BIG ideas from small entrepreneurs

Understanding the needs and priorities of small-scale farmers and businesses owners

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References
Executive summary

Small businesses matter. They play valuable roles in economies and in the lives of people around the world; particularly in developing countries where poor people have few other options. Specifically, they play an important role in:

1. Economic growth (particularly in delivering ‘quality growth’ that is fair and which benefits the majority of economic actors within developing countries);
2. Employment creation;
3. Transforming poor people’s lives and dealing with the multi-dimensional aspects of poverty;
4. Promoting an economy more resilient to shocks;
5. Helping Foreign Direct Investment (FDI) to have a greater development impact.

With the importance of small businesses in mind, this policy paper explores the ways in which small businesses can be supported. Where there are challenges or disadvantages associated with micro and small enterprises, these can be overcome with carefully tailored support within a strongly enforced enabling environment. Such an environment would also go a long way to ensure that small businesses succeed.

WHO ARE WE TALKING ABOUT WHEN WE SAY ‘SMALL BUSINESSES’?
When we talk of ‘small businesses’ in the context of this research we are referring to enterprises on the small and particularly the micro end of the spectrum. These are made up of two main groups:

- **Micro enterprises**, including but not limited to petty traders, artisans, street vendors, manufacturers, home enterprises and restaurant owners. Many and possibly most micro-enterprises are sole traders or family businesses.

- **Small-holder farming enterprises**, which would include farmers involved in selling their products but who have few assets and livestock, and smaller plots. They usually rely on family or casual labour.

As a group, they are important because of their contribution to poverty alleviation and inclusive growth. They also share a number of features. They may be formal, but are often informal or unregistered. They are often ignored in policy making. They are also vulnerable – lacking safety nets, reserves and resources to withstand shocks. Women predominate in this group.

WHAT DO WE MEAN BY AN ENABLING BUSINESS ENVIRONMENT?
The enabling environment is the set of policies, institutions, support services and other conditions that collectively improve or create a general business setting where enterprises and business activities can start, develop and thrive. Governments have an important role to play in setting the right regulatory environment as well as a broader role in proactively ensuring that small businesses are supported.
In seeking to define an enabling environment for small businesses we started by asking small business owners about their priorities and needs. Using a list of issues drawn from an established donor list¹ and combined with four other issues that CAFOD work in communities has highlighted as important, we tested to see whether these issues were priorities for small businesses.

Based on the responses given we were able to rank the 15 issues we tested in order of importance to small businesses. Chart 1 below captures these results as percentages (where the weight of importance that small businesses ascribe to each obstacle is displayed as a percentage of the overall obstacles they face).

The top five issues (of which only the first, ‘getting credit’, is a part of the donor’s list of indicators) make up 59% of their overall challenges whereas the bottom five issues only account for 10% of the obstacles small businesses face. This suggests that the latter issues (those in greens and reds in the chart) do not seem to feature predominantly on small businesses’ radar. Four issues not included in the donor list (transport, getting customers, an unstable business environment or market and poor health or a lack of skills) make up 45% of the overall challenges.

**Chart 1: Obstacles to small businesses: weighted scores as percentages**

Building on these, and looking at the wider explanations given by small businesses, it is possible to identify **five key priorities for small businesses.** These include: financial services, infrastructure and public services, demand, human capital and risk and stability.

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¹ Specifically, the World Bank’s *Doing Business Project* list of criteria for ease of doing business in a country.
The findings of this research show that it is not only what issues and needs are addressed, but importantly, how this is done; to this end five 'hows' are identified – these five guiding principles are central in addressing the priorities of small businesses in a way that develops an enabling business environment that benefits small-scale businesses.

1. **Proactive interventions** are needed in supporting small business rather than simply undertaking regulatory reform that is size-neutral or supporting markets or business at large.

2. **Targeting** is needed; funds, advice or support interventions need to be specifically targeted at small and marginalised businesses, particularly rural businesses and women in business.

3. **Understand the role of society & power**; the context in which people live (the situations, social circles and traditions) and the relationships and power dynamics within these all impact on the success of businesses. Effectively dealing with social and political issues is centrally important to creating a pro-poor enabling environment.

4. **The need to be comprehensive** and multi-dimensional, responding to a wide range of issues rather than operating in silos. One dimensional responses which fail to take into account the wider context can have unintended negative consequences.

5. **Locally appropriate interventions based on consultation**. Participatory approaches should be used so that small businesses' real (rather than perceived) needs are taken into account.
If donors and governments were to address the priorities of small businesses in a way that acts upon these five guiding principles, small businesses would stand a much better chance of success and ultimately helping poor women and men to step up and out of poverty.

This will involve certain changes for policy makers.

Overall, this will entail:

- **Adequate funding for proactive** MSE and farming enterprise support programmes.

- **Regulatory and policy reform** that helps small businesses and is based on consultation with them, not which assumes traditional size-neutral policies create a level playing field.

- **More regular consultation** with small businesses which results in tangible changes in policy, budgets and support interventions.

- **Bridging the communication gap**: where there are policies, regulations and support interventions that impact on small businesses in place, information about these needs to be better communicated to small businesses. Transparent, timely and consistent information is needed.

This will also require institutional changes and support:

- **Support for the organisation of small businesses**: cooperatives associations and sector self-help groups can all play an important part in empowerment and in helping people to interact with markets. Local and regional groupings also need to be mobilised at state or national level to influence central policy and defend the rights of small-scale business people.

- **Getting local government right**: empowered, skilled, coordinated and well-functioning local government institutions that 'think small' are needed. The training and empowerment of government and Local Economic Development (LED) officials towards undertaking effective, pro-poor local economic development would be important in developing local institutions with the ability to ‘think small’.

Finally, there are a number of specific reforms and interventions that can be useful

- **Social protection** that supports livelihoods. In general this means that it should be cash-based, non-conditional, predictable, and adequate.

- Support for the right kind of **productive infrastructure** that reaches the poorest and is affordable.

- **Proactive policies to stimulate demand** and improve the sector as a whole, including pro-poor procurement policies and small business incubators for sustainable small businesses which fit a market niche.

Adopting such a think small approach in the way businesses are supported, and in the way enabling business environment interventions are implemented is an important step towards change. Such an approach would be important for supporting small businesses to persist and be sustainable, thus having a transformative effect on people’s lives.
1. Introduction

A 2011 CAFOD report, ‘Thinking Small: Why poor producers and small business owners may hold the key to a sustainable recovery’ (Thinking Small 1) made the case for focusing more on small businesses and small-holder farmers in economic policy and private sector development strategies. It also provided initial ideas on what such an approach would involve.

This current research takes these findings one step further and focuses more explicitly on identifying what needs to be done to support small businesses (including small-scale farming enterprises). It presents the views of 336 small business owners in both rural and urban settings around what a ‘bottom-up’ enabling business environment would look like. This is supported by the views of 54 key stakeholders who are involved in small business support or local economic development (including donors, officials, academics, development practitioners and small business leaders from cooperatives and unions) and 22 staff and partners (development practitioners). The research was done in 14 different countries.

As qualitative research with a sample selected from the projects that we are involved in, the findings of this work are not definitive and experiences may vary. The contribution that this work makes is to deepen the understanding of what a bottom-up agenda for small business support would look like.

Chapter one serves as an introduction and provides a literature review on the benefits of small businesses, and the importance of an enabling business environment. Chapter two looks at whether the priorities of donors and small businesses, with regards to an enabling business environment, are aligned. It then highlights what some of the top priorities for small businesses are. Chapter three then expands on the top five priorities for small businesses. Chapter four explains how these priorities can best be

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2 Thinking Small 1 was based on field research done in 2010 with CAFOD partners in Zambia and Cambodia as well as an analysis of CAFOD and Caritas livelihoods programmes. In addition to a call for strategies which ‘think small’, it also provided important initial evidence of what poor small business owners, including farmers, need in order to become more successful and what kind of approaches work in helping them participate more effectively in markets.

3 The countries involved in this research included Afghanistan, Cambodia, Colombia, El Salvador, Guatemala, Haiti, Kenya, Malawi, Nicaragua, Myanmar, Sierra Leone, South Sudan, Zambia and Zimbabwe.
addressed by highlighting five guiding principles for ‘thinking small’ approaches. Finally, chapter five concludes this paper by laying out our agenda for change for policy-makers.

WHY THE NEED TO THINK SMALL?

Box 1: Who are we talking about when we say ‘small businesses’?

There is no one, universally accepted definition of what constitutes a ‘small business’. Many countries use the term ‘SMEs’ (small and medium enterprises) or ‘MSMEs’ (which includes micro enterprises). In most countries employee numbers are the defining feature, though financial assets and turnover are also used in some countries. The most frequent upper limit of a medium enterprise is 250 employees while small firms are considered to have fewer than 50 employees and micro firms fewer than ten – or in some countries five – employees.\(^4\) Similarly the definition of small holder farmers differs by country, agro-ecological zone and crop or farming activity.

When we talk of ‘small businesses’ in the context of this research we are referring to enterprises on the micro end of the spectrum. These are made up of two main groups:

- **Micro enterprises**, including, but not limited to, petty traders, artisans, street vendors, manufacturers and restaurant owners. Home enterprises are also included within this. Many and possibly most micro-enterprises are sole traders or family businesses.

- **Small-holder farming enterprises**, which would include farmers involved in selling their products but who have few assets and livestock, and smaller plots. They usually rely on family or casual labour.

While recognising the distinct features and needs of these two sectors, we group them together because they also share a number of features. They may be formal, but are often informal or unregistered. They are often ignored in policy making. They are also vulnerable – lacking safety nets, reserves and resources to withstand shocks. Women predominate in this group and so a gendered approach is valuable. Furthermore this group is important because of its contribution to poverty alleviation and inclusive growth (this is discussed in more detail in the following sections).

Another reason to identify this group is because of the importance of targeting. Whilst initiatives to support SMEs do exist, they often miss the small business sector that we consider in this paper. They often favour medium enterprises (which can be among the largest firms in developing economies) and even transnational corporations that are in a better position to take advantage of the benefits and support measures on offer. This poor focus needs to be addressed through proper targeting of marginalised businesses.

\(^4\) ILO, Committee on Employment & Social Policy, 2006.
There is a debate around whether governments and donors should be focusing more on helping small businesses in developing countries – put differently; there are those who question whether there is a need to think small in approaches to private sector development. Much of this debate revolves around the relative contribution that these businesses make to the economy and poverty alleviation.

Some argue that these businesses have high failure rates, low productivity or growth potential and contribute little to poverty alleviation. They should therefore not be a target in private sector development strategies in developing countries.

But these arguments are not sufficient to exclude a ‘thinking small’ focus. Business failure rates are found to be high amongst micro-enterprises the world over (developed and developing countries alike). Similarly, whilst business growth for MSEs may indeed be limited beyond one or two employees, which may lead some to deem them as a ‘dead-end’ option, the research shows that persistence or survival is possible. This is significant when there are few other options available to the large numbers, particularly marginalised groups, employed in this sector. “The policy issue is [therefore] how best to increase the probability of survival and persistence,” to ensure people’s livelihood security.

Box 2: Informality and formalisation
Informality is often used as a reason for not helping small businesses, or to help them in a very limited way, by making business registration easier. Many SME schemes are only open to formally registered businesses. Yet informal businesses are of great importance. The Doing Business 2011 report notes that, globally, 1.8 billion people are employed in the informal sector, and 1.2 billion in the formal sector in fact, 50-75% of non-agricultural employment in developing countries is informal. The informal sector is thus the major employer worldwide. Supporting this sector is important given its size and contribution, but also to help overcome the risks and generally poor working conditions within this sector.

The terms ‘informality’ and ‘small businesses’ cannot be used interchangeably; not all small businesses are informal, and indeed, not all informal firms are small. Informality does however need to be considered in any small business discussion, given the high levels of informality in this sector.

The debates around informality are many and complex and cannot be fully presented here – see Alter Chen (2013) for a useful summary. However, at times analysis simplifies “informality to a symptom only of the excess of state regulations, while ignoring the structural inequalities of the market system and the geopolitics of power which

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5 Fox & Sohnesen, 2012.
6 Ibid. p. 15
9 De Kok, Deijl, & Veldhuis-Van Essen, 2013
justifies those inequalities”. Because of this narrow analysis it is often assumed that people are informal to avoid the costs of formalisation. The major policy response as a result has been to ‘cut red-tape’ and costs around registration and taxation. This is certainly important, but misses the bigger picture and the structural roots of informality.

The business owners that we interviewed were often informal not simply to avoid taxes or because of red tape, but because they felt they were not yet successful enough to make registration worthwhile and/or needed the flexibility that informality offered. This suggests the need for a different policy response that helps firms to be successful, not just to cut red tape.

Despite the bias against them, there is strong evidence for supporting small businesses and adopting a ‘thinking small’ approach.

1. **Thinking small should not be seen as an alternative to ‘going for growth’.** Small businesses contribute to economic growth: the informal economy alone contributes 37.6% of GDP in Sub-Saharan Africa and up to 60% in some developing countries for example in Tanzania and Cambodia. A think small approach is also more likely to deliver ‘quality growth’ that is fair, resilient and sustainable and which benefits the majority of economic actors within developing countries. Growth which relies on ‘trickle-down’ economics, rather than focusing on MSEs (bottom-up economics) has “brought us to the brink of environmental disaster, while also increasing inequalities and entrenching grinding poverty.” Given the predominance of poor men and women and marginalised groups in small businesses, a greater focus on this part of the economy is more likely to benefit the majority of economic actors within developing countries.

2. **Small businesses play a key role in employment creation.** In a sample of Sub-Saharan African countries over 85% of people are involved in small businesses. Importantly, most new-jobs in Sub-Saharan Africa come from this sector. This sector is critiqued for the poor quality of jobs that it is associated with: lower wages, less protection for workers and

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10 Vorley, 2013, p. 4.
11 GDP alone is not an ideal measure of small business contribution to the economy (in terms of growth or total wages) precisely because of the high incidence of informality. To fully value the contribution of the informal economy requires understanding and measuring the indirect contributions. For example providing low-cost inputs – labour, goods and services - to larger enterprises, as well as low-cost goods and services (to the general public, especially the poor) (CAFOD, 2011b).
12 Schneider, Buehn, & Montenegro, 2010.
13 Schneider, 2006.
14 Economic Institute of Cambodia, 2006.
15 CAFOD, 2011a.
17 Fox & Sohnesen, 2012.
18 Ibid.
lower levels of job stability.\(^1^9\) This is valid, but given the sheer size of this sector\(^2^0\) this is not a valid criterion for exclusion and should rather serve to highlight why support and development is needed for this sector.

Furthermore, most are micro-entrepreneurs not by choice but by necessity, given the lack of permanent, appropriate other jobs.\(^2^1\) This is particularly the case for marginalised groups (for example the elderly or those who are illiterate) who would not find work in the formal workplace easily.

"Instead of expecting this segment to disappear (or even actively discouraging it), policymakers and development practitioners will need to seek job creation solutions through improvements in the opportunities offered in this sector.\(^2^2\) Similarly, improvements in the working conditions within this sector are also needed.

Considerations of jobs and employment are important because of the transformative role that these have in people’s lives – and in communities. Jobs are "instrumental to achieving economic and social development."\(^2^3\) for individuals and societies.

3. For poor people, small businesses are important as a source of employment but also importantly for their potential in **transforming lives and contributing to overall poverty alleviation.**\(^2^4\) Small businesses play a role in dealing with the multi-dimensional aspects of poverty and are transformative through their non-economic and social benefits. For example, they play a "unique part in reducing certain elements of poverty such as: insecurity and powerlessness, social inequity... and loss of cultural identity,"\(^2^5\) through providing people with options, social standing, the ability to contribute to society and cater for their basic needs. For CAFOD, livelihoods programmes have been found to be an important entry point for gender empowerment activities (Lebanon) or for peace building (Kenya).

Small businesses also play an essential part in providing affordable and convenient goods and services to the poor (including retail, food, transport and other services for example)

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\(^1^9\) De Kok, Deijl, & Veldhuis-Van Essen, 2013.
\(^2^0\) 83% of all formal MSMEs fall into the category of micro enterprises (Kushnir, Mirmulstein, & Ramalho, 2010, p. 2) and this is not considering the even bigger percentage of informal micro enterprises.
\(^2^1\) As an example from French West Africa, see Roy (2004, p. 10).
\(^2^2\) Fox & Sohnesen, 2012, p. 12.
\(^2^3\) World Bank, 2013, p. Xiii.
\(^2^4\) The 2013 WDR states that "informal jobs can be transformational" (p. xiii) for people with research in Tanzania specifically finding that small businesses contributed to poverty alleviation; "Small businesses do contribute to alleviating poverty... average incomes generated by surveyed businesses (both profit margins and salaries) were above the basic and food poverty lines, much more for small-scale enterprises than microenterprises" (Mnenwa & Maliti, 2008, p. viii)
\(^2^5\) Macqueen, 2005, p. 7.
which can in turn support their livelihood needs (see the transport example in Box 3).  

4. Such an approach can **promote an economy more resilient to shocks** because it is based on a large, diversified range of small businesses producing for local needs, as well as for regional and international markets. One-product or narrow-based economies are at great risk when fluctuations in global markets occur; diversifying the economy to sectors in which small businesses dominate has been found to be important in promoting stability.  

Diversifying away from reliance on international markets and towards a focus on local markets is also key. At the time of the economic crisis, India, which had strong domestic markets fared far better than Cambodia which relied on international, and particularly US markets, for certain major sectors within the economy. Local and regional markets are less risky for small businesses as they are ‘closer’ to them and so though networks and social relationships it is easier to know what is happening in these markets and mitigate against risks.  

Small businesses also have **resilience and flexibility** and are able to absorb people who lose their jobs in times of crisis. Although there is a valid critique about the terms of such employment, these small businesses nevertheless provide important safety nets in the absence of formal systems of social security.

5. **Foreign Direct Investment (FDI) strategies often promise spill-over effects, technology transfer and market access.** But in reality they can have disappointing development impacts, not benefiting the broader local economy and not being as stable as widely believed. Simultaneously supporting local small firms can help to ensure these benefits are realised. For example, in developing countries, most small businesses are not of a sufficient scale or sophistication to benefit from inward technology transfers or to win lucrative contracts with incoming firms. Their limited capacities and low levels of power within markets mean that they are squashed rather than stimulated by competition-effects. Without help, the relationship between FDI and small businesses can become exploitative rather than facilitative of the development it promises. A **complementary small-scale strategy can help FDI to have a greater** 

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26 WIEGO, 2013.  
27 CAFOD, 2011a.  
28 Ibid.  
29 Ibid.  
30 Tambunan, 2010.  
31 UNCTAD, 2010.  
32 For example, during the Economic Crisis in Zambia, copper mining, a major industry in Zambia which is largely owned by foreign companies, saw massive scale backs which resulted in job losses of 30% from the total workforce.  
33 Qaqaya & Lipimile (2008) provide an example of the cocoa market in the Ivory Coast, where the trend following the liberalisation of cocoa markets has been the elimination of small local traders through tough competition with large multinational firms.
development impact, enhancing its impact on local economic development by proactively developing small business’s capacity, addressing issues of power and ensuring more benefits to the wider economy through facilitating linkages with local firms. It can also make the effects of FDI on local economies more stable and long-term.

Box 3: Survivalist or transformative? An example from the South African public transport sector

The minibus taxi sector in South Africa is a survivalist sector. It is characterised by high overhead costs and low profit margins and in many ways seems to have reached a state of stasis with limited opportunities for growth. Furthermore, internal conflicts, poor safety records and lawlessness are said to be prolific in this sector. Despite this, it plays a useful role for people and the country; it is an integral part of the public transport system, providing affordable transport services to 65% of daily commuters (thus supporting people’s livelihoods as they travel to work or transport goods for business). It also employs in excess of 250 000 people and generates an estimated annual turnover of R35 billion [over £2.25 billion].

With the right support, this sector could continue to make the important contribution it does to society, while at the same time changing to become a transformative source of jobs and growth. Tailor-made, comprehensive and imaginative interventions are needed. These should include proactive and coordinated involvement and support from the state. Self-driven, bottom-up organisation is also needed in order to claim rights, influence supportive policy and address power imbalances. There is an important role for civil society to support such organisation. Rather than dismissing this sector as survivalist, these interventions should be considered as they will begin to take steps towards the establishment of a transformative transport sector.

Adapted from: Rakabe, 2013.

There are potential economic, social and environmental advantages and disadvantages of MSMEs. It is important that our policy and programmatic measures take these criticisms and concerns seriously and that policies and interventions are aimed at supporting people to realise their growth and success potential. Accepting that most people will work in MSEs and that these are likely to stay small, does not mean our interventions should not work towards overcoming disadvantages and building business success. Macqueen (2005) asserts, that any disadvantages of MSMEs “could be addressed by tailored support within a strongly enforced enabling environment” which

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34 For example, just inserting small businesses into the supply chains of large foreign companies does not deal with the relative lack of power that small businesses face. See the discussion on global value chains on pg 21 for further points on this. See also pg 26 for a further discussion on power.
35 CAFOD, 2011a.
37 Research has found that “private non-agricultural wage jobs are unlikely to become a large share of employment in a foreseeable future” (Fox & Sohnesen, 2012, p. 9).
38 Macqueen, 2005, p. 10.
allows small businesses to flourish, prosper, grow and **step up and out of poverty**.\(^39\) It is therefore necessary to consider what such a pro-poor, bottom-up enabling environment would look like.

**UNDERSTANDING THE ENABLING ENVIRONMENT**

The literature highlights a number of reasons why a good enabling environment matters; it is an essential pre-requisite for growth, employment, income generation and ultimately poverty reduction,\(^40\) through strengthening the capacity for wealth creation, productive employment and decent work.\(^41\)

Whilst consensus may exist that this concept is important, there is little agreement on the exact term to use or the definition of such a term, let alone what this would look like in practice. Terms frequently used in this context are:

- **The business environment** which includes aspects of policy, legal, institutional, and regulatory conditions governing business activities,\(^42\) which can affect a business’s formation and growth potential;\(^43\)
- **The regulatory environment** which is far narrower in focus and only "covers regulations that immediately affect businesses through the costs of compliance"\(^44\) and so generally focuses on (de)regulation issues that affect business;
- **And the investment climate** which is the set of location specific factors\(^45\) and "economic and market conditions that influence decisions to invest".\(^46\) In popular understanding, this term is often associated with 'big business' or 'foreign direct investment'.

A number of donor projects, programmes and advice services are geared towards this theme of an enabling business environment, especially by Germany, Sweden and the United Kingdom.\(^47\) There is particular interest in the area of regulatory reform from bi- and multi-lateral donors. This area is important, but the literature is clear that in order for businesses to prosper and grow (and invest), a broad range of interventions, support measures and structures need to be in place.\(^48\)

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\(^{39}\) "Stepping up and out of poverty" (including 'hanging in') is a concept introduced by Dorward (2009) to explain the livelihood strategies that people adopt and the related policy and programmatic interventions that should result from this. "Stepping up' strategies, which involve investments in assets to expand the scale or productivity of existing assets and activities; and 'stepping out' strategies, involving the accumulation of assets to allow investments or switches into new activities and assets" (Dorward, 2009, p. 136).

\(^{40}\) UNCTAD, 2010; UNIDO & GTZ, 2008; DCED, 2008; World Bank, 2005.

\(^{41}\) ILO, 2007.

\(^{42}\) DCED, 2008.

\(^{43}\) ILO, 2007.

\(^{44}\) UNIDO & GTZ, 2008, p. 6.

\(^{45}\) World Bank, 2005.

\(^{46}\) Financial Times, undated.

\(^{47}\) Kindornay & Reilly-King, 2013.

\(^{48}\) UNIDO & GTZ, 2008.
Recognising this need for a broader response than pure ‘regulatory reform’ in order for small businesses to flourish, we have decided to use the term ‘enabling environment’ or ‘enabling business environment’ in this research. The definition we use is in line with a recent FAO publication:

[The] sets of policies, institutions, support services and other conditions that collectively improve or create a general business setting where enterprises and business activities can start, develop and thrive.49

We also emphasize that governments have an important role to play in setting the right regulatory environment as well as a broader role in proactively ensuring that small businesses are supported; institutions, support programmes and proactive policy measures are all needed if businesses are to flourish.50

An important issue in the enabling environment is power. It is recognised that “business environment reform is always political”51 and issues of power are inseparable from the reforms that are implemented. Supporting the small-scale, marginalised business sector to organise to protect and promote their interests and shape the ‘enabling environment’ is key. This is especially important in a context where many states are not ‘benign technocracies’ and are sometimes negative or actively hostile to small and (or) informal actors.52

Many interventions and much of the advice given are posited as neutral in terms of size, assuming that what works for large businesses will work for small businesses. Because of their relative power (economic or even societal), larger companies may be in a better position to influence policy choices as well as to take advantage even of more neutral policies, out-competing and effectively excluding small businesses. Given the priority that donors are giving to private sector development53 and enabling environment reforms, it is important that there is greater understanding and differentiation of the different types and sizes of businesses covered by the term ‘private sector’ and that this is reflected in policy solutions.

Research has found that there is no evidence that the reform packages often pushed by donors or the “policies aimed at establishing a ‘level playing field,’ are pro-poor and appropriate to lift the workforce in the informal economy out of poverty”54. Interventions which recognise the unique needs of, and which specifically target, small businesses are needed. Unfortunately, however, participants in this research indicated that their governments did not often implement such a focus.

Such a ‘thinking small’ approach would be a step towards establishing a pro-poor enabling business environment.

49 Konig, da Silva, & Mhlanga, 2013, p. 5.
50 UNIDO & GTZ, 2008.
52 In both Kenya and Zimbabwe, practitioners interviewed noted that they had seen huge ‘clearances’ of informal traders with devastating consequences for people’s livelihoods.
54 UNIDO & GTZ, 2008, p. x.
Recognising the power imbalance in the design of enabling environment interventions, this research has prioritised talking to poor people about the type of enabling environment that would directly benefit their businesses. We then compare this to the priorities of donors and development agencies. In the following chapters we will look at the specific needs and priorities of small businesses and at what works for them. This will help us to define in more detail what an enabling environment for small businesses would be.

2. Do donor priorities match up with small business needs?

It seems sensible when attempting to define an enabling environment for small businesses to start with the priorities and needs of these enterprises. We did this by testing whether certain issues were a priority for small business. The issues we tested were based on an established donor list and included four additional items which small businesses had highlighted as issues or challenges in Thinking Small 1. Based on the responses given we were able to rank the 15 issues we tested in order of importance to small businesses. Table 1 below presents these findings.

Table 1: Barriers to success for small businesses based on a pre-defined list of options

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<td>environment or market</td>
<td>protecting the rights</td>
<td>workers</td>
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<td>(including poor health</td>
<td>of business owners</td>
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<td>or lack of skills)</td>
<td>10. Registering your</td>
<td>15. Bankruptcy laws</td>
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Unsurprisingly, credit was the most commonly reported barrier to success for small businesses – this is in line with other research and with many donor interventions (although as we discuss in later sections ‘credit’ was explained in different ways by small businesses in this research).

Beyond this, however, the other four issues within the top five priorities (highlighted in green in Table 1) are not covered at all by the Doing

“Policy wise – yes government is in the process of doing stuff – but budget wise they’re not really doing anything. They’re really leaving this up to NGOs. Their main concern is larger institutions.”

Local development practitioner, Sierra Leone

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55 Specifically, the World Bank’s Doing Business Project list of criteria for ease of doing business in a country.

56 Methodological note: these findings are based on the results of 139 interviews. In order to work out the relative importance of each issue we calculated a weighted score based on the number of people who rated each item as an obstacle to success or not and the relative importance that they ascribed to this challenge using a scale from 0 to 2, where 0 was “not an obstacle to the success of my business”; 1 was “a minor obstacle to the success of my business”; and 2 was “a critical obstacle to the success of my business”. Their relative importance is displayed in chart 1. Further information around methodological details and findings are on our website cafod.org.uk/Policy-and-Research/Economic-justice.
Business indicators. Issues two to five in the above table (specifically: challenges with 'transport',\(^{57}\) 'getting customers', an 'unstable business environment or market' and 'human capital') are the issues that CAFOD’s work with small-scale entrepreneurs highlighted as important.\(^{58}\)

Chart 1 below captures these results as percentages (where the weight of importance that small businesses ascribe to each obstacle is displayed as a percentage of the overall obstacles they face). It is interesting to note that the top five issues (of which only the first, getting credit, is a part of the Doing Business indicators) make up 59% of their overall challenges whereas the bottom five issues only account for 10% of the obstacles small businesses face. This suggests that the latter issues (those in greens and reds in the chart) do not seem to feature predominantly on small businesses’ radar. It is also interesting to note that the four issues not included in the donor list (transport, getting customers, an unstable business environment or market and poor health or a lack of skills) make up 45% of the overall challenges.

**Chart 1: Obstacles to small businesses: weighted scores as percentages**

![Chart showing percentages of obstacles to small businesses](chart.png)

Most of the issues on the 15-item ‘barrier to success list’ (specifically those in the green and red categories in Chart 1, above) were simply experienced as ‘not an obstacle’ or ‘not applicable’ by the majority of small businesses interviewed in this sample.\(^{59}\) This would suggest

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\(^{57}\) The Doing Business indicator ‘trading across borders’ does consider some aspects of transport in that it looks at impacts of infrastructure on the time and cost of importing or exporting. This indicator is heavily focussed on cross-border infrastructure (World Bank - IFC) – for more information see [bit.ly/16vSfSi](https://bit.ly/16vSfSi).

\(^{58}\) For the criteria: ‘unstable business environment or market’, ‘human capital including poor health and a lack of skills’, ‘electricity’ and ‘taxation’ the answers were fairly evenly divided (between the options of these being not an obstacle and a critical obstacle). This would suggest that for these criteria country or location-specific differences might occur.

\(^{59}\) At times it was clear that small businesses may have reported that certain issues were ‘not applicable’ or ‘not an obstacle to my business’ because they did not fully understand the criteria.
some misalignment between what donors prioritise as important and the priorities of small businesses on the ground.

In addition, when small business owners explained the way that some of these obstacles affected them, and answered other questions that we asked about the challenges they faced in their businesses and what solutions would work for them, their answers often diverged from much of the mainstream work supporting business environments. The following chapter builds on these findings and proposes an alternative agenda for an enabling environment that supports small businesses based on talking to small business owners and the people who work with them (including community or business leaders, development practitioners and government officials).

3. An alternative agenda for small business support

Building on the findings in chapter two, and looking at the wider explanations given by small businesses, it is possible to identify five priorities for small businesses. These include: financial services, infrastructure and public services, demand, human capital and risk and stability.

Diagram 1: five key priorities for small businesses

60 Note: the findings in this chapter are based on themes that emerged from the research overall which included open-ended questions to research participants (small business owners as well as key stakeholders).
THE NEED FOR FINANCIAL SERVICES

Accessing credit is important, but this is only one aspect of the financial services that small businesses need. Access to comprehensive, appropriate and supportive financial services was a top priority for small businesses. Each such financial services should include:

- Access to appropriate and affordable credit;
- Access to other forms of capital and a stable cash flow;
- Physical access to financial services and banks.
- Access to insurance, particularly health insurance;

When done in the right way, financial services can play an important part in allowing small businesses to flourish. Importantly, financial services need to be comprehensive (beyond a simple focus on credit), locally appropriate (suiting the business needs and calendars of local enterprises) and address issues of power (see workshop participant quote).

Box 4: Microfinance: An example of a ‘siloed’ response to small businesses need for financial services

Access to capital – and particularly credit – is on the small businesses list of top priorities. For many years, the response to this challenge has been microfinance. Microfinance gained popularity in the 1970s and by the 1990s “the concept of microfinance was the international development community’s highest profile and most generously funded poverty reduction policy”. It has been a useful initiative in helping people to set up small businesses and tackle the economic constraints they face in doing so. Despite this, it has become an increasingly for-profit sector marked by sometimes outrageously high interest rates, and has been critiqued as an ‘anti-development’ intervention that “locally embeds poverty, deprivation, inequality and backwardness”.

Participants in this research also highlighted that indebtedness is a major issue which can be a challenge for the viability of their businesses. This led to fear among some people around the consequences of the cycle of debt:

“The micro-credit requirement is that you have to pay something back every week. And we’re very afraid to have to do this. Once you get into that type of credit there are lots of problems. They’re always

Rice retailer, Cambodia

“Having cash in hand [means that we] have more control over market prices.”

Workshop participant, Cambodia

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In fact, in all of the different ways that we asked questions (for example, “what’s important to success?” or “what are the challenges you face?”) financial services was always within the top five most important issues to small businesses.

Other research has come up with similar findings; “indeed, accessing capital was the most popular response by participants in household surveys in sub-Saharan Africa when asked what the most important challenge they faced was” (Fox & Sohnesen, 2012, p. 14).

Having capital is important for increased power and better livelihoods outcomes. For the workshop participant from Cambodia who made this statement, not being cash-strapped meant that they are able to negotiate or wait until they can get a better price, rather than needing to sell immediately at whatever price.

Bateman & Ha-Joon, 2012, p. 13

Bateman, 2013, pp. 3-4
“We don’t dare to borrow because we are afraid we can’t afford to pay back and we also don’t understand the process of borrowing and [repayment] deadlines either.” Workshop participant, Cambodia.

With both the learning about the negative role that micro-finance can play and the risks that over indebtedness can bring, it is necessary that new solutions are found to help small businesses access the finance that they need. A ‘silied intervention’, rather than a comprehensive approach, can be harmful, in this case encouraging or enabling debt without empowerment and business skills development.

A positive agenda for small business finance needs to include:

1. Comprehensive financial services, including insurance, support on how to manage loans and credit, financial literacy training and financial information and advice.
2. An ‘organising’ component: the most successful microfinance programmes are also comprehensive in that they organise participants (often women) into groups, helping them to build their confidence and to interact with government officials, buyers and suppliers. When microfinance initiatives consist solely of loans, without building voice (or support to develop the business), old, unequal relationships would continue and other constraints would remain, resulting only in increased risk and indebtedness for the business owner.
3. Physical access to banks and places to store money. Importantly these could include community or cooperative banks which work towards the benefit of communities rather than on a ‘for-profit’ basis.
4. Affordable credit with low interest rates.
5. Suitable repayment schedules that suit small business needs and agricultural or business calendars.
6. A sufficient loan size (the amount of credit given needs to be suitable to facilitate business growth; many credit schemes are either too large – and thus exclude small business – or too small – thus insufficient to meet business innovation need.
7. Flexible terms and conditions for credit to ensure accessibility by small businesses. Conditions which exclude small businesses from accessing credit include: not having any security, collateral or bank guarantee; not having land titling deeds; not having any formal employment; age limits; and group loan requirements which are not always appropriate forms of risk for businesses to take on.

FOCUSsing ON INFRASTRUCTURE AND SERVICES

A second priority which emerged for small businesses was around the need for infrastructure and related services. These provide an important foundation for all businesses to thrive; but it is often small businesses and poor people who are disproportionately negatively affected when these are not present.

“This [loan] is not enough to do anything – its only 1-2% of the capital needed. And you only get this credit if you actually own the land... Many people don’t have legal documents [to say they own the land] despite working there for many generations or years...

The credit we get from government we’re not getting in time [for planting, and we have to pay back before we have seen a return on the investment].”

Workshop Participants, Myanmar

“Most goods [that we sell] are perishable and roads are bad therefore transport is very important for the success of business.”

Farmer, Sierra Leone
Participants in the research particularly mentioned the need for good roads and transport services as these directly impact on people’s ability to access markets. They also raised other issues including access to reliable electricity, water and irrigation provision (particularly for small-holder farming enterprises; this included water pan construction and large-scale irrigation or canals), telecommunications, storage facilities (for both rural and urban businesses) and toilet and hygiene services. Participants also highlighted the critical need for physical markets that are properly equipped and well-located to meet business needs. Finally, these services should be affordable for small businesses.

Importantly, these infrastructure and public services need to happen within a ‘thinking small’ framework that specifically targets the needs of small businesses. Too often services such as this are size-blind and as such miss some of the particular nuances to small business obstacles to success. If we take the example of energy services, a ‘one-size-fits-all’ approach is unlikely to be successful in meeting the needs of the poorest, in particular. The design of such services must respond, and be customised to meet the needs of different end users living in varied contexts. Participatory analysis is crucial to understanding their development needs and ensuring that interventions are locally appropriate and respond to the needs of all stakeholders rather than those with power. Further comprehensive programmes are needed which respond to the breadth of infrastructure and service needs that currently provide a barrier to small business success.

**ADDRESSING DEMAND**

Finding sufficient demand for their products was a third priority which small businesses raised. Overall 70% of respondents in the interviews said that getting customers was an obstacle to their businesses. Farmers noted particular challenges around:

- Finding enough customers to buy from their businesses;
- Not having sufficient knowledge around advertising and marketing;
- Dealing with oversupply of certain products within markets;
- The need for the community (people buying) to have the cash needed to purchase.

> “I would want more network communications so that I am able to negotiate favourable prices before selling by making telephone calls.”

Livestock trader, Kenya

> “Any market needs to be built in a good place. Not far away, somewhere where business people would like it... The council builds market structures not in places where business people would like. We have told them they should contact us first so we could give them better advice as we know our traders.”

Leader from Kenema Traders Union, Sierra Leone

> “I do not have any certain customers and I sell my products with difficulty.”

Farmer, Afghanistan

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66 Access to modern, safe, affordable and sustainable energy is increasingly recognised as crucial for development and in particular to build sustainable livelihoods (CAFOD & IIED, 2013). For a full discussion on this see the recent CAFOD & IIED (2013) paper _An approach to designing energy delivery models that work for people living in poverty._

67 This was a problem for both micro enterprises and small-scale farming enterprises. For farmers the challenge was also often around finding customers (often traders) who would give them a good price. Being price takers rather than price setters meant that farmers normally have to take whatever price they are offered with little power to negotiate prices.
Box 5: The importance of marketing: An example from Afghanistan

A CAFOD partner programme, Sanaye Development Organization (SDO) in Afghanistan, is involved in encouraging small-scale farmers to move over to growing saffron as an alternative livelihood source to opium. The focus of the programme is on giving farmers the skills to grow better quality (and greater quantities of) saffron. One of the biggest challenges they face is around trying to promote Afghan saffron both locally and internationally as historically it does not have a name for being ‘good quality’ saffron. Marketing, promotion and brand identity are all important aspects of generating awareness and therefore demand for this new higher quality Afghani saffron. Afghani farmers raised the following key aspects in relation to this:

- Not having the right (marketing) skills to attract customers;
- Not having the ‘address’ of their clients – in other words not knowing who clients are and how to make contact with them;
- Not being aware of saffron vendors or bulk buyers / suppliers.

This highlights the importance of looking at demand-side issues; while supply-side interventions are very important to small businesses, this alone will not generate business success. Dealing with demand is a key aspect of making markets work for the poor.

In an effort to ensure demand, many interventions focus on inserting small businesses into global value chains. This often involves efforts to improve the reliability of the market for ‘inclusive business’. There has been some success in this for individual farmers or cooperatives, but overall, this vertical integration is not appropriate and often leads to over-reliance on one customer and ‘islands of success,’ rather than raising the overall welfare of a sector.\(^\text{68}\) Considerations of power are also important; inserting small businesses into global value chains can often happen on exploitative terms in the face of unequal power relationships with the customer who can pass costs down or on whom small businesses can become quickly reliant. In order to effectively deal with demand, we should be looking to support and improve alternative, dynamic, local, national, regional and even informal markets where the majority of poor consumers are.

Demand-side issues are often neglected in favour of supply-side interventions. While supply-side constraints are important,\(^\text{69}\) ignoring demand can lead to poor results, little success for small businesses in markets and thus limited success in supporting people to step up and out of poverty. For our interventions to be successful, we cannot simply push more businesses into already saturated markets as communities cannot absorb this extra supply. **Market surveys, market analysis, understanding demand and identifying a market niche** are all important support interventions to ensure that

\(^{68}\) Vorley, Cotula, & Chan, 2012.

\(^{69}\) In this research participants particularly highlighted the following supply-side constraints: (1) accessing, maintaining and having control over **productive assets**, (2) accessing affordable, good quality **inputs**, and, (3) the need for **storage facilities** in both urban and rural areas.
we do not simply encourage people to do 'more of the same', but instead support innovative businesses that have a chance of sustainability. Proactive and targeted interventions are also needed to stimulate demand. These could include creative public-procurement initiatives or cash transfer schemes.

**Box 6: Cash transfers: An intervention for generating demand**

One strategy that has worked in stimulating local markets and in boosting demand is cash transfer schemes. These can be beneficial because they inject money into local markets which is likely to stay within that local economy through people buying local goods and services. These transfers can stimulate and support the local economy during difficult times and also have significant multiplier effects. In Malawi, for every $1 transferred, at least an extra $2 was generated within that community.70 Similarly, a study in Northern Uganda has also shown positive impacts of cash transfers. Here it was found that cash transfers to 1,500 vulnerable households in Otuke county increased demand 13 fold amongst the target population. It also led to medium-farmers (owning up to 20 goats) being able to sell more livestock (20-50% increase) at a better price (10-30% increase) and eventually to local authorities gaining almost 3% of the cash injection through taxes and service fees which was able to be invested back into the community and local market (specifically there was a plan to open a new local livestock market).71

**DEVELOPING HUMAN CAPITAL**

A fourth priority for small businesses is human capital: "the knowledge, skills, competencies and attributes embodied in individuals that facilitate the creation of personal, social and economic well-being."72 As was highlighted earlier, small businesses are important to the economy precisely because of the labour-intensive nature of this sector. Investment in health and education is therefore centrally important, both as a development outcome in its own right, but also as an investment in a key asset of the poor – their labour and human capital.

Participants particularly mentioned challenges around the following sets of skills:

- Business management and planning; including administrative skills, planning and market analysis and understanding;
- Specific technical skills (rather than general training);73
- Financial management;
- Basic education and literacy.

70 Davies & Davey, 2008.
71 Creti, 2010.
72 Keeley, 2007, p. 29.
73 Farmers raised the need for specific skills to: improve productivity and output; better understanding of the seasonality of different crops; technical skill relating to input use (some participants noted that NGOs or government had provided them with inputs, but not always the skills to be able to use these effectively).
Importantly, skills should be focussed on being locally appropriate and small business owners themselves need to be consulted in identifying the skills that stand as a binding constraint to their business success.

Responses to the need for human capital must be comprehensive and extend beyond the normal focus on skills training. Health, for example, was also found to be a problematic aspect, depleting human capital and therefore livelihood potential. A lack of safety nets and social protection services in the contexts in which most of the people we spoke to operated, meant that poor health could push them over the edge and cause business failure.

Box 7: Small-holder farming or small-scale farming enterprises?

In most of the countries in this research, smallholder farmers – and even the NGOs supporting them at times – viewed themselves as ‘just farmers’ rather than business people involved in farming enterprises. Building human capital could include supporting farmers to see their farms as viable businesses with the potential to move from subsistence to competitiveness. Empowering farmers to think more strategically about their livelihoods is a key aspect of this.

CONSIDERING RISK, STABILITY & VULNERABILITY

Unstable business environments or markets generate risks and enhance the vulnerability of small business owners. The presence of excessive risk within markets and economies is a challenge and small business owners in this research expressed a preference and need for stability. The obstacles that all businesses face can have particularly negative outcomes for small businesses due to their inability to cope with risk and overcome challenges. Risk is therefore problematic as it can be a key constraint to ‘stepping up and out’ from poverty and is therefore a priority to address in a business enabling environment which supports small businesses.

One example of this is volatility in the price that small businesses receive for their products. Indeed the ‘unstable business environment or market’ was rated as the fourth most commonly reported barrier to success by small businesses (see table 1). When prices are unstable, or if there is a risk of no reliable demand, then small entrepreneurs will not invest the labour, land and capital that is needed to upgrade their businesses.

“[I] had to sell all [my] assets when [my] husband got sick so that [I] could pay for his healthcare – this in turn had a negative impact on sources of future income.”

Farmer, Cambodia

“Small businesses and farmers are much more vulnerable to be affected by the market.”

Workshop participant, Myanmar

“[The] inabilities to overcome these barriers led to limitation of my business.”

Tea seller, South Sudan

74 Participants reported that this was because stability allowed one to plan for the future; meant income security; it was essential for survival due to high levels of vulnerability; it protected you from debt, bankruptcy and poverty; it ensured business sustainability and viability; and it guaranteed that you could provide for the basic needs of your family.
Participants attributed price volatility to cheap imports, unfair bargaining relationships and even to aid; in Kenya, donations (of books and food aid) were specifically mentioned as distorting local demand and markets. Comprehensive programmatic or policy interventions which proactively consider and take account of risk are needed to ensure the best outcomes for people’s livelihoods or incomes.

Government polices intended for local economic development need to consider the wider context in which small businesses operate if they are to help them to overcome risk. A development practitioner in Cambodia gave an example of an agricultural policy which encouraged farmers to grow a certain type of rice which had been identified for export; unfortunately this type of rice was risky for farmers due to the length of time it took to grow and the lack of sufficient demand. Without considering whether a response is locally appropriate, whether there is demand for certain products, or consulting people about what the constraints they face are, the interventions introduced are unlikely to be useful to small businesses, and therefore unlikely to be adopted by them.

Risk is not always negative for businesses. Risk-taking can be an important part of business development and success. Yet because of their situation, many small businesses are not in a position to take on risk. Participants, displayed risk avoidance tendencies – even when risk-taking led to an improved livelihood outcome overall75 - because of their vulnerability and therefore inability to cope with risk. Additionally, risk avoidance preferences were probably higher than what was reported; many people, especially small-scale farming enterprises are accepting of risk as it is seen as an unavoidable reality. In Cambodia this was especially evident; when we asked small-scale farmers about their preferences for risk versus stability, most people reported that “we don’t have an option. The situation is always bad, always very risky and there’s nothing we can do” – rather than a preference or a choice, they felt constrained in this reality.

**Box 8: Interventions to help small businesses mitigate negative risk and take on positive risk**

**Social protection schemes** can provide a safety-net when times are difficult. Importantly, these should be long-term, predictable and support people throughout their life-span.

**Macro-economic policies** can reduce risk and decrease vulnerability of small-scale traders and businesses. Small-scale producers and traders in our research talked about the importance of price stability as a tool to help in managing and planning their finances. As a

“Avoiding risk is not always a bad thing. People need to learn how to mitigate risk, manage risk and take on the risk they are able to take,”

Farmer, Cambodia

“During the planting season the input prices go up. At harvest time the price of the product goes down [and so we never win]. If possible would like to change this so that the market is more stable.”

Farmer, Cambodia

Participants in Cambodia explain and plot out the price volatility they have experienced in the prices they can get for their produce over the last year.
participant in Myanmar explained: “The most important thing is policy – if there’s no government policy helping to control prices and protecting farmers then the suffering will continue” (Farmer, Myanmar).

**Building capacity around planning and risk analysis** by working with communities to understand vulnerabilities and to identify potential risks and strategies to mitigate them at the outset of any intervention. This includes ensuring that the vulnerability analysis takes into account the different experiences of different people within the community – due to gender, HIV and AIDS, age, disability or ethnicity for example.

**Greater access to market information:** market information allows small businesses to make the informed choices necessary to take on risk. As a participant in Cambodia explained: “Because we get no information about what the market is doing we prefer the [situation to be] more predictable. In a context of no market information [it is too risky to take on fluctuating income in the hopes of a better livelihood outcome]” (Farmer, Cambodia). Participants also expressed a desire for training and information to understand price volatility and the role that international markets can have on local markets.

In this chapter we have highlighted five priorities for small businesses. Focussing on these five areas will be a step in the right direction for creating a pro-poor enabling business environment which benefits small-scale entrepreneurs.

### 4. Five guiding principles for thinking small

From our research it was evident that it is not only what issues and needs are addressed, but importantly, how this is done. In the previous chapter we identified five priorities (or ‘whats’) for small businesses owners. In this chapter we look at five ‘hows’ – these five guiding principles are central in addressing the priorities of small businesses in a way that develops an enabling business environment that benefits small-scale businesses.

Earlier in this report we highlighted the first two important principles in this respect:

**PROACTIVE INTERVENTIONS ARE NEEDED**

Governments should be proactive in supporting small business rather than simply undertaking regulatory reform that is size-neutral or supporting markets or business at large. Institutions, support programmes, proactive policy measures and other responses to proactively support small businesses are needed. This is discussed in more detail in chapter 1.

“Government support programmes... [are] not reaching small, micro and survivalist enterprises.”

*Workshop participant, Malawi*
TARGETING IS NEEDED

We also identified the need for measures to be properly targeted (see Box 1). This means that funds, advice or support interventions need to be specifically targeted at small businesses. Interventions also need to be better targeted at marginalised players. This includes small businesses as a sector, but particularly rural businesses and women in business. These latter two groups face particular challenges which limit their business success. Better targeting will allow for stronger development impacts.

In addition, it is possible to identify three more principles for a pro-poor approach to the enabling business environment:

UNDERSTAND THE ROLE OF SOCIETY & POWER

‘Power’ and ‘society’ are two less commonly addressed, but important, relational aspects of small business success. Thinking about how relationships work is important if we are to support small businesses. “The most successful livelihoods projects are those that address power relations and social exclusion, not just economic deprivation.”

Effectively dealing with social and political issues is centrally important to creating a pro-poor enabling environment. For small businesses, their lack of power within conventional market systems often disadvantages them, while in the face of few other assets, their social ties are often key to business success.

Small businesses are rooted in local communities and have strong social ties to the people around them who impact on their businesses. Of the 139 interviews that took place, 91.4% reported that social ties impacted on their businesses in some way, with 89.2% (124 interviews) reporting that this impact was positive. Social ties are important in multiple ways: a source of financial support, investment and insurance in the absence of suitable formal banking services, as well as acting as a source of labour, innovation, skills and market information. Social ties and norms are often more important than legal contracts and could determine the type of business that you are able to run or who your customers are.

Small-scale entrepreneurs also talked about their businesses providing the opportunity to work towards the common good, to care for neighbours and build solidarity. All three of these aspects contribute to empowerment and developing a sense of self-confidence, highlighting the interplay between the social, political and economic.

[Social ties] are fundamental, the base which generate friendships and business.

Commercial printing business, El Salvador

Social ties for farmers are very important because they enable farmers to be well linked and connected. When colleagues visit other areas, they come back with innovations, which they will come and practice in their own fields. They also promote what is called farmer-to-farmer extension.

Farmer, Zimbabwe

People do not start businesses in a vacuum and families in particular play an important role in business development.

Workshop participant, Malawi

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When it comes to power, this can be critical in determining business success. Whether or not power is taken into account in policy and programme interventions will also be a critical factor in their success.

For example, many small business owners complain about being at the mercy of ruthless middlemen and of harassment and rent-seeking by corrupt officials. Their weak position caused by their lack of social and political standing, the informal nature of their businesses and their lack of resources such as information, storage or cash reserves, increases the risks and costs and dampens the profitability of their business. Simply addressing other constraints that they face, without addressing issues of power, will not be as effective an intervention.

On the other hands, small business support programmes which specifically focus on inclusion and empowerment, by supporting people to influence the local and national policy arena for example, can pay dividends. Similarly, supporting small businesses to organise can result in them having opportunities of economies of scale, collective bargaining and a shared, stronger voice to ensure that local officials are aware of and serve their needs appropriately.

Box 9: Organic farming: an example from Myanmar of empowerment through personal choice

In Myanmar, CAFOD partners GSMI are involved in community development projects which, among other things, equip people to farm organically (which in this context means farming using traditional methods and inputs). The workshops in Myanmar included farmers who were involved with this project, and others who were not project beneficiaries.

Through the discussion, it was clear that there were definite challenges that still need to be thought through and overcome for this organic farming project (including market analysis, considering niche markets, accessing new markets and so on). However, there was one particularly interesting point of difference to note between farmers who had been involved in this project and those who had not. Specifically, those who were involved displayed much higher levels of confidence and self-assurance.

In discussing this observation with local researches, it was noted that the ability to choose one’s own path or a new path is key. As was noted earlier in this paper, small businesses are often constrained in their choices – many start their businesses not out of choice, but out of a lack of other options. The fact that these farmers had had the opportunity to choose another method of farming – and that this method had clear benefits for the environment and for personal health led to a greater level of empowerment among participants. For NGOs and donors this is an important lesson; expanding people’s choices for their small businesses can have an important impact on empowerment. If this is coupled with careful mentoring around market analysis and meeting a specific customer demand, this can be particularly transformative.

“[I started this business] To be self-employed, to create jobs [and] to help the community.”

Beauty salon owner, Haiti

“Social ties are very important in business. Last year, a young woman who had planted saffron fell pregnant at the time of picking up flowers and was not able to work. All the neighbours picked up the flowers for her. Later, when she was unwell, women helped her again as we all knew she was in trouble... There is a sense of collaborations among women.”

Saffron farmers Afghanistan
The context in which people live (the situations, social circles and traditions) and the relationships and power dynamics within these all impact on the success of businesses. Enabling environment interventions need to address political and social exclusion and donors, government and NGOs need to understand the role of societies and power when designing their interventions.

THE NEED TO BE COMPREHENSIVE

Interventions need to be comprehensive and multi-dimensional, responding to a wide range of issues rather than operating in silos.\(^\text{77}\) One-dimensional responses which fail to take into account the wider context can have unintended negative consequences.

The need for comprehensive interventions is equally true across all the priority issues. For example, the microfinance example (Box 4) highlights the fact that the most successful microfinance programmes do not only provide loans, they also provide comprehensive financial services, business training and capacity building assistance, and support for people to organise. As another example, responding to the need for customers by inserting a group of farmers into a supply chain, without looking at wider issues to improve the sector as a whole, does little to facilitate wider poverty alleviation. Similarly, providing supplies, inputs or skills to small businesses without addressing risk or demand can unintentionally push people further into dead-end or risky, unstable situations.

It would be important therefore for any policy or intervention suggested or implemented to fully consider the local situation, needs and constraints of small businesses.

LOCALLY APPROPRIATE INTERVENTIONS BASED ON CONSULTATION

Any intervention undertaken needs to be locally appropriate; taking into account the voices of small businesses.

Small businesses need to be included in the design and implementation of the policies, regulations and programmes which impact on them. Excluding them can lead to interventions which are not appropriate to their local context and which do not therefore respond to the obstacles they face. Importantly this depends on building the strengths and abilities of small businesses to participate and engage meaningfully in such processes, as discussed in the section on power.

\[\text{As our first Think Small research highlighted “Successful NGO projects did not focus on one improvement, but tackled all aspects affecting the viability of poor businesses – economic, social, political and human” (CAFOD, 2011a, p. 27).}\]
In this research, only 13% of respondents in the interviews we held felt that government effectively and meaningfully listened to them. People reported that they would like much more engagement with government.

Reflecting on the five priority areas, interventions which respond to any of these areas would tend to look very different if they were locally appropriate: market infrastructure might be built in a location closer to the networks which small businesses operate in; skills development programmes might focus on specific technical skills to suit a market niche in a certain area, rather than general skills which do little to develop the human capital necessary to respond to a specific demand; and finally, regulatory reforms which so often focus on business registration issues, might consider the specific constraints that local businesses face (such as the need for identity documents which small businesses owners, especially those from migrant populations, may not have).

Essential to a ‘thinking small’ enabling business environment would be empowering, participatory and bottom-up approaches that meaningfully include small business voices.

If donors and governments were to adopt a ‘thinking small’ approach to private sector and economic development, small businesses would stand a much better chance of success and growth, would become more ‘bottom-up’ and inclusive, and ultimately more men and women would be helped to step up and out of poverty.

This would involve addressing the priorities of small businesses as identified by them, not by donor bias or blueprints. Our research suggests that these priorities include: the need for financial services, the provision of appropriate and affordable infrastructure and services, the importance of demand, the development of human capital, and a need to deal with risk and vulnerability. These are initial findings and priorities may, of course, vary according to contexts.

Most important, it would involve adopting the five guiding principles identified above including: proactive policy and government support, targeting interventions to the right groups, realising the importance of and responding to issues of power and society, being comprehensive and finally being locally appropriate, including the voice of small business owners.

In the next chapter we conclude by drawing these learnings together and laying out what these changes would look like in practice from the perspective of policy makers.
5. The case for change: policy recommendations and conclusions

As we have outlined, the enabling business environment is a valuable area for government and donor intervention. However, this research has found that the interventions often pursued under an enabling business environment endeavour do not always address the business constraints faced by small businesses. We propose that there are five priority issues that need to be addressed (chapter three) and five guiding principles for such interventions (chapter four).

This will involve certain changes for policy makers.

Overall this will entail;
- **Adequate funding for proactive** MSE and farming enterprise support programmes;
- **Regulatory and policy reform** that helps small businesses and is based on consultation with them, not which assumes traditional size-neutral policies will create a level playing field;
- More **regular consultation** with small businesses which results in tangible changes in policy, budgets and support interventions;
- **Bridging the communication gap**: where there are policies, regulations and support interventions that impact on small businesses in place, information about these needs to be better communicated to small businesses. This will allow them to know how to access and benefit from them; and also how to interact with and respond to them. Transparent, timely and consistent information is needed.

This will also require institutional changes:
- **Support for the organisation of small businesses**: for example cooperatives, associations and sector self-help groups play an important part in empowerment\(^78\) and in helping people to interact with and guide markets. Local and regional groupings also need to be mobilised at state or national level to influence central policy and defend the rights of small-scale business people. Supporting and equipping these structures would be important to improving the overall welfare of a community over and above individual business success. Overall, there is a need to focus on agricultural, community and worker cooperatives or associations to maximise the positive economic,

\(^{78}\)Such groupings can play a central role in development, particularly with regards to increasing people's power, participation and voice. “The individual psychic benefits derived from greater participation, dignity and control are hugely important in establishing a culture of democracy, equity, tolerance and cooperation outside the cooperative” (Bateman, 2007)
political, social and psychological outcomes that these can bring.

- **Getting local government right**: local governments and associated local institutions "have played a decisive strategic planning and promotional role in many of the most successful episodes of local economic development" 79 (LED). For these positive effects to take place, empowered, skilled, coordinated and well-functioning local government institutions that ‘think small’ are needed. 80 The training and empowerment of government and LED officials towards undertaking effective, pro-poor, local economic development would be important in developing local institutions with the ability to ‘think small’. Such an approach will ensure that they are responsive to the contextual challenges experienced by small businesses.

Finally, there are already a number of successful specific reforms and interventions that fit this model and that can be usefully explored by governments, for example:

- **Social protection** that supports sustainable livelihoods. Social protection can play an important part in addressing multiple small business needs: helping people to meet their basic needs (including the development of human capital through increased education and health81 – see quote82), increase levels of power83 and mitigate against risk and vulnerability. It can also play a role in stimulating local demand. However, it needs to be designed in an appropriate way, based on a thorough understanding of people’s needs. In general it needs to be cash-based, non-conditional, predictable and adequate. Local consultation and accountability will play a critical role in establishing such social protection systems.

- **Productive infrastructure** that reaches the poorest, addresses their priorities and is affordable. Many productive infrastructure projects focus on large-scale, often export-oriented infrastructure projects. However, alternative, pro-poor and participatory approaches are available and yield better development returns. For example, a recent CAFOD-IIED

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79 Bateman, 2013.
80 In many instances we observed that local government was not skilled in LED (sometimes even openly hostile to small businesses) and was fairly disempowered and constrained in their ability to make decisions, serving merely as an ‘informant’ for national government rather than a facilitator of economic development in their localities. When we asked one government official about their role in LED they reported that: “my business here is to observe and report to government. Reporting to Government about what is right and what is wrong and making recommendations. I’m just serving as an informant”. [Local government official, Sierra Leone].
81 Arnold, Conway, & Greenslade, 2011.
82 A lack of safety nets and social protection services means that poor health could push people over the edge and cause business failure as well as affecting their long-term earning capacity.
83 Williams (2013) in an unpublished GUFP paper reports that “individual social protection programmes have been shown to increase participants’ political capital. For example, a cash transfer project in Ethiopia enabled poor farmers to farm their own land, and to negotiate better terms on agricultural contracts and loans with better-off families (Adams & Kebede, 2005). A pilot for a universal ‘Basic Income Grant’ in Namibia led to low-paid workers becoming empowered to demand fair wages and decent working conditions from their employers (Basic Income Grant Coalition, 2008).
paper outlines an approach to designing sustainable, pro-poor, participatory energy services for people living in poverty.

- **Proactive policies to stimulate demand** and improve the sector as a whole, including pro-poor procurement policies and small business incubators, for sustainable small businesses which fit a market niche. Government procurement can provide a stable source of demand for small businesses, in non-exploitative relationships. When combined with capacity development and consultation they can be particularly effective, as demonstrated in the design of the Ghana school feeding programme, among others.

Adopting such a ‘thinking small’ approach in the way that we do business support, and in the way we implement enabling business environment interventions is an important step towards change. Such an approach would be important for supporting small businesses to persist and be sustainable and thus have a transformative effect on people’s lives. As a businessman in a workshop in Sierra Leone explained:

“I want my business to grow; I want to help family members... Business should always involve and help other family members. I want to grow so that I can grow more people and so income levels of the whole family and community grow”

Ensuring that small businesses are supported by a pro-poor enabling business environment which targets their priorities and barriers to success would be an important step towards small business owners stepping up and out of poverty. Doing so in a way that is proactive, targeted, comprehensive and locally appropriate, and which responds to social and political exclusion, would further increase the development impact and increase the potential for entrepreneurs – like this Sierra Leonean businessman – to achieve their vision for the future.

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84 CAFOD & IIED, 2013.
85 This programme had three aims – one of which was to procure locally, thus boosting demand and domes The World Bank Group tic food production. There were several constraints to this as discussed in a World Food Programme report: bit.ly/15RyGYP
References


Thinking small 2

**Big ideas from small entrepreneurs**

Understanding the needs and priorities of small-scale farmers and businesses owners

Small businesses matter. They play valuable roles in economies and in the lives of people around the world; contributing to inclusive growth, employment, a more resilient economy, poverty alleviation and better development impacts for foreign direct investment. This policy paper explores the ways in which small businesses and farming enterprises can be supported and empowered so that they are able to help poor men and women step up and out of poverty. Through talking to 336 small businesses in fourteen different countries we highlight five key priorities and present five guiding principles for successfully supporting poor, small-scale entrepreneurs.

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