HOW CAN WE HELP SMALL ENTERPRISES?

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Promoting enterprise development includes the provision of financial services, but requires much more. Business people need markets, raw material supplies, premises, information about regulations, skills, machinery and all manner of other services.

The vast majority of these services are and always have been provided to businesses by other businesses, usually small and local ones. Government and NGO staff can only help on the margins, usually by recognising where there are gaps and encouraging other businesses to fill them.

Rural finance institutions provide credit, savings, insurance and other financial services to enterprises. Government departments, and NGOs, are usually not very good at being bankers and it is better if they bring in real bankers or micro-finance institutions, or perhaps, become real bankers themselves.

It is much easier to sell services to enterprises than it is to ‘facilitate linkages’ between enterprises and the banks or other businesses which can assist them. Because of this, many governments and NGOs have made the mistake of trying to become suppliers of raw materials to small enterprises or to buy produce from farmers themselves. Almost invariably, they have not done this effectively and governments may then try to strengthen their position by banning private ‘‘middlemen’’ or traders, which generally makes things worse.

The best thing that outsiders can do is to recognise that their role is peripheral, to identify needs and to try to assist other businesses to satisfy them.

Some common mistakes

Outsiders, and particularly those with no personal experience themselves of running a farm or a small business, make many mistakes when they try to help others who do have to do these things. Here are some of them:

a. They think that every small business owner needs their assistance.
b. They believe that every small business needs written records.
c. They think that businesses depend on formal loans from banks or MFI.
d. They believe that private moneylenders, and private traders, are extortionate.
e. They believe that small farmers and business owners want to be self-employed.

They are usually wrong. They should look around them, and learn from the farmers and entrepreneurs they are trying to assist.

They should remember the following basic facts:

- Most farmers and micro-entrepreneurs have never had any formal training or advice; they have learned ‘on the job’, and they are good at what they do.
Most micro-enterprises are run by women, most of whom are illiterate. And most small farmers have no time and no use for written records. They cannot use the records to improve their profits even if they can learn how to keep them and most people who teach small business record keeping would not know how to use the records themselves.

The vast majority of businesses, including farms, are financed from their own earnings, or with loans from family and friends, or moneylenders, or local traders. Banks and MFIs only have a small share of the market and even their customers continue to make extensive use of informal financial services.

Marketers and traders, whether they are government marketing boards, multinational companies, co-operatives or local moneylenders and micro-businesses, are middlemen (or middlewomen). No business can do without them and in a competitive market the prices they give or they charge will fairly accurately represent the costs of doing what they do.

Most people, like the readers and writers of resources in the RFLC, want to be employed, not self-employed. They only have to work for themselves because there are no jobs.

The policy environment

There is a vast literature covering what is often called ‘the policy environment’. If you ask a small business owner what government does for her, she will probably tell you that it makes her life difficult. A farmer will tell you about the unreliable government owned power supply, a shopkeeper will tell you about how hard it is to get a licence, and a vendor will tell you how the police threaten her and may even seize her stocks and destroy her premises.

In many ways, the best thing that policy makers, farmers and business people's associations and NGOs can do is to try to stop government from harassing entrepreneurs. Often, what they need is less attention, not more.