

Do micro-enterprises promote equity or growth?



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Introduction

There has been a growing awareness since the early seventies that small enterprises are important for economic growth. They are seen as the engines of employment, alleviating poverty and improving equality. The eighties saw an intensification of this interest and a consequent expansion of policy into the sector of micro-enterprises, following the discovery of widespread entrepreneurial activity in both developed and developing countries. In the case of the latter, entrepreneurial activity was particularly salient among the poor. The idea that intuitively followed was that enhancing these small businesses could effectively and rapidly fight poverty.

The evidence supporting the view of micro and small enterprises as the engine of growth is in fact not conclusive. Research findings in both developed and developing countries show that job creation and growth are highly concentrated. The great majority of SMEs are not very growth prone. The European Commission found that 50% of total net job creation in the SME sector is created by a mere 4% of these firms (Manu, 1998). Research in Sub-Saharan Africa indicates a similar pattern: the enterprises that significantly contribute to employment growth are in fact just 1% of the SME universe (Mead, 1994). By implication, it would appear that small-enterprises fall into two categories. There is a very large group of them that, for various reasons, will not develop their business beyond a certain (small) scale, and there is a very small group of entrepreneurs who are capable of expanding their business.

In terms of enhancing growth and job creation, there is increasing interest in identifying and promoting those in the second group, the growth-oriented SMEs. That would turn enterprise development interventions more cost-effective. That was the motivation of the present report. The questions it pursues are the following:

1. What are current percentages of micro-enterprises (ME) developing into small and medium scale enterprises (SME) for various regions (Africa, South and Central America, South and South East Asia)
2. What factors play a role in the development of a ME into a SME and what key success factors determine whether such development or transformation will be successful?
3. Could development organisations successfully focus on developing existing ME into SME and if yes, in what way, under which circumstances and under which conditions?

For the purposes of this report, “graduation” is defined as growth to the next scale in terms of number of workers. That is, from the category of 1-9 workers (microenterprise), for example, to that of 10-50 workers (small enterprise). It is assumed that employing more workers (paid or unpaid) indicates higher sales, improved productivity and expansion in general. This follows the standards of previous research (Mead and Liedholm, 1994).

The distinction between micro, small and medium enterprises varies greatly by country and even within a single country, different organisations categorise firms differently. Some define a micro-enterprise as a business with up to five workers, while others situate it at ten workers. This study specifies in each circumstance what cutting point is taken by what research. It focuses on the smallest scale available in each study whenever firms are discriminated by scale. Most of the time, it follows Mead and Liedholm’s pioneering work, situating the threshold at 10 and 50 workers respectively.

Structure of the report

The next section describes the attempts done so far to estimate the percentage of firms graduating (methods of data collection, time frames, etc.). Section three then discloses some characteristics of the MSE sector in developing countries which differ from those in developed countries and set the framework for a closer look into their dynamics of growth. Graduation rates are unveiled in section four, followed by explanations in section five of why these are notably low. Section six highlights some characteristics in common of those firms that achieve graduation, followed in section seven by corresponding principles of intervention. Conclusions and policy recommendations are then formulated. Sections three, four and five are wrapped up in boxes that highlight the main points coming out of the analysis.

2. Main studies on micro and small enterprises

Early studies (1980-1995)

The study of micro and small enterprise dynamics in the developing world was inaugurated by a team at the University of Michigan (USA) led by Carl Liedholm and Donald Mead. Already in 1987 they reported on the lack of growth of micro and small businesses, a phenomenon that ran against the 'engine of growth' views that considered these micro-entrepreneurs as a seedbed for development. They concentrated on six developing countries: Sierra Leone, Bangladesh, Jamaica, Honduras, Thailand and Egypt. Data was gathered around 1980 covering every firm in selected locations, considering micro and small enterprises those with less than 50 workers. They found, in principle, that these firms were especially prominent in countries with lower per-capita income. More than half of the existent firms were one-worker firms and 85% of them employed five workers or less.

The same research group was later commissioned by the USAID Growth and Equity through micro-enterprise investment and institutions (GEMINI) project. Mead and Liedholm (1991, 1993, 1994 and 1998) and the Michigan University team reported on data gathered in fieldwork between 1990 and 1995 in the Dominican Republic, Botswana, Kenya, Malawi, Swaziland and Zimbabwe. Data collection covered 28.000 active enterprises and 6.800 closed ones. All of these were of national coverage (complete enumeration of micro and small enterprises in a random sample of locations). Follow-up data-gathering raised the amount of firms covered to 50.000 in nine countries (Mead, 1999). The MSE universe included micro-enterprises (with nine or fewer workers) and small enterprises (between 10 and 50 workers). About 65% of the responses gathered covered micro-enterprises with less than five workers. It included only non-primary activities where at least 50% of the production was sold. The project resulted in about 80 Gemini working and technical papers.

Recent studies

Though no other study had the broad coverage of the early studies, a second team to research the dynamics of micro-enterprises was led by Kenneth King and Simon McGrath. It is based at the Centre for African Studies at the University of Edinburgh. It was commissioned by DFID to research on enterprise growth dynamics in Africa. The findings were published in a book (King and McGrath, 1999) and a series of 29 papers. One of the main focuses was on teaching and skill training programmes. For example, Afenyadu, King, McGrath, Oketch, Rogerson and Visser (1999) focus on the importance of learning to improve competitiveness. The project covered South Africa, Ghana and Kenya.

A third team of researchers is active within the IFC/Seed branch of the International Labour Organisation (ILO) in Geneva. Together or independent, about 50 studies were carried out in different regions and times. For example, between 2002 and 2003, a series of studies called "Going for growth" focuses on the rather exceptional cases of women entrepreneurs with growing businesses in Ethiopia, Tanzania and Zambia. Data gathering covered 379 women micro-entrepreneurs (123 surveyed plus 5 case studies in Ethiopia, 128 surveyed and within these 15 case studies in Tanzania and 118 surveyed plus 5 case studies in Zambia). They employed between 6-8 workers on average, while at their start-up their firms had 3-5 workers. For categorization purposes, the programme considered micro-enterprises as those employing one to nine workers and small-scale enterprises those with ten to thirty workers. The ILO had a parallel group researching entrepreneurship development among women in "small and cottage" industries in Asia. It covered Bangladesh, the Philippines, Tunisia and Zimbabwe, chosen in the light of expanding the findings to its corresponding regions (Marcucci, 2001).

There were also a number of separate studies for specific projects and dissertations. For example, Phillips and Bhatia-Panthaki (2007) have interviewed 200 enterprise owners in Zambia through 2006. They examined the reasons for the lack of growth of micro and small firms, focusing on skills' deficiencies. They defined a micro-enterprise as a business that employs up to four workers and a small enterprise as employing 5 to 19 workers in activities other than mining and recovery of metals. With these definitions, 94% of the private sector in Zambia is composed of micro-firms and 5% of total firms are small-scale enterprises. The sample covered 75% urban and peri-urban areas of Lusaka.

A concern in the developed world too

The growth potential of micro and small enterprises is also of concern in the developed world. Although the environmental conditions are significantly more stable, there are also doubts on the “engine of growth” hypothesis. A team led in the University of British Columbia tracked the growth trajectory of all registered firms in all sectors and locations in the Canadian economy over the period 1983 - 1995. The experts analysed it with an econometric model (at logarithmic scale they had ten years of data on growth rates).

In conclusion, while there is a well-established belief that MSE are the engine of growth in both developed and developing countries, the attempts to actually support this postulation are counted. The Gemini Project financed by USAID in the early nineties has broken the path for the research on the topic and has provided much of the evidence used in subsequent studies.

3. Profile of the MSE sector in developing countries

A simple look at the Small and Medium Enterprise sector in developing countries reveals that they are sharply different to that of the developed world. A first characteristic is that in the developing world the sector is largely dominated by very small enterprises. Mead (1999) estimated that 64% of all enterprises with 50 or less workers in the seven African countries covered by the MSU studies (Sierra Leone, Egypt, Botswana, Kenya, Malawi, Swaziland and Zimbabwe) employed one person only. Another 33% had 2-5 workers (including the proprietor and unpaid family members). This means that in a universe of businesses with up to 50 workers in these countries, about 99% employ up to 5 workers and barely 1% has up to 50 workers. In a micro-level study of Mathare Valley, a concentration of informal enterprise in Nairobi, Mwega (1991) confirmed that the vast majority of new enterprise births tend to be one-person establishments. Their very small scale has a direct impact on the returns of the enterprise. Liedholm and Mead (1987:81) estimated in their first study in Bangladesh, Sierra Leone, Jamaica, Honduras, Thailand and Egypt that returns per hour are lowest for one-person firms. Earnings increase with the addition of workers (except in Honduras). This finding, however, could also be read inversely: as returns rise, other workers are brought into the micro-enterprise. This point was not researched empirically (Lingelbach, 2005).

There is a stronger gender bias towards women’s presence than in the developed world. In both Africa and Asia, almost half of all micro and small enterprises are owned and operated by women, who tend to be younger, less experienced and less educated than male micro-entrepreneurs. This means that micro-enterprise face the typical problems associated to their scale, plus an additional gendered set of constraints and needs (Mayoux, 2001).

About a third of the micro-enterprises represent supplementary activities that provide less than half the household’s income (the proportion is much higher among women-owned enterprises). Just a third of them represented the sole source of income for the household (90% or more of all income). Another third provided between half and 90% of the household income. The implication is that their owners do not place all their energies and resources on them, because these need to be spread across several activities. A large proportion of these entrepreneurs are poor or very poor. (Mead, 1999)

These characteristics of the MSE sector in the developing world are considerably different to those in the developed world, where the scale of firms is larger and there is a clear predominance of male owners who concentrate all their resources on making their business successful. MSE firms in the developed world are the main source of income of the owning households. In the developing world, micro-enterprises are usually in the hands of the poor. These differences have an impact on their performance and indeed very few MSE grow according to the expectations typical in the developed world.

4. How many micro-enterprises grow and graduate?

It is clearly intuitively that not all the poor can become entrepreneurs and not all will develop into successful businesses (Eversole, 2000). A starting point is then how many micro and small enterprises effectively graduate.

Most enterprises that start small subsequently stay small and Mead (1994; 1999) estimated over a time span of at least five years that fewer than 20% of those with four or less workers grew at all in Dominican Republic, Botswana, Malawi, Swaziland, Kenya, and Zimbabwe. A previous study by Liedholm and Mead (1987:67) in Bangladesh, Sierra Leone, Jamaica, Honduras, Thailand and Egypt found that in the segment of enterprises of four or less workers, only 1% graduated to the next size category of more than 10 workers. The result is the same for Botswana, Kenya, Malawi, Swaziland and Zimbabwe: just 1% of the microenterprises that started with 1 to 4 workers employed 10 or more workers in the long run (Mead, 1994).

Other research teams have shown similar findings as the MSU/USAID group and provide further evidence that small enterprises rarely grow. Biggs, Ramachandran and Shah (1999) indicated that less than 10% of firms in the size-class with fewer than 10 workers ever grow to the 10-59 workers' category in the five Sub-Saharan countries where they conducted their research. In the next size-class (10-49 employees), where more firms tend to be formal and entry costs are higher, there was more mobility: 22% of the firms (most with start-up sizes averaging about 40 employees) had been able to grow beyond their size-class since their inception (average firm age in their survey was 12 years).

In turn, a World Bank report (1993) in Ghana, Kenya, Zimbabwe and Cameroon estimated slightly higher rates. It established that over a period of 5-6 years the graduation rate in Ghana was 20% and in Kenya 10%. It also confirmed that micro-enterprises (less than 10 workers) almost never jump two categories to become medium enterprises (more than 50 workers). However, the higher graduation estimated by the WB report may relate to the characteristics of the study, which covered enterprises with up to 49 workers in the manufacturing sector only. Entry costs then are higher than in the trade and services sector, because producing goods entails more planning, larger investments and higher risks. Entrepreneurs in that sector would therefore be more growth-oriented than in the services area.

A recent ILO report on African women entrepreneurs (2004) in Ethiopia, Zambia and Tanzania found that the vast majority of women-owned enterprises start very small and rarely grow beyond five workers, if they grow at all. They generally employ only the owner and very few graduate to the small and medium-sized categories (above 10 workers). Indeed, graduation is quite exceptional for the MSE sector in general, but even more among women-owned enterprises. The larger the size of a firm, the most unlikely it is to find a woman proprietor. In the countries where the research was conducted, it is difficult for women to access the skills and resources necessary to move out of the micro-enterprise scale and beyond the informal economy.

Different estimation method, similar results

In order to estimate the graduation rates of micro and small enterprises, data collection has to be collected twice. Due to the obvious difficulties of repeating the surveys, several studies follow a different path: asking what percentage of small enterprises existing at the time of the once-and-for-all survey started in the micro-enterprise category. These enterprises are those that could survive their first years in business, called the "reserve" enterprises. Asking these firms only about their graduation history hides the high mortality rate of those that did not make it at all through in their initial years, which generally amounts to 80% of the start-ups. In spite of this limitation, the 'reserve' method is easy and less costly to estimate graduation rates than a two-period survey.

Research conducted in this way confirms that cases of graduation are exceptional. For example, Gichira (1997) shows that in Sierra Leone, Rwanda and Botswana 80% of the small enterprises operating at the time of the survey did not start as micro enterprises at all.

Also following this reserve method, Cotter (1996) contended that graduation rates are close to zero or too low to be affected by policy intervention. After 400 needs-assessment interviews with micro-enterprise owners, artisans and apprentices in Kenya, the author (1996:52) calculated that only 18 % of the respondents viewed themselves as "real" entrepreneurs, had a relatively successful businesses and were motivated by the prospects of higher profits and expansion (not merely survival). Under the assumption that the firms interviewed represent 20% of the total amount of start-ups, the mentioned 18 % represents 3.6 % of all start-ups. This small number roughly estimates the proportion of firms in the hands of growth-oriented entrepreneurs and is consistent with those of other researchers.

Most MSE score poorly on job creation and sustainability

Data on job creation support the low growth rates of employment. In India, Ghana, Sierra Leone, Turkey, Colombia and the Philippines, employment in firms of less than 50 workers grew at a yearly rate of 1% in the Philippines and 2.5% in Colombia to a maximum of 9.7% in India. This means that an enterprise employing one worker in Colombia, for example, would take an average of 29 years to generate a second job. India fares better and there it would take slightly more than eight years to create a second job.

Dawson (1993) found a similar picture in Ghana, measuring employment of a sample of firms in the micro-enterprise sector in 1975 and in 1989. Over those 14 years, micro firms went from employing an average of 4.3 persons in 1975 to an average of 6.8 persons in 1989, adding just 2.5 jobs in the total period. In comparison, employment in small enterprises (from 10 to 50 workers) went from an average of 20.5 to 26.7 workers over the same period, showing that those who do not start so small grow faster. This author therefore considers that if the policy target is to create employment and promote economic growth, resources are better used by supporting not-so-small enterprises (above 10 workers). In aggregate terms, they have a better chance of achieving a larger impact in opening new jobs.

Data on job creation hide the high birth and death rates of micro and small-scale enterprises. Mead & Liedholm (1998) found that every year the birth of one-worker enterprises amounts to 25% of the existing stock in Botswana, Kenya, Malawi, Swaziland, Zimbabwe and Dominican Republic, while in the 2-9 workers' segment the birth rate is 10.6% and in those with 11-50 workers it is 8% (it is quite natural that one-person enterprises spring easily and regularly because of the lower entry barriers than as larger firms).

Information on business closures is considerably less reliable because it would require surveys to be done at regular intervals to measure how many firms disappear. There was such a return survey done in the Dominican Republic and it was found that one year after the first visit 20% of the firms had disappeared. So all in all, the stock of micro and small-scale enterprises grows little, with a slightly higher amount of births than deaths. In a study in Indonesia, Behrman and Deolalikar (1989) report similar entry and failure rates for the period 1975-85.

The mobility of micro-enterprises in and out of the economy is so large that Biggs (2003) actually researches why micro-enterprises survive at all. He found a high mortality rate in five Sub-Saharan countries, with a maximum mortality rate at the lowest scale. Taking into consideration both births and deaths, the increase in the number of establishments is of just one percentage point per year. Given that sustainability is minimal, the author concludes, a discussion on graduation can become a rather futile exercise.

To sum up, a large proportion of firms appears and disappears every year. Durability is precisely one of the best indicators of the graduation potential of the graduation of a micro-enterprise. On the one hand, survival chances increase as time goes by, so firms that survive the first two years are likelier to survive further on. On the other hand, about 25% of the firms that survived the first year actually increased its number of workers later on.

A similar picture in developed countries

It is interesting that the poor scores of micro and small-enterprises in terms of growth and job creation in developing countries do not differ substantially from similar studies in developed countries, where economic conditions are more stable. For example, Brander (1998) found that Canadian micro and small enterprises are not growing. On the contrary, the average size of Canadian firms is declining. Even under the relatively stable conditions of a developing country it appears that firm growth is exceptional. Over a ten year period, the author calculated that only 1.7% of the firms that started with less than 10 workers graduated to the next scale level of 11 – 50 workers. Of those that started small (11-50 workers) enterprises, 0.02% made it to the medium size category. Birch (1979) poses great emphasis on the fast growing SME and their impact on the economy, but he admits that these are only 3% of the firms (Feindt, 2001)

Entry and exit levels are also similar in developed countries to those in developing countries. In the manufacturing sector in the USA, for example, between 1980 and 1986 new firms entering the economy amounted to 45.8% of the existing stock of 1980. At the end of the period analysed (1986), 38.6% of

them had exited the market. So over a seven year period, the net growth in the sector was a 7.2% net change. European countries show slightly lower net entry rates of about 0.7% per annum. (Beck, 2003)

With an econometric model prepared for the World Bank, Beck et al (2003) used a new database of 76 countries constructed by that institution to study the relationship between the relative size of the SME sector in each country to its GDP economic growth and poverty. They failed to find statistical evidence for the proposition that a large SMEs sector enhances economic growth, measured by per capita GDP growth rates. They actually concluded that a large SME sector is a characteristic of fast growing economies but not a determinant of rapid growth; i.e. there is no causality line. They repeated the exercise to measure the impact of a large SME sector on productivity growth and the data were not conclusive either of a relationship between the two variables. Poverty was measured both with a headcount index and the poverty gap. The authors (2003:4) could not find statistical evidence to show that the growth of the SME sector affects the poorest quintile of the population any differently than the whole of the country's population. The data do not show that growth in the SME sector affects the income of the poorest quintile of society, the percentage of the population living below the poverty line, or the poverty gap when controlling for the level of GDP per capita. In short, the development of the SME sector has no clear positive impact on the income of the poor. The authors repeated the exercise separating developed and developing countries but the conclusions stayed the same. All Beck could conclude with the broad database of the World Bank's was that poorer countries have larger SME sectors and in many cases these grow without increasing the income of the poor. As a result, pro-SME policies are not necessarily pro-poor policies.

The point was also studied by Schreiner (2003) and Edgcomb et al. (1996). They confirmed that large SME sectors are typical of poorer countries. For example, in the USA the micro-enterprise sector (firms of up to 50 workers) is quite small. It employs 8% to 20% of the labour force, while in the developing world it represents 60–80% of jobs. Schreiner (2003:1570) explains the difference by the prevalence of alternatives to self-employment –namely wage jobs and public assistance– in developed countries that reduce the pool of entrepreneurs. A public safety net prevents beneficiaries from seeing self-employment as an attractive alternative (it implies a large effort and high risks) while abundant waged employment makes a micro-enterprise look too costly and risky. Schreiner (ibid) reports that the income from a small business is often low because they tend to have low productivity, face high competition in their sectors and may face low demand if they sell products that customers could do for themselves or could do without. In comparison, in developing countries the alternative to micro-enterprises might be starvation, given that waged jobs are scarce and public safety nets poorly developed.

Graduation is exceptional

In spite of the great expectations arisen by the micro and small enterprise sector, such optimism is not supported by the actual facts in either the developed or the developing world. The “engine of growth” hypothesis seems wishful thinking: micro-enterprise graduation is an exception rather than a rule. The main study into the postulation that micro and small businesses enhance economic growth and fight poverty in developing countries has found that over a period of five years most businesses (80 %) do not grow at all. Only 1% of those that start with less than 5 workers grow enough to graduate into the category of 10 or more workers. When the owners are women living in Sub-Saharan Africa, graduation almost never happens. When considering the manufacturing sector only, which normally requires more skills and investment than simple trading of goods and services, graduation rates go up to a pale 10% and 20%, depending on the country. In the developing world, the panorama is not more promising and in Canada the graduation rate was estimated at 1.7%. A look at the trajectory of operating firms confirms these data: 80% of the enterprises with 10-49 workers started within than size category. It takes micro-businesses several decades to be able to create a full-time job, even for the most successful ones. All in all, large SME sectors are typical of poor countries, but policies to develop the SME sector further do not necessarily generate economic growth or reduce poverty. In developing countries, a thorough look at the small business sector reveals that in most cases firm owners are poor, cannot find a waged job and cannot rely on any safety net. They start up a business as their last survival resort. The SME sector is therefore far from a ‘reserve army of dynamic entrepreneurs’ but just a reserve army in which among those that start small less than 20% grow and just 1% - 4% actually graduate to the next size category.

5. Why don't they grow?

From an aggregate point of view, this paper has shown so far that the graduation of micro-enterprises is exceptional. It is now time to take a look at the micro level of the firms and scrutinise why most of them never graduate.

Growth is not pursued

The main reason why micro-enterprises never grow out of their size category is, plain and simply, that their owners do not pursue expansion. Indeed, they do entrepreneurial activities but they do not have an entrepreneurial attitude or goal, at least not in the strict Western sense of the concept. Reynolds et al. (2004) distinguish between necessity and opportunity-based forms of entrepreneurship. Necessity entrepreneurs are forced into new firm creation by unemployment or other economic shocks, while opportunity-based entrepreneurs make an affirmative choice to start a new business, based on the identification of a specific business opportunity.

The poor, on the one hand, do entrepreneurial activities in the sense of raising capital, carrying out investments, and being the full residual claimants for the resulting earnings. This is broadly the case in all developing countries. Banerjee (2007:152) estimated that in Peru 69 % of the households who live under \$2 a day in urban areas operate a nonagricultural business, while in Indonesia, Pakistan, and Nicaragua the incidence is between 47 and 52 %. On the other hand, poor entrepreneurs are far from following learning-led competitiveness strategies and are not driven by entrepreneurial goals. They do entrepreneurial activities among many others. They expect their businesses to be the primary provision of income that can then be invested in other household activities and strategies, such as education for the children and land acquisition. They do not accumulate capital by reinvesting profits, showing a non-entrepreneurial attitude that reduces the chances of expansion (Afenyadu 1999:25).

According to Cotter (1996), most poor entrepreneurs started their businesses as a means of surviving while preserving some human dignity within a hostile environment. Their objective is to feed their families and preserve their precarious, subsistence-level micro-enterprises in the hope that something good will happen to improve their living conditions. Very few realistically expect to be able to reach a significant standard of living by investing their resources consistently in their business. Even when they receive assistance services (credit, bulk purchases, technology, and export promotion schemes), a non-entrepreneurial attitude persists.

Billing, a Business Development Services specialist at DFID in Nairobi, goes further and contends that survivalist micro-enterprises 'are not businesses in the strict sense of the word' (2003:4). He concludes that it is not possible to grow a survivalist enterprise with assistance services. 'It is not worth the effort' (2003:5), he says. Instead, if the goal is to create jobs and increase incomes, he recommends focusing programmes on enterprises with the potential to grow. If programmes are meant to give opportunities and relief to poor communities, then a broader approach involving non-entrepreneurial activity is appropriate. It is important that policies for SME development take account of the often non-entrepreneurial motivations of those they are seeking to target, and include an awareness of the likely impact gender has in shaping such motivations (Afenyadu 1999:46).

The fact that growth is not a priority for the survivalist type of micro-entrepreneurs is related to how the poor generally conceive the world. Their inability to sustain a specified level of well-being leads them to diversify their income sources: no single income is expected to provide an 'escalator of sustained growth of income. So if it fails, it would have only a limited, manageable impact on the total household income. As posed by Wright (1999:40), 'the poor are too smart or too risk-averse to put all their eggs in one basket and invest exclusively in one activity or enterprise'. Banerjee (2007:152) reports that around 20% of the households in India who had a microenterprise had a second and even third source of income. The percentages rise to 47% in Cote d'Ivoire and Indonesia, 36% in Pakistan, 20.5 % in Peru and 24 % in Mexico. In eight districts in West Bengal, Banerjee (2006) observed that the median family in a survey had three working members and seven occupations.

The specialisation necessary to develop a larger-scale micro-enterprise (and the exposure that comes from it) is not what the poor are looking for, however profitable such a mono-focused micro-enterprise may be in a certain year. They are not confident that the level of profitability can be sustained in

a second year, so they still prefer to keep other sources of income at hand. Poor families do seek out economic opportunities, but they tend not to become too specialized.

The diversification of sources of income is pursued at a certain point of time and through the year, particularly true in rural areas where the poor are engaged in different kinds of work through the year. Liedholm and Mead (1987:28) found that owners work in their micro-enterprises only part of the time. The micro-enterprise employs 90% of the non-idle time of workers in Jamaica, down to 33% of the available working hours in rural Honduras. The seasonality of micro-enterprises is an aspect not covered further in the literature but it appears that farming and micro-enterprises complement each other across the year only in some countries. In later studies in Africa alone, Mead (1999) was found that 80% were active for at least 11 months a year, 24 days a month.

What they look for when they enter the market is not growth. This is one of the main explanations why micro-enterprises do not expand: their owners are not interested. Philips et al. (2007:797) found in Zambia that as much as half of the enterprise owners saw their business as a survival effort and did not show any entrepreneurial capabilities (e.g. risk taking or plans for expansion). In turn, another 30% saw their micro-enterprise as a temporary activity while a market gap existed or until they could find (waged) work. They had expectations of growth, but these are more a wish or hope than a realistic plan (ibid, 800). The distinction between doing entrepreneurial activities and having an entrepreneurial attitude comes again to the fore. Philips (2007) found that barely 21% of the study sample showed basic entrepreneurial motivation or disposition, had an expansion plan, and accessed market information from tested sources.

Some authors have criticized this dichotomy between so called low growth and high growth enterprise models (Marcucci, 2003; Karim, 2003). They assert that it tends to reflect a Western prejudice: the assumption that economic rationality and profit orientation are the objectives to which all enterprises should lean. It entails, they say, a gender blind view of entrepreneurial activities. Successful enterprises (those that grow) just create more work for women, who are already busy balancing their productive and reproductive roles. This is not necessarily what they need or want, once the major consumption needs of the household have been met. "Poor women prefer to expand only to the limits of their own labour and management capabilities", contends a report of the Financing Women's Enterprises Project. While this may not be economically rational, it makes a lot of sense in the context of the women entrepreneurs themselves (Marcucci, 2001)

Downing (1990) thus proposed a framework to differentiate between three types of entrepreneurial attitudes. The first kind are the strictly survival entrepreneurs, men and women who are very poor, mostly involved in agriculture and with limited non-farming activities. The second group is composed of men and women who seek security: they normally have moved from the previous category by virtue of their activities into non-farming work and run a micro-enterprise along their farm to diversify their income sources. Both of them are survival oriented, but the second group also seeks to stabilize income. The third group are the growth-oriented entrepreneurs, mainly men, who specialise on a single firm, may use hired labour and seek external sources of capital. Downing, within USAID, considers that lack of interest in business growth may owe more to a lack of opportunities than to the intrinsic absence of a desire to grow.

Use of income versus accumulation

One of the main characteristics of an entrepreneurial attitude is the inclination towards saving, re-investment of profits and accumulation, as described by Max Weber in his account of the Protestant ethic. If the disposition towards accumulation is an essential property of entrepreneurs, then survivalist entrepreneurs hardly qualify as such.

First of all, it has to be considered that they barely have an income to satisfy the needs of the household, let alone reinvest profits in the business. Oketch & Otieno (1999) studied in Kenya what micro-entrepreneurs did with the income: 54% was used in the household, 23% was reinvested to keep the enterprise going (including replacement of inputs), 12% paid school fees, 6% was invested in agricultural activities and 6% was given other uses. King (1999) also found evidence that only a small fraction of the profits are reinvested into the firms.

Estimating earnings is evidently a very difficult task, but was attempted in Kenya by the GEMINI/USAID team (Daniels and Mead, 1998). They found that earnings were very low. For two

thirds of the firms surveyed, earnings were even below the minimum subsistence wage set by the government for unskilled workers, which is considered too low for a family to satisfy even its basic needs. Entrepreneurs kept their business open, nevertheless, because half of them had this business as a complementary source of income that provided less than half of the household needs. There were 10% of them, however, who had their business as sole source of income and another quarter who got half of their income from it. Micro- enterprises earn very low returns but for their owners it is a vital source of income. Though it supplies an income that keeps them very poor, they kept running their business in absence of other options.

Without accumulation, technical innovation is minimal. Survivalist entrepreneurs have neither the time nor the resources to innovate. They tend to operate in closed and inward looking environments. Most of the skills are passed down from generation to generation, with training largely based on imitation rather than the capacity to innovate (Dawson, 1997:17). In turn, innovation often requires resources, as well as technology transfers, and these are rarely available.

The low returns of their firms combine with a non-entrepreneurial attitude in the failure to accumulate capital. Cotter points out (1996) that such entrepreneurs realistically ask themselves: 'why spend money to buy more supplies with which to produce more products to sell to poor people shopping in markets already saturated with cheap goods, when your customers won't pay higher prices so you can't recoup your product improvement investment?'. This makes it clearly impossible to reinvest any profits or sustain a credit to increase profits.

Poor market positioning

One of the main success factors of a firm, at least in the Western conceptualisation of entrepreneurship, is its market positioning. The economies of developing countries are usually unstable and unpredictable, making it difficult for entrepreneurs to develop a business. In the case of the survivalist micro-enterprises, market positioning is problematic also beyond the characteristics of the market itself.

The products of survival entrepreneurs are regularly of low-quality and supply the survival needs of low income customers whose buying power is limited to the lowest priced locally made products (or cheap imports). The markets they serve are already saturated with these products, so new start-ups further drives prices down and make profits illusory. They normally serve clients in their immediate surroundings, which are just as poor as themselves, so the chances of extracting a viable profit from such a business are very low (Phillips et al., 2007:800). At the same time, they are often too poor to move elsewhere.

The problem of access to profitable markets was regarded as the top obstacle to growth in most of the countries where the GEMINI group carried out its fieldwork (Mead, 1999:67). Survivalist entrepreneurs complained that their demand was very low. They did realise they were selling a limited range of products in restricted and saturated markets. While most of them knew that their customers were no better-off than themselves, there was little they could do to remedy the situation. If they sought to increase production, they found it difficult to sell the extra output. They took this as problems of market access.

The bad choice of market positioning has to do with how they decide what business to start. In their study in Zambia, Phillips et al. (2007) found that as much as 50% of the entrepreneurs thought there was a market opportunity to develop a business because they saw others in that activity. Another reading of this decision is that the poor prefer to stick to known activities which themselves or others have already tested. It is a choice explained by their risk aversion, which is stronger than their appetite for higher returns (and consequent higher risks). Instead of trying something new and potentially more profitable, they prefer to stick to the old formulas followed by their neighbours. That is, they read market saturation as a signal that a certain sector is profitable, which further depresses prices and profits.

The choice of activity or market positioning is also related to the skills and resources at hand. Marcucci (2001) found that in Bangladesh, the Philippines and Tunisia, found a high proportion of them had no work experience doing anything different. Especially among the women, many had no previous employment experience at all. The proportion of women with no previous employment experience ranged from 28 % in the Philippines to a high of 53 % of the women entrepreneurs in Bangladesh. This is explained by the social barriers that continue to limit women's work outside of the home. In Bangladesh, men had worked in a similar business for an average of 4.94 years, while the average for women was only

0.85 years. In the Philippines, almost one-third (30.4%) of the men entrepreneurs had work experience in the same or similar sector, compared to 18 % of the women (Marcucci, 2001).

Survivalist micro-enterprises are found in segments of the market characterised by low barriers to entry, market saturation, price rather than quality-driven purchases and a low skill component. These are often trade-based or in more technologically traditional areas. Entry is motivated by desperation and an inability to access or maintain wage employment than by a desire for entrepreneurship (Oketch & Otieno 1999; Rogerson 1998). In turn, this enhances high death rates of enterprises, given that higher success rates are more likely among those who actively seek self-employment rather than those who experience “enforced entrepreneurship” (Rogerson 1999). The group of survivalists has an “impermanent portfolio of activities” (Buckley 1997), responding to market changes by shifting to new areas with low barriers of entry.

Given the opaque market positioning of survivalist entrepreneurs, Downing (2003) recommends interventions to move away from saturated market enterprises with low profit levels and focus on sectors with ‘an extractable margin’ that would allow firms to grow.

Lack of basic assistance services

There is a consensus in the developed world that one of the main constraints facing entrepreneurs is access to credit, above other assistance services. This is more acute in developing countries and has a deeper impact. Goedhuys (2002) showed econometrically that restrained access to inputs, among which the author includes credit, results in a bi-modal firm size distribution in Côte d’Ivoire – the “missing middle” – with small firms growing less and large firms were growing faster than in developed economies.

In the developing world, credit to start a micro-business is rare. Liedholm and Mead (1987) provided evidence that in the six countries they reviewed (Sierra Leone, Egypt, Bangladesh, Thailand, Jamaica and Honduras) less than 1% of the initial funds came from sources external to the household. However, their research was carried out around 1980, when micro-credit schemes were still scarce.

Current research would probably show higher percentages. The awareness of the problem of access of small firms to micro-credit has given rise to a booming micro-credit industry, mostly following the Yunus method of the Grameen Bank. These programmes are present in many developing countries and have improved the access to small loans for micro-entrepreneurs. However, there are some doubts by now on the effectiveness of these programmes to get survivalist micro-entrepreneurs out of poverty (Mosley and Hulme, 1998). Dawson (1997:16) has found that micro-credit leads enterprises to a one-time progress and then stagnates. USAID reviewed 32 evaluation reports and also found that micro-credit rarely allowed beneficiaries to sustain the growth of their firms (Sebstad, 1996). There is no sustained accumulation process based on improved productivity and capacity, as later confirmed by other authors (Fisher and Sriram, 2002:75).

As a consequence, many of these targeted households create a complementary source of income but do not rise above poverty. A recent ILO study shows an evaluation of 140 credit-based self-employment programmes undertaken by both government agencies and NGOs in Bangladesh (Karim, 2001). It concluded that these special employment creation schemes (SECS) achieved some improvement in income and living standards among targeted households, but many of these families remain below the poverty line threshold. A random survey of 17 villages (out of 62 project villages) revealed that only 3% of the improvement resulted from SECS activities, the bulk of the change being explained by good harvests and similar favourable –but unpredictable– factors (Karim, 2001).

There is also a serious questioning of the effectiveness of providing micro-credit without further assistance to develop entrepreneurial capacities. Bates (1997:4) claims that “no serious studies have demonstrated that small amounts of debt can overcome human-capital deficiencies that otherwise minimize chances for business success.” Indeed, micro-credit does not tackle the myriad of non-financial restrictions faced by small businesses. As pointed out by Schreiner (2003:1574) this is perhaps because it is more difficult to impart skills and entrepreneurial spirits than to make loans. Micro-credit hardly enhances technical innovation, improvement in the suppliers of inputs, or identification of new markets. For non-economic reasons, programmes often target women through group lending or group-based collateral arrangements, which especially do not suit entrepreneurs that are growth-oriented (Richardson, 2004).

An alternative is to provide Business Development Services (BDS). It is apparently more effective to develop entrepreneurial attitudes and achieve growing businesses, but this is mainly among the not so small enterprises. USAID reviewed 27 evaluations of projects funded by USAID, DFID, the World Bank/IFC and the IDB/MIF in Africa, Asia, Middle East, North Africa, Latin America, the Caribbean, and Transition Countries (Zandniapour et al, 2004). The evaluation found that BDS programmes helped enterprises to increase their sales, revenues or profits in 8% to 81% of the participating businesses. In terms of the increase in gross or net income, findings reported in different studies range from 8% to 73%. However, small firms (10 to 45 workers) gain more in terms of increase in sales, profits or income than micro-enterprises (1 to 9 workers). In the same way, the effects seem lower among larger businesses (50 or more workers), which attribute increases in sales to external factors such as market conditions, new technologies, etc.

Other programmes have tried to combine loans with BDS training. Again the experience is mixed. Schreiner (2003) emphasised that micro-enterprise programs that mixed loans and training had encountered the problem that good teachers were not always good lenders and vice versa. Borrowers were confused when training was a gift but cash was asked for a loan. Furthermore, some participants felt it was unfair to blame defaulters whose ventures failed in spite of receiving training. Helms (1998) thus advises that programmes should build a firewall between their lending and training activities. This would improve transparency and sharpen incentives to decrease costs and to increase value.

An additional problem is the gender blindness of some assistance programmes. For example, an ILO (2004) report in Africa found that training for micro-entrepreneurs was normally class-room based, concentrated in week-long sessions, focused in urban locations, lacking follow-up advisory support services, and given by male trainers. Women often could not travel to training sessions, nor be away from their families and enterprises for several days, and their husbands objected to training offered by men.

Introducing a gender perspective

The conception of their enterprises as a complementary source of income, done near their homes, with minimal skills and equipment is often explained by gender factors. For example, entrepreneurs do not move to more promising locations because they are women that cannot go too far from the homes.

The fact that they are women affects their performance, goals and prospects as entrepreneurs. As suggested by Eigen (1992:5), the stagnation of survivalist enterprises has a gender bias because of the double role of women. Women in the developing world perform a wide variety of activities and face a long list of obstacles; women can hardly work on the expansion of their enterprises when they become pregnant every year or are overworked in the household, uneducated and unexposed to markets. In Bangladesh, the Philippines, Tunisia and Zimbabwe, Marcucci (2001: 57) found that two thirds of the entrepreneurs are women who also bare the burden of the housework.

Percentage of women and men entrepreneurs carrying out housework

	Women (%)	Men (%)
Bangladesh	74	7.5
The Philippines	79	45
Tunisia	83	5
Zimbabwe	89	33

(Marcucci 2001: 57)

Women entrepreneurs in each country face a number of similar and serious barriers. The majority of women who own micro-enterprises live in rural areas with limited access to markets, credit, information, training, business development services, technology, business networks and proper business premises. Most operate below the micro-finance ceiling. Very few grow to be a small business, and even fewer to become medium or large scale enterprises. In turn, women have less access to education and skills training, are sometimes restricted from holding title to property (which impacts on their ability to borrow from banks without the consent of their husbands), and are restricted in their mobility due to child-care and household responsibilities, as well as the practice of having to gain permission from their husbands to travel. In some cases, women are constrained from networking with men in a business environment and this seriously impedes their ability to access information, markets and business services. Even in cases where gender equality policies exist, enforcement of these policies is weak and cultural practices prevail.

The most serious barriers to the growth of women's enterprises in Ethiopia, Kenya and Tanzania are gender-based inequalities in the systems associated with the legal, matrimonial, and cultural institutions, coupled with the prevailing stereotypical images of the "African woman entrepreneur", according to the ILO Going for Growth project report (ILO, 2004).

In a study in Bangladesh, the Philippines, Zimbabwe and Tunisia, Marcucci (2001) reports that women's enterprises tend to be younger and smaller in terms of workers employed and in terms of the presence and value of fixed assets. Women tend to rely more on unpaid family workers and to use less modern technology. Women's enterprises tend to be concentrated in low investment, less profitable sub-sectors which build on their traditional skills. Instead, men tend to be concentrated in more economically dynamic sub-sectors. Women register their enterprises less frequently than men and often operate within the home. All of these characteristics add up to less dynamic businesses which are often not clearly differentiated from the household.

In fact, most women have a micro-enterprise because they are responsible for the food security in their households and not as a result from entrepreneurial capabilities or even a personal choice (von Mas-sow, 1999:96). They thus struggle to make a profit, lacking the skills and education to find a niche market or simply make adequate bookkeeping. The expression 'invisible entrepreneurs' is sometimes used to address survival businesses owned by women.

There are some gender-specific distinctions in the motivations behind women and men's decisions to launch enterprises. Mayoux (1995) contends that women more often than men are pushed by severe economic contexts to look for ways to supplement family income. Given the barriers to women's entrance in the formal sector and the time constraints stemming from their domestic responsibilities, many women start a business that they can run from the home using their traditional skills. Therefore, their venturing into the MSE sector may be less a conscious choice and rather a "desperate attempt by women with few alternatives" (Mayoux, 1995:4). Men, on the other hand, are seen as responding to the attractive characteristics of self-employment such as increased earnings, independence and the opportunity to directly benefit from one's own work. In Bangladesh, when asked why they selected the enterprise idea, the majority of women and men entrepreneurs responded that it was due to a natural inclination. The second main reason cited was the urging of their parents or spouse (20% of the women and 28% of the men). Men declared that a potential profit (18% men compared to 11 % of the women) was a relevant motivation, while women also cited that it allows more time for family life (13% of women against 2% for men). In the Philippines, Illo (2005) related the choice of the activities of men and women was mainly explained for the latter by the closeness to the home or mobility necessary to do them.

These factor all lead women to view their micro-enterprises as a complementary income to their households' livelihood; they do not see them as the main support or do not fully appreciate their relevance for the security of the household. Doing micro-enterprise activities are a gendered choice, mainly because of the closeness of firm and household. The borders between one and the other are blurred and it is often impossible to differentiate one from the other (Illo, 2005). In Africa, women tend to concentrate as owners of micro-enterprises in gendered activities like trading, food processing, textile and clothing, and provide services for businesses (Richardson, 2004). This runs somehow contrary to the empowerment of women that promoting micro-enterprises is often expected to achieve: they endorse gender inequalities, rather than fight against them.

All in all, enterprise graduation needs to be analysed with a gender perspective (Downing, 1991). It is no coincidence that almost all those who graduate are men. A final point is that women entrepreneurs also keep their survivalist businesses for non-financial reasons, like the opportunity to have an activity out of the home and accept it as long as they can cover some basic needs with the income they make there, as was found by Catherine (1998) in Cameroon.

Entrepreneurial activity by non-entrepreneurs

In a nutshell, survivalist micro-enterprises in the developing world do not really fit into the Western conception of how they are expected to do business. In the survivalist micro-enterprise way of doing business, firms do not grow and very exceptionally graduate to the next size category. There is a distinction between doing entrepreneurial activities and having entrepreneurial attitudes. The former refers to what micro-enterprise owners actually do: just as in the developed world, these entrepreneurs raise capital,

carry out investments, develop a product and claim resulting earnings. But holding an entrepreneurial attitude goes beyond what they do and this is where micro-enterprises in the developed and developing world differ. Survivalist micro-entrepreneurs in the developing world are not appealed by saving (and re-invest) as much as possible of their profits to accumulate capital. Most of the time they cannot do it because the revenues are too small, but even when they can they would rather pay for other necessities of the household. The micro-business is seen as a complementary source of income and, as such, accumulation to make the firm grow is not a priority. Security (stabilisation of income) is perceived as the critical *raison d'être* of the enterprise, in contrast to growth or graduation. Owners see it as a complementary source of income and invest only a portion of their resources and energies in it.

The poor do not put all the eggs in one basket because they do not believe that any basket is reliable enough to deserve all the eggs. An additional impact of the risk-adversity of the poor is that they understand the positioning of competitors in the market as a sign of the potential profits of that activity. The poor normally do not have the time, resources, education, let alone the motivation, to search for more profitable businesses. The reasons are partly linked to the gender bias affecting most of the micro-enterprises: women owners cannot go too far from their homes and cannot dedicate to the firm full-time to a business that is in fact a complementary source of income for the household.

6. Who graduates?

Graduation of micro and small enterprises is exceptional, as stated so far, but it still possible and happens for a small portion of firms. A pattern of who is more likely to graduate needs to be identified in order to support perhaps increase the proportion of businesses that grow. In line with the previous section, the areas that will be analysed are market position, accumulation capacity, job creation and entrepreneurial attitude. Liedholm and Mead (1999) identify four types of entrepreneurial firms in developing countries: newly established, established by not growing, established but growing slowly, and graduates to a larger size. The last group is of particular interest for their impact on the economy.

Market positioning

Enterprise growth dynamics are closely connected to the general market conditions of the country. The labour force engaged in the sector in many parts of Africa appears to grow when the economy as a whole is depressed. It seems that lower level activities, concentrated in "family enterprises", home-based working and street vending are anti-cyclical and increase when economic growth is slowing down. Conversely, the more successful segment with permanent employees is pro-cyclical, growing when the overall economy grows as the result of new market opportunities (Charmes 1999:79). This relationship, as well as the enabling environment that supports or hinders enterprise growth, are beyond the scope of the present report.

Mead & Liedholm (1998) were unable to identify the 'high' and 'low' growth sectors as aggregates. There was much heterogeneity in earnings, both within the same scale category as within the economic sector. In their first study in Sierra Leone, Bangladesh, Jamaica, Honduras, Thailand and Egypt, the authors (1987:89) observed that firms that graduate into larger scale categories used hired workers, operated in workshops away from the home, were located in larger localities, and were involved in product lines with good economic prospects such as tiles, furniture and repair activities, as opposed to handicrafts, mats, baskets and garments.

However, as a general rule, manufacturing concerns and enterprises in the service sector were less likely to close than those in the retail or wholesale sector. Another key determinant of survival was location with home-based enterprises exhibiting higher hazards and greater closure rates than enterprises which were located in commercial districts. Accordingly, proximity to growing markets appears to be a significant determinant of an enterprise's survival prospects (McPherson, 1995).

There were also specific niches in which micro-enterprises tend to grow, including fashion and design in Ghana, machine tools in Kenya and African clothing in South Africa (King 1999; Afenyadu 1998b; Rogerson 1998). In these niches, entrepreneurs were able to take advantage of higher levels of education and training. A respondent characterised himself and others with better education and training and a primary focus on profit and enterprise development as "jua kali with a professional approach". (Afenyadu 1999:46)

The search for a niche market is one of the critical traits indicating graduation potential. It includes a variety of forms, finding a favourable location to other marketing arrangements like entering the supplier network of a larger enterprise (Mead, 1999). In some cases (mainly urban and male), entrepreneurs are able to enter export markets through these business networks or by participating in collective schemes like alternative trade channels.

Besides the sector, there are other characteristics of market positioning that support growth (Illo, 2005). Firstly, micro-enterprises have better chances of graduation when they are subcontracted regularly by a larger, stable firm. About a third of the micro-enterprises that show any growth in sales have contracts with larger firms (e.g. in the garment sector). Although some are paid very little, the flow of income is stable and allows households to allocate their scarce resources better. Secondly, prospects of graduation improve among those enterprises that participate in SME programmes of skills development and marketing. Thirdly, chances to grow are higher among those that improve their access to raw materials and services, either through cooperation with other entrepreneurs or by the provision by local government and civil society organisations of basic services.

Accumulation and growth trajectory

Survivalist micro-enterprises barely make enough profits to support their owners, let alone create a margin to re-invest and accumulate capital. It is precisely the capacity to accumulate on which growth-oriented businesses mark an important difference. Mead & Liedholm (1998) found that this group of micro-enterprises grows very fast, pushed by substantially higher profits than the typical survivalist firms. In the Kenya income study (Mead, 1999), for example, their earnings of growth-potential micro-entrepreneurs were at least twice the minimum unskilled wage in the country and twice the average of the micro-enterprises surveyed in the same size category. So a basic starting point to estimate growth potential is to look at the income of the firm, distinguishing those that would be able to accumulate from those that would not. Also important is the fact that 'signs' of graduation potential are observed within the first two years of existence of the firm.

Those firms that grow, however, may follow a different trajectory than the typical one in the Western conception. A study in Africa revealed that growth in the private sector is primarily achieved through the creation of new enterprises rather than the expansion of the existing ones (Afenyadu 1999:42). Much of this is explained by the multiplication of a certain business by successful entrepreneurs: those able to extract enough revenues to grow, and perhaps even graduate, prefer to start a second micro-enterprise rather than expand the existing one. They give priority to risk diversification rather than graduation. That is, they prefer horizontal or lateral growth (multiplication of enterprises) rather than vertical growth (expansion of a core business). Horizontal growth is tacitly seen as a weak strategy when compared to the norm of linear growth of a single business and is considered a trace of the survivalist entrepreneurial attitude (Olomi, 2001). In other words, while horizontal growth is a strategy followed by occasionally successful survivalist entrepreneurs, vertical growth is the option preferred by growth-oriented entrepreneurs with a goal to graduate.

The hypothesis that the growth among micro-enterprises in the developing world should be looked at in terms of multiplication of businesses was developed by Downing (1990). The ILO (2003) report has scrutinised the modalities of growth for women entrepreneurs in Ethiopia, summarised in the table below. It was observed that women, in particular, focus on security in order to enable their husbands to take greater risks in other activities. When successful, they prefer to expand horizontally. In Tanzania it was reported that women "prefer to start a variety of micro-enterprises rather than develop an existing business" (von Masslow, 1999:102). In the Ethiopian ILO report, Richardson (2004) found evidence in the same direction: women take different paths to growth but they prefer to grow horizontally rather than vertically. That is, they would rather own more than one business simultaneously to diversify risk: if things are not going well in one business, they have another one to rely on.

Additionally, micro-credit programmes somewhat exacerbated the preference for horizontal growth. Unable to secure financing beyond the ceiling imposed by micro-finance institutions or the capacity of their 'savings group', women in the micro-enterprise sector qualify for small loans several times. Each time they open a new business, which also allows them to incrementally pursue a number of tiny 'niche' opportunities identified within their own community in order to increase their revenue base.

Forms of business development by women entrepreneurs in Ethiopia

(Total number of respondents who had expanded/diversified was 82 out of 128 interviewed)

<u>Modalities of Expansion</u>	Percentage
Expanded size of enterprise	34
Hired more workers	21
Improved quality of the product	10
Started selling in new markets	7
<u>Modalities of Business Diversification</u>	
Added new products	26
Relocated working premises	1
Changed the type of business	1
<u>Modalities of Business Rationalization</u>	
Reduced costs by buying inputs in bulk	1
Reduced type of products	1
Reduced number of employees	1
Others	2

Based on ILO (2003)

A final point is that the transition from informality to formal registration in the economy is not a good indication of graduation in terms of expansion or sustainability of the enterprise. In Kenya, Neshamba (1997) showed statistically that there was significant expansion and contraction of enterprises both in the formal and the informal sector. In other words, informality is neither an impediment nor an enabler of expansion. The contrary, however, is verified: the decision to formalise is almost always related to graduation or the entrepreneur's plant to grow (Ishengoma, 2006).

Job creation

Survivalist enterprises may take decades to add extra labour to their business, if they do that at all. In contrast, growth-oriented entrepreneurs with the potential to graduate create jobs already in the initial stages of the firm (Mead, 1994:1884). Even the smallest increments in the hours of labour employed are enough indication of a tendency to grow, a sign that the majority of the micro-enterprises do not show. The extra labour employed tends to come initially from other family members and only in a second phase other workers are hired, but this does not reduce the relevance that new employment is being created. According to Mead's study (1994) in Sub-Saharan countries (Botswana, Kenya, Malawi, Swaziland and Zimbabwe), about 25% of the jobs in the micro and small business sector resulted from the firms. Their study found that of the 4.3 million people working in small enterprises at the time of the survey: 3.3 million jobs came into being when the enterprise itself started operating and the remaining million resulted from their subsequent expansion.

While only 1% to 4 % of the micro-enterprises actually graduate, these small number of firms constitute dynamic centres of job creation, with vigorous employment expansion rates. In Botswana, Kenya, Malawi, Swaziland, Zimbabwe and Dominican Republic, Mead and Liedholm (1998) calculated that each growth-oriented firm has added up to five people to their work force over five years, reaching average employment expansion rates of 13.7% a year over five years. That is much higher than the average in their respective economies and in other scale segments of firms. In aggregate terms, three-quarters of all jobs created in firms of 1 to 50 workers happened in businesses that started with less than five workers. In other words, small increases in employment spread over a large number of firms create a very large impact at an aggregate level. Growth in this way improves equity and fights poverty along creating jobs. Mead (1998) concludes that identifying and supporting growth-oriented entrepreneurs is therefore worth the effort, regardless of their very small number.

Entrepreneurial attitude

While survivalist micro-entrepreneurs were described above as doing entrepreneurial activities without necessarily being entrepreneurs, an entrepreneurial attitude is almost always detected among the owners of firms that grow. It is difficult to describe with precision what the growth-oriented entrepreneurs look like, but they seem to have some common traits.

Those who graduated were mostly male entrepreneurs with a previous successful experience. They do not operate in the trading sector but in manufacturing or other services. They start small, like all small enterprises, but not as single-worker businesses (one-person enterprises make lower returns per person than in the 2-4 worker and larger segments). They are rarely located in rural areas, at least in the Sub-Saharan Africa study reported by Mead (1999) covering Zambia, Kenya, Mozambique and Zimbabwe. The relationship between expansion and the age of the firm is also significant: at any given year, younger firms are likelier to show higher rates of growth than those that had been in existence for a longer period without expanding. In other words, the longer they stay in the market without growing, the lower the chances that they will ever grow.

Most women entrepreneurs never graduate, but there are a few exceptions. The most common profile in this group is women with older children, heads of household, who do customary trade. In contrast, in the group of survivalist women micro-entrepreneurs it was more common to find co-wives, with children under five and disproportionate reproductive burdens (von Masslow, 1999:101).

In relation to education, in the small group of entrepreneurs who exhibit business competencies, Phillips and Bhatia-Panthaki (2007:801) found that they were more trained (some were college graduates), had prepared realistic plans on how to make a profit and had substantial information on the market in which their enterprises were active. They usually had prior industry experience usually with larger enterprises and some essential technical knowledge (Ebony Development Alternatives, 1995:22, quoted in Rogerson, 2001). Age was not a significant factor. In addition, the majority of the enterprises that supply higher earnings were owned by more educated managers (Mead, 1999). However, the evidence is not conclusive on whether providing basic training to all micro-entrepreneurs necessarily improves the chances of graduation of their firms. The completion of primary school was unrelated to enterprise growth in Niger, Zimbabwe and Swaziland, as tested statistically by McPherson (1996; 1991), while Parker (1995) found in Kenya that owners that had completed primary school were better able to deal with fluctuating economic circumstances and find a smoother growth path than those with less education. Reported by Mead and Liedholm (1998), Parker (1995) found that there was no statistically significant relation between business training and business growth. It would thus appear that small amounts of education make little difference to enterprise profitability and growth.

Entrepreneurial attitudes are more difficult to measure and detect, but it is of a high relevance. It was found in grounded fieldwork that growth-oriented entrepreneurs sought new opportunities in high value areas (Oketch & Otieno 1999). The more successful entrepreneurs not only hope for growth but design ways to achieve it, following a profit-oriented diversification strategy (Ueda 1999, quoted in Afenyadu 1999:46). Growth-oriented entrepreneurs no longer see security as the main goal, but prefer to build on adding value. They may include formal and informal sector small business and production and may also operate in the fringes of legality. When they can, they accumulate income to be able to invest in productivity-enhancing and communications technology, linking to rural infrastructures to access primary products and local markets (von Masslow, 1999:103).

In their potential to grow, Downing (1990) distinguishes three sectors instead of two. There is a segment of home-based enterprises in traditional sub-sectors of the economy, vulnerable to displacement and with low demand elasticities, as for example mats, baskets, pottery, textiles and the vending of certain commodities. This group has a majority presence of women entrepreneurs with low returns, engaging in atomistic competition and relying on a local, thin market. They are in the margins of economic viability, with minimal or no chances of graduation (Liedholm and Mead, 1987). The second group in terms of growth potential is the segment of traditional economic sub-sectors that will continue to be important as the economy grows but is constrained in growth by inadequate infrastructure or uneven input delivery systems. The agriculture and farming sector fits into this category: they do have growth potential (with available inputs and value adding potential) but would require different external conditions to expand. The third sub-sector with high growth potential are those newly introduced or reconverted to fit modern, dynamic markets. Among these, the new upcoming sectors serve the tourist industry and export markets.

Profile of growth-oriented entrepreneurs

Micro-enterprises with the potential to graduate are more frequently owned by proprietors who are male (among the women, they are mainly heads of household, with older children and limited reproductive work). They locate their workshops outside their homes, in urban or larger localities with access to their market. They typically employ hired workers from the beginning or create additional jobs in first year of operation. They show a high rate of profit growth. They reinvest in vertical, rather than horizontal expansion. They are more educated and have the capacity to position their firms in growing product lines, especially market niches. They show an entrepreneurial attitude (managerial competencies) in terms of designing and planning of the business, detecting potential suppliers of inputs or buyers and sometimes integrating a value chain as subcontractors.

8. Conclusions and recommendations

Graduation of micro-enterprises is clearly exceptional rather than a rule. A significant number of new enterprises (about 75%) do not survive the first two years and of those that do survive, just about 20% grow at all. Of those that grow, a minority of 1% to 4% actually expands enough to graduate into the next size category, though of course graduation rates vary across countries, sex groups and locations. The typical firm stays in business without growing at all (80% of them) and is focused on making enough income to keep it running and meet the basic needs of the household. These estimations were presented in section four and summarised in the box "[Graduation is exceptional](#)". They are the result of studies with various classification, focuses and time frames, as listed in section 2.

The small proportion of enterprises that graduate is, in principle, a constant in both the developed and developing world. That is in spite of the many differences in the environmental and regulatory conditions in which they operate. However, micro and small-enterprises in the developing world differ substantially from those in developed countries: their scale is invariably smaller (and they are indeed very small). They are mostly headed by women who face gender barriers in addition to those associated with the scale of their businesses. They represent one of several sources of income in the household and not necessarily the main one. These points were raised in section 3.

Why do as much as 80% of the micro and small enterprises never grow? First of all, it is not materially possible for them to save part of their meagre profits to re-invest in the business. Without accumulation, expansion and technological upgrade are quite impossible. Secondly, these micro-enterprises were never meant to grow. Survivalist micro-entrepreneurs give priority to risk diversification: they prefer several small sources of income rather than a large one. In this way, if one goes down, the others are still available and will help them go by. Growth is not an aim that their owners are interested in and, in fact, when the businesses are successful enough to be able to grow, they still prefer to use the extra income for other household needs. Alternatively, they diversify risk further by opening another survivalist firm in a process called horizontal or lateral growth. Thirdly, survivalist micro-entrepreneurs are mostly unable to position their business in a growing market: they operate from their homes, offering the same products that others do, selling to others in the locality that are usually just as poor, dedicating only part of their energy and resources to the business. They basically have no time to search or build a different market positioning and normally have restricted access to infrastructure and basic services such as training and credit. These aspects are mostly related to the gender bias of micro-entrepreneurship: the majority are women with limited education, resources, and entitlements. The reasons for the pale graduation rates of micro and small enterprises were analysed in this report by distinguishing between doing entrepreneurial activities and actually being an entrepreneur, as discussed in section five and summarised in the box "[Entrepreneurial activity by non-entrepreneurs](#)".

While 80% of the micro-enterprise owners barely do entrepreneurial activities with firms that have minimal chances of growing, the rest (20%) are actually able to make their firms expand. In turn, a small percentage of firms (2% to 4%) are actually able to grow enough to graduate to the next size category. These are run by entrepreneurs, defined from a Western conception: they hold an entrepreneurial attitude, search for a promising market position, have expansion objectives, strive to accumulate capital and are ready to run risks. These "real" entrepreneurs are typically educated males living in urban loca-

tions with access to markets of value chains. Although they may start very small their profits grow rapidly and they hire workers already in the initial stages of the enterprise. A profile of these entrepreneurs is characterised in section six and summarised in the box “[Profile of growth-oriented entrepreneurs](#)”.

Since the clients of micro-enterprise assistance programmes and the firm owners are so diverse, programmes to support them should cater for this heterogeneity. In other words, they are in different possible target groups, each with contributions to make to the country’s growth and poverty alleviation efforts and each with different requirements in terms of support services. Recognising these differences can help to determine which group corresponds most closely to the priorities of the donors. Interventions can then be designed most appropriately to the needs of that particular group. Mosley and Hulme (1998) highlighted a similar restriction in the micro-credit field, which they called an impact curve: the poverty impact increases as the income of the beneficiaries raise, away from the extreme poor towards the better-off. They thus suggest that lenders can either focus their lending on the poorest and accept a relatively low total impact on household income, or alternatively focus on the not-so-poor and achieve higher impact.

The recommendation of this report, therefore, is to have a dual-policy approach: different groups with different goals get different projects. Cotter (1996) considers the expectation of graduation is a misguided development goal which has caused much disillusion among donors. He thus draws a distinction between Poverty Alleviation and Business Growth policies based on private sector development. Both are important and make significant differences on the lives of their beneficiaries, but they are entirely different populations and use different policy instruments. Firm owners in the two groups started their businesses for very different reasons, strive to achieve different financial objectives, have different resource needs, try to cope with different constraints, operate in different business fields and should therefore be assisted with different policies. In this view, inducing graduation through policy is a lost cause.

The survivalist group of micro-enterprise –those who do entrepreneurial activities but are not entrepreneurs from a Western conception- present low levels of graduation and achieve a small economic impact in terms of employment and growth, but are critical in poverty alleviation. Survivalist micro enterprises should not be expected to grow into small or medium size businesses because graduation is not attainable and possibly not worth the effort in terms of resources. The group is largely formed by women entrepreneurs, whose needs for empowerment, food security, basic education and social contact are more pronounced than their desire to expand the business or their possibilities in terms of time and energy to make it happen. For them, poverty-alleviation programmes combined with health and nutrition improvement are appropriate. The income they make is extremely significant for their material survival and their dignity, so focusing on keeping them going is already important. Building on existing resources, skills and entrepreneurial capacities may offer better chances of getting by. The provision of working capital through small loans can effectively assist their survival and secure an income for the household.

In contrast, those that grow will stand out quite rapidly (within the first two years) by showing significant profits and additional workers. Enterprises with real growth perspectives will not have enough with micro-credit. They will need a more comprehensive Business Development Programme. They will require assistance to find markets, design a business plan, access supplies and credit, improve their technical skills and possibly contact technology providers. Linking them to the network of suppliers of larger firms or the public sector would benefit greatly these entrepreneurs with an inclination to expand.

In addition, Eigen (1992:5-6) recommends that programmes that target women empowerment should distinguish between those that have poverty alleviation in general as a goal from those that expect more sophisticated business development. A survivalist-oriented approach would require a strategy which concentrates on improving the welfare of women through family planning, health, education and other socio-cultural interventions. This kind of strategy is relatively expensive and requires a gender-sensitive method to encourage women’s empowerment. These women need a wide network of support in order to secure basic needs, so projects should include women group formation and consciousness building. In contrast, a sustainable entrepreneurship development programme focuses on business and entrepreneurial skills. Given that the goal is business development, the author considers that it is not necessary to imprint these policies with a specific gender perspective. These policies can very well be gender neutral and still reach a large number of women, should they have the initiative and possibilities to pursue an enterprise with growth potential. These programmes would need to become financially independent, a condition normally set by donors, for which they need to reach an increasing number of entrepreneurs in an area.

Orientation of the micro-enterprises	Type of Intervention	Appropriate instruments
Survivalist micro-enterprises (owners doing entrepreneurial activities)	Poverty Alleviation	Empowerment, food security, social contact, health and nutrition improvement, basic education. Build on existing resources, skills and entrepreneurial capacities. Provision of working capital through small loans.
Growth-oriented micro-enterprises run by entrepreneurs	Economic growth and employment creation	A more comprehensive Business Development Programme including assistance to find markets, design a business plan, access supplies and credit, improve their technical skills and possibly contact technology providers. In a second stage, linking them to the network of suppliers of larger firms or the public sector. Micro-credit will only help marginally.

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