

THE WORLD BANK GROUP

A World Free of Poverty



HOME

Findings

23111

Africa Region . Number 42 . June 1995

Findings reports on ongoing operational, economic and sector work carried out by the World Bank and its member governments in the Africa Region. It is published periodically by the Africa Technical Department on behalf of the Region.

Small Enterprise Responses to Liberalization in Five African Countries

Micro and small-scale enterprises (MSEs) can contribute to private-led growth in Sub-Saharan Africa through employment and income-earning opportunities and by quick response to changing policies, incentives and market conditions. This study, *Small Enterprises Adjusting to Liberalization in Five African Countries*, analyzes sample survey data from Ghana, Malawi, Mali, Senegal, and Tanzania about five years after they launched structural adjustment programs (SAPs). The data reveal that many MSEs were able to take advantage of the changed environment, while others were constrained by increased competition, financial difficulties, inputs, and the business environment. The surveys focused on established manufacturing activities, excluding self-employment and commerce.

Responses to Adjustment

The sample countries undertook significant macroeconomic reforms and liberalization of markets during the late 1980s, although initial conditions and subsequent performance differed. The reforms were more extensive in Ghana and Mali, less so in Tanzania and Senegal. Relative prices changed substantially in Ghana, Tanzania and Malawi under major exchange rate devaluations. Basic macroeconomic indicators improved in all these economies in the post-adjustment period compared to the years preceding SAPs. Ghana showed the largest turnaround, while Senegal's economic performance remained relatively weak.

The positive effects of more market-oriented policies on MSEs include:

- *Access to inputs:* The removal or reduction of import licensing in all sample countries gave MSEs greater access to imported inputs than previous licensing systems, which were biased toward large, influential companies.
- *Relative prices:* Devaluations squeezed producers who relied mainly on imported inputs (a high

proportion of large firms) relative to those who made greater use of domestic materials and labor (a comparatively high proportion of MSEs).

- *Ease of doing business*: Reduction of state monopolies and price controls gave MSEs freer rein in obtaining resources and marketing products.

On the negative side, MSEs generally faced intensified competition in the postreform environment. Trade liberalization made competing imports more readily available, and rapid growth in self-employment (as a result of layoffs and slow growth in formal sector employment) increased domestic competition, especially for microenterprises. Some firms reported continued difficulties obtaining inputs.

Dynamic Responses in Firm Behavior

Easier access to imports led a higher proportion of MSEs to increase their use of imported inputs under SAPs (as many as 78 percent in Tanzania) than reduce it (Table 1). In three countries, the close association between increased imported input use and firm growth implied that MSEs had previously been constrained by their lack of access to imported inputs.

| | <i>Ghana</i> | <i>Malawi</i> | <i>Mali</i> | <i>Senegal</i> | <i>Tanzania</i> |
|-------------------------|--------------|---------------|-------------|----------------|-----------------|
| Imported input use | | | | | |
| Increased | 9 | 26 | 56 | 46 | 78 |
| Fell | 18 | 9 | 28 | 29 | 8 |
| Changed product mix | 38 | 50 | 20 | 56 | 24 |
| Purchased new equipment | 46 | 68 | 41 | 38 | n.a |
| Applied for a loan | 47 | 50 | 27 | 47 | 57 |

A combination of relative price changes (in the Anglophone countries) and increased import competition (in Senegal) prompted as many as half of the respondents to change their product lines. On the whole, competition appears to have stimulated successful adaptation: growing MSEs were more likely than declining MSEs to be in markets with 10 or more competitors. Growing MSEs also were more likely to purchase new equipment—presumably to introduce new products and upgrade technology.

Impact on Production and Employment

The post-reform performance of the firms sampled was mixed, but, on balance, positive. More respondents increased than decreased production in the postreform period in all sample countries except Ghana.

MSEs generally increased employment during the reform period. More than half of the respondents reported an increase in employment adjustment programs in all countries except Senegal. In Ghana, Mali and Senegal, over 37 percent of the firms increased employment without an increase in production or maintained it despite a decrease in production, implying increased labor intensity.

Employment growth under reforms was inversely related to firm size, ranging from 18 percent per annum for those with fewer than 5 workers at the time SAPs were launched to 3 percent for those with 21 to 49 workers. Production and employment growth were especially high in new firms that entered after the implementation of the SAPs, indicating that dynamic MSEs were actively taking advantage of new opportunities.

Differences Between Micro and Small Firms

Small enterprises tended to be more market-oriented than microenterprises. They were more likely to purchase new equipment during the post-reform period, make product-line changes, and realize rising profits. Microentrepreneurs tended to be motivated by "push" factors such as losing a job or family tradition. This difference widened after reforms: 36 percent of new entrants with 6 to 49 workers were motivated primarily by "profit opportunities" as against only 17 percent of new microentrepreneurs.

Women accounted for a larger share of microentrepreneurs (ranging from 4 percent in Tanzania to 18 percent in Ghana) than of small enterprises (ranging from 13 percent in Tanzania to 39 percent in Mali). Women were heavily concentrated in food processing, textiles and clothing, and soaps and cosmetics.

CONSTRAINTS

Finance

The surveys found evidence of substantial excess demand for bank finance by MSEs, especially in Ghana and Malawi, where a higher proportion of respondents applied for loans following the SAPs than had ever received one in the past. A majority of survey respondents (62 to 90 percent) considered lack of access to credit (mainly for working capital) a major constraint on their operation, except in Tanzania.

A surprisingly high proportion of respondents had received some bank credit in the past, and, except for microenterprises in Mali, at least two-thirds of sample firms in each category had bank accounts. Thus, the problem was more a gap between their demand for credit and what banks were supplying than complete lack of access to banking services.

Furthermore, insufficient external finance did not necessarily prevent successful firms from responding to opportunities under liberalization, though it may have slowed them down.

Liquidity problems other than unsatisfied demand for credit were also apparent. In Senegal and Tanzania, many respondents citing credit as a major problem were not actually interested in a loan at market rates. In both countries, raw materials and intense competition ranked higher than credit as a constraint. These two countries were also relatively weak regarding the extent of reforms and postreform economic performance.

Raw Materials and Equipment

Despite liberalization of markets and the distribution of goods, MSEs often reported difficulties obtaining raw materials. Microenterprises were more likely to be constrained by lack of access to raw

materials than small firms. The age of equipment was the most frequently cited constraint by MSEs in Mali, and was also an important concern in Ghana.

Regulatory Environment

All five countries adopted a more positive stance toward the role of private investors, including revisions of regulatory requirements that had made it difficult for potential investors to start up and operate businesses. The impact on MSEs, however, is debatable. First, few MSEs are strongly affected by regulations, due either to informality (especially microenterprises) or years of experience in getting around regulations. Second, deregulation was hesitant and most governments remained suspicious of unregulated private business activity.

Except in Mali, few respondents (less than 12 percent in Malawi and Senegal and 2 percent in Ghana and Tanzania) saw government approvals and registration as a moderate or major problem. In Mali, government approvals were cited as a problem by the majority of firms, and, perhaps as a result, a relatively high proportion of Malian firms remained informal.

Infrastructure and technical assistance did not generally rank high as important constraints.

STRATEGY

A sound strategy for raising MSEs' contribution to economic growth and employment must take into account three facts.

- A healthy macroeconomic environment that generates demand for the goods and services of MSEs is likely to enhance their prospects more than any targeted measures can.
- The large numbers of microenterprises and self-employed, and the fact that few of them will grow to a significantly larger scale, mean that direct firm-level assistance can have only limited impact.
- Since existing small enterprises tend to be fast-growing and new ones motivated by profit opportunities, this size range offers good potential to support firm-level expansion.

MSE development strategy should be based on broad policies that lower the costs of entry and stimulate demand. These include increased education that enhances people's business-related skills, a supportive attitude of government officials toward informal activities and deregulation.

Better household savings instruments can raise the ability of people to go into business for themselves. Financial development strategy should promote informal savings collectors, savings and credit associations, credit unions, cooperatives, and informal financial institutions that can meet microentrepreneurs' demand for financial services on a sustainable basis.

Greater access to credit is especially important for dynamic small- and medium-scale enterprises whose growth potential outstrips the financing attainable from internal or informal sources. Measures to improve the accounting practices of firms and their ability to provide audited statements can improve creditworthiness by reducing the cost to banks of obtaining reliable information. Banks' concern with risk can be addressed through better legal systems to document and collect property offered as collateral. Competitive banking is essential to give banks incentives to seek new, smaller clients.

Non-financial constraints vary widely by country and size category. Country-specific and sub-sector studies can help to identify specific bottlenecks. Manufacturers' associations, self-help groups, cooperatives, and local NGOs are potentially useful in dealing with individual problems and communicating with policy-makers to address systemic ones. There is little consensus, however, on replicable, cost-effective methods for providing non-financial services. Hence, technical assistance should emphasize adaptability to local conditions and demand-driven approaches. Program design should include periodic assessment of impact and demand in order to evaluate and improve practices.

Ronald L.Parker, Randall Riopelle and William F. Steel. 1995. *Small Enterprises Adjusting to Liberalization in Five African Countries*. Discussion Paper No. 271. Technical Department, Africa Region. Washington, D.C.: World Bank.

[SEARCH](#)[FEEDBACK](#)[SITE MAP](#)[SHOWCASE](#)