
**The Role of Small Enterprises in Africa:
Lessons from Four National Surveys**

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ABSTRACT

Using nationally representative data from surveys conducted in Botswana, Kenya, Malawi, and Zimbabwe, this paper examines the contribution of small enterprises to household and national income in Africa and the financial and legal constraints faced by these enterprises. The data from the four countries were collected using the same survey methods, sampling techniques, and questionnaire formats, which allows for an accurate comparison of the microenterprise sector across countries. Furthermore, the large sample size, ranging from 1,200 to 11,000 enterprises in the four countries, and the in-depth questionnaire helps to examine microenterprise issues in greater detail. Regarding their contribution to income, microenterprises help to alleviate poverty despite very low income levels. Over 55 percent of all enterprises contribute half or more of household income. They also contribute to national income based on the large size of the sector. In terms of financial constraints, the data show that less than one-quarter of proprietors perceive the lack of operating or investment funds as one of their two major constraints. Furthermore, this lack of funds may not necessarily reflect a need for credit. Many proprietors report that they do not need credit and are unlikely to apply for credit. Similarly, very few proprietors see the legal environment as a constraint. Less than one percent of proprietors in all four countries cite the legal environment as one of their two most important constraints. While a minority of enterprises may register following the relaxation of government regulations, most enterprises will continue to operate informally.

Key words: small enterprises, microfinance, legal environment, income, Africa

INTRODUCTION

Micro and small enterprises (MSEs) are widespread in all developing countries. Within Africa, studies show that MSE sector employs 22 percent of the adult population on average compared to only 15 percent in the formal sector [Daniels 1994; Daniels and Fisseha, 1992; Daniels and Ngwira, 1992; Fisseha, 1991; Fisseha and McPherson, 1991].¹ Because of the size of the sector and its potential to alleviate poverty and contribute to national income, there is a large body of literature related to the MSE sector.² Although the literature is diverse, some common themes emerge. In particular, issues related to microfinance, the legal environment, and the contribution of microenterprises to household and national income are common topics of research.

In terms of the first theme, microfinance, credit is seen as a major constraint to the growth and development of the microenterprise sector. Based on this need, a whole industry has developed to offer microfinance to struggling entrepreneurs. The number of microfinance institutions operating today is estimated to be anywhere between 300 and 25,000 depending on the definition. The estimated number of borrowers ranges from 30 to 500 million [Kota, 2007]. In Kenya alone, one study estimated that there were 105 formal institutions offering support to MSEs and about half of those focus on credit [Oketch *et al.*, 1995].

The second theme from the literature, the legal environment, is also seen as a major constraint to the microenterprise sector. De Soto [1989], in his often-cited study of Peru, suggests that firms are forced into the informal sector due to over-regulation of the formal sector and excessive requirements for registration.³ He suggests that deregulation along with private property rights and less government intervention are necessary for the informal sector to develop. Similarly, Loayza *et al.* [2005], suggest that product and labor market regulations leads to a larger informal sector based on an analysis of data from both developing and industrial countries.

Finally, there is a debate in the literature regarding the contribution of the microenterprise sector to economic growth. Some authors argue that the microenterprise sector is a vital part of the economy that contributes significantly to growth [Pyke and Sengenberger, 1992]. Others, however, see the sector as a last resort or a means of survival which contributes little to the national economy. For example, Biggs, Grindle, and Snodgrass [1988] report that “as agents of economic development, very small enterprises are, to put it bluntly, of little interest.” Similarly, in Gërkhani’s [2004] summary of theories about the informal sector, he states “... survival plays an important role in the decision to participate in the informal sector in less developed countries. As a consequence, this sector gives little opportunity to economic growth and accumulation” [p. 283].

¹ For the purpose of these studies, An MSE is defined as a business activity that employs 50 or fewer workers and markets at least 50 percent of its output. The adult population is defined as 15 years or older. The five countries include Zimbabwe, Botswana, Malawi, Lesotho, and Swaziland. The formal sector is defined as income-earning activities that are registered with the government and counted in national statistics.

² For a review of the literature on the informal sector in developed and developing countries, see Gërkhani, 2004 and Schneider and Enste, 2000.

³ The informal sector and the microenterprise sector are used interchangeably in this paper. Although there is no universal definition for the informal sector, Gërkhani (2000) identifies four criteria that have been used to characterize the informal sector in the literature – “undeclared labor, tax evasion, unregulated or unlicensed enterprises, illegality or criminality (p. 293).”

Using data from four national surveys in Africa, this study examines these three themes from the literature. In particular, data from Botswana, Kenya, Malawi, and Zimbabwe are used to assess the need for credit, the impact of the legal environment, and the contribution of MSEs to household and national income. These four countries provide an overview of the sector based on nationwide surveys that followed the same survey methods, including the sampling techniques and questionnaire formats. This consistency in technique allows for an accurate comparison of the MSE sector across countries.

The paper begins with a description of the survey methods used followed by an overview of the basic characteristics of the microenterprise sector in the four countries examined in this paper. Sections on microfinance, the legal environment, and contribution of the MSE sector are then provided followed by conclusions.

SURVEY METHODS

Since the late 1970s, an approach to examine the size and characteristics of the microenterprise sector has been developed. This approach, which later became known as the GEMINI method, has been implemented in 16 countries.⁴ Although the method has evolved over time and it has been adapted to fit the needs of each country, the key elements of sampling, questionnaire format, and extrapolation of results have remained the same. This paper uses the data from Botswana, Kenya, Malawi, and Zimbabwe where the GEMINI method was implemented over the period from 1992 to 1995. The sampling technique, field methods, and sample size are described below.

The four countries were first geographically stratified into areas with similar population densities. Stratification by population density is based on the premise that areas with similar population densities will have the same basic structure of enterprise activities. Rural areas with lower population densities, for example, are likely to have a much smaller range of activities than enterprises in urban areas. Following stratification, enumeration areas identified by the national census in each country were randomly selected from each stratum. Within each selected enumeration area, every household, place of business, and mobile enterprise was visited. If an enterprise was currently in operation, the proprietor was interviewed using an existing enterprise questionnaire. If an enterprise had folded, the proprietor was interviewed using a closed enterprise questionnaire.⁵ The results in all four countries were then extrapolated to represent national level-statistics.⁶

As shown in table 1, the number of existing enterprises enumerated ranged from over 1,200 to roughly 11,000 enterprises. The number of sites visited to determine if an enterprise

⁴ GEMINI stands for "Growth and Equity through Microenterprise Investments and Institutions." This was a project funded by the United States Agency for International Development from 1989 to 1995. The countries where the GEMINI method was implemented to study the MSE sector include Bangladesh, Botswana, Egypt, Honduras, Jamaica, Kenya, Laos, Lesotho, Malawi, Niger, Sierra Leone, South Africa, Swaziland, Thailand, Zambia, and Zimbabwe. Appendix 1 shows the complete set of countries along with the sample size and original reports.

⁵ The surveys in Botswana and Malawi included enterprises that had been closed for at least one year and had been operated at any time in the past. In Kenya and Zimbabwe, only enterprises that had folded within the last three years were included. This was done to avoid overlap with the surveys that had been done three years earlier in both countries.

⁶ Detailed information about the sampling techniques, questionnaires, and extrapolation of results can be found in the original reports: Daniels, 1994; Daniels and Fisseha, 1992; Daniels, Mead, and Musinga, 1995; and Daniels and Ngwira, 1993.

currently existed or had folded in the past ranged from roughly 10,000 to 42,000. Finally, the number of closed enterprises enumerated ranged from 150 to 2,800. Extrapolating these numbers shows that six to 24 percent of the population aged 15 to 64 is employed in the MSE sector.

Table 1. Sample sizes of the four surveys and extrapolated results

	Botswana	Kenya	Malawi	Zimbabwe
Existing enterprises enumerated	1,243	2,259	10,792	5,356
Closed enterprises enumerated	153	511	2,809	706
Household and business sites visited	10,586	11,012	42,334	11,762
Extrapolated number of MSEs	47,531	708,432	573,210	936,899
% of population 15-64 years old engaged in MSE sector	14%	6%	21%	24%

OVERVIEW OF MICROENTREPRISE SECTOR

As illustrated in table 2, the characteristics of the microenterprises in the four countries examined in this study are relatively similar. First, the MSE sector is predominantly rural with over two-thirds of all MSEs located in rural areas. These same statistics are true for Swaziland and Lesotho where GEMINI studies were also conducted. The majority of MSEs are also located in the home rather than in a shop or other place of business.

The size structure of the MSE sector in the four countries is almost identical. As illustrated in table 2, 81 to 90 percent of MSEs have one to two workers, including the proprietor. Enterprise age patterns are also similar with 31 to 46 percent of MSEs only one to two years old.

The last similarity among the four countries is the percentage of MSEs that have increased the number of workers since they started. Less than one-quarter of MSEs in all four countries has grown larger.

There are, however, some important differences in the MSE sector of the four countries. Zimbabwe has a much larger proportion of manufacturing enterprises compared to the other three countries where a larger proportion of enterprises are engaged in trade. The gender of the owner also differs. Female owners represent close to three-quarters of all proprietors in Botswana and Zimbabwe whereas less than half of the proprietors in Kenya and Malawi are female. Finally, proprietors in Zimbabwe appear to have higher education levels than the other three countries.

In summary, the MSE sector in these four countries is predominantly located in rural areas with business operated from the home. Most MSEs have just one to two workers and are typically less than five years old. Finally, there is very little growth among these enterprises.

Table 2. Characteristics of enterprises in four countries (all figures in percentages)

	Botswana	Kenya	Malawi	Zimbabwe
Location				
Urban	31	25	10	27
Rural	69	75	90	73
Location				
Home	70	56	58	81
Other	30	44	42	19
Industrial Structure				
Manufacturing	28	32	43	65
Trade	66	55	52	28
Services	6	13	5	7
Other				
Size	81	88	85	90
1-2 workers	13	11	13	7
3-5 workers	5	1	1	1
6-10 workers	2	< 1	1	2
>10				
Average age of MSE	46	48	45	31
1-2 years	20	18	20	25
3-5 years	34	34	35	44
> 5 years				
Gender	19	42	52	26
Male	75	43	46	71
Female	6	15	2	3
Multiple owners mixed				
Proprietor education				
No education	29	20	26	7
Completed more than primary	23	26	6	31
Growth				
% that increased workers	19	18	23	6
% that did not grow	81	82	77	94

MICROFINANCE AS A MAJOR CONSTRAINT?

As mentioned above, credit is considered a major constraint faced by the microenterprise sector according to the literature. Thousands of organizations now exist to provide credit to microenterprises and millions of proprietors have benefited around the world. Although microfinance clearly benefits participating households, can it actually drive the microenterprise sector? Will it lead to an expansion in employment and income?

Using data from the four countries, this paper examines some of these questions related to microfinance. In particular, do proprietors perceive credit or finances as a major constraint? How many proprietors have actually applied for credit and how many have received it? For those proprietors who have not applied, why not? Finally, have enterprises folded due to a lack of finances?

In all four countries examined in this paper, proprietors were asked to identify their two primary constraints in running an MSE. Table 3 shows the three problems reported most frequently in each country and the percentage of proprietors that reported each problem. Lack of operating funds and not enough customers were among the three most commonly cited problems in all four countries. Lack of investment funds was among the top three problems only in Kenya.

Table 3. Greatest problem at the time of the survey as perceived by the proprietor (percent reporting each problem)

	Botswana	Kenya	Malawi	Zimbabwe
Lack of operating funds	11	12	16	11
Customers not repaying credit	14	7	4	10
Not enough customers	14	12	13	21
Lack of investment funds	1	10	3	1
Cost of raw materials	0	3	16	11

Examining only the two constraints related to finance, operating funds and investment funds, tables 4, 5, and 6 show the percentage of proprietors reporting constraints by gender, size of the enterprise, and sector. The only significant difference when considering gender is the perceived lack of investment funds among female proprietors compared to male proprietors in Kenya. When considering the size of the firm, enterprises with ten or more workers identify lack of operating funds much more frequently than smaller firms in all countries except for Malawi. Within the different sectors, there didn't appear to be any clear patterns.

Combining the two types of financial problems, only 12 to 22 percent of proprietors in the four countries identified investment and operating funds as a major constraint. Furthermore, these are only perceived problems as interpreted by the proprietor. Lack of operating funds may reflect other problems such as poor management, corruption, under pricing, high costs of raw materials, etc. Similarly, not enough customers may reflect other problems such as poor quality or service, market saturation, poor location, etc.

Table 4. Percent of proprietors reporting financial problems at the time of the survey by gender

	Botswana	Kenya	Malawi	Zimbabwe
Lack of operating funds				
Female	19	12	14	11
Male	20	13	18	10
Lack of investment funds				
Female	3	15	2	1
Male	0	4	3	2

Table 5. Percent of proprietors reporting financial problems at the time of the survey by size of enterprise

	Botswana	Kenya	Malawi	Zimbabwe
Lack of operating funds				
1-2 workers	22	12	15	11
3-5 workers	7	7	22	12
6-10 workers	14	7	20	7
> 10 workers	43	16	12	24
Lack of investment funds				
1-2 workers	2	11	3	1
3-5 workers	4	10	2	1
6-10 workers	0	1	6	11
> 10 workers	0	13	0	1

Table 6. Percent of proprietors reporting financial problems at the time of the survey by sector

	Botswana	Kenya	Malawi	Zimbabwe
Lack of operating funds				
Manufacturing	11	11	14	11
Trade	23	12	18	11
Service	18	23	19	14
Lack of investment funds				
Manufacturing	1	6	2	1
Trade	3	13	3	1
Service	0	13	3	0

Proprietors were also asked if they had ever received credit and the type of credit received. As seen in table 7, over 80 percent of proprietors in all four countries have never received any type of credit. Informal credit has been received by 18 percent or less of the proprietors in all four countries and formal credit has been received by three percent or less of all proprietors.

Table 7. Percentage of proprietors reporting about types of credit received

	Botswana	Kenya	Malawi	Zimbabwe
Never received credit	88	89	81	89
Informal credit received	9	8	18	10
Formal credit received	3	3	1	1

It is interesting to note how very few proprietors have received any type of credit – formal or informal. This suggests that credit may be a major constraint. But, the limited credit received by a minority of enterprises does not imply that all other enterprises were denied credit. To examine this issue more closely, proprietors in Botswana and Zimbabwe were asked if they had ever applied for credit. Twenty-three percent of proprietors in Botswana had applied and only one percent in Zimbabwe. Of the 23 percent of proprietors who had applied for credit in Botswana, about one quarter of them were denied. In Zimbabwe, proprietors were asked why they never applied. Table 8 shows the results. As illustrated, 28 percent reported that they don't need credit while another 31 percent did not know where to apply. With only one percent of proprietors applying for credit in Zimbabwe and 89 percent of the reasons for not applying related to education about credit programs (don't know where to go, afraid that it couldn't be paid back, sure they would not receive it, lack of collateral, and complicated forms), it appears that an awareness campaign could address some of the issues related to the lack of applications.

In addition to the existing enterprises, enterprises that had folded were also included in the survey in each country. Table 9 shows the reasons why enterprises closed. The results are remarkably similar across countries. Financial reasons are cited by 22 to 30 percent of enterprises that folded. Although financial reasons include lack of operating and investment funds, they may also reflect low profits, poor quality, poor management, etc., as noted above. Personal and marketing problems are also cited as one of the three top reasons for closing. Personal reasons include health, retirement, childcare, and household responsibilities. Finally,

it is notable how few enterprises close because they have found a job in the formal sector or because they started a new business.

Table 8. Reasons why proprietors have not applied for credit in Zimbabwe

Reasons why proprietors have not applied for credit	Percentage
Don't know where to go	31
Afraid that it couldn't be paid back	31
Don't need credit	28
Sure that they would not receive credit	15
High interest rates	7
Lack of collateral	6
Bank forms too complicated	6

These numbers do not add up to 100 percent because proprietors were asked to select as many reasons as appropriate.

Table 9. Reasons why enterprises closed

	Botswana	Kenya	Malawi	Zimbabwe
Personal reasons	31	16	21	21
Financial reasons	22	22	26	30
Market problems	14	23	19	20
Legal problems	5	4	3	3
Started new MSE	3	5	6	1
New job	1	1	2	1
Other	24	29	23	24

These results appear to confirm the view of Morduch [1999], a strong proponent of microfinance...

Even in the best of circumstances, credit from microfinance programs helps fund self-employment activities that most often supplement income for borrowers rather than drive fundamental shifts in employment patterns. It rarely generates new jobs for others... The best evidence to date suggests that making a real dent in poverty rates will require increasing overall levels of economic growth and employment generation. Microfinance may be able to help some households take advantage of those processes, but nothing so far suggests that it will ever drive them [p. 1610].

In summary, less than one-quarter of proprietors perceive the lack of operating or investment funds as one of their two major constraints. Furthermore, this lack of funds may not necessarily reflect a need for credit. In Zimbabwe, close to one third of proprietors report that they do not need credit when asked why they have not applied. Overall, Morduch's suggestion that only some households will be able to take advantage of microfinance is validated given that less than three percent of all microenterprises have received any type of formal credit.

LEGAL ENVIRONMENT AS A MAJOR CONSTRAINT?

Government regulations or the legal environment are often seen as a hindrance to MSE growth. As pointed out earlier, de Soto [1989] suggests that firms remain in the informal sector due to a prohibitive legal environment. Using the data from the four countries, this paper examines the validity of this argument. In particular, do proprietors find that the legal environment is one of their primary constraints? Are they inhibited by zoning, licensing, registration, labor, and tax laws?

As mentioned earlier, proprietors were asked to identify their major problems in running their business in the four countries covered by this paper. The results indicate that government-related problems were not perceived by proprietors to be one of the two most pressing current problems nor one of the two major constraints when they started their businesses. Less than one percent of proprietors reported problems related to business taxes, business licenses, government harassment, registration, zoning, or foreign exchange constraints.

In addition to the open-ended questions related to perceived problems, proprietors were asked specifically about government-related problems in Botswana, Malawi, and Zimbabwe. In Botswana, eight percent of proprietors reported licensing as a problem, four percent cited zoning, and one percent reported tax regulations. Less than one percent reported registration and government harassment. When asked more specifically about problems related to licensing, eight percent reported that they spent too much time waiting in line, three percent reported the cost and time to travel for a license was a problem and three percent said the process was unclear.

In Malawi, 81 percent of proprietors indicated that they did not face any of the government-related problems when asked about them specifically. Among the problems addressed, ten percent reported taxes, seven percent reported licensing as constraints and less than two percent reported registration or zoning as problems.

In Zimbabwe, many more questions were asked about the legal and regulatory environment because a structural adjustment program had been initiated two years prior to the survey. The first set of questions was related to zoning regulations, which are one of the most frequently cited impediments to MSE activity in Zimbabwe. Based on the three government acts, each town develops its own planning schemes that define operational areas for businesses and other types of activities. In Harare, for example, there are five major zones proposed by a master plan: commercial, residential, public buildings, industrial, and agricultural zones and 31 sub-classifications of "use zones." New businesses are required to go to the Town Planning Office to determine if they are in the right zone before opening. If they are in the correct zone, they must write a letter requesting permission to operate. If the business is not in the correct zone, they must submit an application, advertise, advise neighbors, and acquire special consent. Under the structural adjustment program there were plans to relax rules for street vending and small businesses, however, no official legislation was passed. Rather than changing legislation, rules are typically not enforced thereby allowing street vendors and other businesses to operate without harassment. Although the lack of enforcement eliminates harassment, fears of policy reversal must inhibit investment to some degree.

Results from the survey indicate that the majority of MSEs believed that they were not affected by zoning laws, despite the fact that 85 percent of all businesses were located at the home or roadside, possibly making them subject to zoning laws. Furthermore, two-thirds of proprietors did not even know that zoning laws existed. Table 10 shows the response from proprietors regarding zoning laws.

Table 10. Effects of Zoning Laws on MSEs in Zimbabwe

Are SMEs affected by Zoning Regulations	Percent of Proprietors		
	Urban	Rural	Total
Reasons why SME is not affected:			
Not aware that there were zoning laws	52.5%	66.0%	62.2%
Operating in a legal zone	23.1%	24.6%	24.2%
Operating in an illegal zone but no harassment	6.6%	1.3%	2.8%
Total	82.2%	91.9%	89.2%
Reasons why SME is affected:			
Can't sell goods in desired location	15.0%	7.5%	9.6%
Can't advertise because of illegal location	1.1%	*	0.3%
Pay high rents in legal zone	0.5%	0.3%	0.3%
Can't register	0.3	*	0.1%
Total	16.9%	7.8%	10.3%

0.5% gave other miscellaneous responses.

* less than one percent.

Licensing is also cited as a constraint for MSEs in Zimbabwe. Results from the survey indicate that 87 percent of all MSEs do not have any type of licence. When asked why they didn't have a license, 58 percent said that they were not required to have a license. Eighteen percent of firms without licenses said they don't know where to go or how to get one, and 21 percent said that they can't afford a license.

Registration was also addressed by the Zimbabwe survey. Two studies on the cost of business compliance in the small-scale metal working and garment and textile sectors found varying reactions to registration within the business community. Harbin [1993] found that most formal sector firms thought that the costs and time to register were reasonable. Hess [1993], on the other hand, found the perception that registration was "too difficult, too costly and time consuming," taking from two to eight months and ranging from Z\$200 to Z\$1,700.

Results from the Zimbabwe survey indicate that only 6.7 percent of firms in the MSE sector are registered. This is not surprising given the size and location of MSEs in Zimbabwe. Ninety-five percent all MSEs have four or fewer workers and 91 percent operate from the home, roadside, or they are mobile. Furthermore, the Companies Act does not specify which types of businesses are required to register. According to an official from the Deeds and Companies Registry Office, it is "intuitive."

When asking proprietors why they have not registered their enterprises, close to two-thirds reported that they are not required to register their businesses. Proprietors also reported they didn't know how to register (34%), there were no benefits to registration (9%), it was too expensive to register (4%), there is no enforcement of registration (2%), taxes are too high (1%) and bookkeeping would be required (1%).

Labor market regulations are also cited as impediments to micro and small enterprises in many countries. Prior to 1990 in Zimbabwe, employers were required to seek permission from the Minister of Labour for approval to dismiss employees. Additionally, wages were

determined by direct government intervention. Following several Statutory Instruments in 1995, direct intervention in wage setting was replaced by collective bargaining. Additionally, companies could also fire employees for economic reasons, but they had to inform the Ministry of Public Service, Labor and Social Welfare for record-keeping purposes only. Although the level of employment did increase somewhat following these laws, 97 percent of proprietors indicated that they are not affected by labor laws because they do not want to hire more workers. Of the two percent of proprietors that indicated that they are affected by labor laws, 96 percent reported minimum wages laws as a barrier to hiring more employees, 25 percent reported difficult employee dismissal procedures, and 15 percent are inhibited by worker compensation requirements. Surprisingly, over three-quarters of the firms affected by labor laws were microenterprises with one to four workers. Considering registered versus unregistered MSEs, 19 percent of registered firms indicated that they are inhibited by labor laws compared to only one percent of unregistered firms.

Taxes are also cited as a constraint in the MSE literature. Gërkhani [2004], in his summary of tax evasion by different types of enterprises, writes that proprietors who work only in the informal sector “are seen as stealers from the welfare state” by tax authorities. [p. 290]. In Zimbabwe, 95 percent of proprietors report that they do not pay taxes. Forty-one percent report that they are not subject to taxes. Profit estimates from the survey show that close to three quarters of microenterprises earned less than Z\$4,801 a year, which was the minimum individual taxable income during the year of the survey. Only two percent of MSEs reported that they do pay taxes and only 0.6 percent reported that they have not registered because of high taxes.

In summary, less than one percent of proprietors in all four countries cite the legal environment as one of their two most important constraints either now or when they started their enterprises. When asked more specifically about the various types of government regulation, again, very few proprietors identify regulations as a constraint. In particular, less than ten percent of proprietors report licensing, zoning, taxes, registration, or labor laws as constraints in the countries where these issues were addressed. Most striking is the fact that 97 percent of proprietors in Zimbabwe say that they have no intention of hiring more workers.

DO MSEs MAKE A SIGNIFICANT CONTRIBUTION TO HOUSEHOLD AND NATIONAL INCOME?

As described in the introduction, microenterprises are often seen as a means of survival or a last resort for the poor. Some go so far as to say that they are of little interest in terms of development. It is hard to deny their contribution to income and poverty alleviation when examining the size of the sector alone. In the four countries reviewed in this paper, 17 to 30 percent of the population aged 15 to 64 is employed in the microenterprise sector.

Using data from the four countries, this paper examines how much microenterprises contribute to household and national income. In addition, are microenterprises simply a means of survival or can they raise households above the poverty line or above earnings in the formal sector? From a national perspective, how much do they contribute to the economy?

Contribution to Household Income

Table 11 shows the proportion of household income that is provided by the microenterprise. As illustrated, 28 to 42 percent of enterprises provide 100 percent of the household income. Over 55 percent of enterprises in all four countries provide half or more of household income. Although this is a significant contribution, are the earnings enough to support a household?

Table 11. Percent of household income contributed by microenterprise

	Botswana	Kenya	Malawi	Zimbabwe
100 percent	28	24	42	35
50 to 100 percent	15	17	17	12
50 percent	13	20	8	18
Less than 50 percent	44	39	30	33

In Kenya, where data were also collected on net profits of enterprises, microenterprise earnings can be compared to the absolute poverty line developed by the World Bank [1995].⁷ In urban areas, 18 percent of MSEs that provide all of the household income generate earnings above the poverty line. Within this group 42 percent make at least two times the poverty line and 23% make at least three times the poverty line. On average, MSEs in this category make 6.8 times the amount of the poverty line. Although the earnings are high in this group, a full 72 percent of urban MSEs that provide 100 percent of household income generate earnings below the poverty line.

In rural areas, none of the MSEs that provide all of the household income generate earnings above the poverty line. Combined, these results indicate that a large majority of MSEs that provide all of the household income do not generate sufficient earnings to meet the absolute poverty line.

It is also possible to compare earnings within the MSE sector with minimum wages in the formal sector and average earnings in the formal sector in Kenya. Roughly 30 percent of MSEs make above the monthly minimum wage based on their actual hours worked. Among those that make above the minimum wage, 62 percent make two times the minimum wage while 38 percent make three times the minimum wage. Among the top ten percent of wage-earning MSEs, on average MSEs make 18 times the minimum wage based on their actual hours worked.

Comparing earnings based on actual hours worked to the average earnings in the formal sector, ten percent of MSEs make above the average earnings. Among the MSEs that make above average earnings, 61 percent make two times the average earnings while 35 percent make at least three times the average earnings. Among the top ten percent of wage-earning MSEs, on average MSEs make 4.6 times the average wage in the formal sector.

Clearly with one third of MSEs earning above the minimum wage and ten percent earning above average earnings in the formal sector, not all enterprises are survival

⁷ For a complete explanation of how profits were measured, see Daniels, 1999. The absolute poverty line is defined as “the minimum level of expenditure deemed necessary to satisfy a person’s food requirement plus the consumption of a few non-food necessities (World Bank, 1995, P. 8). Taking the 1992 poverty line figures provided in the study and adjusting for inflation and household size in urban and rural areas, the absolute poverty line in 1995 for urban and rural households was K Sh 6,415 and K Sh 4,531 respectively.

mechanisms. Table 12 shows proprietors' responses when asked why they started their businesses. About one quarter said they had no other option whereas slightly over one third thought that the business provided better income or they preferred to work for themselves. Another one-third reported that they are supplementing other income.

Table 12. Reasons why proprietors started their enterprise in Kenya (%)

To supplement household income	31
No other options available	26
Offers higher income than alternatives	23
Prefer to work for myself	14
Other	6
Total	100

Contribution to National Income

Among the four studies used for this paper, the contribution to national income was estimated only in Kenya. According to that study, MSEs contribute 12 to 14 percent to Gross Domestic Product (GDP).⁸

Table 13 shows the MSE contribution to employment and GDP by size of the enterprise among enterprises with one to ten workers. Close to 90 percent of all MSEs have only one to two workers (including the proprietor). Given the large number of MSEs in this category, the largest contribution to both employment and GDP comes from these enterprises. Roughly three-quarters of all workers in the MSE sector are employed in MSEs with one to two workers and they represent about three-quarters of the MSE contribution to GDP. Although only 12 percent of all MSEs have three to ten workers, combined they represent about one-quarter of the total MSE contribution to GDP.

Table 13. MSE contribution to employment and national income by size of the MSE, Kenya

Size of MSEs (Number of workers)	Percent of all MSEs	Percent of all MSE workers employed	Percent contributed to GDP of total MSE Contribution	Avg. Contribution to GDP per enterprise (Kenyan Pounds) ⁹
1 worker	57	35	43	2,319
2 workers	31	38	33	3,207
3-5 workers	11	23	18	5,015
6-10 workers	1	4	6	18,335
Total	100	100	100	3,068

⁸ The range of contribution is given because it is not clear how many microenterprises are included in official statistics. If all MSE activities were included in official statistics, then the MSE sector contributed 13.7 percent towards GDP at the time of the study. If no MSE activities are included in the official statistics, then the MSE sector contributed 12 percent.

⁹ The exchange rate in 1995 at the time of the survey was KSh 51.43 to one U.S. dollar.

The net profit earned by enterprises can also be used to examine contributions by new enterprises versus enterprises that expanded in terms of employment. According to the survey results, the average income earned among new enterprises in 1994 and 1995 was K Sh 18,980. Among enterprises that had expanded during that same time period, the average earnings were K Sh 45,479 [Daniels, Mead, and Musinga, 1995]. This suggests that enterprises that expand contribute much more to household and national income.

In summary, the majority of microenterprises appear to be survival mechanisms. Over half of all enterprises in Kenya earn below the minimum wage and 26 percent started their business due to no better options. Despite the low earnings, they clearly are an important source of poverty alleviation, particularly since over 55 percent contribute half or more of household income. For a minority of enterprises, earnings are well above minimum and average earnings in the formal sector. Finally, at the national level, MSEs contribute a substantial portion to national income. This is particularly true for the smallest MSEs with only one to two workers given their sheer numbers.

CONCLUSION

Using data from Botswana, Kenya, Malawi, and Zimbabwe, this paper examined three themes that emerge in the literature related to microfinance, the legal environment, and the contribution of microenterprises to household and national income. Regarding microfinance, very few proprietors perceive credit as a major constraint. While a small minority of enterprises may be able to expand with the help of credit, the majority of enterprises are unlikely to apply for credit.

In terms of the legal environment, again, very few proprietors see this as a serious constraint. While a minority of enterprises may register or become part of the formal sector with the relaxation of government regulations, the majority of enterprises would continue to operate in the informal sector.

Regarding the contribution to household and national income, the majority of microenterprises appear to be survival mechanisms. Despite very low earnings, microenterprises clearly help to alleviate poverty given their large contributions to household income. They also contribute to national income based on the large size of the sector.

Overall, these results suggest that the microenterprise sector is heterogeneous. While credit and relaxation of government regulations may be the appropriate assistance policies for some microenterprises, they will not address the needs of the entire sector. Furthermore, the majority of microenterprises cannot be expected to enter the formal sector with these types of support. Assistance policies must be based on groups within the MSE sector. While it is important to help those enterprises with the ability to expand, it is also important to assist those enterprises that are providing the minimal level of support for a household to survive. Again, these two groups will require different types of assistance. Recent trends in assistance programs that examine value chains for specific subsectors within the microenterprise sector are an important step in the right direction.

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Appendix 1: Studies of the SME sector using the GEMINI Method

Country	Year	Coverage	Enterprises Enumerated	Original Reports
Bangladesh	1980	12 Subdivions	57,184	Ahmed, S., E. Chuta, and M. Rahman. 1978. "Rural Industries in Bangladesh: Research and Policy Implication." Journal of Management. University of Dacca (April) 25-37.
Bangladesh	2003	National	10,096	Daniels, L. 2003. "National private-sector survey of enterprises in Bangladesh, 2003. Austrailia: International Consulting Group
Botswana	1992	National	1,243	Daniels, L. & Fisseha, Y. 1992. "Micro- and Small-Scale Enterprises in Botswana: Results of a Nationwide Survey." GEMINI Technical Report No. 46. Bethesda, MD: Development Alternatives, Incorporated.
Egypt	1982	2 Governorates	35,818	Davies, S., J. Seale, D. Mead, M. Badr, N.E. Sheikh, A. R. Saidi. 1984. "Small Enterprises in Egypt: A Study of Two Governorates." Michigan State University International Development Papers No. 16. East Lansing, Michigan State University
Honduras	1980	3 Regions	2,120	Stallmann, J. I., and J.W. Pease. 1983. "Rural Manufacturing in Three Regions of Honduras." East Lansing: Michigan State University, Mimeo.
Jamaica	1980	National	9,500	Fisseha, Y. and O. Davies. 1981. "The Small-Scale Manufacturing Enterprises in Jamaica: Socioeconomic Characterisitcs and Constraints." M.S.U. Rural Development Series, Working Paper No. 16. East Lansing, Michigan State University.
Kenya	1993	Kibera	5,353	Parker, J. with T.R. Torres. "Micro and Small-scale enterprises in Kenya: Results of the 1993 National Baseline Survey." GEMINI Technical Report No. 75. March. Development Alternatives Inc.
Kenya	1995	National	2,259	Daniels, L. Mead, D. & Musinga, M. (1995). "Employment and Income in Micro and Small Enterprises in Kenya: Results of a 1995 Survey." GEMINI Technical Report No. 92. Bethesda, MD: Development Alternatives, Incorporated.
Laos	1996	National	2,799	Minot, N. 1996. "Small and Medium Enterprises in the Lao PDR: The Results of a National Survey." Vientiane, Lao PDR: Lao-German Small Enterpsie Development.

Lesotho	1991	National	7,267	Fisseha, Y. 1991. "Small Scale Enterprises in Lesotho: Summary of a Country-Wide Survey. GEMINI Technical Report No. 14. Bethesda, MD: Development Alternatives, Incorporated.
Malawi	1992	National	10,792	Daniels, L. & Ngwira, A. (1993) "Results of a Nationwide Survey on Micro, Small, and Medium Enterprises in Malawi." GEMINI Technical Report No. 53. Bethesda, MD: Development Alternatives, Incorporated.
Malawi	2000	National	6,000	Ebony Consulting Itneraional and National Stistical Office. 2000. "Malawi national GEMINI MSE Baseline Survey."
Niger	1996	National	*	McPherson, M.A., and C. Liedholm. 1996. "Determinants of small and microenterprise registration: results from surveys in Niger and Swaziland." <i>World Development</i> Vol 24, Issue 3, pp 481-487.
Sierra Leone	1975	National	9,195	Chuta, E. , C. Liedholm, O. Roberts, and J. Tommy. "Employment Growth and Change in Sierra Leone Small-Scale Industry: 1974-1980." African Rural Economy Program Working Paper No. 37. East Lansing, Michigan State University
South Africa	1991	2 Townships	5,253	Liedholm, C. and M.A. McPherson. 1991. "Small-scale enterpsries in Mamelodi and Kwazakhele townships, South Africa: Survey Findings." GEMINI Technical Report No. 16.
Swaziland	1991	National	2,759	Fisseha, Y., McPherson, M.A. (1991). "A Countrywide Study of Small-Scale Enterprises in Swaziland." GEMINI Technical Report No. 24. Bethesda, MD: Development Alternatives, Incorporated.
Thailand	1980	4 Provinces	5,545	World Bank. 1983. <u>Thailand: Rural Growth and Employment</u> . World Bank, Wasington, D.C.
Zambia	1986	Rural & Semi-Urban	**	Milimo, J.. And Y. Fisseha. 1986. "Rural Small Scale Enterprises in Zambia: Results of a 1985 Country-Wide Survey." M.S.U. International Working Paper No. 28. East Lansing: Michigan State University
Zimbabwe	1991	National	5,575	McPherson. M. A. 1991. "Micro and Small-Scale Enterprises in Zimbabwe: Results of Country-Wide Survey." GEMINI Technical Report No. 25.

Zimbabwe	1993	National	5,356	Daniels, L. 1994. "Changes in the Small-Scale Enterprise Sector from 1991 to 993: Results of a Second Nationwide Survey in Zimbabwe. GEMINI Technical Report No. 71. Bethesda, MD: Development Alternatives, Incorporated.
Zimbabwe	1998	National	7,369	McPherson, M.A. 1998. "Zimbabwe: A third nationwide survey of micro and small enterprises. Final Report. Bethesda, MD: US Agency for International Development."

*The original report for Niger could not be found. The report listed is an article generated from the data and did not specify the sample size.

**The sample size was not given in the original report.