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It’s not the missing middle, it’s our missing memory

Author: Klaas Molenaar
Klaas Molenaar is a hybrid entrepreneur, consultant and academic

In recent years it has become fashionable to talk about the ‘missing middle’, a new target group for SME development experts. The argument is that we should now focus our attention on enterprises larger than micro but not yet really small or medium. Microfinance brought what we could have expected of it (empowerment and access to finance) but not what we aim to offer: sustained job creation or economic growth. And now those in the middle are expected to contribute to sustainable development, and it is argued that it is best to provide them with only financial assistance. Aren’t such arguments voiced mainly by professionals who have worked in microfinance? They seem to believe that what worked in microfinance will work for the missing middle as well. Few of them appear to remember what we already knew in the 1970s: training and advisory services might also be relevant. Then, we knew that skills, competences, attitude and capabilities come first and money later. The insights gained through comprehensive evaluations and in-depth studies carried out a few decades ago seem to have been forgotten, as are the pillars and assumptions on which the microfinance movement was built. Who has now heard of the minimalist approach? Or the classification of SMEs by Farbman and Lessik, the work of Staley and Morse on small-scale industries (SSIs), the graduation theories of Leadholm and Mead, or the RSIE studies by Nanyundan and others?

In the 1770s and 1980s, small and medium enterprise (SME) development programmes were very much built around the introduction and implementation of training programmes and advisory services. This was triggered by the publications of Staley and Morse in 1965. SSIs and, later, SSEs were expected to generate economic wealth and we gradually understood that well trained entrepreneurs play a key role in the start-up and growth of businesses. And we believed that small enterprises could become larger provided they were offered combined financial and business development services.

A decisive role in changing our minds in that period was played by the studies by Leadholm and Mead, as part of USAID-funded GEMINI programmes for SME development, which proved that graduation from micro to small and medium enterprises hardly occurred (in spite of all the financial and Business Development Services support provided) as well as the analytical work done by Lessik and Farbman (Gosses, Molenaar 1989) to understand how important proper classification is. There still is a great deal of confusion in this area, because many people are not clear about the sector in which they operate. We see many programmes labelled as ‘micro enterprise programmes’ that are offered to small enterprises, but using techniques that are more suited to micro enterprises. Mismatches often occur in this area as well. Comprehensive evaluations of SME programmes carried out by UNDP, ILO, UNIDO and the Dutch Government, also known as the RSIE studies (1988) provided further evidence challenging the effectiveness of microfinance. They triggered off a number of debates and changes in policies proving that state-run and implanted programmes were not efficient and that an enabling environment and thriving primary sectors are important for SMEs to emerge and flourish, and that service providers need to understand that demand-driven programmes are more effective than supply-driven approaches. Studies carried out by various universities and research institutes, including the London School of Economics (Francis Stewart, 1989), confirmed that by then a new approach was required.

Key concepts emerged which were quickly snapped up by the donor community (including the IDB and USAID), as well as the co-financing community and practitioners, and had a major influence on future policies and methodologies. Since then, we have understood the importance of an enabling environment conducive to enterprise development, in which the government and public sector focus their energies on regulatory and policy formulation activities and not on implementation, and we embraced the minimalist approach, which helped us to understand how important it is to identify just those interventions most effective in SME support programmes and argue in favour of concentrating only on such elements.

The latter has undoubtedly been most decisive in the way we look at the development of SME programmes. It has led us to massively support microcredit programmes for the much less endowed in our society. That theory, promoted in the late 1980s and early 1990s, fitted in very well with Anglo-Saxon, neo-liberal thinking, with which the magic word ‘sustainability’ was introduced. The term was then interpreted as the need to design programmes that would become self-supporting, i.e. wholly funded by payments made by the users. This boosted support for microcredit/finance by the international donor community, with which NGOs could earn money through (high) interest rates, and SME support agencies were left with hardly any support and decided to stop developing and supporting training programmes or business advisory services. It was felt that the interest earned on (micro)credit would make service providers sustainable, which would in turn ensure the continuity of service delivery.

Since the early 1990s, minimalist theories and dogmas have gained strong ground and almost all attention in SME programmes has been channeled towards the self-employed and necessity entrepreneurs, often labeled together as micro-enterprises. And subsequently it seems that we need to believe that enterprise development depends mainly on access to financing. But dynamic and sustainable job creation depends more on small and medium enterprises, as we have learnt the recent years (OECD 2014). Economically active people with access to and using microcredit play a vital role in society in bringing about social participation (Bateman, 2010). But on their own they will not bring about the sustainable growth necessary to generate income and work for the population. Enterprises of all sizes are needed. And economic development indeed depends on entrepreneurial initiatives, the initiatives of people with their own aspirations, possibilities and capabilities. And these people need training, advisory services, access to information and skills development. We already knew this in the 1970s, though today it is in a new form. We seem to have forgotten that prospective small entrepreneurs need access to a comprehensive package of services. We need to build our thinking on what we already know and seek new approaches, ‘SME development 2.0’. Basic entrepreneurship and business management training can already be offered at primary and secondary school level, and there is a great need to seek new ways to offer post-school training and mentoring services, making use of the new opportunities offered by IT and social media (as argued by S. Haggard 2014). And by carrying out research based on previous studies, as we are currently doing at The Hague University of Applied Sciences, where evidence was recently found that there is hardly any graduation (only 1%) from self-employed to micro or small enterprises in the Netherlands, showing that the ideas of Leadholm and Mead are still valid.

This thus implies that each segment in the SME sector requires its own specific intervention and support programmes). Likewise we need to broaden the classification of Farbman and Lessik, introducing new elements such as the hybrid entrepreneur (Molenaar, 2013), acknowledging that people do not necessarily dedicate all their time to one single activity for the rest of their lives. They may operate as a small entrepreneur for a number of years, and then opt to become formally employed or may even choose to combine self-employment with work. Such hybrid and mixed forms are opted for more often. These new insights and approaches require that the promoters of the missing middle ask themselves whether they should build their programmes on insights and knowledge already generated and accumulated in the past. It is no time to preach the ‘finance only’ gospel. The missing middle will be better off if we do not forget our institutional memories.