



Trickle-Up Entrepreneurship: Microenterprise Creation in Poor Communities

Warner P. Woodworth

The terrible terrorist attacks on September 11, 2001 shocked the world. The questions raised by many in the industrialized west had to do with how such atrocities could be inflicted on innocent civilians. “Why do they hate us?” “What fuels the rage to lash out at the United States?” “How can we insulate ourselves from future attacks?” “What can be done to address the root causes of such hostility?”

While some see the events of September 11 as the crazy rage of Osama Bin Laden and his al-Qaeda cohorts, others see the problem in a larger context. That context is one of extreme poverty, marginalization, powerlessness and hopelessness. In a world where a few nations like the U.S.A. are rich and overflowing with money and material goods, some 50 countries are worse off now than a decade ago.

Thus the attack on New York was not just about killing Americans; it was an assault on American capitalism itself. Taking down the World Trade Towers was not just about creating fear and uncertainty in people’s minds. It was about decimating the two biggest icons of economic globalization.

The fallout of September 11 is still being felt: half a million U.S. jobs lost so far, many firms in the travel industry on the verge of bankruptcy, billions of dollars being spent cleaning up the rubble at Ground Zero, billions more for security, and so on. The growing crisis has fueled tensions between India and Pakistan. In the Middle East, the Palestinian *jihad* and Israel’s response have torpedoed the peace process. Muslim radicals have stepped up their rebellion in the southern Philippines. A number of countries are approaching the dangerous cliffs of bankruptcy. In Argentina’s case, the nation is now in default, and the outcome so far includes riots in the streets, closed banks, five different presidents in just a month, and an economic crisis that now suffers from over 20 percent unemployment (Smith, 2002).

Furthermore, many experts argue these events are just the beginning of long-term future stress and strain. For example, the Milken Institute, an economic research organization, just released a report predicting that over 1.6 million American jobs will disappear in 2002 alone because of the September 11 attacks. A wide range of industries will suffer for years to come (Associated Press, 2002).

Presently, coalition military troops comb the mountains of Afghanistan, rounding up Taliban extremists and attempting to secure a degree of Western control. Global anti-terror methods are being implemented in many countries to prevent future attacks. Religious leaders are trying to weave interfaith braids of cooperation between Muslims, Christians, and Jews.

Yet others are engaged at a more fundamental level. They seek to work at the roots of poverty, joblessness and access to capital by the poor. This movement, known as microenterprise creation, is a relatively new innovation that has been emerging in recent years. Although yet in its infancy, it seems to hold much promise because it empowers the poor, it gives people hope and a sense of self-worth, and it can be the path for many out of the dehumanizing wretchedness of poverty.

Who knows, it may even become a mechanism for conflict resolution on our planet. If Gandhi is right, it could solve some of our current tensions. As Gandhi put it, "Poverty is the worst form of violence." Microenterprise creation may be the very means by which poor communities overcome their suffering, as well as their rage.

This paper reports on the growing phenomenon of Third World small business creation, usually referred to as microentrepreneurship. This new mechanism for addressing global poverty is becoming a powerful tool for income generation, especially in very poor countries, but also in industrialized nations like the UK, Germany and the United States.

This movement consists of establishing a microenterprise of one to five people. They are trained in microentrepreneurship skills such as simple bookkeeping and marketing, and then they obtain microcredit, usually \$75-\$150 U.S. to start. In developing nations, this all becomes integrated as a methodology for moving a poor family above the poverty line and toward self-reliance. The research that follows will

analyze several nongovernmental organizations (NGOs) engaged in this process of job creation in Asia and Africa, assessing what works, what doesn't, as well as some of the difficulties in operating such programs.

The cases that follow highlight several attempts to establish income-generating programs in different nations. Each of them is drawn from the author's personal action research projects over the past several years, collaborating with management students, business leaders, and entrepreneurs.

Grassroots Capitalism in Communist China

This case grew out of a request by Chinese officials in the year 2000 that Brigham Young University (BYU) provide technical assistance to China's minority regions where much poverty exists and seems to be worsening. They had learned of BYU's growing microenterprise development program that is associated with the worldwide Microcredit Summit; the fact that BYU operates the only microfinance journal for academics and practitioners; the university's hosting of an annual microenterprise conference with speakers from around the globe; and the many students we sponsor doing microcredit internships in the Third World.

So some of our faculty, staff and students visited China for an exploratory trip, and the Chinese officials were invited to BYU later. An agreement was ultimately reached and during spring and summer 2001 several teams of students carried out internships in Guangxi Province and Sichuan Province. After a semester of preparation, the project was officially launched as SOAR China (Service Outreach Alliance for Rural China).

The teams worked with various Chinese groups: Community Party officials, government leaders, scholars, members of the provincial Poverty Alleviation Board, the Association for Rural Development of Poor Areas in Chengdu, the Guangxi Women's Federation, the Foreign Affairs Department, the Rural Development Association of Yi Long County (RDAY), and the Mianning County Women's Federation in Sichuan Province.

The complexities of trying to train and encourage microenterprise programs in China were considerable. For example, the women's federation in Sichuan did not want

borrowers of microloans to have to pay back both principle and interest. To them, charging interest was against communist ideology. Furthermore, there was a lot of bureaucratic red tape and numerous inter-agency conflicts between the various groups. Some organizations were highly controlled and politicized, like the Poverty Alleviation Board. Others were more flexible and open organizations, such as RDAY which enjoys a great deal of independence as an NGO.

The student teams observed budding microenterprise programs in both urban and rural settings. They assessed organizational strengths and weaknesses, as well as carried out socio-economic surveys in very poor agricultural villages.

Finally, a number of microentrepreneurship training courses were conducted by the BYU teams, all of whom were fluent in Mandarin. They taught basic management skills, business start-ups, sales and marketing, simple bookkeeping, production and TQM, and so on. With some groups, the volunteers moved beyond the basics of microenterprise development and taught Laubach Literacy courses in education, reading and writing, community organizing and problem-solving skills.

It should be mentioned that outside university volunteer donations helped fund the effort, as well as some contributions coming from the business school itself. Students received 3-6 hours of credit based on the amount of reading they did, papers written, field research carried out, and so forth.

While this project, SOAR China, is still in the start-up phase, the future of this efforts seems promising. China appears to be opening up to western influence gradually. Its WTO bid and its hosting of the future Olympic games will continue this development. Furthermore, decades of state economic planning are giving way to the privatization of some industrial sectors, and presently some 800 new private firms are being established daily (Wonacott, 2001).

We turn next from China to a microenterprise case in sub-Saharan Africa.

Empowering Poor Villagers in West Africa

Started by a group of U.S. business executives, entrepreneurs and humanitarian volunteers in 1985, the Ouelesseboungou-Utah Alliance (OUA) has made a significant impact on the poor in West Africa. The organization began in the mid 1980s when a

small group of individuals from Salt Lake City, Utah recoiled at the tragic, large scale suffering and deaths of men, women and especially children in Ethiopia. Key players in this effort traveled to Africa in search of an area that would not be in the desperate straits and starvation of Ethiopia, but one where a small effort might make a difference. Over months of studying various options and eventually traveling to Bamako, the capital of Mali in sub-Saharan Africa, they settled on a little-known place, Ouelessebouyou (Smart, 1986; Thompson, 1989).

Today, it is a region of some 50,000 indigenous people spread through 80 rural villages. They struggle to survive in a subsistence economy where the per capita annual GNP is only around \$300. In past years Mali functioned as a French colony known as “Western Sudan.” Reports estimate that the population today is around ten million people, most of whom dwell in the southern region of the nation. Mali is roughly twice the land mass of Texas, making it one of the largest nations on the African continent, but it is landlocked inland from the Atlantic Ocean. In the north of Mali is the Sahara where nomadic tribes still herd cattle and roam the desert. The ancient city of Timbuktu in its heyday was the economic nerve center of West Africa. Today, the business base of Mali is the capital, Bamako, a congested urban center of some 1.5 million people located around the flowing Niger River. Further south, where Ouelessebouyou is located, the land is semi-arid. Due to an 18-year drought, the area is losing much of its bush, trees are sparse, and much African game has moved deeper into the center of the continent.

According to the Human Development Index (HDI) of human suffering, Mali ranks only 167th of 173 nations analyzed in terms of various criteria—literacy, GNP, education, health, life expectancy, access to safe drinking water, political democracy and so on (UNDP, 2000). Malnutrition is widespread although actual starvation is rare. Millet, the primary food staple is plentiful, but not adequately nutritious for a good diet. In the United States it is fed to wild birds in one’s backyard.

The Alliance group first focused on digging wells in partnership with villagers. Using modern technology, wells could go deeper than traditionally achieved, and by lining them with cement, they would not cave in over time. U.S. firms helped donate

equipment and supplies so that villages could enjoy greater and easier access to clean drinking water.

The next program in the late 1980s was the construction of village schools, built out of adobe bricks made by village volunteers. Utah firms and even Salt Lake City school children donated money to equip each school. Crudely-surfaced blackboards, rough-hewn desks, and handmade texts became the meager furnishings for the schools. Most hold 30-50 children between ages 9-15 who for the first time in their lives now have the opportunity to gain an education. While but a few enjoy this privilege, it is a poignant experience to see dozens of children under age 9 from the village, sitting outside the schoolroom in the hot sun, listening intently to the teacher's words, the class verbal response and rote learning. These are the next generation who hunger for education and try, up until age 9, to prepare as best they can in order to maximize their learning when the time eventually arrives.

By 1992 many parents of these newly-schooled children began to long for their own education. This gave rise to an adult literacy project that OUA began in partnership with the successful NGO, Laubach Literacy (Curtis, 1994). Funds were raised in Utah for this effort, native volunteers were trained to teach, and the first workshops began. This has become one of OUA's most successful development tools, growing from a few hundred newly literate people in 1993 to thousands presently. The effects of new schools for Mali children, as well as literacy for adults, has begun to drive down the national illiteracy rate of 85 percent in the region. These broad village development initiatives paved the way for OUA's next thrust—that of microenterprise development.

OUA Strategies for Economic Development

The author's personal involvement with OUA began a decade ago with an invitation to join the board of directors and later, its executive committee. Having taught development courses at BYU, supervised numerous masters' theses on Third World topics, and initiated a number of economic development projects around the world, my interests at OUA soon began to focus on how the Alliance could help Malians achieve more financial independence and even long-term sustainability. Without rising income levels, these villages could not afford the continued growth of wells, or the new programs

such as schools and health care. While the objectives and generous financial support of Utahns had led to impressive results, there was the risk of eventual failure unless people could become more self-reliant.

So after conducting an initial needs analysis, a group of business students at BYU began to work with me to devise a game plan for the future. In 1995 I led a team to visit Ouelessebougou, meeting with the several women's cooperatives and other relevant parties—Malian bankers, other NGO representatives, Peace Corps representatives, as well as the OUA staff, some village chiefs and a few microentrepreneurs. What became clear is that most of the poor who attempt to become self-reliant struggle with self-confidence problems, lack of capital, harsh economic conditions, and so forth. With respect to Ouelessebougou itself, would-be microentrepreneurs have additional problems including great distances and lack of transportation, illiteracy and extreme poverty. Few have any money with which to purchase goods and/or create jobs. But we also could see that a person with energy and insight, plus a bit of capital, could possibly become successful as a small business person, or what in French is referred to as a *petit commerçant*.

Based on observation, interviews, and several research reports, it became obvious that for many people life in Mali was one of utter destitution. Centuries of colonization have resulted in exploitation, dependency and a sense of futility. There is little foreign investment and the currency devaluation and drought of past years are still taking a heavy toll on the country. While attempts have been made to move from a colonial past under the French, and then from state-run socialism after independence in 1960, the current political economy is not a very positive picture. People seem motivated and desirous of improving their lives, but many lack the wherewithal to make great changes. Essentially, there is a great amount of unemployment and underemployment, combined with high population growth.

The general impression regarding the potential for strengthening the informal economy was that there were formidable challenges. Low levels of education and literacy, for example, make it hard for someone to fill out a loan application or to balance one's microenterprise accounts. The Peace Corps staff suggested that there are

insufficient links between savers and borrowers in Mali, leading to low investment of productive capital. Rural bank practices supposedly exist to encourage national development, but in fact, they do not provide small loans to poor villagers. To make matters worse, the government of Mali does not have much to spend on poverty programs in the rural economy. There is considerably little formal support for business training, technical assistance or consulting, and government-directed credit programs.

According to various interviews during the 1995 trip, the idea of providing microenterprise and credit began to make sense. However, building long-term success would be another matter. Apparently a foreign bank had launched a village credit venture in Mali several years earlier, but only one percent of recipients repaid their loans so that program crashed.

Based on the 1995 needs assessment trip, a two pronged strategy for economic development was launched that consists of the following: First, train interns in the U.S. and prepare materials to be used in Mali; Second, establish a micro lending program with a village bank and small paid staff.

Creating the Ouelessebougou Village Bank

During Winter Semester 1996, the BYU team intensely studied research materials on Mali and the experiences of microcredit organizations around the world. How to design such a system in Mali was the major theme of these efforts. Off-campus entrepreneurs and volunteers assisted in planning a series of training topics for microentrepreneurship, business management and financial skills. Approval of the plan was secured by the U.S. OUA board and the field staff in Mali. Training modules were translated into French and ready to go. Then, U.S. interns began a sequence of on-site work in Mali as listed below:

- A Harvard graduate student in public policy spent summer 1996 in Ouelessebougou, designing the bank, meeting with other NGOs, inspecting other village bank structures throughout Mali.
- A BYU doctoral student and his wife spent fall semester building on the earlier work. Together with two other BYU alumni who visited Mali for

shorter time periods, materials were prepared and management training was tested out on native microentrepreneurs.

- During December 1996 I returned to review and evaluate the preceding work. A large meeting of people and potential members of the OUA village bank was held. Some 40-50 natives were expected, but over 160 attended and joined as bank members, each paying a \$2 membership fee and beginning a personal savings account. After opening ceremonies and speeches, the election of a bank board, a watchdog committee and a management education committee took place. A check was presented to the new president of the bank in the amount of US\$2,000 (a million CFA) and a huge banquet, dances and speeches occurred to celebrate the event. Articles of incorporation had been drawn up by the Utah team, refined with the OUA staff in Mali, along with statutory documents and other regulations. Its official name was declared as follow: “La Caisse Villageoise Jama Ka Wari Yiriwali Jikene.” It is a mix of French and Bambara that can be translated as follows: “The Village Bank that Supports People for the Collective Generation of Money” (Woodworth, 1996).

The loans started out at less than a hundred dollars and they had to be repaid within a six month period at 15 percent interest. The range of uses for the microloans included such employment as street vendors selling cosmetics, cereal, fruit, milk, cement, clothing, medicines, honey, and/or paint. Other jobs included those of construction worker, butcher, restaurant owner, veterinarian, and gardener. The average first loan was for the equivalent of approximately a hundred dollars. After that amount was paid off, microentrepreneurs could apply for a second, larger loan.

Perhaps one brief example of a recipient of a microloan in Ouelessebouyou will illustrate the personal economic impact. A year after starting the OUA village bank, I visited a fruit stand along the highway in the largest village of Ouelessebouyou. The microentrepreneur’s name was Mantjini. Nicknamed Maini, I’d met her two years earlier. Since the death of her husband in 1995 she had struggled to feed her family and

generate an adequate income. When the OUA village bank was opened 12 months later she applied for and obtained a very small loan with which to produce or acquire fruit and vegetables. But her microenterprise was very difficult to succeed at, and the children were often hungry because of the family's impoverished situation. So after paying off the first loan, Maini applied again. This time the *caisse* loaned her about US\$100 through her village group of other women. Known as a "babo" or "mother's room," the group is collectively responsible for the full loan and they can divide the total amount among various members, or pool it all to give to one. Her group allocated the entire \$100 to Maini, a sufficient amount with which she could expand by opening a restaurant. The new microenterprise has done very well, enabling her to grow from being a mere street vendor of fruits and vegetables to now offering full meals to many customers, thereby making more money. The business now not only helps her, but allows her to also provide jobs for her two oldest daughters, one son and a nephew.

By adding microentrepreneurship, small business training, and a village bank which provides microcredit, Ouelessebougou as a whole is gradually improving and becoming more self-reliant. To do well, microentrepreneurs need to be able to read and write, and perform simple math so they can manage their books. The problem of Malian illiteracy made carrying out effective microenterprise creation rather difficult. But with OUA's literacy program, a growing number of poor borrowers are now obtaining the skills needed to ensure greater success. In 1996 there was no village bank and the people of Ouelessebougou had never had a bank account. One year later 161 individuals had personal savings accounts that earned them 5 percent in interest per year. Today, five years later, not only have over a thousand poor villagers received microloans from the OUA bank, but now there are three other NGOs which provide microlending services in the area. A total of some 5,000 poor borrowers have obtained loans, established microenterprises, and improved their lives. Furthermore the default rate is extremely low. For two years it was zero, but currently averages under three percent annually.

Clearly, these small loans have not dramatically raised the economic well being of the entire region. But 5,000 new jobs makes up for ten percent of the total population. As the available capital for microlending continues to grow and people become better

trained, the possibility exists that the quality of life for thousands of poor Malian families will increase. This is the promise of microenterprise.

From the World Bank to Microbanks

Innovative new business strategies to help poor communities create employment and counter the ravages of joblessness are growing. The traditional methods for doing this in the Third World have been large scale projects by the World Bank and/or the International Monetary Fund (IMF). Their emphases have been on fostering economic stability, achieving structural adjustments, and working through capital markets to strengthen the private sector.

The assumption seems to be that underdeveloped nations should not focus on public sector job creation and/or direct tools for alleviating poverty. Instead, channeling capital to Third World private sectors should ultimately lead to more factories being built, and the generation of more jobs will be the indirect result (Griesgraber and Gunther, 1996; Sanford, 1997).

Yet critics of both of these giant financial institutions complain that the real beneficiaries tend to be those who already have capital, the owners of industry, and government elites who facilitate the flow of capital to the private sector. Thus, the old adage is redefined as follows: “The rich get richer while the poor get only structural adjustment.” The result is that today some 1.4 billion people make up the hyper poor; that is, they try to survive on less than a dollar a day. When that amount is doubled to two dollars per day, the global poor total nearly 3 billion people on the planet.

For many of these, it is not the IMF or World Bank that will lift them out of their poverty. Rather, microcredit seems to offer one of the least costly and highest impact strategies. The promise of microenterprise development is so great that the World Bank itself has finally started to provide capital to NGOs for village banking (Platt, 1997).

Rather than offer big loans in top-down fashion, microcredit provides small loans in trickle-up fashion. The belief is that it is not being big, but that being small really is beautiful. Instead of structural adjustment, microenterprise development offers personal empowerment. It enables the poor to move from dependency to dignity, from a hand-out to a hand-up.

References

- Ajayi, J.F. Ade & Ian Espie (eds.). A Thousand Years of West African History. New York: Humanities Press, 1972.
- Associated Press. "Sept. 11 Attack Wiped Out 1.6 Million Jobs, Study Says." Deseret News, January 11, 2002.
- Curtis, Lynn R. Ouelessebougou-Utah Alliance Literacy Project: Summary, Observations and Evaluations. Salt Lake City Laubach Literacy International, 1994.
- Griesgraber, J.M. and B.G. Gunther. The World Bank: Lending on a Global Scale. Chicago: Pluto Press, 1996.
- Platt, Geron. "Small Loans Net Big Results." Journal of Commerce, January 22, 1997.
- Sanford, Jonathan E. Multilateral Banks: Issues for the 105th Congress. Washington, D.C.: Library of Congress. November 13, 1997.
- Smart, William B. "A City to Village Project Will Help a Country in Despair." Deseret News, Utah Magazine, March 30, 1986.
- Smith, Tony. "Argentinians Riot; Peso is Traded Freely," Associated Press. Deseret News. January 11, 2002.
- Thompson, Jan. "Growing Up in Mali." Deseret News, April 30, 1989.
- UNDP. Human Development Report 2000. New York: United Nations Development Programme—Oxford University Press, 2000.
- Whitaker, Jennifer S. How Can Africa Survive? New York: Harper & Row, 1988.
- Wonacott, Peter. "For Chinese Industry, Liberation Mao Never Envisioned." The Wall Street Journal, June 22, 2001.
- Woodworth, Warner. "Micro Enterprise Report." Unpublished Technical Analysis. Salt Lake City: Ouelessebougou-Utah Alliance, December 19, 1996 (18 pp.).

About the Author:

Author: Warner P. Woodworth

Email: mob@byu.edu

Company or Institution: Brigham Young University

Country: United States