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A survey of micro-enterprise in urban West Africa: drivers shaping the sector

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A survey of micro-enterprise in urban West Africa: drivers shaping the sector

Marc-André Roy and David Wheeler

This article identifies some key factors shaping the micro-enterprise sector in urban French West Africa. Drawing on interviews with micro-entrepreneurs and micro-finance practitioners in Benin, Burkina Faso, Niger, and Togo, the study explores the needs, characteristics, motivations, and success factors for micro-entrepreneurship in the region, together with some of the impediments to the growth and success of micro-enterprise ventures. It was found that those operating micro-enterprises in the informal economy are entrepreneurs principally by necessity, and that their most basic needs tend to drive their business activities and behaviours. It was also observed that their success was constrained by a number of barriers, including poor access to capital, poor training, and general aversion to risk. As a result, the development of the micro-enterprise sector in urban French West Africa has been sub-optimal, and the authors conclude that this situation may persist unless broader economic and social barriers are addressed.

Introduction

It is increasingly common in policy-making circles to advocate a greater role for entrepreneurship and the private sector more generally in contributing to human development (Martin and Zedillo 2004).

The research reported in this article sought to provide an account of the characteristics shaping the micro-enterprise (ME) sector in urban French West Africa (UFWA) by drawing on the perspectives, experiences, and stories of representative micro-entrepreneurs actively engaged in the sector, as well as those practitioners supporting their growth and development. Research for this study was conducted between May and September 2003. In total, 40 micro-entrepreneurs, representing a range of sectoral activities, were interviewed formally, together with personnel from 12 micro-finance institutions (MFIs) and associated NGOs involved in promoting micro-finance (MF-NGOs). Four countries were included in the field research component of this study, namely Benin, Burkina Faso, Niger, and Togo.

Overview of the informal sector and micro-enterprise in UFWA

The International Labour Organization defines the informal sector as comprising unregistered production units, or micro-enterprises, that ‘typically operate at a low level of organization,

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with little or no division between labour and capital, and on a small scale' (ILO 2000). Micro-enterprises are usually owned and operated by one individual or household, and seldom engage in formal contractual agreements with banks, suppliers, customers, or other stakeholders.

The informal sector is characterised by a very broad range of activities, products, and approaches to revenue generation. Although the sector is subject to the same laws and principles of economics and markets (i.e. supply and demand) as the formal sector, it has a number of different characteristics. Table 1, taken from Santos (1979), adapted by Webster and Fidler (1996), and further adapted here by the authors, summarises the differing characteristics of the formal and informal sectors.

In developing countries, the informal sector is an important source of employment. The World Bank claims that between one third and three quarters of total employment in most developing countries is in the informal sector (Webster and Fidler 1996).

Countries in UFWA have been characterised as having low, if not negative, economic growth, inadequate and shrinking public budgets, high population growth rates, and increasing urban migration, all of which contribute to high and growing unemployment (Webster and Fidler 1996). The formal sector does not have the capacity to absorb this growing demand for jobs, and for this reason many have had to look for alternative means to generate a livelihood. Participation in the informal sector is often the only option available as a source of

Table 1: Characteristic differences between formal- and informal-sector enterprises

Characteristics	**Formal sector**	**Informal sector**
Entry barriers	High	Low
Technology	Capital-intensive	Labour-intensive
Management	Bureaucratic	Individual or family-based
Capital	Abundant, accessible	Scarce, not accessible
Work hours	Regular	Irregular
Wage labour	Normal	Limited
Inventories	Large	Small
Diversification	Often	Limited
Differentiation	Significant	Limited
Prices	Often fixed	Typically negotiable
Financial services	Banks	Personal, informal
Customer relations	Impersonal	Personal
Sales locations	Dispersed and multiple	Local (often next/ close to home)
Fixed costs	Large	Negligible
Advertising	Necessary	Little to none
Government subsidy	Often large	None
Markets	Often export	Rarely export
Barriers to exit	High	Low
Level of co-operation among production units	High	Low

income, and so the sector has absorbed many of the unemployed who have been neglected by the formal sector in the region. In West Africa, the informal sector makes up more than 80 per cent of all enterprises, accounts for 50 per cent of all employed persons, and generates 20 per cent of the regional GDP, according to the manager of PRODIA, an MFI in Burkina Faso, and corroborated by others in the micro-finance/micro-enterprise sector in the other countries studied.

Research design

The size and importance of the micro-enterprise sector in UFWA raises four significant questions:

- Why do so many people establish micro-enterprises and engage in the informal sector?
- What drives their choice of activity?
- What factors contribute to the success experienced by micro-entrepreneurs in UFWA?
- What factors inhibit the growth and development of the micro-enterprise sector in the region?

In seeking to address these questions, the study drew on both primary and secondary research material. Primary research consisted of more than a dozen informal pilot interviews, supplemented by a series of formal interviews conducted in urban centres in all four countries in the study. Micro-enterprises, MFIs, and associated MF-NGOs were targeted during field research, to allow for triangulation of data. Two separate questionnaires were developed for this component of this study: one for micro-entrepreneurs and one for micro-finance practitioners. All interviews were conducted in French. Of the 40 micro-entrepreneurs who were interviewed formally, 10 were based in each of the four case-study countries. Of the 12 MFIs and related NGOs, three were based in each of the four same countries; these interviews were mostly conducted with senior personnel (director or senior loan officer). The types of MFI visited included mutual or co-operative model and direct-credit MFIs, which offer, among other things, financial services to micro-enterprises.

A large number of secondary sources were also helpful in preparing and conducting the study. This research material was obtained from a wide range of academic, government, and non-government sources; it included online documents, previous studies, and training materials on micro-enterprise/micro-finance, business and economic texts, and MFI activity reports, all of which were collected during the primary author's stay in Benin and travels to Burkina Faso, Niger, and Togo. A full bibliography of these sources is available on request from the primary author.

Micro-entrepreneurs interviewed for this study were selected so that the diversity of the informal sector was represented in terms of the various activities and practitioners (see Table 2). The study sample was designed to capture input from a range of micro-entrepreneurs involved in a range of micro-enterprise activities. It is important to note, however, that the study sample was largely a convenience sample, so the breakdown of micro-enterprises by activity does not necessarily reflect their actual breakdown on the ground in UFWA. The majority of micro-enterprises (MEs) were small and operated by the poor in the informal economy, although a small number of larger or small- and medium-sized enterprises (SMEs) were also included in the sample.

Of the 40 micro-entrepreneurs interviewed, 25 were male and 15 were female. Interviewees were identified through opportunistic sampling. We do not claim that the sample was absolutely representative, but activity-related and gender-related biases were avoided by cross-checking the approximate breakdown used with MFI and ME development experts. Consistent with data obtained from loan portfolios of MFIs, commerce (basic trading) was the single most

Table 2: Breakdown of micro-enterprise interviews by activity sector

Sectoral activity	Number of interviews
Commerce (basic trading)	10
Small industry	6
Food preparation	8
Animal raising/fishing*	1
Agriculture*	2
Services	9
Arts and crafts	4
Total	**40**

* Agriculture and animal raising/fishing are relatively minor activities in urban French West Africa, hence the limited focus on these two sectors.

common activity for interviewees. The ages of interviewees ranged from 23 years to 60+ years. Fifteen had been educated and/or trained as apprentices or in formal settings, the remainder having been educated or trained informally at home, in the community, or through experience. Roughly half were literate, and their levels of poverty ranged widely.

Data from ME interviews were analysed, using a Microsoft Access database application, developed to facilitate the manipulation and analysis of results and to help to identify statistical correlations through calculations of analysis of variance (ANOVA).The main findings of the study are presented below.

Why do so many people in UFWA start micro-enterprises?

There is no specific demographic characteristic of micro-entrepreneurs in UFWA. Women and men alike engage in ME activities (although the nature of their activities often differs), as do young and old, poorest, poor, and not so poor. Many have been trained or educated, although often informally through apprenticeships or at home. Some are literate, even if only at a basic functional level, and others are not.

We found that on the whole, micro-entrepreneurs in UFWA, most of whom were poor, were not motivated by the sort of higher-order needs associated with entrepreneurship in industrialised countries, where self-esteem and self-realisation are frequently among the primary drivers for new venture formation (Mulvehill 2003). In UFWA, the basic physiological and safety needs of many of the poor are neither adequately met nor secure. Thus the primary motivation of most micro-entrepreneurs whom we interviewed, particularly the poorest, was first to provide for their own physiological needs and those of their family, and then to provide a home (or at the very least roof) and security for the household.

What drives the selection of micro-enterprise activity?

In terms of the activity that micro-entrepreneurs select as the basis of their micro-enterprise, it was found that most put very little thought into which activity they should pursue. Certainly, very few conducted any type of market research or competitive analysis of the market(s) in which they wished to make a living. Indeed, not one of the interviewees had conducted any formal investigation of options before starting their enterprise – not even to evaluate its feasibility. It was found that selection was usually guided by intuition, based on a combination of personal interest in the activity, ease of work, past training and experience (both formal and informal), current financial capacity, and a somewhat rudimentary opportunity-cost evaluation which sought to answer the question: *'How can I make the most money in the short term, given my resources and capabilities?'*

Among interviewees, easily the top two reasons by percentage for selecting a particular activity were personal interest (44 per cent) and ease of activity (37 per cent). Of lesser significance were compatibility with skills and past experience (8 per cent), similarity to parental/family business activities (8 per cent), and lack of means to do anything else (5 per cent) – such was the case with peanut vendors, for example.

There is a very wide range of ME activity in UFWA, although not evenly spread across different activity sectors. An analysis of the borrower portfolios of 14 MFIs in Benin between 2000 and 2002 (comprising more than 542,000 borrower accounts) revealed that commerce, or basic trading, is by far the most significant ME activity. This is not surprising, given the relative ease of entry. Other activities that constitute an important part of the informal sector include services, small industry, and food preparation. All of these activities were featured in our sample.

What factors contribute to the success of micro-entrepreneurs in UFWA?

In trying to identify the key success factors of MEs in UFWA, a number of variables were evaluated: level of training of micro-entrepreneurs (both formal and informal); experience and number of years in operation; knowledge of the market; level of differentiation (in terms of price, quality or other) and diversification of products; access to the necessary resources and/or technologies; level of planning; vision for the future; and the entrepreneur's level of poverty. We will describe our findings in each case in brief detail.

Level of training

Of those micro-entrepreneurs interviewed, only 38 per cent had received a formal education and/or participated in a semi-formal training programme such as an apprenticeship for their trade or activity sector. All others had been educated and trained informally at home, by parents, older siblings, or community members, or simply through observation of others in their sector. Among those interviewed, roughly half were literate.

We found a statistically significant correlation between the levels of formal education / training and literacy and the perceived[1] level of success and growth of their micro-enterprises. Most MFIs that we visited confirmed these observations, concurring that training and literacy are indeed important determinants of success for MEs. However, although training and literacy may increase the likelihood of success, they are not necessarily a guarantee of future success, because even with a very good education other entrepreneurial capabilities or 'key success factors' might be missing. Thus it is interesting to note that MFI professionals identified other, potentially more significant, success factors.

Experience of micro-entrepreneurs

According to a ranking of key success factors by MFI professionals, level of experience and period of operation were perceived to be the most important, much more so than the level of education or training. Their reasons were that entrepreneurs with more experience have a better understanding of the market in which they operate, better contacts and supplier/customer relationships, and a better understanding of what sells well, when, and how. Notwithstanding this belief on behalf of lenders, our survey of micro-entrepreneurs did not reveal a statistically significant correlation between the level of experience and the level of perceived success and growth of their businesses.

Knowledge of the market

For micro-entrepreneurs, knowledge of the market for their products and services (i.e. customers, competitors, suppliers, etc.) was an important perceived success factor. Survey findings, which were corroborated by MFI agents in interviews, revealed that there was a significant correlation between level of market knowledge and perceived success and growth of MEs.

Market knowledge can be gained primarily through training (both formal and informal) or experience gained working in a particular activity. It is interesting to note that the level of market knowledge was more strongly correlated with the level of education, training, and literacy than with degree of experience and years in operation. This seems to support the earlier finding that training, education, and literacy may be a better predictive indicator of ME success than is experience. These data reveal an interesting source of potential bias in the decision making of MFIs, which typically do not provide loans for start-ups, preferring enterprises with a proven track record in order to reduce their exposure to risk. Our evidence would suggest that this bias might result in lost opportunities for both MFIs and their clients. This finding held true in virtually all cases studied.

Level of differentiation

Most MFI agents whom we interviewed believed that differentiation was a key success factor for micro-enterprises. By way of partial corroboration, we found that those micro-entrepreneurs who continually try to differentiate their product tended to claim higher levels of success and growth. However, this correlation was not found to be statistically significant.

On a practical level, we found that most products and services offered in the UFWA ME sector were largely undifferentiated in terms of price, quality, or other attributes. A significant number of MEs sold exactly the same product, at the same price, in the same location. For example, in less than an hour in the grand market of Lomé, the primary author was approached by no fewer than 16 leather-belt vendors, all selling essentially the same thing, at the same price (to be negotiated, of course). In the Dantokpa market in Cotonou, hundreds of women sell African dress fabrics (or *pagnes*), all roughly of the same quality and at the same price. These anecdotal observations were corroborated by our survey of micro-entrepreneurs, which revealed that fewer than 7 per cent of those interviewed considered their products to be differentiated in terms of price, quality, or other attribute from those of their competitors. This was especially true of those involved in commerce and food-preparation sectors. Generally, those activities with a higher level of differentiation were those in which products were unique by nature, such as in arts and crafts and carpentry (small industry) activities.

Vision and planning for the future

Given the poor level of planning and preparation that we noted for most MEs, it is not surprising that most micro-entrepreneurs in our sample did not have a clear vision for the future of their enterprises. Among those whom we interviewed, just under two thirds had no vision for the future whatsoever. Nevertheless, those with a vision did claim to have experienced higher levels of success and growth. The correlation between vision and level of success and growth was statistically significant.

It was also found that there was a statistically significant correlation between vision and the level of training or education – in other words, those that had received some form of formal training or education were much more likely to have a vision for the future of their micro-enterprise.

It is interesting to note that among all sectoral activities, those engaged in basic trading were found to be less likely to have a vision for the future. The level of formal planning among MEs was often inadequate, and in some cases non-existent. This was often due to a lack of education, training, or literacy. Nevertheless, most micro-entrepreneurs did go through informal decision-making processes that sought to answer such questions as: *'Where will I buy my materials?'; 'How will I attract customers?'*; and *'Where should I sell my products?'*.

Where micro-entrepreneurs did plan, we found that the planning cycle was typically very short, and often limited to one or two business cycles (the period from the time when a product is purchased, produced, or acquired, to the time it is sold to a consumer).

Level of poverty

Although most MFI practitioners interviewed indicated that the level of poverty was not a significant determinant of success, our research revealed otherwise. Analysing data collected during interviews with micro entrepreneurs, we found a strong inverse correlation between the level of poverty and the perceived level of success and growth of the business. This finding held true in virtually all cases studied.

What factors inhibit the growth and development of the micro-enterprise sector in UFWA?

A number of common practical issues and characteristics were found to inhibit the success of many entrepreneurs in UFWA: most notably, lack of market knowledge and training, limited access to capital, and lack of co-operation among possible business partners. While many of these issues may be related to other more systemic macro- and micro-economic factors, the common practical limitations noted may be worthy of consideration, as even in the absence of systemic change they may help to identify short-term solutions for supporting MEs to succeed.

Lack of market knowledge and training

Among those micro-entrepreneurs interviewed, many demonstrated a lack of knowledge of the market for their products. More than two out of five of those interviewed rated their knowledge of the relevant market to be 'relatively poor' or 'poor'. This is potentially important, as market knowledge was strongly correlated with the level of success and growth. Interestingly, the level of experience and years in operation were found to be less of a determinant of market knowledge than training and education.

Limited access to capital/credit

Among those interviewed, one third considered lack of capital to be the most significant obstacle to their growth and success. Less than one in five, evenly split among men and women, had succeeded in obtaining micro-finance loans. Thus it seems at least feasible that limited access to capital and credit may be one of the primary inhibitors of micro-enterprise growth and success in UFWA. Despite the advent and growth of the micro-finance sector in UFWA, most micro and small entrepreneurs still do not have access to the capital that they need to expand. According to Webster and Fidler (1996), an appraisal of MFIs in UFWA gave the institutions high marks for outreach, finding that most provide financial services to very poor, underserved people. The findings in this study, conducted seven years after this World Bank study, seem to indicate otherwise and so may merit further exploration.

Lack of trust and co-operation

Another significant inhibitor to ME success and growth is the lack of trust and cooperation among micro-entrepreneurs. Of those micro-entrepreneurs interviewed, fewer than 5 per cent had co-operated or expressed a desire or interest to co-operate with others outside their family to develop their businesses. The great majority preferred to operate independently; this finding was corroborated by the MFI personnel interviewed. The reason for this lack of co-operation related primarily to a lack of trust of others. Most micro-entrepreneurs whom we interviewed indicated that they fear being exploited or otherwise cheated by those with whom they might otherwise co-operate.

Analysis and interpretations of the findings

From the above we can see that a range of factors may be associated with becoming a micro-entrepreneur, the selection of preferred activity, and the perceived success or failure of individual businesses in the ME sector in UFWA. If we take an 'asset-based' approach (Helmore and Singh 2001) and consider the different forms of capital available to MEs in the region, it seems that training and market knowledge (human capital) and access to finance (financial capital) are important assets associated with the success of micro-entrepreneurs (Evans and Leighton 1989). Good will (social capital) and other network-based resources important for differentiation and diversification (requiring a combination of human, financial, and social capital) are also potentially key assets (Birley 1985), even if they seem to be somewhat underdeveloped in UFWA. However, with respect to these specific assets, there are capabilities that must also be present in order for MEs to mobilise and grow. Key barriers to the development of certain requisite capabilities emerged from our research, linking directly to the question of poverty and in turn affecting the motivation and risk-tolerance of micro-entrepreneurs.

Motivation of micro-entrepreneurs in UFWA

Poverty is the overriding factor shaping the ME sector in UFWA, where, as we observed, micro-entrepreneurs are motivated primarily by responses to poverty and thus by their immediate needs. Indeed, this is why most of the poor in UFWA start and develop MEs in the first place.

Although most micro-entrepreneurs in the informal economy are poor, the level of poverty may not necessarily make an entrepreneur more or less successful in and of itself, but the constraints related to poverty do affect beliefs and behaviours and therefore indirectly shape the possibilities of his or her motivation and success. As we saw, most micro-entrepreneurs in UFWA have very short planning horizons for their enterprises. This is often simply due to a lack of funds to warrant long-term planning, as the ME may or may not be doing the same thing or selling the same product in the future. Many commerce-based MEs buy and sell whatever they can obtain at a good price. The lack of funds also constrains the vision that micro-entrepreneurs may develop for their enterprises. As noted, most have no long-term vision for their enterprises. Many micro-entrepreneurs have few, if any, savings, and so such a vision is not a consideration. Those involved in basic trading are even less likely to have a vision for the future, given the transient nature of this activity.

Abraham Maslow's hierarchy-of-needs framework (Maslow 1970) provides one model for explaining the motivation and behaviour of micro-entrepreneurs in UFWA. This framework is based on the argument that human beings are motivated by unsatisfied needs, and that certain lower needs must be met before higher needs can be satisfied.

Because of external macro- and micro-economic factors outside the control of those interviewed for this study, the lower-order physiological and safety needs of many of the poor in UFWA are not adequately met. Thus the primary motivation of most micro-entrepreneurs was first to provide for their physiological needs and those of their family and then to provide a home and security for the household. From our research it appears that most micro-entrepreneurs in UFWA continue to be motivated by these basic needs, rather than higher-order needs such as the need to belong, the need for self-esteem, and the need for self-realisation. For this reason, the most important objective for most micro-entrepreneurs is to make sufficient money to meet, at least in part, their lower-order needs and those of their households; in all cases, money was the primary objective of their efforts.

The importance placed on making money to satisfy lower-order needs has significant implications for the behaviour of micro-entrepreneurs in UFWA and provides insight into the factors influencing and driving the ME sector in the region. In particular, this has major implications for tolerance of risk.

Attitude to risk of micro-entrepreneurs in UFWA

Most micro-entrepreneurs in our sample selected activities that were characterised by little or limited risk. This is understandable, given that most cannot afford to suffer economic loss, which would further compound their difficulties. This aversion to risk also has important potential negative implications for the likelihood of success of micro-entrepreneurs. As noted, the level of differentiation in micro-enterprise sectors is typically very low. The reasons for this lack of differentiation relate largely to risk. To differentiate or to innovate involves extra investment of time and/or money. Should a differentiated or new product or service not sell well, the economic well-being of the differentiated micro-entrepreneur could suffer significantly. Thus most micro-entrepreneurs are not willing to take the risks associated with differentiation. It is much safer, although potentially much less profitable, to sell a product or engage in an activity which has already proven to work, or at least been marginally successful.

This is also the reason why so many micro-entrepreneurs simply reproduce what already works, further compounding the issue of lack of differentiation in local marketplaces, thwarting innovation, and contributing to the saturation of markets. For example, in the case of tele-centres – micro-enterprises that offer low-cost telephone and other communication services – the huge success of the original market entrants prompted a number of imitators to open their own tele-centres in all four countries studied. Today, these can be found at virtually every urban street corner. This increase in competition has led to market saturation, which in turn has pushed prices down for all tele-centres, fragmented the customer base, and ultimately caused a decline in revenues for all tele-centres, including those innovators who took the initial risk to be different. Today, the same phenomenon is occurring with mini Internet cafés in UFWA.

Notwithstanding these challenges, we found that differentiation can be a key success factor for those who are willing and can afford to take risks. But success with a strategy of differentiation is often very short-lived. According to conventional management theory, businesses can achieve advantage through cost-competitiveness or differentiation. But in the absence of cost-efficiency opportunities, the adoption of a differentiation strategy implies embracing continuous risk, which virtually all micro-enterprises wish to avoid.

A similar observation may be made with respect to diversification. Most micro-entrepreneurs whom we interviewed considered diversification of product offerings to be important to hedge their risks, but few could afford to have a truly diversified product portfolio. For example, those selling basic food products such as canned sardines and powdered milk by the side of the road opt to buy these products in bulk quantities, to take advantage of lower unit costs. The disadvantage is that they do not have enough money left over to diversify their product offering by buying other products to sell. For many, therefore, there is a direct trade-off between buying in bulk and diversifying. Some do prefer to diversify. Paradoxically, however, this may have negative implications for competition. Since there is a limited range of products for sale in UFWA, many of those who do diversify end up selling the same products that are offered by similar local micro-enterprises.

For example, four women in Ouagadougou, Burkina Faso, all selling the same fruits and vegetables from stands right next to each other, indicated that diversification is far less risky than selling one product. Should the first woman sell only tomatoes, the second carrots, the third yams, and the fourth mangoes, it is much more likely that one will not sell as well as the others, if for whatever reason the sales of tomatoes, carrots, yams, or mangoes diminished, even if only temporarily. All the same, the fact that each of these women sells the same products largely limits her individual success to chance, in that one customer could just as easily buy his or her tomatoes from one woman rather than another. Seeing ten cheese vendors all selling the same cheese, side by side on the edge of the highway near Parakou, Benin, we could not help comparing the likelihood of each sale to a game of roulette, where luck is essentially the only factor at play.

Aversion to risk, among other things, can also account for the limited acceptance of micro-credit among the very poorest. Should the individual fail to make loan repayments, his/her financial situation can be significantly worse off than before. For many, taking out a loan, while potentially very beneficial, represents too great a risk, because failure to repay threatens their ability to meet their lower-order needs in the future (due to having to pay high interest or having their savings confiscated). One micro-entrepreneur went so far as to say *'I wouldn't be able to sleep, knowing that I have a debt to repay'*.

It is also notable that risk aversion is an important reason for the limited level of co-operation among micro-entrepreneurs. In UFWA we found that the perceived risk associated with co-operation is often simply too high. To co-operate and be taken advantage of financially could again directly affect a micro-entrepreneur's ability to meet his or her basic needs. This fear of co-operation inhibits the ability of many, if not most, MEs to grow and evolve. Many prefer to work independently, even if this means taking charge of every activity related to their ME themselves, however impractical, inefficient, and time-consuming this may be. Limited co-operation is a significant barrier to growth for virtually all micro-entrepreneurs. For those women selling fruit, clothes, or toothpaste from a tray balanced on top of their head, for example, co-operation is the only way to grow their business, short of stacking their goods still higher on their trays!

A final common challenge to the success of micro-entrepreneurship in UFWA is the question of access to resources and technology, and the lack of knowledge of the benefits that simple technologies or financial products might bring.

Access to technical and financial resources

At present, most micro-entrepreneurs in UFWA lack access to efficient technologies, and so rely on inefficient (usually labour-intensive) manual processes. For example, most small-scale carpenters and furniture builders in UFWA rely on the same types of tool that have been used for hundreds of years: hand saws, hand drills, etc. Those with access to more efficient power tools are at an obvious competitive advantage, being able to produce more products, often of higher quality, than those who are relying on traditional tools and equipment. Of those interviewed, the majority lacked access to the necessary resources or technologies to grow or improve their micro-enterprises. The reason most often cited was lack of capital (or access to credit) to make the necessary purchases.

This problem can be attributed to a number of factors. First, many entrepreneurs lacked an understanding of the capital and credit options available to them. For example, a number of micro-entrepreneurs had never heard of micro-finance or similar credit and savings programmes. Many more had heard of micro-finance but did not understand how such programmes worked, and so avoided them altogether. Second, the services of many MFIs, let alone commercial banks, are still not adapted to the realities and borrowing constraints of most entrepreneurs participating in the informal sector. All but one of the MFIs visited required a significant guarantee, such as title to property rights, equipment, savings representing 20–50 per cent of a loan amount, or a salaried co-signatory – none of which is feasible for most poor micro-entrepreneurs.

While it is understandable that MFIs seek to hedge their risk by requiring guarantees, the reality is that many micro-entrepreneurs do not have the appropriate forms of guarantee to enable them to obtain loans. This finding is contrary to findings in the World Bank study, which indicated that 'the quality of financial services offered is high: loan terms and conditions are tailored to the needs and capacities of clients; borrowers can obtain small loans using simple procedures; and requirements for loan security, character-based guarantees, collateral, and savings deposits are appropriate for local conditions' (Webster and Fidler 1996: 72). During visits to most MFIs, we observed that the majority of the clients were not so poor; some could even be characterised as being well-off, relative to the majority of the population in UFWA. Group lending programmes, such as those pioneered by the Grameen Bank in Bangladesh (Yunus 1999), are offered by some MFIs in UFWA; but such programmes, while common in rural settings, are limited in urban areas. Moreover, many of the MFIs visited indicated that group loans represented a higher risk (characterised by lower repayment rates and other loan complications), and so many were scaling back or entirely aborting their group lending programmes in urban regions. Third, to take out a loan, many MFIs require that micro-enterprises should already be well established and have been operating for some time. This puts credit out of reach for many of those hoping to start a new enterprise. Lastly, MFI interest rates are quite high (about 24 per cent per year), making loans unattractive for many, who deem this to be too high to warrant taking out a loan.

Conclusions

Being financially more secure can help to make an entrepreneur more successful, as it limits or reduces the various 'unfreedoms' (Sen 1999) that come with poverty. However, as we have seen, despite the availability of many (albeit insufficient) human, social, and financial assets associated with entrepreneurship in UFWA, there are underlying psychological barriers to ME success that are associated with poverty: most notably risk aversion, as well as the practical barriers associated with lack of access to technology and finance.

The evolution of the ME sector in UFWA has been slow. This is both due to the nature of the economic external environment in UFWA, which is largely informal, characterised by limited growth, and plagued by the effects of poverty, and to the limitations and constraints of individual micro-enterprises noted above.

Here we must enter a philosophical caveat to our discussion, namely that perception of 'growth' as we have applied it in this study is a somewhat Western construct and is not necessarily considered by all micro-entrepreneurs to be a desirable objective or goal, nor the most important measure of success. As we have seen, many gauge success simply by their ability to provide for their basic needs and those of their household. In other words, the goals and objectives of many are directly in line with their priorities, which are to provide for their basic physiological and safety needs and those of their household. To work towards growth implies more work, more investment, and more risk, so many prefer not to do so if they are already able to provide for their basic needs.

Consider the case of a woman who sells bread from a basket by the side of the road. She may be very happy with her micro-enterprise and consider it a success if it provides her with the means to feed and educate her children. If this is the case, she may find it very difficult to justify investing extra time and effort to make her enterprise grow, let us imagine, to become the largest bakery in town. Thus the Western business paradigm may not be appropriate for evaluating ME success in UFWA, nor in ME development programmes and services more generally. If all micro-enterprises in UFWA were able to achieve even a modest level of success, one could certainly consider this 'development', [2] as this would imply an increase in the standard of living of many people: fewer families would go hungry, and more would be able to put a roof over their heads.

However, this argument should not be carried too far. The fact is that although micro-enterprise could be an important force in development in UFWA, many micro-entrepreneurs are still struggling to meet even their most basic needs. And many lack the human, social, or financial capital to change their situation, through better networking, marketing, investment, differentiation, or diversification. Thus, local and international support remains crucial to the development of an effective ME sector in UFWA.

The availability of micro-finance will inevitably be an important part of the story. But it must become more accessible to those who need it most, and the supporting social capital may need to be nurtured. For this to happen, MFIs will have to take more risks on the poor, even if this implies occasional financial loss. The MFIs may also need to re-examine their loan criteria to eliminate bias against 'inexperienced' entrepreneurs, given the lack of evidence that the lack of experience represents a source of significant risk. Meanwhile, specific trust- and relationship-building initiatives may be necessary between MFIs and micro-entrepreneurs, and between potentially collaborative micro-entrepreneurs themselves, if co-operative attitudes are to be fostered, and micro finance (even when it is available) is to be effectively accessed.

Thus, locally based training programmes and symbolic community events are likely to be important – particularly if they focus on network building, micro-enterprise planning and development (especially marketing), opportunities for differentiation and diversification, skills apprenticeship, and the ability to access and use finance. Evolving from micro-enterprises, clusters of collaborating local enterprise networks[3] could also help micro-entrepreneurs to co-operate and work collectively to develop and grow larger and more efficient businesses and thereby overcome their fear of co-operation.

The evidence presented here suggests that without these interventions, the micro-enterprise sector in UFWA will continue to struggle. Conversely, with the right sorts of strategic and co-ordinated approach to building human, social, and financial capital in the region, more positive developments might be expected to occur.

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Notes

1. Perceived level of success and growth was a subjective measure, derived from questions in the standard interview in which respondents were asked to rank the success and level of growth of their enterprises on a 10-point scale. The responses were converted into a single measure of 'perceived level of success and growth', ranging from 1 to 10.
2. In a previous paper, the concept of 'development' was defined as '[t]he balanced growth of social, environmental and economic value leading to an equitable and sustainable increase in quality of life' (Roy 2003).
3. The term 'sustainable local enterprise network' (SLE Network) has been coined to describe the apparently successful development impacts of mixed clusters of small businesses and their community and other networks (Wheeler *et al*. 2004).

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