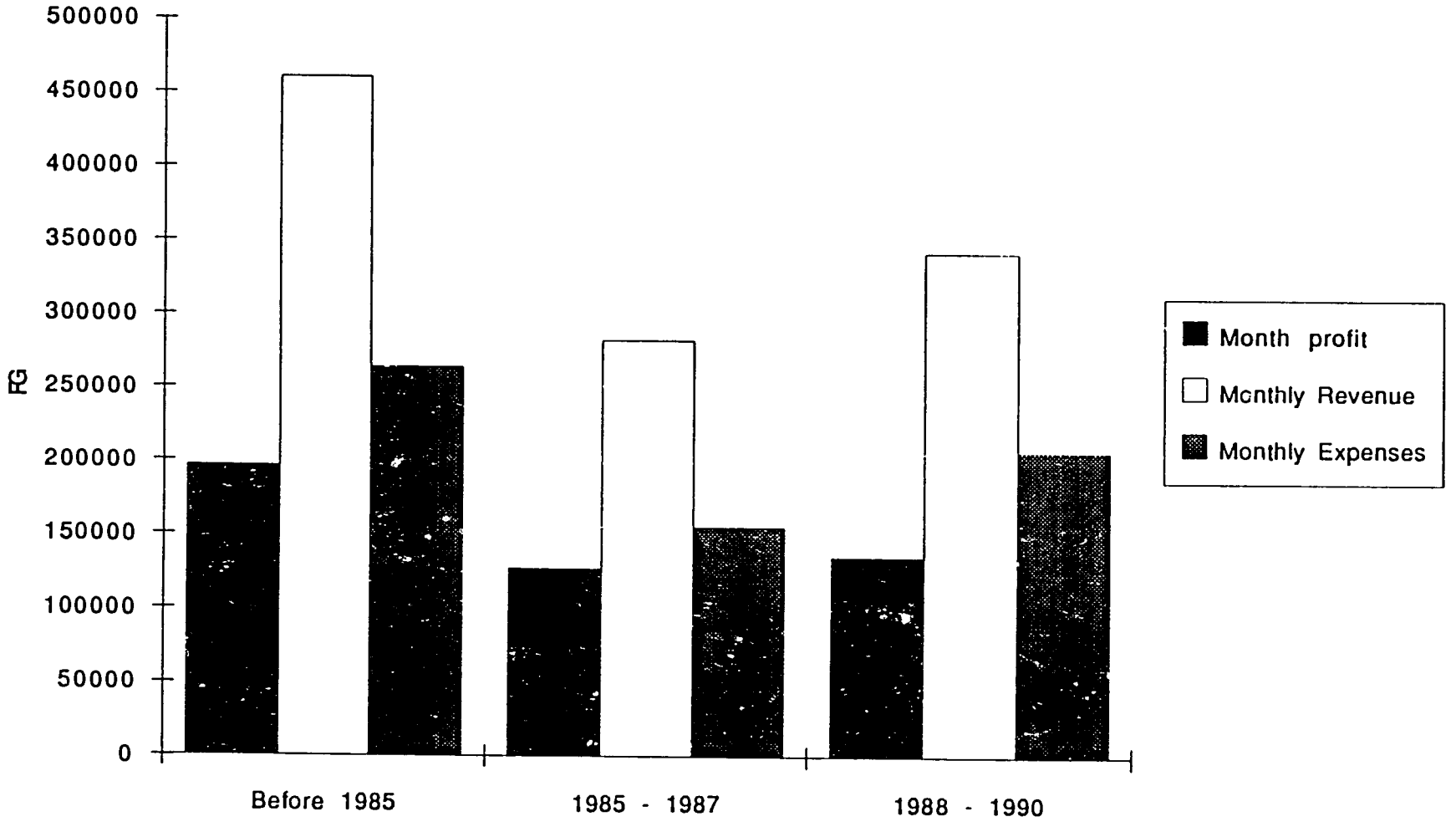



Figure 6: Enterprise budgets by period of birth