FROM THE INFORMAL TO THE FORMAL SECTOR:
MICRO-ENTERPRISES IN A DEVELOPING ECONOMY -
RESEARCH IN PROGRESS

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ABSTRACT

Small and micro-enterprises play a significant part in most economies. However, in developing countries these enterprises have tended to be looked at from a development, or poverty alleviation perspective, rather than as potentially growing businesses. This paper explores the possibility of micro-enterprises in developing economies moving from the informal to the formal sector – what this actually means and the process involved. Little is known about the process of growth from “survival” entrepreneurship to ongoing participation in the formal economy. A number of the entrepreneurs who participated in this research had made substantial gains in both a psychological and business sense in a period of two years. The methodology is qualitative and longitudinal over a two year period.

INTRODUCTION

Shaw (2004) makes a distinction between survival micro-enterprises and entrepreneurial micro-enterprises. In developing countries where the poor are poorly educated, the only capital micro-finance and technology is largely unaffordable, most micro-enterprises are entered into for survival purposes. Does this preclude them from growth and entrepreneurial activity? Kiggundu (2002) identifies that despite significant problems, there are promising cases of an emerging entrepreneurial class in Africa.

Small and micro-enterprises play a significant part in most economies, whether developed or developing. However, in developing countries these enterprises have tended to be looked at from a development, or poverty alleviation perspective, rather than as entrepreneurial activities and potentially growing businesses (Mead & Liedholm 1998, Toye 1993). Micro-enterprise development programmes have been a popular poverty alleviation strategy in developing nations for many years, starting as early as 1947 (McPherson 1996). Micro-credit institutions, following the example of the Grameen bank in Bangladesh, attempt to overcome some of the hurdles faced by the micro-entrepreneur in these countries. (Rutherford 2000, Mwenda & Muuka 2004).

Vast sums of money are now made available though a variety of micro-credit schemes, yet there appears to be little empirical evidence on the impact of this financing for business growth, or the factors that might influence the growth and sustainability of those enterprises that start life as ‘survival’ enterprises. To better understand the potential for growth and entrepreneurial activity of
‘survival’ micro-enterprises, an empirical study was conducted among micro-enterprises who had received micro-financing in the Beira area of Mozambique.

The purpose of this paper is two fold. Firstly, to document the activities of a group of micro-entrepreneurs in a developing economy, who received micro-financing to establish or grow their micro-enterprises to get a better understanding of the constraints under which these businesses were established and run. Secondly, to identify whether there is potential for micro-enterprises entered into for necessity and survival, to become opportunity focused and move from the informal to the formal sector.

MOZAMBIQUE

Mozambique lies along the Indian Ocean sea border of Southern Africa and is characterised by mountainous inland zones with a coastal plain. Mozambique is among the poorest countries in the world with a per capita GDP of US$210 in 2002 (World Bank 2006). This is largely attributable to a history of both human and natural destruction.

The Portuguese ‘colonised’ Mozambique in the 15th century with a view to establishing supply points for Portuguese sea routes to India. At the time there was already a flourishing trade in gold, ivory and slaves conducted by the Arabs. By the early 20th century a pattern was established in Mozambique. Rather than developing the country the Portuguese simply rented out available resources (www.lonelyplanet.com 23/11/2005). There was no social investment in Mozambique and what few services existed were largely reserved for the Portuguese and other white residents. The independence movement that began in the 1960s lead to independence in 1975. The Portuguese pulled out virtually overnight leaving the country lacking skilled professionals and infrastructure. Frelimo (the Mozambique Liberation Front) turned to the governments of the Soviet Union and East Germany for help as by the early 1980s the country was nearly bankrupt and the shops were empty. This instability was compounded by the disapproval of (then) Rhodesia and South Africa who supported and trained rebels in Mozambique (Renamo) leading to civil war. Renamo’s aim was the wholesale destruction of Mozambique’s communication infrastructure and the eventual overthrow of the government. Whilst they did not succeed with the second aim – they did destroy most of Mozambique’s infrastructure, including roads and railways (Dana 1996).

In 1983 drought and famine struck the country and Frelimo opened up Mozambique to the West to receive food aid. In 1992 a peace treaty was signed and official elections were held in 1994. By mid 1995, over 1.7 million refugees who had sought asylum in neighbouring countries had returned to Mozambique but nature had not finished with the country (en.wikipedia.org 23/11/05). In January 2001 floods killed 700 people and devastated the country. Some of the flooded areas were hit by drought the following year. The current economy is crippled by debt with annual payments almost twice the public health budget. The country, outside of Maputo, as of late 2004, was still largely derelict. 2006 shows the beginning of construction work in Beira, which may indicate that economic activity is moving north from the capital.

The country has an estimated population of just over 19 million in 2006 (www.ine.gov.mz) with an estimated population growth of only 1.4% in 2005 (cia.gov/cia/publications/factbook). Infant mortality rates are high at 13% (cia.gov/cia/publications/factbook). Trends of future population growth are unknown due to the impact of HIV, whose prevalence rate was estimated at 13.8% in 2004 (www.worldbank.org/website). 60% of children attend primary school, 8% attend secondary school and 2% attend higher education. The illiteracy rate in the adult population is high. Agriculture is still the basis of living for the majority (80%) who live on livestock farming production. There are resources such as timber, cotton and copper but these are not competitive because of the lack of infrastructure development. Good road and rail services are almost non-existent, as are power, communication and sanitation infrastructure.

Some of the challenges facing the people, the government and the entrepreneurs of Mozambique include overcoming: low educational standards, high levels of unemployment, low productivity of household farming, weak development of infrastructure, bureaucratised government, corruption and a very high mortality rate from curable diseases. It is anticipated that life expectancy will go from 44 years in 2001 to 37 years in 2007. Death is through diseases such as malaria, tuberculosis, cholera,
leprosy and more recently HIV aids. Over the first 4 years of the new century annual average growth of GDP was about 8%, and the absolute poverty level has dropped from 69% in 1997 to 54.5% in 2002, however the positive results of this are not yet reflected in the actual life of much of the population. (worldbank.org/website/external/countries/africa/mozambique)

Beira, where the research was undertaken, in the province of Sofala, suffered greatly during the brutal 16-year conflict that wreaked havoc upon Mozambique. Today, it has the dubious reputation of being Mozambique’s poorest province (RoZ, 2003). As an economy, Beira is struggling: physical infrastructure is broken and its people appear to have few opportunities to progress. Importantly to MozBIZ, the micro-funding body involved with this group of entrepreneurs, commercial districts are shutting down, as traders shift business to the smaller scale appropriate to a nation with per capita income of US$210 in 2002 (World Bank, 2003).

MICRO ENTERPRISES IN DEVELOPING NATIONS

The 1970s saw a flourishing of activity in the informal sectors of developing nations. The poor, unable to find paid employment, were setting up their own small businesses outside the formal sector, in cities and in rural areas (McGuire and Conway, 2001). Microenterprise development (MED) programmes have been a popular poverty alleviation strategy in developing nations for many years. Indeed, the existence of policies to promote textile production by Indian microentrepreneurs was reported as early as 1947 (MCPherson, 1996) the very time at which attention of developed world policymakers first turned to relieving poverty in the world’s poorest nations (Toye, 1993).

Micro-enterprises are typically defined as very small, informally run businesses, involved in activities other than crop production. These enterprises employ ten or fewer people, including the owner(s) of the business and any unpaid workers (USAID, 1995). A further distinction may be made between survival microenterprises, low skilled, low-cost, low return activities, and entrepreneurial microenterprises, which tend to require more skills on the part of the business owner and a greater use of capital and technology in production (Shaw, 2004).

Hisrich and Peters (1998) define entrepreneurship as “the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risks, and receiving the resulting rewards of monetary and personal satisfaction and independence (page 9). They go on to identify a number of types of start-ups including lifestyle firm, a small venture that supports the owners and usually does not grow, foundation company – a type of company formed from research and development and usually does not go public and a high potential venture – a venture that has high growth potential and therefore receives great investment interest (p 13).

Whilst Shaw (2004) makes the distinction between survival and entrepreneurial micro-enterprises – it seems that entrepreneurship, using the Hisrich definition, is required for either type of micro-enterprise. The difference may be in the motivation rather than the activities engaged in. It is questionable whether the types of start-ups, the ways in which business start-ups are categorized in the West are relevant to the particular circumstances of start-up business in developing economies. ‘Survival’ micro-enterprises might have the potential to grow and contribute in a greater way than mere survival of the owner and his/her family.

MICRO FINANCE

A micro-entrepreneur in any location requires capital for two main business reasons: to fund the start-up of the business, and to fund further business growth. A number of factors can and do hamper attempts by the poor to secure business finance. Saving even small amounts of money can be difficult for the poor, given their very low levels of income. However, a greater obstacle to saving in developing countries may be the inability to access safe deposit facilities for accumulating funds, since savings facilities are commonly limited in number and geographic dispersion in these nations.
(Rutherford, 2000). Without a store of funds to protect them, the poor become particularly vulnerable to exogenous shocks that draw on household resources (for instance a failed crop or illness in the family). This vulnerability is a contributing factor to the high levels of risk aversion exhibited by the poor, which in turn may deter them from seeking loans to start a business.

Micro-credit institutions attempt to overcome some of these hurdles since they are typically set up by NGOs for the specific purpose of making loans to the poor. These institutions are usually willing to loan in small amounts and to those without collateral. The poor may self-exclude due to their high risk aversion as noted above, or the ‘product’ on offer from the micro-credit institution may fail to meet the needs of the poorest members of the community (Mwenda & Muuka 2004).

CASE STUDY: MICROFINANCE IN MOZAMBIQUE

The sample of micro-enterprise owners interviewed for this research were all funded by MozBiz, a small NGO with activities focused upon building and strengthening entrepreneurial activity in five village areas in Beira, Mozambique’s second largest city. MozBIZ was started in 2002. It ceased to operate in 2005. Originally conceived as a programme component of another NGO, Integrity Care, in 2002 the micro-credit operations separated to form MozBIZ. An Australian philanthropist, also involved with Integrity Care, provided start-up funding. This money was the only significant injection of funds the organisation received. The donor provided core funding to cover monthly salaries and running costs for the duration of the organisation’s existence.

By June 2004 when the first data was collected, the programme had supplied 74 loans, averaging approximately A$66. Almost three-quarters of participants in the programme are women (70%), most of whom borrow for ‘grocery businesses’. Loans were made to individuals, and recipients had to attend fortnightly business skills’ training classes, conducted by the In-country Manager, Francis N’sona, while they were repaying their loan. Beneficiaries of MozBIZ’s programme were not members of the organisation, but rather its ‘clients’. The idea of ‘service’ is directly in line with the development philosophy of the organisation.

Fowler (1997) considers ‘the most fundamental element of [an NGO’s] identity [to be] its beliefs…Beliefs, vision and values are at the top of a hierarchy of organizational features which need to be in place if lower levels of organizational activity are to be done well.’ (p.33-5) MozBIZ promoted the operating philosophy of Integrity Care that poverty is a symptom of many ills, most significantly of a lack of expertise and resources on the part of the poor, and the culture of corruption within which the poor must operate. MozBIZ aimed to address the first concern (expertise and resources) explicitly, through ‘connecting people's innate gifts and abilities with how they make a living through small business combining small business loans and business training’ (Integrity Care, 2004, website). This is a narrow view of ‘resources’ and does not take into account the potential for apparently worthless items, to the Western eye, to be useful resources for those in other circumstances (Baker & Nelson 2005).

The organisation described its microcredit programme intervention as ‘values-based micro-enterprise development’. The ‘values-based’ component was aimed at addressing the second challenge facing Mozambique – the culture of corruption: ‘our end-in-mind is not to create capitalists, but responsible, values-driven leaders. So our training combines technical skills with leadership skills that require participants to live values-centred lives that will influence others into right living.’ (Integrity Care, 2004, website). Reflecting upon the development philosophy of MozBIZ, and the programme it implemented in support of this philosophy, situates MozBIZ most accurately within Korten’s (1990) second generation NGO classification. Korten claims of second generation NGOs the tendency to assume ‘local inertia is at the heart of the problem [and] that this inertia can be broken through the intervention of an outside change agent who helps the community realize its potential…’(p.119). MozBIZ sought to be that change agent, through stimulating the local economy and consolidating businesses working within it. In reality MozBiz appeared to emphasize the individual benefits of taking and successfully repaying a loan rather than promoting the flow-on effects of the individual’s business to the local community.
No matter how capable the micro-entrepreneur, a business cannot be successful in the long run without supportive external conditions (Sebstad & Chen 1996). This requires that macro as well as micro conditions be addressed. This was not part of the MozBIZ programme or philosophy.

As an organisation, MozBiz was very poorly equipped: the In-country Manager, Mr. N'Sona, had no project team with which to work (the other staff member was administration only), no bicycle, and, as of recently, no office or computer. Despite his frustration with this (and the fact that he has been offered more than twice his current salary to join a large international NGO operating in Beira), he continued to work with MozBIZ. A powerful motivating force for Mr. N'Sona personally was that MozBIZ worked in his local community. He clearly illustrated feelings of downward accountability to clients in his repeated requests to attend business skills’ training himself, so as to improve and build upon the knowledge and advice he imparted to MozBIZ clients. He is also a Christian, and based on these beliefs he professed to feeling a deep commitment to promoting the values and ‘right living’ underlying the organisation’s beliefs.

Mr N'Sona’s position as ‘a local personality’, as well operating in a target area in and around his neighbourhood, allowed MozBIZ to build upon pre-existing trust and ties of social capital Mr. N'Sona brought with him to MozBIZ. This familiarity would have been advantageous particularly in the early days of the organisation’s operations, since communities’ knowledge and trust of Mr. N’Sona would have reduced suspicion of the organisation he represented. Similarly, Mr. N’Sona’s knowledge of local conditions would have been invaluable in identifying good business opportunities. (and facilitating this research)

As to the ‘type’ of clients with which MozBIZ worked, a survey of MozBIZ loan recipients in 2004 showed some 60% had their business prior to receiving the MozBIZ loan (Dalglish and Bradley, 2004). This suggests the programme was particularly (though perhaps not intentionally) supporting micro-entrepreneurs who had a pre-existing level of education and skills related to starting and running a business. This in part may reflect the process by which a micro-entrepreneur applied for a MozBIZ loan. The process, briefly, was: a potential ‘client’ of MozBIZ approached Mr. N’Sona with a business idea. Mr. N’Sona then explained the application documentation (amounting essentially to a business plan) and if necessary assisted the potential client in completing the documents. Following a positive appraisal by Mr. N’Sona, the business plan was then passed to an Advisory Board for final approval. The Advisory Board members were invited by the donor and comprised 3 people, an Australian woman working with Integrity Care, a Mozambiquan man and the donor himself. It is noteworthy that unlike many other NGOs who target specific groups, Mozbiz appeared to support businesses based on the merits of the business case submitted. The nature of the MozBIZ programme – providing business loans – and the nature of the funding method (revolving loan) lent itself to short-term relations with the organisation. Certainly, some clients have had more than one loan; and clients were encouraged to continue attending the business training sessions after the repayment of their loan, although none have taken up this offer long term.

In terms of generating and transferring knowledge and technology resources, the In-country Manager appeared to have more control. Specifically, he planned the content of and delivered training sessions, which reflected the Executive Chairman’s confidence in Mr. N’Sona’s abilities as a trained teacher, as well as consolidating upon Mr. N’Sona’s knowledge as a community member, aware of local business conditions and practices. However, the flow of knowledge was primarily one-way. Aside from initial training provided by the Executive Chairman when MozBIZ first started operations, the In-country Manager did not receive any formal training. As is the case in many developing countries, access to research resources (conferences, books and/or the Internet) is virtually non-existent. In Beira there were no networks of community development workers with whom Mr. N’Sona could share experience and ideas.

MozBIZ, as a microcredit organisation, was accountable to the donor for funds it dispersed to micro-entrepreneurs. There was transparency in the recording system, and the Executive Director reviewed records regularly. In 2004 these financial records appeared to be the only official monitoring tool in place. MozBIZ, as a facilitator of community development, had no formal means by which loan recipients could feed back to the organisation on the effectiveness of the service it provided. Nor were there mechanisms to monitor the success or otherwise of the enterprises funded, except through the mechanism of loan repayment. As a microcredit NGO working in Mozambique, MozBIZ had as its primary strengths a
clear goal – to support micro-entrepreneurs to build and strengthen their businesses – and, most importantly, committed and hardworking staff. Interestingly, these organisational advantages lie at the heart of two challenges identified by Remenyi (1997) as facing NGOs throughout the developing world.

**METHODS**

To answer the research questions and collect the relevant information, a longitudinal study was undertaken with the micro-entrepreneurs in 2004 and 2006. Each entrepreneur had received micro-credit to start or grow what would be considered a ‘survival’ enterprise in the informal sector. The research was conducted using informal individual and small group interviews that were arranged by Mr N’Sona, who acted as interpreter. Mr N’Sona appeared fluent in Portuguese (the Official language of Mozambique), English and a number of local dialects.

What the two waves of interviews allowed was an insight into what had changed, internally, in the business. This approach provided an ongoing picture of a group of entrepreneurs who were successfully growing their enterprises, were extending their view of what it was to be successful and beginning to access technology and services. The qualitative nature of the research has the strength of providing rich data, directly from the micro-entrepreneurs. It provided an opportunity to explore with the entrepreneurs changes to their businesses, their attitudes and aspirations, and whether motivation had moved beyond ‘survival’. The discontinuance of MozBiz impacted on the second wave of interviewing and was a tangible illustration of the uncertain resource environment in which these enterprises operated and prospered.

There were a number of significant constraints in the data collection. Interviewing through an interpreter raises a range of issues, no matter how good the interpreter. Here, it could be considered that Mr N’Sona had a vested interest in presenting the situation in a positive light. He was very committed to the organisation. Although there is no evidence of bias, this cannot be totally dismissed. The interviewer was a stranger, with extremely limited cultural knowledge. The interviewees are unlikely to have shared all of their views, and may also have been influenced by the fact that the interpreter was the person instrumental in making funds available to them. The negative impact of these factors was not apparent. The interviewees were friendly and welcoming, though not used to talking about themselves and their ventures. They welcomed the second wave of interviews.

The questions in the first wave of interviews were very basic – to gain a simple understanding of the nature of their businesses, their motive for starting a business and their business aspirations and to develop a trusting relationship with the entrepreneurs.

The interview questions were framed around the following ideas:

- What is the nature of your business?
- How long have you been in business?
- How successful are you? This is their estimate of success.
- Is the business sustainable? Here the questions involved identifying whether the business could continue if they were ill for any length of time and the nature of demand and competition.
- Would you prefer to work for someone else for a wage?
- How would you like to grow your business and what would you need to grow it.

One of the researchers interviewed while the other took notes. Tape recording was started but conditions caused the recordings to be of very poor quality and largely unusable, so the practice was stopped. The notes were then typed up and shared with the interviewer.

The second wave of interviews was more problematic. MozBiz had ceased to operate, the translator previously used was employed elsewhere and was no longer in a professional relationship with the entrepreneurs. Despite this Mr N’Sona made himself available, provided data which indicated 11 of the 12 entrepreneurs previously interviewed were still in business, and was able to facilitate and interpret interviews with four of the original twelve entrepreneurs. These second wave interviews provided significant indication that there had been significant.
The second wave of interviews were framed around the following ideas.

What has changed in the past two years?
What contributes to your successful?
What are your plans for the future?

Below provides examples of four of the entrepreneurs that were interviewed on both occasions.

**THE ENTREPRENEURS**

**Regina**

2004

We met Regina in the local church building. She is the pastor’s wife. (The pastor was out of work.) She lives in a shanty area of Beira. To get there, we drove through the market servicing the people in the area – stalls and tables set up down each side, and in the middle, of a bumpy, muddy road. The church building is a bamboo room, thatched roof, very well ventilated… A number of other people – women and men – came along to the meeting. Regina was the only one to have received a Mozbiz loan thus far; the other attendees were keen to receive a loan, and I suspect curious about having foreigners in their midst.

Before Mozbiz, Regina sold dried fish at the market we had just driven through. Selling dried fish is hard work. She had to the beach to buy the fish; the process also requires her buying salt; and she must prepare the fish herself before selling. After receiving a 1 million meticais loan from Mozbiz, Regina began selling fresh fish instead. She has finished paying back her loan, and her business is going well – she is busy finishing her house, and growing fat.(her comment!)

She is planning to continue selling fish at the market – unless she gets sick (in which case she will have to stop). She hires someone to go to the beach for her to purchase fish, but does not indicate there is someone who could sell the fish for her at market. Her family help out by doing work in the home while she is at the market.

Regina prefers business to having a job. In business her income is reliable, and she does not need to wait until the end of the month to receive payment. She would like to grow her business – selling other types of fish and/or prawns. To do so she says she needs more capital. She would use this money to buy more fish (in bulk). When the researcher suggested that refrigeration would be useful, she did not appear to think such a thing was possible.

2006

Regina was interviewed in the same location. She is still selling fresh fish. However she now rents space in a freezer to ensure that her fish stays fresh. She stated that quality was the key to being successful at selling fish. She has bought a mobile phone and is planning to have electricity connected to her house and find financing for her own freezer. He has identified a need for the equivalent of A$500.

**Maria**

2004

We met Maria, who runs a bicycle spare parts stall, at her stall which is situated in a busy shopping area beside a busy highway. Her table was shaded and brimming with brake pads, ball-bearings and tyre tubes; hanging all around are tyres. The stall next to Maria’s was a large area in which there were men repairing bicycles. The repair shop was there before Maria started her business. She recognized the excellent position – near not only the repair shop but also a very busy main road. She has had the business for nine years.

With her loan from Mozbiz she was able to increase her holding of stock. She now imports good quality tyres from Malawi (she sends someone to Malawi to purchase them). She has now repaid her
loan. Her business is going very well. She is making a lot of money. (It is likely she needs a lot of money – she is a 33 year old widow with four children, three of whom are attending school.)

Maria does not want a job. Business is good for her, and she gets to keep the profit she makes. She would like to grow her business. She would like to set up another store elsewhere, but needs capital to hire someone to run the stall. She told us that if she were sick for an extended period, her brother would be able to take care of the business for her.

2006

Nothing much had changed for Maria. Business continues to do well but her domestic responsibilities appear to impair her ability and willingness to invest in the future. She would still like to expand but there were no plans in place.

Jose
2004

We met Jose at his home. He is a banana wholesaler, and has had his business for five years. In 2002, he received a loan from Mozbiz. He has built a shed in which to store his bananas and also made some improvements to his home, since receiving the loan. He is still paying off his loan to Mozbiz.

Jose’s business generates a number of jobs. He purchases the bananas from out of town farms, and hires two people to load the bananas onto a truck and drive them to town. People in the neighbourhood help unload the bananas and take them to market as necessary. These people he pays in cash and/or bananas. His wife sells the bananas to customers.

Jose preferred business as a way of life. Bananas are a good business as there is no seasonal fluctuation in supply. The money is more reliable than if he were to have a job, and he does not have to wait until the end of the month to receive payment. He is able to save money.

He had a business selling small goods prior to starting his banana business, but business was not so good and he did not make any profit. He would like to grow his business – buying more bananas is his idea. However he needs to pay for transporting them, and this would require more money. He also says he would need more knowledge – a better understanding of the how much stock to buy at once – he must be careful, since bananas may rot if he cannot sell them quickly enough.

2006

Jose and his wife are still running the banana business successfully. Jose is concerned about the quality of the product and would like to know more about ways of storing the bananas effectively, particularly in the summer. He has thought about air-conditioning but at present this is not financially viable. He has made improvement to his home and opened a bank account. Jose has been approached to supply a local supermarket with 500 kilos of bananas a week and he was exploring ways of raising the necessary initial capital to allow this to happen. The investment capital he was seeking was around A$600.

Rosa
2004

Rosa has been a hairdresser for 13 years. She has 2 children. She had a ‘shop’ constructed of bamboo with an open shop front, on a busy market street. She needed to make her business better, and her Mozbiz loan had enabled her to do so. With her loan, she was able to buy more (styling) products in particular. She currently employs one person.

Rosa would like to improve her business further. At present, clients must wait while their hair dries in the sun; if she had a ‘machine’ she would be able to have more clients. In order to have a dryer she first needs to connect electricity to her store. (It is available in the area). For her plans to be realized, she says, she needs money.
She likes working for herself, and would not like to have a job instead. In business she does not have to wait to receive her money. Her daughters are 15 and 13 years of age. Rosa is training them both, and both can help out in the shop when Rosa is sick.

2006

Rosa’s hairdresser salon now occupies a lock up shop. It has electricity and a hairdryer. She borrowed money from a financial institution to make these purchases possible and is currently repaying the loan. The new hairdressing salon is located next to a mobile public phone. She has comfortable chairs for clients to wait in. She was not there when we visited and we spoke to her daughter who is now engaged in the business. She was very clear about the plans for the future. There is every intention to expand the size of the salon and increase the number of driers so that clients don’t have to wait. They are also seeking to connect running water to the sink. Both Rosa’s daughters are being trained as hairdressers and demand for their services is good.

Of all those we saw Rosa’s progress appeared the most dramatic. The difference in the nature of her services have moved in a two year period from a roadside service using minimal technology to a lockable shop that would be recognisable as a hairdressing salon anywhere in the world. There were clear plans for the future, which Rosa had shared with her children, whom she is training to work with her, and she has begun to use other financial resources available in the locality. Considerable progress for a two year period.

ISSUES FOR ENTREPRENEURS

All of the entrepreneurs interviewed in the first wave had a number of things in common:

- They had a thought out reason for the business they chose.
- They saw their businesses as successful – that is they were receiving acceptable rewards for their efforts.
- Most had someone to look after their business should they be ill. Barriers to entry being quite low the other entrepreneurs saw themselves as being able to take up the business again after their illness. However, this did not address the issue of support while ill.
- Most would like to expand their business through fairly traditional means – another outlet or increased product range.
- All stated that business provided a more reliable income than a job, and that they received their income more frequently.

Of those interviewed during the second wave of interviews, three of the 4 had made substantial progress in growing their businesses. They were thinking ahead, had clear ideas about what they considered necessary for success in their area of endeavour and appeared to have realistic plans for growth.

The structure of the market within which micro-enterprises operate can impact upon their performance in both developed and developing countries. Barriers to market entry can include registration or licensing fees, highly differentiated production, and/or capital-intensive production methods, expertise, infra-structure. Many of these barriers tend to be low in the informal economy since in these markets, production tends to be labour intensive, adding little value, requiring little fixed capital investment and not requiring formal registration of business (Shaw, 2004). All of the entrepreneurs interviewed were operating in the informal sector at the time of interview.

On the positive side, low market entry barriers enable microentrepreneurs to be responsive to changing demand conditions (Versluesen, 1999). However, the disadvantages to operating in such markets are far more significant. As a result of the ease of entry into such markets, they tend to be overcrowded and highly competitive (Barton 1997). Returns on production are low, and markets highly volatile (ADB, 1997). Sellers have no market power – demand is highly price elastic and attempts to raise prices will drive customers toward lower priced competitors. This is heightened where the lack of
distribution channels restricts the available market, as it does in Beira. What is less clear from the data gathered is whether there had been changes in the economic environment that led to greater demand for services, to which they had responded, or whether these individuals were using the existing resources more effectively than their competitors.

A household’s poverty level in developing countries can impact upon the survival and growth of any enterprise run by that household’s members. Ghate, Ballon, and Manalo (1996, in ADB, 1997) suggest that, particularly in the case of survival micro-enterprises, much of any surplus earned by a micro-enterprise tends not to be reinvested into the business, but rather diverted to household expenditures, particularly in response to exogenous shocks. One of the less successful entrepreneurs commented very clearly on this issue and all appeared to be aware of the risk.

The effects of low barriers to entry described above can be amplified in a situation of isolated markets (Snodgrass, 1996). Not only are these producers faced with a limited market but also the market is small to start with. With adequate transport and access to nearby markets micro-entrepreneurs may not be faced with highly elastic demand curves. However, isolated markets lack access to transport and other forms of infrastructure required for successful microenterprise operation (Shaw, 2004). Microenterprises without access to electricity have one more obstacle to their introducing productivity enhancing technologies, though connecting to electricity supply had become a reality for one entrepreneur and was on the horizon for a second. With the exception of the banana wholesaler they were using public transport, or walking to collect goods, which is very time consuming and takes time away from the business.

CONCLUSIONS

It is apparent from the nature of the businesses and their response to some of the questions that the entrepreneurs interviewed are survival entrepreneurs. What is also apparent though is that many of them had plans to move beyond this stage and had acted on these plans. They have ideas about expansion and the resources they will need to grow. In this they are not unlike many micro-enterprises in the developed world who need financial support to grow their businesses. (Grosh & Somolekae 1996) They already believe themselves to be successful – but still have aspirations to grow further. They appear to prefer to have their economic well being in their hands, rather than those of an employer. One of the respondents identified the need for more knowledge to be able to grow and the lack of external stimulus may well slow down the rate of innovation, as the lack of good infrastructure and access to finance may slow down and restrict their growth potential. (Haynes, Seawright & Giaque 2000) Their businesses are surviving and even flourishing, solving problems and exploiting opportunities, despite resource constraints. This may provide a different context to test theories such as entrepreneurial bricolage (Baker & Nelson 2005).

The second wave of interviews raised a range of issues and questions that require further research. What was the trigger for the rapid growth of several of these businesses between 2004 and 2006? How can the triggers for growth be identified and responded to? The results of this study also challenge the clear distinction made between survival micro-enterprises and entrepreneurial enterprises in developing economies. As little is known about the process of growth from ‘survival’ entrepreneurship to ongoing participation in the formal economy this study begins to fill a significant gap in our understanding of enterprise development in developing economies.

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