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**The Contribution
of Small Enterprises
to Employment
Growth
in Southern Africa**

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GEMINI

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The Contribution of Small Enterprises to Employment Growth in Southern Africa

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PREFACE

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EXECUTIVE SUMMARY

One of the most pressing challenges facing policy makers in Sub-Saharan Africa concerns jobs. In many countries of the region, an important part of the economy's response to this challenge has been the expansion of employment in small enterprises.

Surveys completed within the past three years in several countries of Sub-Saharan Africa make it possible to describe the structure and patterns of growth of small producers and traders, and their contribution to the employment challenge. The survey results indicate that expansion of employment in small enterprises absorbed about half of the increase in the labor force in the five countries studied: Botswana, Kenya, Malawi, Swaziland, and Zimbabwe.

Most of this increase in the labor force came through start-ups of new enterprises. Close to a quarter of all existing jobs, however, came from expansion of existing small enterprises. Looking only at new jobs created through such expansions, the data also make clear that most enterprises do not grow; in the five countries taken together, only a quarter of all existing small enterprises added to their work force after start-up. Furthermore, of those that grew, most grew by only a small amount. About three-fourths of the new jobs from expansion of existing small enterprises came in enterprises that started with fewer than 5 workers and added fewer than 5 workers.

Only about 1 percent of all enterprises that started with fewer than 5 workers managed to graduate into the intermediate-size group (with 10-50 workers). That 1 percent, however, contributed more than 20 percent of all new jobs from enterprise expansion. Furthermore, a significant share of intermediate-sized enterprises started small. Of enterprises with 10-50 workers at the time of the surveys, more than half began with fewer than 5 workers.

The most important policy implication of these findings concerns the delineation of client groups that might be the focus of assistance programs. The large number of newly established enterprises suggests that barriers to entry are not overwhelming, although the attrition rate among new start-ups is high. Assistance programs targeted to new start-ups suffer from this high attrition, as well as from the fact that this group has less experience and more needs.

Enterprises that start out very small and that seek to add only a few workers can often be helped significantly by small amounts of credit. Enterprises seeking to graduate into intermediate size have more complex needs. Helping them expand will require larger amounts of capital as well as other types of assistance.

SECTION ONE

INTRODUCTION

One of the most pressing challenges facing policy makers in Sub-Saharan Africa is jobs. The growth of the labor force, primarily as a result of population growth, far surpasses the number of new openings in large enterprises and in the public sector. Some new entrants to the labor force find work in agriculture, either on their own farms or as paid workers. In many countries in the region, however, the absorptive capacity of the agricultural sector is limited. In several countries, then, a substantial number of new job-seekers seek work in small enterprises.

Analysis of the resulting changes in patterns of employment has been hampered by severe data limitations. Information on employment in small enterprises is often imprecise and incomplete. Much of the relevant economic activity takes place in enterprises that are not covered by the usual official statistical nets. Within the past three years, however, nationwide surveys of small enterprises have been completed in several countries of Sub-Saharan Africa. Using a uniform methodology involving stratified random sampling of localities followed by a door-to-door enumeration of all nonfarm enterprises in selected localities, the approach makes it possible to describe the existing structure and past patterns of growth of small producers and traders.

An earlier document used those survey results to provide an overview of the current structure and patterns of growth, primarily at the level of enterprises (Liedholm and Mead, 1993). This paper focuses on patterns of change in employment. The analysis concentrates on five countries with the requisite data: Botswana, Kenya, Malawi, Swaziland, and Zimbabwe. The data cover enterprises with up to 50 workers engaged in manufacturing, trade, and services, including the marketing and processing of agricultural products but excluding all crop, livestock, and mining activities. Although the coverage is national, the structure of the economies is such that most enterprises operate in rural areas.

As indicated above, the surveys cover all establishments with up to 50 workers. This means that they include individuals working alone to produce baskets or dresses for sale as well as modern small factories. The need for disaggregation of this heterogeneous group of producers is obvious, but the most appropriate criterion for separation into categories is less clear. Some argue for distinctions based on the degree to which enterprises are registered and pay taxes (informal versus formal enterprises). Others concentrate on size, often measured in number of workers (micro versus small enterprises). Some talk about survival activities: those in which people are engaged because they have no better alternatives, in spite of the fact that incomes are low and declining; these can be contrasted with developmental activities, with the opposite characteristics in types of income they generate.

In this paper, no effort is made to separate small enterprises and the associated employment into categories. Suggestions on the most appropriate ways of doing this, along with

the associated data requirements (which unfortunately are generally not met by existing surveys), are presented in Section Three below. It is important to emphasize at the start, however, that the employment totals discussed here include all the heterogeneous categories of enterprises encompassed by the broader terms: micro and small, formal and informal, and survival and developmental.

This paper is organized as follows. Section Two makes use of newly available survey data to explore six different aspects of employment growth among small enterprises in five countries. Section Three provides a brief summary, then examines policy implications and needed follow-up work.

SECTION TWO

PRINCIPAL FINDINGS

In each country, a significant share of the total increase in the labor force found work in small enterprises.

Summary figures are presented in Table 1 below. For the five countries taken together, the figures indicate that small enterprises absorbed about a third of the total increase in population of working age (15-64) and close to half of the total increase in the labor force during the 1980s.

TABLE 1
INCREASES IN POPULATION, LABOR FORCE, AND
EMPLOYMENT IN SMALL ENTERPRISES
1980-1990

(all figures in thousands of people)

	Botswana	Kenya	Malawi	Swaziland	Zimbabwe	Five countries together
Increase in population of working age	187	3,658	1,214	99	1,578	6,736
Increase in labor force	125	2,939	792	61	942	4,859
Increase in employment in small enterprises	55	731	443	56	981	2,266

Notes and sources: All figures are aggregates over 10 years. For population of working age and labor force, source is United Nations Development Programme and World Bank, *African Development Indicators*, 1992. Working age is defined as 15-64. The source specifies that "labor force" refers to the economically active population, which comprises "all persons of either gender who furnish the labor to produce economic goods and services, as defined by the UN system of national accounts. . . . [This] should include all production and processing of primary products, whether for the market, for barter, or for own consumption; the production of all other goods and services for the market; and in the case of households that produce such goods and services for the markets, the corresponding production for own consumption" (p. 291). Data on employment in small enterprises are from the GEMINI surveys; for details, see notes to Table 2 below.

The survey data suggest that, over the long haul, 75 to 80 percent of all new jobs in small enterprises came from employment in new start-ups, with the remainder coming from the expansion of existing firms.

New jobs come into being in small enterprises in two different ways: through new start-ups, as new enterprises are started; and through the expansion of existing enterprises, as they add additional workers to their labor force. The relevant figures are presented in Table 2 below.

TABLE 2
INCREASE IN EMPLOYMENT IN SMALL ENTERPRISES:
NEW START-UPS VERSUS EXPANSIONS
(figures in thousands of people; percentages in parentheses)

	Botswana	Kenya	Malawi	Swaziland	Zimbabwe	Five countries together
1980-1990						
Employment creation through new start-ups	40 (73%)	554 (76%)	351 (79%)	43 (77%)	766 (78%)	1,754 (77%)
Employment creation through expansion of existing enterprises	15 (27%)	177 (24%)	92 (21%)	13 (23%)	215 (22%)	512 (23%)
Total employment creation in small enterprises	55	731	443	56	981	2,266
Total, all years						
Employment creation through new start-ups	75 (75%)	1,410 (73%)	817 (81%)	63 (74%)	1,216 (81%)	3,581 (77%)
Employment creation through expansion of existing enterprises	25 (25%)	534 (27%)	193 (19%)	22 (26%)	279 (19%)	1,053 (23%)
Total employment creation in small enterprises	100	1,944	1,010	85	1,495	4,634

Notes: For detailed sources, see bibliography. The survey asked, for each enterprise, the year of start-up, employment at start-up, and employment as of the date of the survey (1991-1993). In the first part of the table (1980-1990), the first row tells initial employment in all enterprises started during this period. The second row tells the increase in employment from start-up until the survey date for all enterprises started during this period. The third row is simply the sum of the first two rows. The second part of the table (all years) follows the same approach for all enterprises covered in the survey, no matter what their starting date.

All figures refer exclusively to enterprises that survived up to the time of the survey. This means that employment in enterprises that were started in the past but subsequently ceased production is not included. Furthermore, for the 1980-1990 section of the table, expansion during this decade of enterprises started in earlier years is not included; but expansion during 1991 and 1992 of enterprises started during this decade is included in estimates of expansion. These imprecisions are forced on us by the fact that we do not know for any particular enterprise precisely when employment expanded, only how much it grew from start-up until the date of the survey.

The figures in Table 2 reflect patterns of change in employment over relatively long periods of time. The second half of the table could be expressed as saying, of the 4.6 million people working in small enterprises at the time of the surveys in these five countries, 3.6 million of these "employment openings" came into being when the enterprise itself started in business; the remaining million resulted from the expansion of existing small enterprises. Over shorter periods of time, the balance between these two sources of new jobs can be quite different. In Zimbabwe, for example, from 1988 to 1993, expansion of existing small enterprises contributed only about 11 percent of all new jobs among micro- and small-scale enterprises (MSEs) (Daniels, 1994). During a recent period of economic contraction in Zimbabwe (1991-1993), expansion among existing small enterprises dropped off even further, while employment growth through new start-ups increased. Research is under way exploring in more detail the shorter-term determinants of patterns of employment growth among small enterprises, including the influence of the state of the macroeconomy and of other things going on concurrently in particular regions or locations.

The statistics make clear that there is a major dynamic of new start-ups of small businesses in each of the countries under study. In Zimbabwe, for example, where the data are the most complete, the birth rate of new small enterprises was estimated to average almost 20 percent per year from 1988-1993 (Daniels, 1994). It is also true, on the other hand, that many of the jobs created through new start-ups will not endure. Because there is significant attrition among newly established enterprises, *net* employment creation through new start-ups (net of firms going out of business) is significantly less than the *gross* figure (employment in new start-ups, without taking account of job losses through the death of previously existing firms). The figures in Table 2 are intermediate between gross and net figures. They exclude employment in enterprises that started and then closed in the past (in that sense, they are net); but they include enterprises started in the past but that will fold in the future (in that sense, they are gross). Taking them as intermediate estimates in this sense, they indicate that employment in new start-ups accounted for 75-80 percent of all jobs in small enterprises in the five countries discussed here.¹

The figures in Table 2 refer to all small enterprises in the five countries under study. It is possible to explore these questions separately for enterprises owned and operated by women, contrasting these with enterprises with male proprietors. In overall magnitudes, approximately half the employment in small enterprises in these five countries is in enterprises with female proprietors. For those with female owners, the share of total MSE employment coming from enterprise expansion (as opposed to new enterprise creation) is substantially lower (at 17 percent)

¹ Unfortunately, to date we have only limited information on enterprise deaths that would enable us to provide a more complete description of patterns of change through enterprise births and deaths. A study under way in the Dominican Republic (DR), going back to precisely the same localities for two visits 12 months apart, found birth rates of small enterprises during one 12-month period (1992-1993) of 26 percent, but enterprise death rates of 30 percent; employment growth through net new enterprise creation during this (very dynamic) period in the DR was *negative* 2.2 percent (Cabal, 1993). During 1991-1993 in Zimbabwe, a period when the country faced serious problems of drought and of turmoil associated with policy reform, birth rates averaged 19.8 percent, while closure rates were only 6.6 percent (Daniels, 1994). Further analysis of these changes is under way.

than for male-owned enterprises (where it is 25 percent). As we shall see in the following section, this is largely a reflection of the fact that a smaller percentage of women-owned enterprises expand by adding workers to their labor force.

Most small enterprises do not grow.

Focusing only on employment growth through the expansion of existing enterprises, it is important to recognize that most small enterprises do not grow (see Table 3 below). The figures in the table indicate that only about a quarter of all small enterprises added even one worker to their labor force. Kenya stands out as an outlier in this comparison. More than a third of all small enterprises in Kenya added to their work force; for the other countries, the average was only about a fifth. In all countries, the pattern of growth was heavily influenced by the fact that a substantial number of enterprises started out and ended up as one-person enterprises. Among those that started out somewhat larger, a substantially higher percentage expanded after start-up. Among those with 10 or more workers at the time of the survey, in most countries, three quarters or more added to their labor force after start-up. In the aggregate, though, it is clear that the expansion of the work force among small enterprises is the exception rather than the rule.

Looking only at small enterprises owned by women, the second row of Table 3 makes clear that a significantly lower share of these enterprises added to their work force, compared with those owned by men. This is partly a reflection of the fact that the great majority of women-owned enterprises consist of one person working alone.

TABLE 3

PERCENTAGE OF ALL ENTERPRISES THAT ADDED TO THEIR
LABOR FORCE BETWEEN START-UP AND TIME OF SURVEY

	Botswana	Kenya	Malawi	Swaziland	Zimbabwe	Five countries together
% of all enterprises that grew from start-up to date of survey	20.1	34.8	22.8	20.5	19.3	26.1%
% of all women-owned enterprises that grew from start-up to date of survey	16.1	25.6	18.3	17.9	14.6	19.0%

Note: averages are the sum of all enterprises in all five countries that grew, divided by the total number of small enterprises in these countries. Figures exclude all enterprises with missing data.

Only about 1 percent of small enterprises graduated to intermediate size.

The discussion of the previous point looked at past growth for enterprises of all sizes. If we restrict our examination to those enterprises that started out very small (that had 1-4 workers at the start), again we find that only about a quarter of them grew at all; furthermore, in most countries, only about 1 percent graduated into intermediate size (in other words, they reached 10 or more workers by the time of the survey) (see Table 4 below). Among enterprises owned by women, this process of graduation is even more infrequent; less than one-tenth of 1 percent of all new enterprises owned by women that started with fewer than 5 workers succeeded in passing a threshold of 10 workers. In sum, among all enterprises that start out very small, but particularly among those owned by women, only a small number succeed in making a transition to intermediate size.

TABLE 4

PATTERNS OF GROWTH AMONG VERY SMALL ENTERPRISES
(those starting with 1-4 workers)

	Botswana	Kenya	Malawi	Swaziland	Zimbabwe	Totals, five countries
Total number of enterprises that started very small (with 1-4 workers at the start) and that survived up to time of survey	45,830	862,103	554,051	45,419	808,601	2,316,004
Of these, number that grew at all between start-up and date of survey	8,818 (19.2%)	301,550 (35.0%)	125,441 (22.6%)	9,050 (19.9%)	156,022 (19.3%)	600,881 (25.9%)
Of those that grew: number that: grew only a little, remaining in 2-4-size category	6,373 (13.9%)	252,121 (29.2%)	114,467 (20.7%)	7,448 (16.4%)	138,908 (17.2%)	519,317 (22.4%)
grew into 5-9-size category	1,845 (4.0%)	38,262 (4.4%)	9,601 (1.7%)	1,259 (2.8%)	11,725 (1.5%)	62,692 (2.7%)
grew into 10-plus-size category	600 (1.3%)	11,166 (1.3%)	1,373 (0.2%)	342 (0.8%)	5,389 (0.7%)	18,870 (0.8%)

Note: figures in parentheses are percentages of all very small firms (those that started with 1-4 workers) in the country existing as of the date of the survey.

A significant share of today's intermediate-size businesses started out small.

Table 5 approaches this process of enterprise growth from the opposite end. It explores the questions: Of those enterprises that were of intermediate size at the time of the survey, what

TABLE 5
PATTERNS OF GROWTH INTO INTERMEDIATE SIZES

	Botswana	Kenya	Malawi	Swaziland	Zimbabwe	All five countries
Size at the time of the survey: 10-19 workers						
Size at the start:						
1-4 workers	390 (54.8%)	7,503 (55.5%)	1,307 (41.6%)	295 (52.8%)	4,863 (65.6%)	14,357 (56.6%)
5-9 workers	290 (40.8%)	3,129 (23.1%)	1,053 (33.6%)	212 (37.9%)	1,962 (26.4%)	6,647 (26.2%)
10-19 workers	31 (4.4%)	2,897 (21.4%)	778 (24.8%)	52 (9.3%)	594 (8.8%)	4,352 (17.2%)
20-50 workers	0	0	0	0	0	0
Total, all starting sizes	711	13,530	3,139	559	7,420	25,359
Size at the time of the survey: 20-50 workers						
Size at the start:						
1-4 workers	210 (64.8%)	3,665 (94.6%)	66 (6.3%)	47 (49.0%)	431 (14.8%)	4,419 (53.6%)
5-9 workers	57 (17.6%)	0	467 (44.6%)	24 (25.0%)	188 (6.5%)	736 (8.9%)
10-19 workers	24 (7.4%)	183 (4.7%)	461 (44.1%)	8 (8.3%)	1,423 (49.1%)	2,099 (25.5%)
20-50 workers	33 (10.2%)	25 (0.7%)	52 (5.0%)	17 (17.7%)	858 (29.6%)	985 (12.0%)
Total, all starting sizes	324	3,873	1,046	96	2,900	8,239

was their size at the time of their start-up? How many of them started very small and subsequently graduated into intermediate size? In this analysis, the intermediate-size category is subdivided into two components: those with 10-19 workers, and those with 20-50 workers, at the time of the survey.

The data in the table indicate that more than half of the enterprises in the 10-19-size category at the time of the survey started out with 1-4 workers. Among those with 20-50 workers at the time of the survey, most small enterprises in Kenya and half or more of those in Botswana and Swaziland started out very small; this type of graduation was less widespread in Malawi and Zimbabwe. For the five countries taken together, more than 80 percent of today's enterprises with 10-19 workers originally started out with fewer than 10 workers (as microenterprises), while more than 60 percent of those with 20-50 workers originally started out in that microenterprise-size range.

In sum, the data make clear that a significant share of today's intermediate-sized businesses started out small and subsequently graduated into intermediate size. This graduation is widespread among enterprises that reach the 10-19-size group. For enterprises currently in the 20-50-worker range, the frequency of such graduation is lower, although still significant in some countries.²

The majority of the expansion in employment came from small additions to a small base, but graduation also made a significant contribution to the growth in employment.

A final question that can be explored with this data set concerns the contribution of different categories of enterprise growth to employment creation. Of the total of new jobs arising from an expansion of existing small enterprises, what was the relative contribution of the large number of enterprises that grew a little, compared with the small number of enterprises that grew a lot? Table 6 provides the answer.

What Table 6 shows is that, of the total employment growth through expansion of existing small enterprises, in most countries, the majority of the expansion in employment came from small additions to a small base. For the five countries taken together, three quarters of all new jobs resulting from the expansion of small enterprises came from businesses that started with fewer than 5 workers, and that added fewer than 5 workers to their labor force. This is important because it reminds us of the major contribution to employment creation that comes from the aggregation of such small increases. Beyond that, however, it is significant because earlier work indicates that enterprises that grow at all are more likely to survive (McPherson,

² These figures imply a higher rate of graduation than those cited for African countries by Liedholm (in Stewart et al., 1992). His data looked at a smaller sample of firms, with a higher cut-off point (up to 200 workers). Somewhat higher graduation rates were also reported in Mead, Mukwenha, and Reed (1993), where a further distinction was made between enterprises that had been started from scratch by their current owner, compared with those taken over as going concerns; in the data presented here, these two were lumped together, with original size reported at takeover for the latter category.

TABLE 6
EMPLOYMENT GROWTH THROUGH EXPANSION,
BY CATEGORY
 (percentage of net employment growth through expansion
 arising from different size categories)

	Botswana	Kenya	Malawi	Swaziland	Zimbabwe	Five countries together
Share of total net employment growth through expansion arising from:						
Net expansion of enterprises that started out as 1-person firms	40.5%	93.6%	75.0%	78.6%	77.2%	84.3%
Net expansion of enterprises that started out as 2-4 person firms	50.1%	28.1%	18.4%	15.1%	19.8%	24.4%
Sum: net employment expansion from enterprises that started out with fewer than 5 workers	90.6%	121.6%	93.4%	93.7%	97.0%	108.7%
Of this total (of those that started with fewer than 5 workers):						
Modest growth (adding 1-4 workers)	41.0%	77.9%	81.6%	67.3%	69.4%	75.2%
Intermediate growth	16.4%	14.6%	3.6%	7.1%	7.4%	10.8%
Graduation to 10 or more workers	33.2%	29.1%	8.2%	19.3%	20.3%	22.9%
Net employment expansion from enterprises that started out with 5 or more workers	9.4%	-21.6%	6.6%	6.3%	3.0%	-8.7%

1992). Furthermore, an earlier study indicates that enterprises with even a few more workers have higher levels of efficiency than one-person enterprises (Liedholm and Mead, 1987).

On the other hand, graduation also made a significant contribution to the growth in employment. Thus, although only 1 percent or less of the new enterprises that started out very small succeeded in growing to intermediate size, those that make this transition accounted for about 20 percent of the new jobs coming from the expansion of small enterprises in Zimbabwe and Swaziland, and close to a third of this increase in Kenya and Botswana. As indicated above, they also contributed an entrepreneurial seedbed from which a significant number of today's intermediate-sized enterprises have grown. Again, there is also reason to believe that, in many cases, this movement into intermediate size is associated with further increases in efficiency and productivity (Liedholm and Mead, 1987).

The case of Kenya deserve special comment. The table indicates that, for small enterprises in that country, those that started out with five or more workers, taken as a group, had a net loss of employment from the time of their start-up to the date of the survey. Although

there was some net expansion in employment through new hiring among enterprises that started out very small, those that started at the larger end of the small enterprise spectrum experienced a net decline.

Differences among the five countries.

The discussion to this point has looked at a number of different aspects of employment growth one by one, looking across all the countries for which these data are available. Table 7 pulls together the main findings to focus more explicitly on differences among the five countries. Looking across these different dimensions of employment growth, the following features stand out.

TABLE 7
SUMMARY OF PRINCIPAL FINDINGS

	Botswana	Kenya	Malawi	Swaziland	Zimbabwe	Five countries together
Table 1: Change in MSE employment/change in labor force, 1980s	44%	25%	58%	92%	104%	47%
Table 2: Change in employment through MSE expansion/total change in MSE employment: 1980s	27%	28%	21%	23%	22%	23%
Table 2: same, all years	25%	27%	19%	26%	19%	23%
Table 3: % of all MSEs that grew	20%	34%	23%	21%	19%	26%
Table 4: % of all very small enterprises that graduated	1.3%	1.3%	0.2%	0.8%	0.7%	0.8%
Table 5: % of intermediate MSEs that started very small: 10-19 workers	55%	55%	42%	53%	66%	57%
Table 5: same, 20-50 workers	65%	94%	6%	49%	15%	54%
Table 6: Contribution to expansion growth: small starts, small increases	41%	78%	82%	67%	69%	75%
Table 6: same, graduation	33%	29%	8%	19%	20%	23%

Looking first at *Botswana* and *Kenya*, it appears that MSEs have played a relatively small role in labor force absorption in these two countries; less than half the increase in the labor force in Botswana and only a quarter of the increase in Kenya found work in small enterprises. For the MSE employment increase that did take place, however, a relatively high proportion came from an expansion of existing enterprises (as opposed to new start-ups). Even more striking is the importance of graduation in these countries. A high percentage of very small starters moved up into the intermediate-size category, and a high percentage of the middle-sized enterprises (particularly those with 20-50 workers) started very small and subsequently grew; this graduation process made a particularly significant contribution to employment creation. In Kenya, the share of all enterprises that grew was substantially higher than in the other countries under study. It appears that these two countries have established an environment that is relatively favorable to the expansion of existing enterprises, and in which other components of the economy have been growing rapidly enough so that small enterprises play only a supporting role in the process of job creation.

The contrast between these two countries and *Malawi* is striking. The contribution of MSEs to the absorption of new entrants to the labor force is somewhat higher in Malawi than in Botswana and Kenya, although lower than in the remaining two countries under study. It is striking, though, that the process of growth and graduation was much less widespread among small enterprises in Malawi than in the first two countries. Enterprise expansion made a smaller contribution to new job creation; compared with Kenya, a smaller percentage of small enterprises grew at all; also, graduation was more infrequent, contributed less to today's middle-sized enterprises, and made only a small contribution to overall employment creation. The figures suggest that this is a country where the expansion of existing small enterprises faces particularly difficult obstacles and constraints.

The remaining two countries, *Swaziland* and *Zimbabwe*, can be discussed together. The most important characteristic for these two is the high percentage of the growth of the labor force that found work among small enterprises. In these two countries, it appears that well over 90 percent of all new jobs came either from new start-ups or from expansions among existing small enterprises. In terms of most of the other measures presented in the table, these two countries are about average for the region; what sets them apart is not the detailed pattern of employment growth among small enterprises as much as the overall magnitude of this growth, which is strikingly high. Particularly in these two countries, it appears that the expansion of small enterprises was the dominant factor in employment creation in the economy as a whole.

SECTION THREE

SUMMARY, IMPLICATIONS, AND NEEDED FOLLOW-UP

FINDINGS

Findings can be briefly summarized. In the first place, the figures make clear that we are dealing with something of major significance. Small enterprises provided employment for about a third of the increase in population of working age and close to half of all new entrants to the labor force over the past decade in the five countries for which detailed data are available. It is impossible to understand what is happening in the labor markets of these countries without paying close attention to the role of small enterprises as major users of labor.

Second, there is no shortage of new start-ups among small businesses. In fact, 75-80 percent of the expansion in employment in small enterprises appears to have come from new start-ups. Although newly established small businesses in developed as well as developing countries always face a difficult period in their early years, it would be hard to argue that there are overwhelming barriers to entry for new small enterprises.

Third, although most small enterprises do not grow (the great majority started out and ended up as one-person enterprises), about a quarter do grow at least in small amounts, and 1 percent grow substantially. Although most new jobs from expansion resulted from small additions to enterprises that started out and remained very small, the process of graduation also made a significant contribution to job creation, and provided the base from which a substantial number of today's intermediate-sized enterprises emerged.

The policy and project implications of these findings are simple and clear. Of primary importance is the recognition that, among small enterprises, there are different target groups with different opportunities and different needs. The process of enterprise start-up faces different problems and constraints from those faced by firms seeking to expand.

The large numbers of people who succeeded in setting up new businesses in each of the countries under study raise the question as to the volume of resources that should be allocated to facilitate this process. A program of support aimed at helping school leavers or retrenched civil servants to start up in business may be a useful response to political pressures, but it generally requires substantial resources per beneficiary, because these newly established entrepreneurs have little or no relevant experience and need help in mastering a whole range of new skills. The evidence suggests that new start-ups also face particularly high attrition rates.

Turning to employment growth through expansion, existing enterprises with one or two workers considering adding a third have different needs for support, compared with other small firms seeking to make a larger leap to 30 or 40 workers. A credit program that provides small amounts of working capital may be of immense help to the former kind of change, but could be

inadequate to the needs of firms seeking to make a transition to intermediate size. Survey results suggest that existing enterprises making small expansions in their labor force often face only a limited number of constraints, frequently associated with access to working capital. Small enterprises seeking to move up to intermediate size face more problems and have more complex needs.

Those designing policy reform programs or project-level interventions need to be clear as to why they seek to intervene in the sector and, on that basis, which category of enterprises is most appropriate for the attainment of their goal. It is then possible to be more precise about the kinds of interventions that are most suitable to the needs of that particular target group.

FURTHER RESEARCH NEEDS

This analysis also raised questions that need additional analysis. Three stand out as being of particular importance. First and foremost, we know all too little about the *quality* of the jobs that emerge through these different channels. There are several dimensions of job quality, of which the most important could be expressed in terms of income earned or of productivity. A second important dimension of job quality concerns the durability and reliability of the activity, both over the years and within a particular year. In the absence of better information about job quality, it is impossible to say whether the massive expansion of employment in small enterprises documented in this paper is a reflection of a growth of subsistence activities in spite of low and declining incomes, or of productive employment in enterprises generating high and rising levels of incomes. The former result might be thought of as a reflection of a failure of an economy to develop, while in the latter case the employment growth should be considered as a component of successful development.

Research to date in this area makes clear that the truth lies somewhere between the two extremes; some of each is taking place. Although countless studies have shed light on this question, the research has been partial and limited in scope, with each study focusing on particular sectors or enterprise types. The result is that we do not know the relative proportions of these two components. The absence of more precise information on this topic has resulted in a fruitless and generally inconclusive debate as to whether the continuing expansion in employment in small enterprises should be viewed as a component of successful development. This may be the most important challenge for the next round of research on small enterprises in the development process.

Second, and closely related to the first, there are important issues concerning the pattern of growth over time of these different categories of employment. This time pattern has two dimensions: the age or life cycle of the enterprise itself, and the interaction between the enterprise and what is going on in the rest of the economy. We would hypothesize, for example, that when the overall macroeconomy is doing well, employment growth through the expansion of existing small enterprises is also high. When the economy is going through periods of slack growth or of stagnation, by contrast, expansion growth would be more limited, but this would be counterbalanced by a more rapid growth through new start-ups. Similar kinds of

linkages might operate with particular sectors or localities (for example, with agricultural growth in particular regions).

The third topic requiring better data and analysis concerns firm closures. Although we have made an important start on addressing this topic using an approach pioneered by Parker in Kenya and further analyzed by McPherson for several countries of Southern Africa, there is a need for the collection of more primary data on enterprise deaths, their magnitude and causes, to be able to be more precise about relationships between gross and net employment creation. As indicated above, work is under way on this topic in the Dominican Republic and in Zimbabwe, using an approach involving repeat surveys in the same localities to measure births, deaths, and enterprise growth.

Our knowledge of patterns of growth among microenterprises and their role in the development process has grown enormously over the past decade, as has our understanding of the kinds of constraints faced by different types of enterprises at different stages in their life cycle. There clearly has been an important process of growth whereby a small but significant number of enterprises have started small and subsequently expanded, either growing a little or even reaching intermediate size. This process of expansion has contributed a significant number of new jobs, providing the seedbed for a major share of today's medium-sized enterprises.

Yet in many countries the numbers of people entering into activities yielding only low and declining incomes also appears to be increasing. Such increases are also often included under the heading, "growth of employment in small enterprises." In addressing the challenge of reducing the level of poverty, it is important that we find imaginative new techniques of measurement to understand the complexities of these different categories of growth, that we use the resulting improvement in understanding to identify desirable patterns of growth among small enterprises, and that we focus our efforts on interventions to support such changes. Although we seem to have learned a lot, we are left with an uneasy feeling that there are increasing numbers of people in our domain of analysis whose incomes and welfare continue to decline. The battle is far from over.

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Technical Notes:

Financial Assistance to Microenterprise Section:

- *1. Series Notebook: Tools for Microenterprise Programs (a three-ring binder, 1 and 1/2 inches in diameter, for organizing technical notes and training materials) and "Methods for Managing Delinquency" by Katherine Stearns. April 1991. \$7.50. Also available in Spanish and in French.
- *2. "Interest Rates and Self-Sufficiency." Katherine Stearns. December 1991. \$6.50. Also available in Spanish and in French.
- *3. "Financial Services for Women." C. Jean Weidemann. March 1992. \$5.00. Also available in Spanish and in French.

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- *4. "Designing for Financial Viability of Microenterprise Programs." Charles Waterfield. March 1993. \$10.00 with diskette
- *5. "Monetary Incentive Schemes for Staff." Katherine Stearns, ACCION International. April 1993. \$3.80

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- *1. "A Field Manual for Subsector Practitioners." Steven J. Haggblade and Matthew Gamser. November 1991. \$4.65. Also available in Spanish and in French.
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Special Publications:

- *1. *Training Resources for Small Enterprise Development*. Small Enterprise Education and Promotion Network. Special Publication No. 1. 1992. \$11.00
- *2. *Financial Management of Micro-Credit Programs: A Guidebook for NGOs*. Robert Peck Christen. ACCION International. Special Publication No. 2. 1990. \$19.00
- *3. *The ADEMI Approach to Microenterprise Credit*. A. Christopher Lewin. Special Publication No. 3. 1991. \$15.00
- *4. *Microempresas y Pequeñas Empresas en la República Dominicana. Resultados de una Encuesta Nacional*. Miguel Cabal. Michigan State University and FondoMicro. Special Publication No. 4. 1992. \$9.00
- *5. "GEMINI in a Nutshell: Abstracts of Selected Publications." Compiled by Eugenia Carey and Michael McCord. Special Publication No. 5. 1993. \$10.00
- *6. "GEMINI Publications Catalog." Special Publication No. 6. 1993.

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Other Publications of General Interest:

1. "Expansion with Quality: Building Capacity in American Microenterprise Programs." Elisabeth Rhyne. Development Alternatives, Inc. July 1993. \$3.30

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