

## **Rural micro-enterprise development: a way to reduce poverty**

**The Millennium Development Goals (MDGs) have placed reducing world poverty at the centre of the development agenda. Since the majority of poverty is suffered by people living in the rural areas, rural micro enterprise development is receiving increasing attention among policy makers in developing countries. Many observers see micro-enterprise development as a source of economic salvation amongst poorer households providing them with a safety net against shocks and stresses. Since most of the entrepreneurial activities in rural areas are based on agricultural and natural resource products, farm families can broaden their income opportunities by diversifying into higher value enterprises, both on-farm and off farm. Micro-enterprise development has the potential to contribute to food security and poverty reduction but there are barriers that have prevented micro-enterprises to grow and for replication to occur. What are the conditions necessary for rural micro-enterprise development to contribute to these goals?**

### **The challenge**

As a consequence of technological change, globalization and market integration in agriculture the growth potential of the farm and non farm sector of the rural economy has become notably important. Growing worldwide competition in the production of agricultural goods has limited income opportunities from agricultural production and has induced modernization processes requiring access to capital and skilled management. This has resulted in increasing pressure to diversify production into value adding, market oriented products and the development of alternative sources of income. Capturing the benefit of globalization calls for a competitive, market oriented production and service sector. This offers development opportunities for new enterprises. Enterprise development is a means to ensure pro poor growth.

Despite the surge in activities to the establishment of micro-enterprises very few micro entrepreneurs succeeded in developing stable or growth businesses. Rural microenterprises, have usually played a supporting role in the household

economy, with the profits used to meet immediate household needs.

### **What is a rural micro-enterprise?**

Rural micro-enterprises are small, informal, and privately owned businesses of small scale farm households. They often range in size up to about 10 workers and consist of family members. The farm family has only rudimentary skills in management; technologies used are a mix of traditional and modern; access to capital is often a limitation as is market access. It is difficult for a micro-enterprise to increase its scale as a result. These impediments stem from the little provision made for the promotion of policies in favour of small rural enterprises. The primary barrier to economic growth is often not only a scarcity of capital, labour or land as it is a scarcity of both the dynamic entrepreneurs that can bring these together and the markets and mechanisms that can facilitate them in this task. The goal is to improve management skills and competencies, increase their profitability and competitiveness and in doing so enhance farm family income and assets.

### ***Constraints on enterprise development***

#### *Constraints of the enterprise*

- Existence of a psychology of food security and income security
- Enterprises are often small scale and of low value
- Difficulty to expand in size
- Low levels of technology
- Limited access to capital
- Poor business skills
- Saturated markets as activities that have low entry and exit costs
- Weak market integration and linkage to broader markets
- High level of risk aversion
- Limited access to information

#### *Barriers in the environment*

- Weak infrastructure (roads, facilities, electricity and telecommunications)
- Inadequate legal and regulatory framework
- Lack of financial support:
- Inappropriate cultural attitudes to business
- Lack of training facilities
- Lack of support services and trained extension staff
- Absence of an appropriate and clearly defined Government policy

### **Pathways for rural enterprise development**

The market orientation in rural development has been accompanied by donor sponsored interventions aimed stimulating proactive and entrepreneurial behaviour among the rural poor. Micro-finance has been one such pathway followed to incorporate the less privileged in market led economic development. However, donors have recognized that micro-finance is not a panacea and more is needed to redress food insecurity than small incremental changes. There has been increasing awareness among donors, multi-

lateral organizations, NGOs and grassroots organizations of the importance of combining finance with non financial enterprise development services that address the lack of knowledge and skills which often prevent low-resource households to engage in profitable self-employment activities. The most common of these approaches is *Business Development Services*. Considerable effort has over the last two decades gone into the development of rural enterprise development programmes to set up small businesses in rural areas.

Rural enterprises can be disaggregated into four distinct types and stages of development: Subsistence enterprises; new micro-enterprises, growth oriented enterprises, and mature micro-enterprises.

### ***Types of rural enterprises***

#### *Subsistence enterprises:*

Seasonal, part time, diversified economic activities typically operated by low income persons and especially women in risk averse households

#### *New micro-enterprises:*

Largely based on single economic activity which is multi seasonal and receives routine reinvestment

#### *Growth oriented enterprises:*

Adjust production techniques to permit expansion into new product lines and new markets

#### *Mature micro-enterprises:*

Growth oriented and mature enterprises are predominantly operated by men and tend to benefit from traditional systems which require clear legal title to physical collateral to back a loan.

There is also evidence that shows that once businesses have been started they go through a number of stages all of which require differentiated response. Churchill (1983) suggests that a business goes through five related phases of growth:

*Pre-start up:* The primary issues relate to market potential, motivation, availability of resources and basic business skills. The organisation of the enterprise is simple. The entrepreneur requires skills to negotiate with banks and other agencies in order to obtain help with start up.

*Post start up to survival stage:* The central concern at this stage shifts to the relationships between income and expenses. At this stage managerial qualities need to be more sophisticated with ability to deal with staff, a higher understanding in terms of business skills.

*Post survival to early growth:* A key issues is the development of a broader product and customer base while keeping the core business profitable. Considerable effort is needed to get operational efficiencies, management information, recruiting staff of the tight calibre to help with growth.

*Rapid growth:* Once the enterprise has established a reputation and has a core business with regular customers, it has the potential to achieve rapid growth by offering additional products and services to existing customers or indeed by trying to expand the penetration of sales into new market segments.

*Maturity and decline:* As time moves on, the enterprise reaches maturity and the questions of survival and sustainability are raised.

As rural enterprises graduate from the survival stage of the early years to the stage when rapid growth is expected, the goals of the owners and managers also change. The needs of clients are likely to be defined by the stage of development of the enterprise they operate.

The emphasis on development assistance has largely been placed on the start up of rural micro-enterprises. But from a development point of view post-start up assistance is also needed. Failure rates of small businesses is very high in most countries and efforts to generate many new small businesses needs to be balanced with helping enterprises to grow to a viable size so sustaining the benefits of development.

### **The critical role of support services**

The smaller the enterprise, the more it is forced to concentrate on its basic production activities. It does not have the capacity to employ staff to fulfill necessary service functions. Rural micro enterprises thus need access to external financial resources, assets, and inputs in order to make the most of economically viable opportunities. They need access to high-quality business services to overcome capital and information constraints and develop profitable activities. They also need 'bundles' of services provided in a timely and efficient manner.

In most rural areas there are informal sector individual actors or businesses that provide what are called "hidden" services. The challenge regarding enterprise development is to promote the profitable and sustainable provision of support services either through existing providers or the establishment of new and

commercially based service businesses. The range of businesses include training, extension, marketing, technology development and information to name a few. The challenge is to promote support service organizations and companies to extend outreach, provide services cost effectively and ensure financial self sufficiency of service provision. It is consequently necessary to understand the extent to which rural small scale producers are willing and able to pay directly for the services that they use or to find other sources of funding to ensure that the required level of services is provided.

Farmers and rural entrepreneurs increasingly need a comprehensive package of support services to promote enterprise development in rural areas where the barriers to entrepreneurial success are closely intertwined. This requires close synergy between service providers. There is evidence that shows that rural enterprise development is likely to be more effective when combining finance and other business management services. This is not to say that service provision has to be maintained under a single umbrella of service delivery but rather the possibilities for broader stakeholder involvement and pluralistic service delivery is a more rational and effective way to proceed. Services ultimately selected need to be appropriately sequenced and aligned to ensure maximum impact. Key services should be selected according to a set of criteria which from field experience should include (i) the potential contribution of the service to the impact of the enterprise; (ii) that a high demand for the service exists; and (iii) that the services is feasible to deliver.

Business services should also be recognized as part of the supply chain with linkages with input suppliers, manufacturers, traders, larger scale commercial farmers, exporters. The implications is that business management services should be promoted to satisfy the demands of a broad range of clients, not only rural micro-entrepreneurs but small and medium scale enterprises also, of both an on-farm and off-farm nature. This model encourages cross subsidization between better of clients and the more vulnerable. These stakeholders come together to provide synergistic expertise from multi -disciplinary fields to develop a nuanced picture of a given situation. Services provision could consist of combinations of private service providers and public sector support, the balance of which would vary depending on the ability of the client to pay for services provided. In reaching the vast majority of the individual farmers in the more remote rural areas public funded support can be justified as lying within the public interest. The premise, here is that stand alone business service interventions are inadequate to create sustainable and functioning markets over the long term.

#### ***New thinking in BDS***

- Emphasis on demand side perspective
- Broad range of service provision
- Customer focus
- Private sector involvement in functioning markets
- Private goods
- Financing through customer provided transactions

**What essential conditions are necessary?**

*Enabling environment:* Much of the growth of developing countries over the last decade has been due to the governments putting in place a macro-economic policy that promoted and enabled business. Policies aimed at stabilizing currency fluctuations, keeping inflation to a minimum, managing the public deficit, and allowing positive real interest rates have had a significant impact on the emergence of a strong private sector which has all of the signs of depth and endurance. When such measures are combined with rational public investments in infrastructure, a regulatory framework, and a banking system which can serve the needs of small rural enterprises one has all of the ingredients for a positive enabling framework supportive of enterprise development.

***Necessary policy changes***

- legal reforms are assured to allow the private sector to operate efficiently and effectively; regulations are developed and introduced that are clear and transparent to private investors and ensure that public services are accountable;
- restrictions on the ability of private enterprises to compete in the market are removed; opportunities for local private enterprises to develop management capabilities are provided; and
- a redefined role of government from producing and delivering services directly to facilitating and regulating private sector service provision.

These reforms and conditions are prerequisites for successful public-private sector collaboration in service delivery. Service based entrepreneurs need to know the implications of governmental

regulations related to business service provision. Actions may be needed to simplify registration formalities especially for membership organizations such as small-farmer groups. These groups may need special assistance in enhancing their skills so that they can more effectively interact with higher level service providers.

*Effective demand:* Effective demand for agricultural products, generated by a growing urban population, high incomes per caput, off-farm employment opportunities and rising wage rates create both the need and the opportunity for enterprise development. Effective demand for products translates into effective demand for support services if the enterprise is profitable. Unfortunately, many rural micro-entrepreneurs have only a limited access to local, regional, national and international markets, for both the provision of inputs and the marketing of outputs. For rural enterprise to be profitable entrepreneurs first need opportunities to compete in a wider range of markets.

*Meso level service provision:* Meso level development has become the most important area of involvement for many donors. Support services can be provided a number of delivery modalities including public sector ventures, private sector outgrower schemes, farmer and enterprise associations and NGOs. Donors have moved away from direct delivery of services towards the development of local business service organisations. These are called 'facilitators'. The role of a market development facilitator is still quite new in support service provision. Whilst considering the broader market context for the provision of business services, there is a realization that government has an

important role in making markets work. Much of this lies in promoting public-private sector partnerships for the provision of business services. Whilst goods and services of a private nature could be provided through commercial service providers, there are services which lend themselves to partnerships and a sharing of responsibilities and roles. In particular research and development, skills development, the provision of general information and certification, are examples of public services, which might more effectively be provided through functional sharing of responsibilities. By collaborating with the private sector authorities can substantially reduce public sector spending. Public-private sector cost sharing arrangements are more likely to allow market forces to govern economic activities. The underlying premise, is that both the public and private sectors have their own unique characteristics and strengths which when combined offer superior public services resulting in a more efficient and effective means of delivering services to the public.

*Local organizations:* Whilst it is largely recognized that enterprise development best functions as an individual activity, the organization of the more vulnerable members of a community into groups is often needed. The organization of social capital has been particularly effective in assisting in negotiating with input suppliers, processing plants, and other market outlets. Group mechanisms can be very useful in overcoming the problems of scale of micro-enterprises (eg. joint purchasing and marketing) and in reducing the costs of delivering support services. It works especially well for women whose traditional solidarity mechanisms are group based. Farmer organizations are often a

necessary prerequisite for attaining better contractual linkages with nucleus estates and agriprocessing ventures and reducing transaction costs. The organization of farmers and rural entrepreneurs into groups and associations also provides a political forum and "voice" to more effectively lobby for common interests. A sound economic and political base strengthens their bargaining position vis a vis the public sector as well as larger national agribusiness ventures.

*Decentralization:* Decentralized and locally managed resources make it easier to address needs, focus on objectives and ensure sustainability. The flexibility associated with decentralized management and the accompanying mechanisms for resource allocation and service provision ensure that the localized service providers and facilitators are in a better position to support local initiatives. These factors are more likely to ensure sustainability.

*Capacity Building:* Entrepreneurship development training programmes have special importance for broadening the entrepreneurial base and encouraging medium, small, and micro sectors in the country. Training and technical assistance are a vital part of business development service programmes.

#### ***Design of training programmes***

- On the basis of client demand.
- Content should be kept flexible and broadened in line with demands.
- To match the different stages of the enterprise development process.
- More emphasis to be placed on existing entrepreneurs rather than on identifying and creating new entrepreneurs.

- Greater use should be made of counseling or guiding individuals through processes of self analysis and problem identification
- Training should be largely 'experiential', practical and problem oriented, simulating real entrepreneurial situations.
- Training should be conducted locally by rural entrepreneurs themselves
- Training should be cost effective, and aimed at maximizing outreach.
- Technical assistance and training is also required to strengthen the capacity of trainers.

### **Principles for programme design**

The support of rural enterprise development requires a broad spectrum of assistance. Besides enhancing the skills of the farmer or rural entrepreneur, some of the development effort needs to be aimed at developing the support system.

*Systemic development:* There is increasing recognition of the need for a more systemic, market-oriented approach to development. Enterprise development should be recognized as part of the supply chain. Sub-sector analysis is promoted as a diagnostic tool that identifies both weaknesses and strengths along the chain. Within this context business services develop linkages with input suppliers, manufacturers, traders, larger scale commercial farmers, exporters to name just a few. These stakeholders come together to provide synergistic expertise from multi-disciplinary fields to develop a nuanced picture of a given situation. This requires a sound understanding of the structure and operation of specific sectors, and the formulation of a phased implementation strategy for business service market

development over time. The overlap between different fields of activity in development is recognized as is the need for better interaction between them. This broader approach is relevant to development agency policy makers, planners and practitioners seeking to promote income generation in weak rural markets.

*Flexibility:* Programmes that encourage enterprise development need flexibility in design that enable modifications to be made in the course of implementation as the needs of enterprises change over time and in line with the needs of community members and market development. The complexities of the system are likely to push the case for increased donor support, over longer periods of time, within flexible structures and approaches that aim at including the poor within the economic mainstream. In short, market development interventions require time, flexibility and an ability to engage with and leverage action from a wide range of potential market players. In more marginal, weak areas, interventions are likely to require more of these qualities.

*Networking and learning:* Networks should be encouraged to promote enterprise development through formal and informal learning by business clubs, or other associations which bring together people from the private sector, banks and government etc. The approach should aim at creating partnerships and networking between all stakeholders involved in the enterprise development. Initiatives could consist of combinations of private service providers and public sector support, the balance of which would vary depending on the ability of the client to pay for services provided. This calls for the development of

better communication between rural entrepreneurs, service providers, training institutions, and other support services such as finance. Practical mechanisms of planning and coordination need to be agreed upon at various levels, both in-country and 'corporately'.

*Linkages development:* Microenterprises in rural areas are often organized into different patterns of activity. On the one hand the enterprises are integrated vertically with other rural enterprises. On the other hand, there are often formal and informal linkages between farmers. The linkages are largely concerned with the purchase of inputs and materials, the mobilization of financial services and the sale or processing of agricultural produce. These linkages are beneficial in reducing risks, lowering transaction costs and ensuring economies of scale

*Sustainability:* Support systems that are actively driven by external sponsors often take a longer time to become sustainable. Internalization of the enterprise development programme by local sponsors helps to expand the support network and move towards sustainability when donor support declines. In this way it has the momentum and capability to continue and expand through local efforts. It is imperative that enterprise development programmes create a strong local sense of ownership by involving local organizations and building local capacities from the start.

*Monitoring and Evaluation efforts:* Given the importance donors place in adopting a sector wide, systems approach to service delivery, there is a need to design innovative approaches to M&E that covers the entire value chain and in particular the

institutional changes that are needed to create fully competitive environment for service provision. Intrinsic in moving towards a systems perspective for rural enterprise development is a complex chain of causality between intervention and impact. Donors and implementing agencies need to know the effect at each level of the supply chain that their efforts are having, for operational, accountability and learning purposes. Stakeholders need to jointly assess the performance and impact of the support service initiatives. The information gained from these evaluation studies should be broadly disseminated amongst stakeholders and existing or potential rural enterprise managers. Such information should offer a good basis for improving programme design as well as comparability and benchmarking between interventions, to facilitate decisions on the effectiveness of interventions and service delivery modalities. The information gathered, the documentation of lessons learned and the insights gained are invaluable to promote and support enterprise development.

*Scaling up:* Enterprise development tends to be localized often relying on the natural resource base, the provision of raw materials and the availability of market outlets. These factors tend to vary between villages and specific sites and often limit the prospects for expansion. For these reasons its development is often specialized fitting to a particular niche. Very often, the potential for scaling up is curbed by the very nature of the rural enterprise. While the business management skills are often common to all micro-enterprises the provision of technical training support is specialized and costly and the need for regular follow-up coaching often lies beyond the resources and skills existing within donor funded

projects. Micro-enterprise development is a heterogeneous activity with specialized support required as the situation demands. This is often an obstacle to expanded coverage.

Scaling-up requires as a prerequisite, assurance that adequate demand for a service is available. Methods for enhancing the demand for products and services could be applied. Service providers need to be responsive to the findings of research, evaluations and good practices that have worked in the field. The private sector and village communities themselves can also play a role in scaling up ensuring that low cost training is pursued and followed.

### **Policy challenges**

It is claimed that market oriented rural micro-enterprise development leads to poverty reduction since incomes increase and employment opportunities are generated. However, such a conclusion based on evaluation studies of large numbers of projects and programmes are not very useful in analyzing the implications on the poor. What has been emphasized here is that the impact of enterprise development on rural poverty depends on the local context in terms of access to market and the potential natural resource base. The impact on poverty reduction needs to be analyzed on a case by case basis and specifically addressed to the development of Poverty Reduction Strategy Papers, something which has not always happened in the past.

The impact on the most vulnerable should also be a factor in the choice of enterprise development strategy. Different strategies are likely to have different poverty implications. In certain countries, micro-

enterprises linked to larger commercial ventures or export companies have been seen to lift people out of poverty. However, in order to reach this stage of development, there is often a need for government to assist rural enterprises, particularly situated in more remote rural areas. Micro enterprises particularly in areas where markets are weak are at a disadvantage and are likely to require public sector assistance. In economically weaker rural areas, the challenge of market development is heightened. Development within these contexts is a long term and difficult process. This understanding has implications on the nature of programme design and the volume of support needed from donors. In all events a challenge lies in identifying the cause and effect relationships, and ultimately translate these into effective and phased interventions design.

In these contexts incentives and subsidies are often necessary through the design of social safety nets and training programmes. Partnerships are necessary amongst different stakeholders and in particular with defined public and private sector roles. It is necessary within this context to find the right balance of public and private funds. The forging of such a partnership does not occur by itself but needs to be continually encouraged through effort and commitment from both sides. Partnerships with the private sector need to be further developed and ways tested to increase the quality and outreach of public services. Public sector assistance should be catalytic and limited to sharing only a portion of the costs.

Incentives and subsidies could be used to create a more pro-active approach in situations where markets are unlikely to

provide an adequate attraction for the private sector to invest in the short term. However, they need to be designed and applied wisely. The principle behind public sector assistance ought to be market driven. This requires obligations on the side of both public sector bodies and private enterprises to ensure that initiatives have access to a market, address social and environmental concerns and prove financially viable. Governments and donors need to assess carefully the need for a more pro-active support to farmers in case there are serious market imperfections and they may decide to provide transparent, well-targeted and temporary subsidies that ensure an effective allocation of scarce public funds, while at the same time minimizing possible market distortions. 'Kick-Starting' mechanisms need to be designed to support the most vulnerable households in rural areas, ensuring that externalities are covered and promoting transition of support services from the state to the private sector. It is necessary, however, to ensure that

subsidies are time bound, and limited in scope. This in turn requires close monitoring to see the impact of rural enterprise development.

Finally it is important to stress that active micro-enterprise development programmes, should never be regarded as substitute for policy level work, aimed at creating a conducive environment for public and private sector engagement. Furthermore, it should be realized that the multi-dimensional nature poverty requires that enterprise development is seen as part of a broader strategy of poverty alleviation. Even where micro-enterprise development has outcomes which are positive for the poor, the quantitative significance of these changes in relation to the overall dimensions of poverty is relatively modest. Enterprise development, on its own, is essential, albeit limited in taking us in meeting the Millennium Development Goals.

## Notes

Rural IGAs have little potential for growth. Nevertheless they make crucially important contribution to incomes of very poor households. The activities are largely undertaken to reduce risk.

The IGAs and micro-enterprises provide rural households with a sort of safety net.

IGAs are largely pre-entrepreneurial, subsistence-types of self employment. They are characterized by part time, seasonal operations utilizing traditional technologies, local materials and local markets. Rural IGAs have little potential for growth. Nevertheless they make crucially important contribution to incomes of very poor households. The activities are largely undertaken to reduce risk. These IGAs face fierce competition due to low entry barriers. Their markets are easily saturated and severely curtailed by imported goods from the cities and even from overseas. Their constraints include the increasing scarcity of local raw materials, their seasonal or part time nature, and their lack of specialization, rudimentary technology and modest quality. Profitability is further limited by lack of working capital and very basic entrepreneurial skills. The majority are owned by women and created as one-person enterprises.

Micro-enterprises are somewhat bigger (up to 10 workers), and are more likely to involve a single activity on a seasonal basis. Workers are mostly family members. They use a mix of modern and traditional technology. They are often linked to non local markets for raw materials and customers. They lack capital, have modest technical skills and weak management skills. Entry barriers laid by level of investment and skills are high, yet competition is fierce. These enterprises more frequently respond to changing consumer needs but are unable to capture much of the rural market for goods and services. The main constraints are lack of skills and equipment to produce more efficiently and better quality products, lack of information on non local markets, scarcity or high cost of raw materials and especially lack of access to medium term loans for working capital and investment in equipment and premises.

When the environment is difficult, a poverty alleviation/ community development approach with strong social inputs is advisable. Otherwise the approach should be business like and seek to foster a market based delivery of support services. Development efforts are often hampered by the chronic absence of service providers in the rural areas.

Growth micro-enterprises are larger multiple businesses with greater more assets and more formal systems of management. Operating successfully at this level requires a good knowledge of products and markets. Capital inputs can be about \$600 and a turnover of over \$3,000 per annum. These growth enterprises usually employ staff and can also qualify for loans from commercial banks.

These are small scale enterprises of between 10 to 50 workers. Technology is largely modern. The marketing pattern is fairly complex owing to reliance on non local supplies and markets. They are often registered with local government and pay some taxes. In reality there are very few of these enterprises found in rural areas.

Microenterprise development can be viewed from four levels: the individual, (with particular attention on the entrepreneur); the enterprise; the sub-sector; and the economy as a whole, including issues of intersectoral linkages. At the first level, the characteristics of the entrepreneur – background, education, age, motivation and abilities – have a significant effect on patterns of growth of the enterprise. Another important aspect is the way in which motivations and strategies vary according to the gender of the entrepreneur. At the level of the enterprise, variations in income and employment arise because of several categories of change: the birth of new enterprises, expansion or contraction of existing enterprises and the disappearance of existing enterprises. It is important to examine the firm over its entire life cycle, from birth, through growth and possible disappearance.

At the level of the subsector, there is a need to examine its nature and competitiveness as well as the patterns of change among groups of rural enterprises engaged in the production and distribution of a related set of products. Within the subsector, particular attention is placed on vertical linkage mechanisms. At this level the dimensions include the changing role of different types of enterprises in particular channels and their determinants; and the changing competitive position of different channels within the sub-sector. Another dimension is the changing pattern of specialization at different stages in the production and distribution system and the ways in which micro-enterprises can participate in increased specialization, along with the associated questions of risk.

The final level of analysis is concerned with intersectoral linkages and macro changes. The priority issue here is the extent to which growth in microenterprises is explainable in terms of growth of markets because of the expansion of income in identifiable primary sectors beyond the subsector.

The determinants of the process, here, stem from both demand and supply factors. On the demand side there is the change in aggregate level economic activity or in the demand at subsector level. Others arise more from the supply side, such as changes in relative microenterprise efficiency and the experience and education of the entrepreneur.

All of these types of change should be approached in ways that clarify the differences in development patterns for women and men, looking especially at differential gender specific constraints and opportunities and how these might be changed.

- The firm (level of demand, entrepreneurial skills, linkages)
- The subsector (competitiveness, linkages, support services, and access to finance)
- Macro-level, policy

There is a need for greater recognition of the variety of needs, risk profiles, investment opportunities and barriers faced by rural people. This more in depth understanding should allow programme designers to view enterprises as heterogeneous and diverse. The disaggregation of rural enterprises, as highlighted previously, lead to more accurate needs assessments, more appropriate delivery mechanisms and improved service redesign as client needs change.

The policy should include: Identification of interventions associated with viable sub-sectors to unleash their income generation and growth potential. Also to promote policies and other interventions that facilitate the transition of female entrepreneurs out of low return, low potential sub-sectors into higher return and higher potential sub-sectors.

#### *Group versus individual entrepreneurship*

Group mechanisms can be very useful in overcoming the problems of scale of IGAs/ RMEs (eg. Joint purchasing and marketing) and in reducing the costs of delivering support services. It works especially well for women whose traditional solidarity mechanisms are group based. Men are often less prone to work through groups although trade associations are a workable solution.

#### *Constraints on expansion:*

Several factors explain the failure to graduate from income generating activities to micro-enterprise:

*Psychology of food security:* Even when income generating options are available the first choice is to get land and grow crops for home consumption. There is some evidence that this attitude is breaking down in peri-urban/ urban areas where more stable and ready markets for higher value products exist.

*Psychology of income security:* When faced with a choice of going into business or gaining employment the latter is preferred. A regular job offers greater security and predictability as well as possible benefits. Business is risky, being subject to many factors that can effect performance and income is variable.

*Cultural attitudes to business:* Success in some countries can be equated with witchcraft; traditional gender divisions of labour are challenged when women become involved in cash transactions; and funeral practices may require the effected household not to run a business for 40 days.

*Lack of credit:* Along with markets and inputs supply it is the most commonly cited problem among existing micro enterprises. The presence of micro-credit with its rigid and rapid interval of repayment does not allow sufficient time to make a profit.

Starting up a business is dependent on a number of variables indicating whether a person is likely to develop a growth enterprise. These are:

- being attracted spontaneously to run an enterprise rather than being pushed into it.
- natural ability and skills
- growing up in a household with a business
- being exposed to businesses from study tours or informal visits
- family support to carry on within the business
- confidence in conducting the business
- the generation of resources to enable expansion to occur

Despite the surge in activities to the establishment of micro-enterprises very few micro entrepreneurs succeeded in developing stable or growth businesses. Rural enterprises, have usually played a supporting role in the household economy, with the profits used to meet immediate household needs. By removing barriers to entry, market liberalization has made micro-enterprise a more popular livelihood strategy, with large numbers of rural households experimenting to find niches in the market to complement agricultural activities.

Programme design:

- flexible design of needs based services
- reduction of service costs and delivery on at least a cost sharing basis.

*Conclusions:*

The first message is the need to search for local, rather than universal solutions to rural poverty. There is a value in understanding household's livelihood strategies and developing scenarios based on local realities.

The second message is the value of a household rather than a sectoral perspective in understanding the relationship between agriculture and micro-enterprise. There is a risk that analytical distinctions between intensification and diversification will obscure their interdependence at the household level, especially in situations where imperfections in the food market inhibit rural households from economic specialization.

Thirdly, the growing interaction between agriculture and micro-enterprise presents new challenges for agricultural research and extension.

Market led scenarios highlight the need to improve market linkages for poorer smallholders. New technology for smallholders must be consumer led and meet the needs of the market and markets must be made to work for poorer producers, both indirectly by ensuring that markets are competitive and directly by encouraging partnerships between producer groups and agri-businesses.