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A profile of non-farm household enterprises in Sub-Saharan Africa

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A Profile of Non-Farm Household Enterprises in Sub-Saharan Africa

Paula Nagler*

20 November 2017

Abstract

This paper provides a comprehensive descriptive profile of non-farm household enterprises in ten Sub-Saharan African countries, disaggregated by the households' consumption quintiles. Various enterprise-related aspects are covered, such as the share of households that operate an enterprise, the motivation to start a business venture, and various owner and enterprise characteristics. The figures show that household enterprises are more prevalent among wealthier households, although push factors overall dominate as entry motive. Enterprises in lower quintiles are more often operated by owners with less education, and in most countries female owners are more frequently found among poorer households. The enterprises themselves are characterised by a small size, generally solo entrepreneurship, which only marginally increases along wealth levels. Poorer households operate more seasonal types of businesses, which employ rarely any external labour, and which contribute less to total household income compared to wealthier households. While business profits grow along the welfare quintiles, profits show a big jump from the fourth to the top quintile. Finally, poor entrepreneurial households are considerably more often located in rural than in urban areas. Based on these findings, this paper suggests a set of policy recommendations that include expanding the access to and availability of finance, education, and infrastructure, and introducing gender-sensitive entrepreneurial policies.

JEL classifications: J43, L26, 055, Q12

Keywords: Consumption Quintiles, Household Enterprises, Informal Sector, Self-Employment, Sub-Saharan Africa

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1. Introduction

Employment creation has become a central topic in the economic development of Sub-Saharan Africa, given its role in reducing poverty through income generation and, more generally, for ensuring household welfare. A particular interest lies in the opportunity that non-farm household enterprises may present in the structural transformation of African economies. While most of the active population continues to be employed in agriculture, which is characterised by subsistence farming and low productivity, improvements in the agricultural sector alone will not be sufficient to employ the millions of young adults entering the labour market each year, given rapid population growth. Also the hope that formal employment will expand and absorb parts of the labour market entrants, will not materialise quickly enough given its low share in most countries at present (see Fox et al., 2013).

The creation of (self-)employment, through entrepreneurial activities, may therefore alleviate high unemployment and poverty, resulting from un- or under-employment, by offering non-farm work opportunities that are largely (but not only) situated in the informal economy, and further accelerate the transition from farming to service-related activities. Such a transition will need to be supported by adequate policies, such as education, access to micro-finance, and the appropriate infrastructure. At present, however, it is not clear, which aspects of entrepreneurial support may be of particular relevance for the start and operation of such small, non-farm business ventures in a low-income context in order to channel budgets and efforts into more promising undertakings. It is furthermore unclear, which aspects may enhance the possibility to increase profitability and to offer employment for external labour. A final aspect is that these non-farm enterprises might differ significantly by the household's welfare level, which means that any policy response that intends to target the poorest households must be designed in a way that can address specific needs of these enterprises, taking into account their specific welfare context.

This paper provides a comprehensive descriptive profile of non-farm household enterprises in ten Sub-Saharan African countries, disaggregated by the households' consumption quintiles. Various enterprise-related aspects are covered, such as the share of households that operate an enterprise, the motivation to start a business venture, and various owner and enterprise characteristics. The latter includes firm size and age, seasonality, capital sources, and profitability. To the best of our knowledge, a descriptive overview by consumption quintiles across various Sub-Saharan African countries does not yet exist. It fills the gap to understand in which ways household wealth is correlated to various enterprise-related characteristics, which, in turn, can indicate promising approaches in fostering self-employment in the non-farm economy, particularly for the poorest households, and help designing policies based on evidence.

The figures presented in this paper show that household enterprises are more prevalent among wealthier households, although *push* factors overall dominate as entry motive. Enterprises in lower quintiles are more often operated by owners with less education, and in most countries female owners are more frequently found among poorer households. The enterprises themselves are characterised by a small size, generally solo entrepreneurship, which only marginally increases along wealth levels. Poorer households operate more seasonal types of businesses, which employ rarely any external labour, and which contribute less to total household income compared to wealthier households. While business profits grow along the welfare quintiles, profits show a big jump from the fourth to the top quintile. Poor entrepreneurial households are considerably more often located in rural than in urban areas. Two aspects that are quite similar along wealth levels are firm age and source of business capital, with the latter generally coming from own resources.

These insights suggest that policy recommendations may target the following four aspects, if the goal is to support poor entrepreneurial households to improve business operations, or to motivate poor households to become entrepreneurial. First, since most capital is derived from own resources and wealthier households operate businesses more often, access to finance seems to be a crucial factor. While this correlation may equally imply that successful entrepreneurship lifted the household into higher welfare quintiles, both aspects can be expected to mutually reinforce each other. Second, since female owners are more frequently found among lower wealth levels, policies should entail gender-specific aspects, since women in (subsistence) self-employment may encounter different obstacles as compared to men. Third, more educated owners also run more successful businesses, which suggests that a general expansion of education, particularly ensuring comprehensive attendance of primary school education among children, has the potential to favour more profitable non-farm self-employment. Fourth and last, since most poor entrepreneurial households are located in rural areas, infrastructure and the business setting appear to be important factors. Urban areas provide a more favourable set of conditions, such as access to education, labour, and inputs, as well as a higher number of potential clients, and more business places. It can be expected that improving the business environment in rural areas, such as expanding the rural infrastructure and ensuring market access, has the potential to lead to more business start-ups and more successfully operated businesses that have the prospective to grow and survive.

This paper is structured as follows. Section 2 provides a brief literature review on the study of non-farm enterprises in Sub-Saharan Africa. Section 3 entails an overview of the databases used and outlines the data limitations. Section 4 then shows and discusses a comprehensive descriptive profile of different aspects of entrepreneurship, which is followed by a summary and policy recommendation in Section 5. The final section concludes.

2. Literature

The literature on household enterprises in Sub-Saharan Africa has expanded in recent years, since the initial works of Kirsten (1995), Lanjouw & Lanjouw (2001) and Start (2001), which laid out a first picture of the non-farm economy. Since then, various aspects of these household enterprises have been addressed and studied, such as non-farm income diversification and the motivation to start an enterprise (Barrett et al., 2001), dividing the determinants into push- and pull-factors (Reardon et al., 2006; Babatunde & Qaim, 2009; Nagler & Naudé, 2017), the contribution of these informal businesses to total household income (Davis et al., 2010, 2014), and its performance, for example determinants of productivity (Reardon, 1997, Nagler & Naudé, 2017) and productivity differences between rural and urban areas (Rijkers et al., 2010). A further strand of literature has assessed the survival of these businesses, accounting for the complete life-cycle of business ventures in the non-farm economy (Loening et al., 2008).

Much less attention has been paid to the role these enterprises may play in contributing to poverty reduction, e.g. via the provision of employment (Iacovone et al., 2014), which is particularly relevant for the large number of young labour market entrants each year, as outlined in the introduction (Fox et al., 2013). The first studies on this topic date back from less than ten years ago, providing an overview on the economic framework in which household enterprises operate. Fox & Gaal (2008), for example, describe a complicated labour market that will face a large youth bulb entering in the upcoming years, embedded in country contexts with weak growth policies and a poor investment climate for the private sector. Further complications are connected to the education and skills formation of the Sub-Saharan African labour force. The authors also find positive developments tough, such as continuous improvements in education, and increasing average earnings in the informal sector that are contributing to poverty reduction.

Fox & Sohneson (2012) are the first to take a closer look at the profile of household enterprises, using data from eight countries in Sub-Saharan Africa, and show that these enterprises created most jobs outside of agriculture, emphasising their importance in absorbing young labour markets entrants. Particularly valuable for our interests in this study is the set of descriptive statistics the authors provide in the annex, where they differentiate household enterprises by various factors such as age categories, educational levels, gender, and enterprise type. They do not account, however, for poverty or income categories of households, ignoring how the wealth level might be correlated to enterprise characteristics. Another study by Fox & Sohneson (2016) shows the contribution of household enterprises to poverty reduction, using data from Mozambique. The authors find that business operation is associated with higher consumption and upward mobility, suggesting that the support of creating and improving household enterprises would be likely to also contribute to further poverty reduction, acknowledging a crucial role of the private sector. This study, however, provides a more general overview, again without accounting for differences in the poverty or income situation of households.

What is therefore missing in the literature is an overview of enterprise-related characteristics that take into account the differences in the households' welfare level, since businesses that are operated by 'poorer' households might fare very differently compared to businesses operated by 'better off' households.[1] In this sense we provide, for the first time to the best of our knowledge, a wide range of enterprise-related characteristics, accounting for the consumption quintiles of the households operating them, across ten countries in Sub-Saharan Africa.

3. Data

We make use of recent data sets from ten countries in Sub-Saharan Africa to study a range of characteristics of the household enterprises in detail, with a particular interest in the business ventures of poorer households, to understand which features set them apart from wealthier household enterprises.

The data sets stem from various data sources that are, in their majority, nationally representative household surveys, and which have been recently collected (most data stem from the years 2013 and 2014). The surveys show significant overlap in the non-farm enterprise section with regard to questions asked to participating households, which allows undertaking a comparison on a range of aspects across countries. All figures in this paper derive the data from the surveys listed in Table 1, and all shares are weighted.

While the data employed in this paper provide a more comprehensive and comparable set of information compared to previous data collections, the surveys still entail various drawbacks: not all variables are consistently collected across all countries, and in case of categorical variables categories frequently differ. While the inconsistency in categories might stem from diverse country situations and contexts, it complicates the comparability of certain aspects, such as educational levels of enterprise owners, or the source of capital to start or operate an enterprise.

[1] See for example the study by Margolis (2014) on the question of *choice* versus *necessity* regarding the operation of household enterprises.

Table 1: Surveys employed in the descriptive profile

Country	Survey Title	Survey Year(s)
Burkina Faso	Enquête Multisectorielle Continue (EMC)	2014
Ethiopia	Ethiopian Socioeconomic Survey	2013/14
Ghana	Ghana Living Standards Survey 6 (with Labour Force Module)	2012/13
Malawi	Malawi Integrated Household Panel Survey	2013
Mali	Enquête Agricole de Conjoncture Intégrée aux Conditions de Vie des Ménages	2014
Nigeria	General Household Survey Panel	2012/13
Niger	Deuxième Enquête Nationale sur les Conditions de vie des Ménages et L'agriculture	2014
Rwanda	Integrated Household Living Conditions Survey (EICV)	2013
Tanzania	National Panel Survey (NPS)	2012/13
Uganda	The Uganda National Panel Survey	2013/14

Furthermore specific aspects that would be of great interest for policy making are not covered, such as information on enterprise survival, since data on discontinued business ventures are not captured, or more specific questions on obstacles, or enabling factor, to entrepreneurship.

4. Descriptive Profile of Non-Farm Household Enterprises

This section provides a comprehensive descriptive profile of non-farm households enterprises by consumption quintiles, using the ten databases specified in Table 1. The following aspects of non-farm household enterprises are presented: (i) the share of households which operate a non-farm enterprise; (ii) the motivation to become entrepreneurial; (iii) the gender and education of the owner; and (iv) a wide-ranging description of the household enterprises themselves. For the latter, the following business characteristics are taken into account: firm age and size, seasonality of business operation, sources of business capital, location (place of business operation, as well as differences between urban and rural areas), and income-related information (contribution to overall household income and business profitability).

The information is generally presented as an unweighted average for all ten countries, or for the number of countries for which the information was collected.[2] For selected variables country-level profiles are shown, in case information was only available for one or a few countries, or if country profiles vary considerably.

Based on this descriptive exercise, it is possible to better understand obstacles, but also enabling factors to entrepreneurship, which may be relevant for policy formulation. The goal of creating jobs can be achieved by supporting current business ventures to remain active and to growth, as well as by providing prospective entrepreneurs with information, training and capital to start a new activity.

Household enterprises are more common in wealthier households

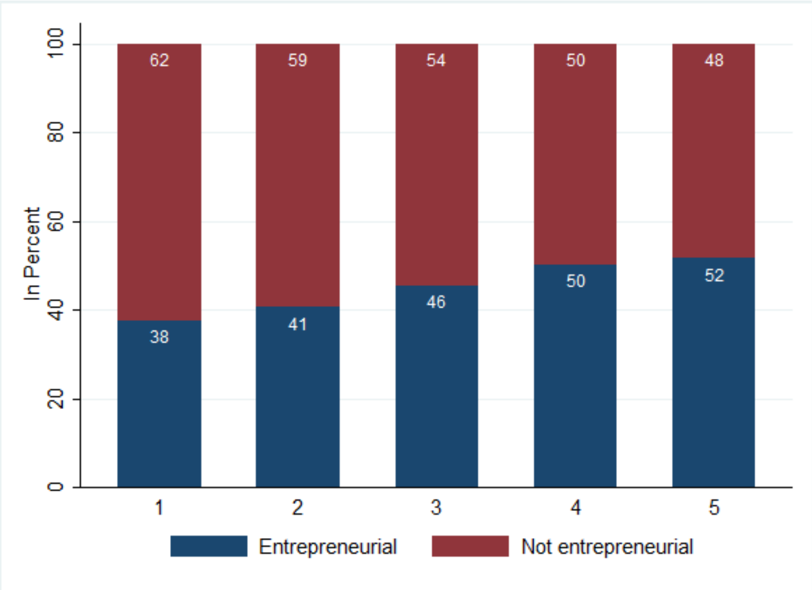
The share of households that operate at least one business venture increases by consumption quintile, with a share of less than 40 percent in the lowest quintile to slightly over 50 percent in the highest quintile (see Figure 1). While this pattern can be found in most countries, not all of them show a clear

[2] In case a specific variable is not available for all ten countries, this is indicated in the table notes.

trend. In Burkina Faso, Ethiopia and Niger the share of households that operate businesses seems uncorrelated to household wealth, suggesting that the income-level is not strongly associated with entrepreneurship.

Figure 1: The share of households with household enterprises increases with wealth

(Share of households that operate a non-farm household enterprise)



Note: Average all countries.

In the countries where entrepreneurship increases with household wealth, it may suggest that richer households face fewer obstacles in becoming entrepreneurial, for example by having sufficient starting-capital to set up and to operate a business venture, since access to credit might be difficult.[3] While this view implies that richer households become entrepreneurial because they face fewer constraints, another view may equally imply that entrepreneurial households become wealthier through their business activities, by running profitable and successful businesses.

In this regard, an important question is if household enterprises are started by choice, *i.e.* when opportunities are perceived and taken-up, or by necessity, *i.e.* because of shocks, such as death or illness in the family, or a failed harvest.[4] If the latter occurs, it is also expected that these business are less profitable due to adverse circumstances.

To understand which kinds of motivation might be critical for enterprise operation, we screen next the motivation to start a business by consumption level.

The motivation to start an enterprise varies little by household wealth

While both *push* and *pull* factors influence the creation of household enterprises in Sub-Saharan Africa, *push* factors seem to dominate (Fox & Sohnesen, 2012). Not being able to find a wage job is often cited in other studies as the main reason to start a household enterprise. Fox & Sohnesen (2016) report that in

[3] For example, due to a lack of collateral, or due to a lack of financial institutions that provide credit for more informal types of businesses.

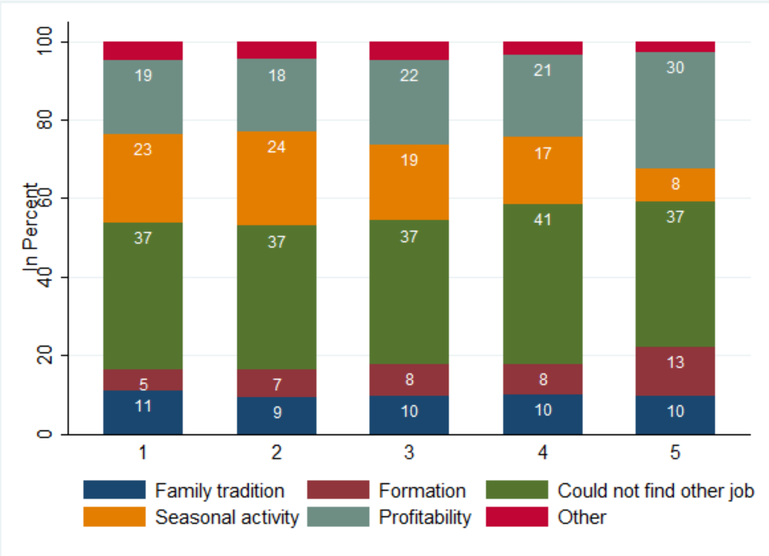
[4] Such factors are also named *push* and *pull* factors into entrepreneurship.

Mozambique over half of all enterprise owners indicated a *push* factor as the most relevant reason to start an enterprise, mainly the 'inability of finding a wage job'. Côte d'Ivoire, instead, appears to be a notable exception: only 3 percent of enterprise owners indicated the 'inability of finding a wage job' as the main motivation of becoming self-employed. Rather, the expectation to earn more, a *pull* factor, was the key motivation (Christiaensen & Premand, 2017). *Pull* factors were more important in rural than in urban areas, which may indicate that household enterprises in rural areas are a more attractive undertaking than subsistence agriculture.

Among the data sets used in this paper, this variable is only available for Burkina Faso, and does not show significant variation across consumption quintiles (see Figure 2). The data however clearly show that the 'inability to find another job' was the main motivation to move into non-farm self-employment, both for poorer and wealthier households, a clear *push* factor.

Figure 2: In Burkina Faso the inability to find a job is the main motivation to start an enterprise

(Motivation to start an enterprise)



Note: Burkina Faso only.

One answer that has a significantly lower share in the fifth consumption quintile is 'seasonal activity' as a motivation to operate an enterprise, with only 8 percent, whereas this share reaches 23 and 24 percent in the first and second quintile. This indicates that poorer households operate businesses less continuously throughout the year compared to wealthier households, possibly because of labour that is needed in agriculture, for example during the harvest. Seasonally operated enterprises can be expected to be smaller business ventures that are easily started, interrupted or discontinued, and retaken, but which are probably also less profitable compared to business operations that run all year round. In this line of argumentation, the motivation of 'profitability' is more pronounced in the fifth quintile with 30 percent compared to 19 percent in the first quintile, a *pull* factor into entrepreneurship.

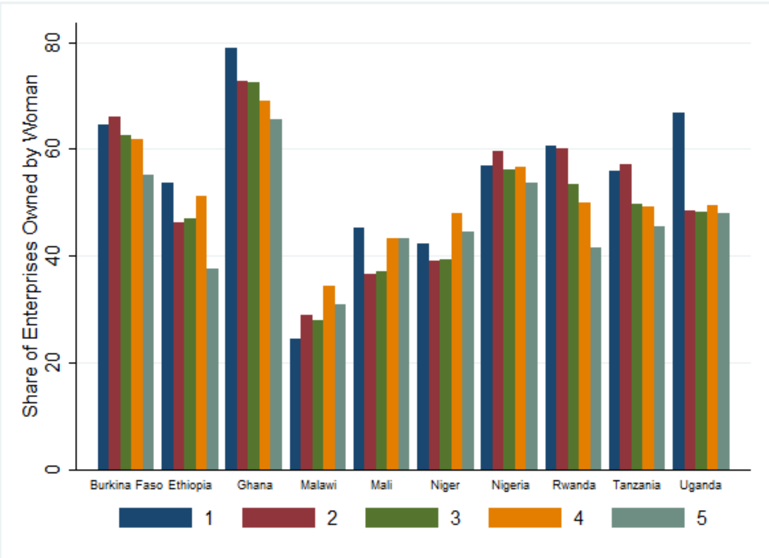
The other categories, however, seem to be stable over the welfare quintiles, and the difficulty to find another type of employment suggests that employment possibilities are limited in general – at least in Burkina Faso.

Poorer household enterprises tend to be run by women and less educated persons

Next we screen two characteristics of the enterprise owner – gender and education. The country context appears to determine whether household enterprises are more likely to be owned by women or men. In Malawi, Mali and Niger, household enterprises are more likely to be owned by men across all quintiles of the consumption distribution (see Figure 3). In Burkina Faso and Ghana, in contrast, household enterprises are more likely to be owned by women across all welfare levels.

Figure 3: Enterprises in the top quintile are less likely to be headed by women

(Share of enterprises owner by women)



Note: Average all countries.

The share of female owners shows some variation across the quintiles that can be summarised into two major trends: in countries where female owners are more prevalent, or where they present about half of all owners, their share is higher among poorer households and decreases as households become wealthier. In countries where male owners are more prevalent, the opposite can be observed: in Malawi, Mali and Niger, the share of female owners increases in higher welfare quintiles.

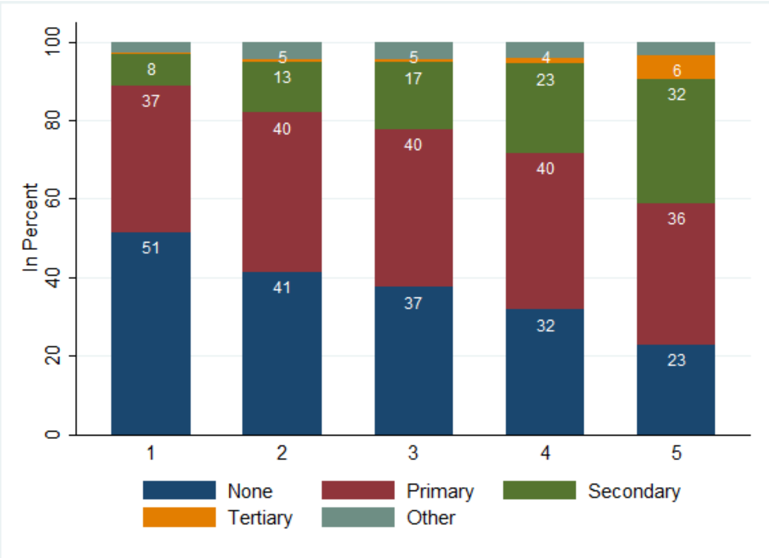
By and large, women-owned enterprises tend to be more prevalent in the bottom quintile, and show a decreasing tendency with increasing household wealth.

Household enterprises are mainly owned by persons with none or some primary education (completed or not). This is the group of workers that tend to be excluded from wage income opportunities because of a lack of education, and for whom household enterprises may present a good income choice, since agricultural activities are generally low-paid. In a number of West African countries with low educational levels, for example Burkina Faso and Mali, enterprises are mainly run by people who never went to school.

Overall, the share of household enterprises run by better educated owners increases with wealth, but remains low for tertiary-educated workers, who typically have access to regular well-paying jobs in the public and formal private sector. Also owners with secondary education can expect to find outside employment in the formal economy, but may – due to their education – also have special skills which might allow them to operate profitable businesses (see Figure 4).

Figure 4: Most household enterprise owners have none or primary education

(Education level of enterprise owner)



Note: Average all countries. An example of 'other education' is quranic education.

Household enterprises of poor households are more prevalent in rural areas

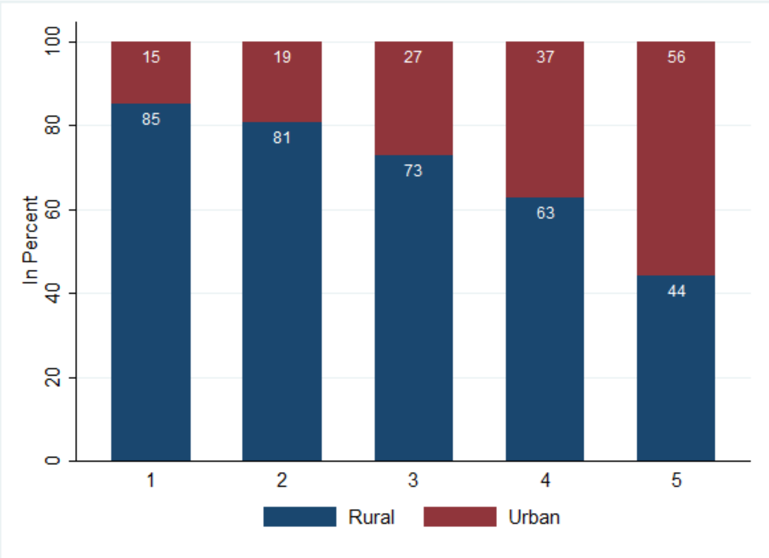
The location of household enterprises differs significantly by consumption quintile: among poorer entrepreneurial households, over 80 percent are located in rural areas, while among the wealthiest quintile more than 50 percent are located in urban areas. Since the bulk of the poor are located in rural areas in Sub-Saharan Africa, poor entrepreneurial households will be more often located in rural areas, too (see Figure 5).

Two further possibilities can explain this finding: first, income possibilities in urban areas are broader. Urban households may be able to earn income through other means and activities, which, in turn, allows them to start and operate a household business. Second, urban settings provide a more comprehensive infrastructure, ranging from buildings, markets, roads, education institutions, training, labour, and access to all kinds of inputs, which are relevant factors for successful enterprise operation. Furthermore, they provide a more concentrated demand for products and services, guaranteeing a more steady flow of clients.

Rural businesses, in contrast, are often limited by a lack of infrastructure, labour and demand, which also keeps households poor. Since many households also work in subsistence low-paid agriculture, household enterprises are frequently secondary businesses that contribute little to total household income, and that are only operated a few months per year.

Figure 5: Poor entrepreneurial households are generally located in rural areas

(Location of entrepreneurial household)



Note: Average all countries. Ethiopia entails a distinction between small town (urban) and large town (urban), which were both merged and recoded as urban.

The household enterprises of poorer households are mainly one-person affairs

In Sub-Saharan Africa, non-farm household enterprises largely equate to self-employment. The enterprises of the poor are more likely to be one-person affairs ('solo entrepreneurship') than enterprises in the top quintile, although the share of solo-entrepreneurship is high throughout the quintiles: 78 percent of enterprises in the bottom quintile only employ one person (the owner), compared to 63 percent in the wealthiest quintile. Among the four lower quintiles, over 70 percent are operated by the owner only (see Figure 6).

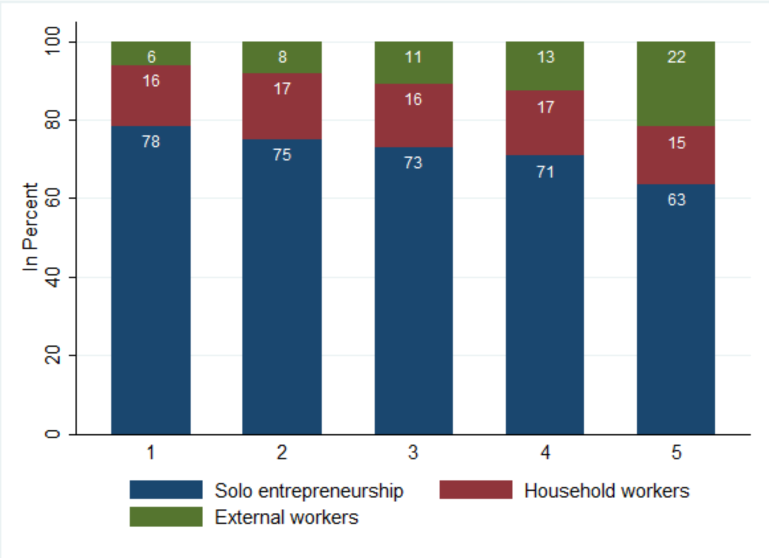
Poor household enterprises are less likely to employ hired labour (non-household members). Among the lower two quintiles, less than 10 percent employ non-household members, while the share increases to 22 percent in the top quintile. The share of enterprises that employs one or more other household member(s) is relatively stable across all quintiles, with 15 to 17 percent. But even if outside labour is hired, the average number of employees remains low. Nagler & Naudé (2014) report that in their data sample[5] less than three percent of household enterprises employ five or more non-household members. The major channel through which employment is created is therefore by entry, e.g. by the creation of new household enterprises. Once these are established, they do not tend to create additional jobs.

Though household enterprises are small across the board, the poor's enterprises tend to be smaller still. Household enterprises in the bottom quintile tend to have only one worker (the owner), though size is closer to two in Uganda, Ghana and Ethiopia, where enterprises are on average somewhat larger. Enterprise size rises with household wealth, from an average of 1.4 workers in the bottom quintile (median of one worker) to 1.9 workers in the top quintile (see Figure 7). Again, there is variation across the countries, with average size hardly increasing with wealth in Uganda and Mali, but almost doubling in Rwanda and Ethiopia.

[5] Six countries in Sub-Saharan Africa, namely Ethiopia, Malawi, Niger, Nigeria, Tanzania, and Uganda.

Figure 6: Non-farm household enterprises are mainly one-person ventures

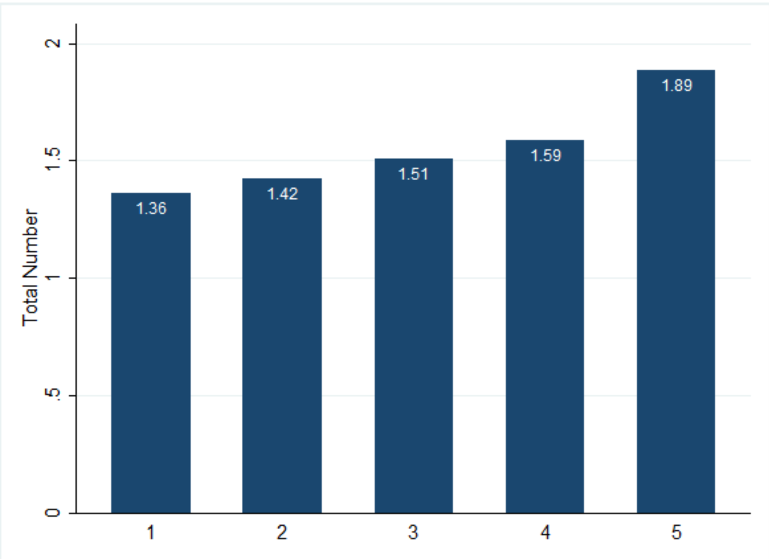
(Information on household and non-household workers)



Note: Average all countries, excluding Ghana.

Figure 7: Though household enterprises are small across the board, they tend to be larger in wealthier households

(Total average number of workers in household enterprises)

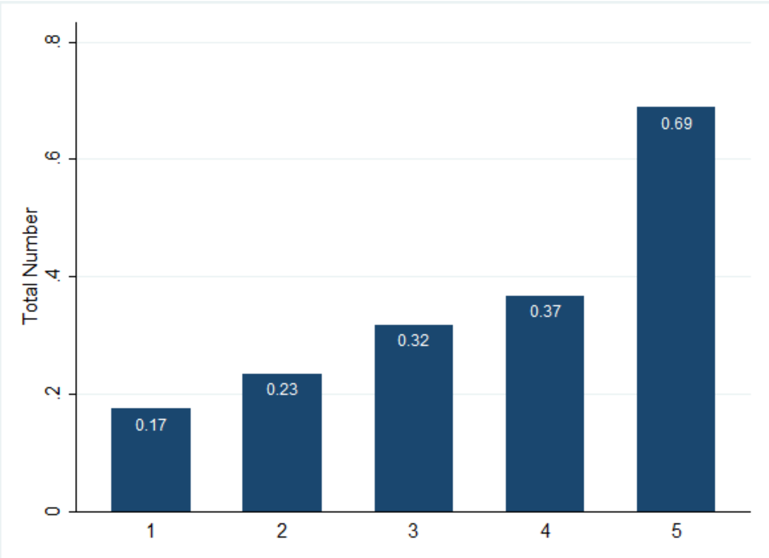


Note: Average all countries.

The difference in size between poorer and wealthier household enterprises stems primarily from a higher prevalence of hired wage employees among the latter: the wealthiest 20 percent of households are more likely to employ non-household workers, and the average number of hired workers is three times higher in the top than in the bottom quintile (see Figure 8). Poor households rely almost uniquely on household members to work in their enterprises, in the cases where the owner is not a solo entrepreneur, while wealthier households rely to a larger extent on hired labour.

Figure 8: Better-off household enterprises are more likely to hire non-household workers

(Average number of external workers in household enterprises)



Note: Average all countries.

Enterprises of poor households tend to be slightly younger

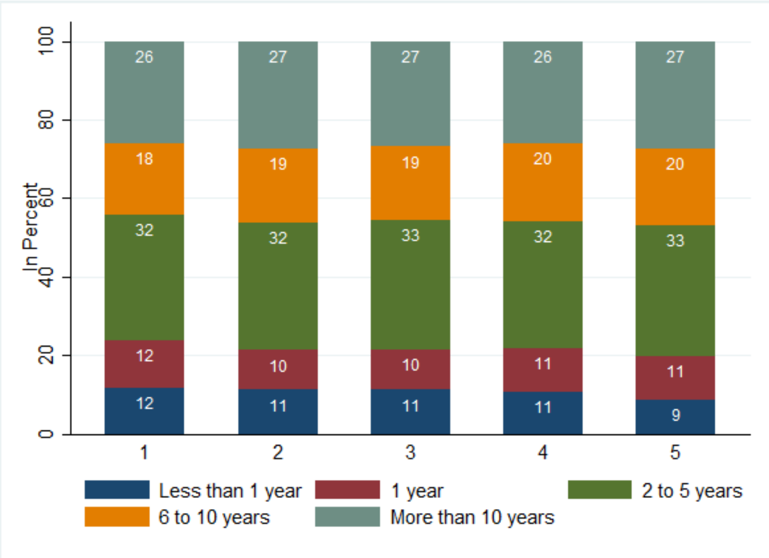
Household enterprises operated by poorer households tend to be younger, though the differences are small. 24 percent of household enterprises in the bottom quintile have been in operation for less than two years, compared to 20 percent in the top quintile (see Figure 9). There is however substantial variation across countries, both in the share of businesses that are new and the link between household wealth and enterprise age. In Tanzania and Malawi more than 20 percent of household enterprises in the bottom 40 percent were new entrants (less than one year old), while in Burkina Faso, Mali and Uganda the share of household enterprises in poor households that were new was below 5 percent. While the share of recently established household enterprises declines with household wealth in Niger, Ghana and Tanzania, there is no relationship with wealth in Burkina Faso, Malawi and Uganda.

Even in the bottom wealth quintile, 26 percent of enterprises have been in operation for over ten years. Of course, the fact that households are still in the bottom 40 percent despite having an enterprise that survived for more than ten years must mean that these household enterprises are not particularly productive and do not generate much income.

Since even older household enterprises are small business ventures, they confirm the finding that they typically do not create much employment (see Figure 10). The older household enterprises that are in operation for more than ten years tend to be only marginally larger than those established only a year prior to the survey, hinting at limited job creation even in those enterprises that survive over a longer time period. In Uganda, household enterprises that have been in operation for more than ten years have on average 2.0 workers, compared to 1.6 for enterprises that were established only a year ago. In Malawi, Mali and Tanzania, young and old enterprises have roughly the same number of workers.

Figure 9: Household enterprises in the bottom quintile tend to be somewhat younger

(Share of household enterprises by age categories)

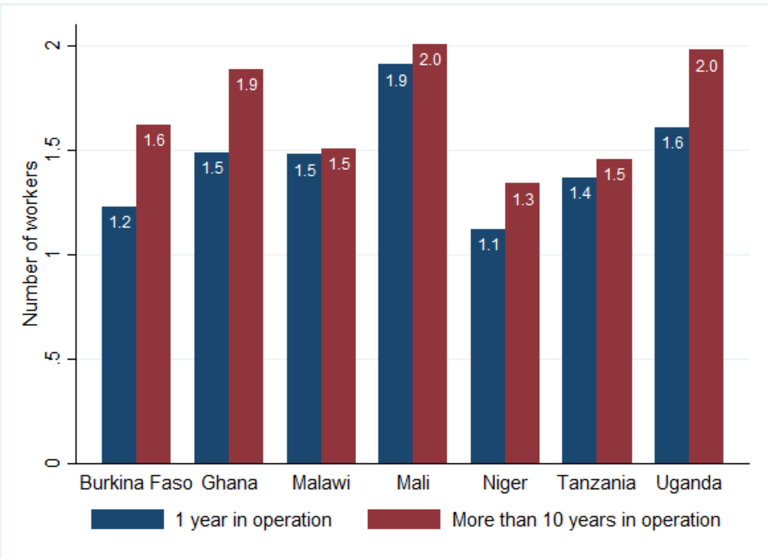


Note: Average all countries, excluding Ethiopia, Nigeria, and Rwanda.

For each country in the sample, however, older household enterprises are still larger than younger ones, albeit only marginally in some cases. This suggests that a small number of household enterprises do add some employment as they age. Given the sheer number of household enterprises in Africa, this limited job creation is nevertheless important: if, say, a quarter of household enterprises could add one single job for a non-household member, this would considerably contribute to overall job creation.

Figure 10: Older household enterprises are only marginally larger than young ones

(Average number of workers in young and old household enterprises)

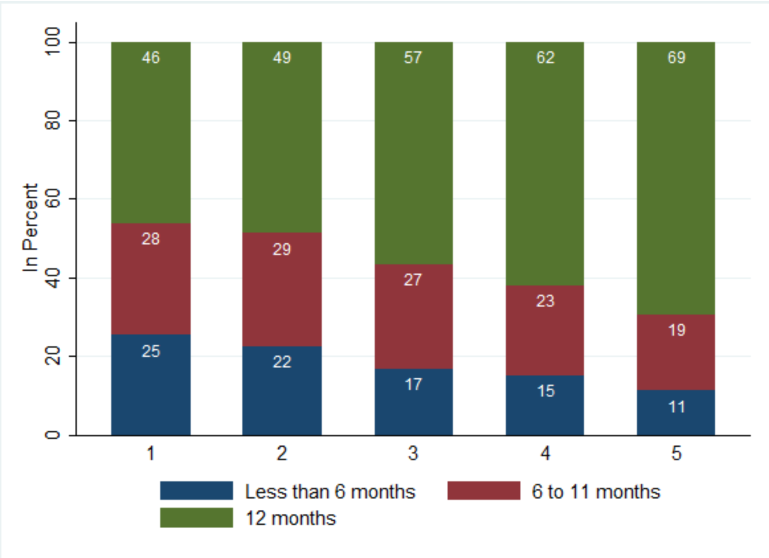


Wealthier households operate businesses more continuously throughout the year

Enterprises in the lower quintiles are more likely to be seasonally operated: more than half of enterprises in the bottom quintile operate less than 12 months per year, and a quarter operates less than half of the year (see Figure 11). In contrast, close to 70 percent of enterprises in the top quintile are active throughout the year, and only 12 percent operate less than six months in any given year.

Figure 11: Poorer household enterprises are much more likely to be seasonal

(Share of household enterprises by months of operation per year)



Note: Average all countries, excluding Malawi, Nigeria, and Rwanda.

There is considerable variation across countries. 35 percent of household enterprises in the bottom 40 percent in Burkina Faso and Ethiopia operate less than six months per year, while this is only the case in about 10 percent of enterprises in Uganda and Ghana.

The higher degree of seasonality for enterprises in the bottom 40 percent is assumingly linked to the agricultural cycle: the bottom 40 percent of households in Sub-Saharan Africa are predominantly rural, and the rural non-farm economy has substantial supply and demand linkages with agriculture. In contrast, household enterprises in the top quintile, which are more likely to be urban, tend to operate all year-long.[6]

Household enterprises rely primarily on own resources across quintiles

The start-up or operation capital for household enterprises mainly stems from the households' own incomes and savings. Depending on the country, between 45 percent (Mali) to more than 80 percent (Burkina Faso, Niger and Uganda) of start-up and operating capital is financed by the household's own resources (see Figure 12).

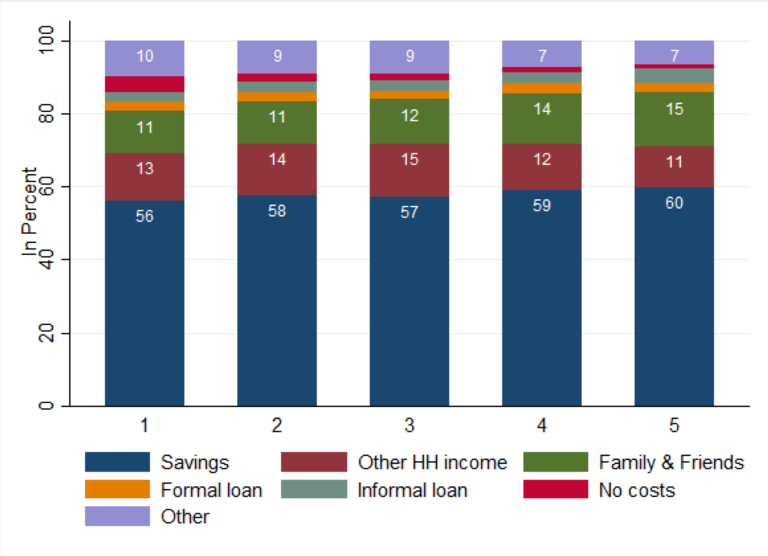
On average across all countries, there are few differences in the sources of capital by quintile. Better-off household enterprises are more often financed by gifts from family and friends, while poorer household

[6] See also Figure 5 on the distribution of the location (rural/urban) of entrepreneurial households.

enterprises are more likely to not require any capital at all – as a result these enterprises are generally active in low-return activities without entry barriers.

Figure 12: Start-up capital for household enterprises mainly comes from own resources

(Source of start-up capital for household enterprises)



Note: Average all countries. The variable is formulated as capital for business operation in most countries, and as capital for starting an enterprise in Ghana, Malawi, Nigeria, and Tanzania.

The numbers also point to the marginal role of financial institutions, including microfinance, in providing credit to the household enterprise sector: in the countries where data are available, less than three percent of household enterprises were started through a formal bank or microfinance loan, regardless of wealth quintile.

The poor's enterprises have lower profits, and also contribute less to household income

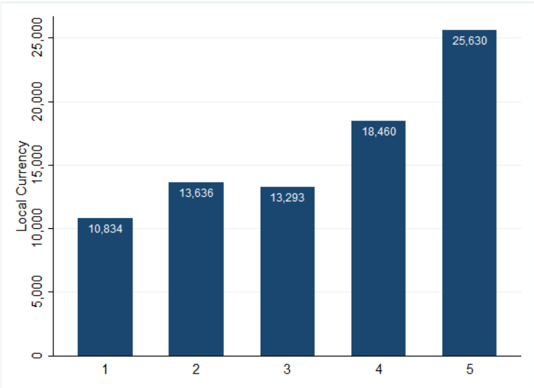
Given that the enterprises of the poor are on average smaller, more likely to be rural and operated only seasonally, and run by a less-educated person, it is no surprise to find that their profits are also lower. Across all countries, household enterprise profits increase with household welfare, and then take a big jump between the fourth and the fifth consumption quintile (see country examples in Figure 13).

Household enterprises can nevertheless make an important contribution to the incomes of the poor. The extent to which enterprises are relevant for income generation depends considerably on the country context: income derived from household enterprises accounts for less than 10 percent of total household income in the bottom 40 percent of households in Ethiopia and Malawi compared to more than 35 percent in Ghana and Nigeria (see Figure 14). Overall, household enterprises tend to account for a larger share of total income among wealthier households, which is also correlated with the higher share of richer households located in urban areas, and which are presumably less active in agricultural activities.

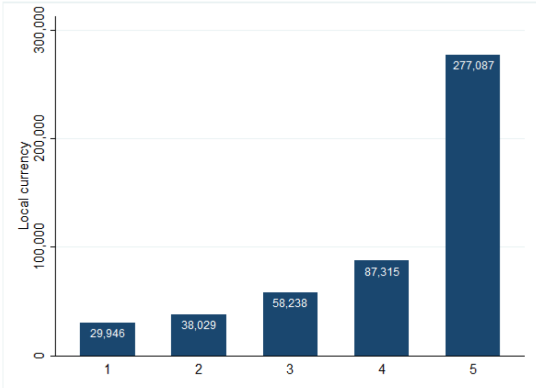
Overall, enterprises in the top quintile appear to be structurally different: they are somewhat bigger, are more likely to employ paid non-household members, and to be located in urban areas. They have more educated owners, are more likely to be owned by a man, and report far higher profits.

Figure 13: Enterprise profits rise with household wealth, and take a big jump in the top quintile

(Profit of HHEs, Burkina Faso – local currency)



(Profit of HHEs, Rwanda – local currency)



(Profit of HHEs, Uganda – local currency)

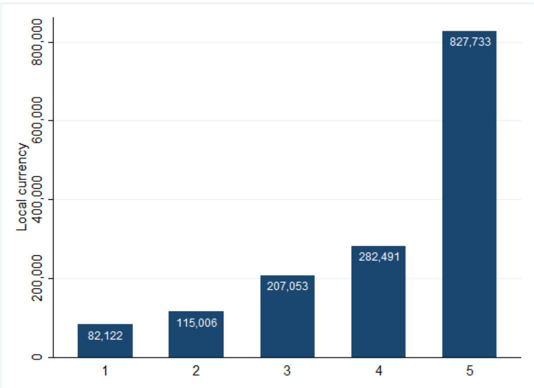
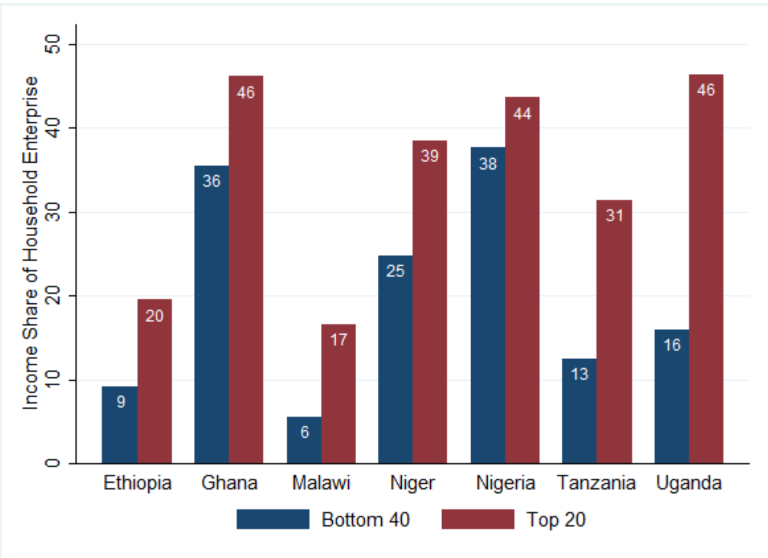


Figure 14: The contribution of household enterprises to total income is higher for wealthier households

(Share of HHE income in total income, for bottom 40% and top 20%)



5. Summary and policy recommendations

The comprehensive descriptive statistics in this paper show that non-farm household enterprises are operated more frequently by wealthier households, although the lack of employment is an important motivation to become entrepreneurial across all consumption quintiles. The data from Burkina Faso shows that profitability considerations are still more prevalent among wealthier households, and that the seasonality aspect is a more frequently cited reason among poorer households. The latter is also confirmed by data that show that business ventures in lower quintiles have more intermittent patterns of operation.

Enterprise owners in the lower quintiles have more often none or primary school education compared to higher quintiles, and are more often female – although gender also depends on the country context. In a few countries the opposite gender pattern can be observed. Overall, men are still more often responsible for the operation of household enterprises.

The paper further shows that poor entrepreneurial households are based to a larger share in rural areas, while more than half of all entrepreneurial households in the top quintile are located in urban areas. Household enterprises are characterised by their small size, which generally means that the owner is the only person working in the business. Household members also contribute to some extent to business operations among all wealth levels, with little variation. The employment of external labour is rare, but increases along the consumption quintiles, with a jump in the top quintile. Along this line, profitability also jumps in the top quintile, which results in enterprises also contributing with a higher share to total household income.

There is, however, only little variation in the firm age along wealth levels, and a significant share of both younger and older businesses can be found in all quintiles. The number of hired labour only marginally increases with firm age, although a small increase can be observed. Capital to run an enterprise comes largely from own resources, such as savings or other household income, or from the extended family and friends. Credit institutions are a negligible source to access capital for all entrepreneurial households.

The descriptive overview of household enterprises by consumption quintiles allows for a more nuanced understanding of the features of business ventures by household wealth. The figures suggest that the following policy recommendation for supporting (poor) entrepreneurial households might be worth exploring.

First, wealth and the prevalence of household enterprises are clearly correlated. While the data do not tell anything about the causal relation, and it is only possible to speculate if entrepreneurship leads to wealth, or wealth allows starting and operating (more successful) businesses, or if a mixture of both applies, the figures also show that most business ventures rely on own resources. These include savings, other household income, or gifts from friends and family. This implies that households have limited other options to access capital, if such resources are not available. In such a case only 'easy-to-enter' types of businesses, that do not require capital to start or run an enterprise, would be feasible to operate. One can however assume that such businesses will not have many chances to generate much profit, nor to employ external labour.

Second, household enterprises in the lower quintiles are more frequently operated by women in the majority of countries studied compared to higher quintiles. A possible explanation for this pattern could be labour allocation within mostly agricultural households, which tend to be poorer on average, and where the male household members work on the field. This pattern makes female entrepreneurs are target group that is worthwhile tackling in entrepreneurship policies. Women might face different obstacles than men in setting up and running a business, such as being more often time-constraint due to different expectations of their time-use (e.g. caring activities). This could also partly explain that household enterprises in lower quintiles are more often intermittently operated.

Third, a higher education of enterprise owners is correlated with household wealth. While higher educated people may find other types of employment, such as formal wage jobs, education might equally imply that people have skills that allow them to run more profitable enterprises. Education and training seem therefore promising policies to motivate people to enter entrepreneurship and to operate more successful businesses, especially among lower- to medium-educated members of poor households.

As a last point, the figures suggest that the local infrastructure is important for business operation. The share of enterprises located in urban households in the top quintile is considerably larger than in the bottom quintile, since the poor are largely located in rural areas and more often engaged in agriculture alongside other activities. Urban areas imply a much larger number of potential clients, access to inputs, labour, and market places. While the goal is certainly not to move rural households to urban areas, it suggests that infrastructure development could lead to substantial improvements, for example by building better roads, by creating market places in small rural towns, or by providing access to information and inputs.

6. Concluding Remarks

The goal of increasing employment in the non-farm economy, in order to contribute to economic development, structural transformation and poverty reduction, has much potential in the context of Sub-Saharan Africa. This paper provides for the first time a comprehensive set of descriptive statistics that allows studying a range of household enterprise characteristics by consumption quintile. Since the features of household enterprises might differ considerably by wealth level, knowing and understanding the profile of such businesses in poor households is important for policy formulation.

The overview shows that household enterprises operated by poorer households indeed differ along various lines, such as owner characteristics, location, firm size, seasonality, and profitability. The patterns for these aspects are as expected, with poorer households being more prevalent in rural areas, operated by owners with less education and who are more often women. Poor households, furthermore, run smaller businesses with more intermittent patterns of operation, which are less profitable and consequently contribute less to total household income. Firm age and capital sources, in contrast, are quite stable across welfare levels.

These findings suggest that poorer households more frequently operate enterprises due to *push* factors, although this motivation can be also found among higher consumption quintiles. They also suggest that poor entrepreneurial households might need a different set of policies in light of the obstacles they face.

If policy formulation takes into consideration these special needs, and implements programs that are targeted at poor households, the potential to increase employment may be considerable. With the millions of young people entering the labour market in upcoming years, and the lack of many products and services in Sub-Saharan Africa, ideas to set up and expand businesses should not be in shortage.

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