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MICRO AND SMALL ENTERPRISES MATTER

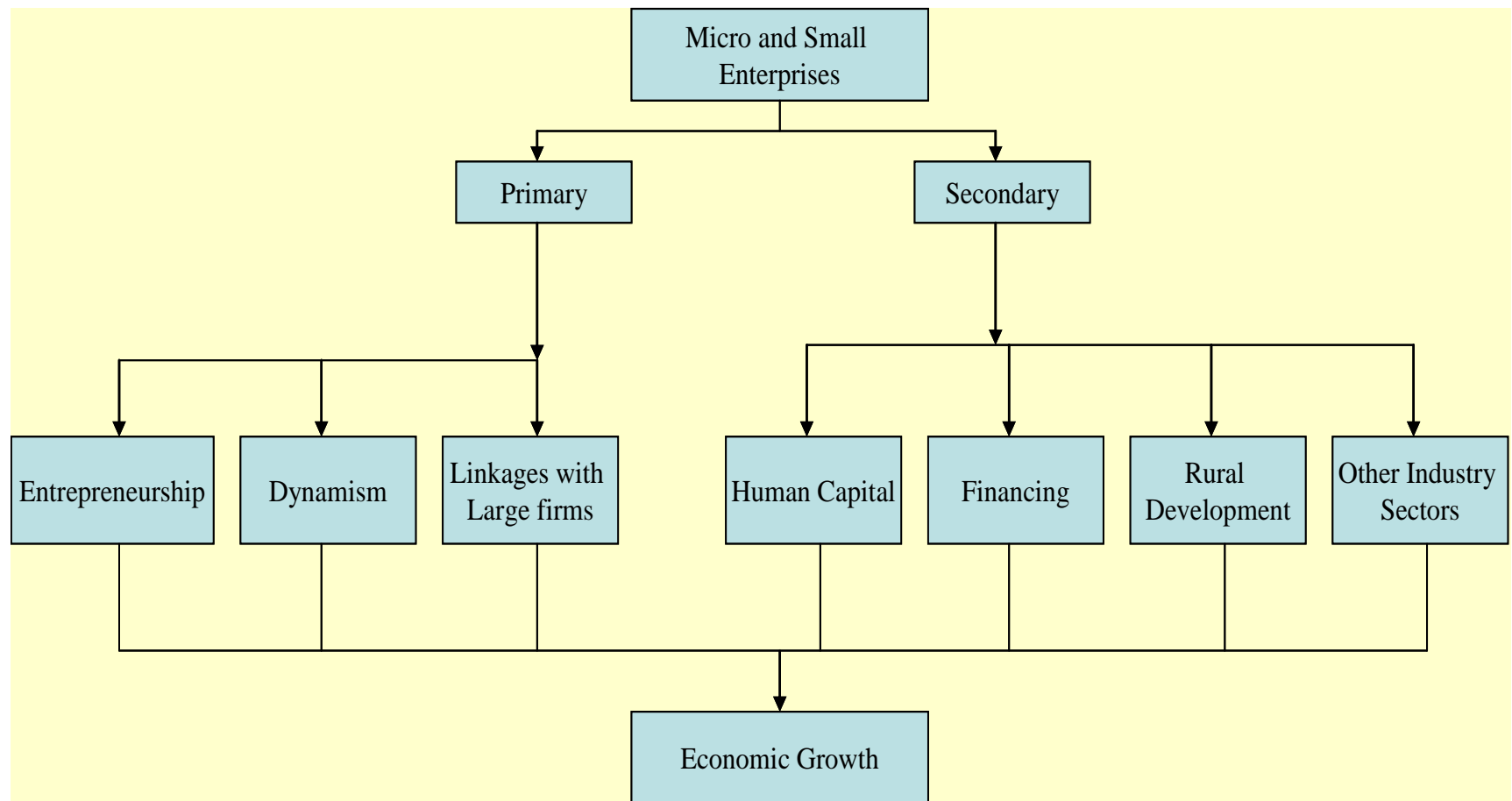
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BROAD RESEARCH QUESTIONS

- Do micro and small enterprises contribute to economic growth?
- If so, how?

GROWTH PATHWAYS FOR MICRO AND SMALL ENTERPRISES – STUDY HYPOTHESES



STUDY IN BANGLADESH – HYPOTHESES

Primary growth effects

- Micro and Small Enterprises, through forward linkages with larger enterprises (LEs), positively affect economic growth.
 - Economic growth is measured by growth in sales, incomes and employment of LEs.

Secondary growth effects

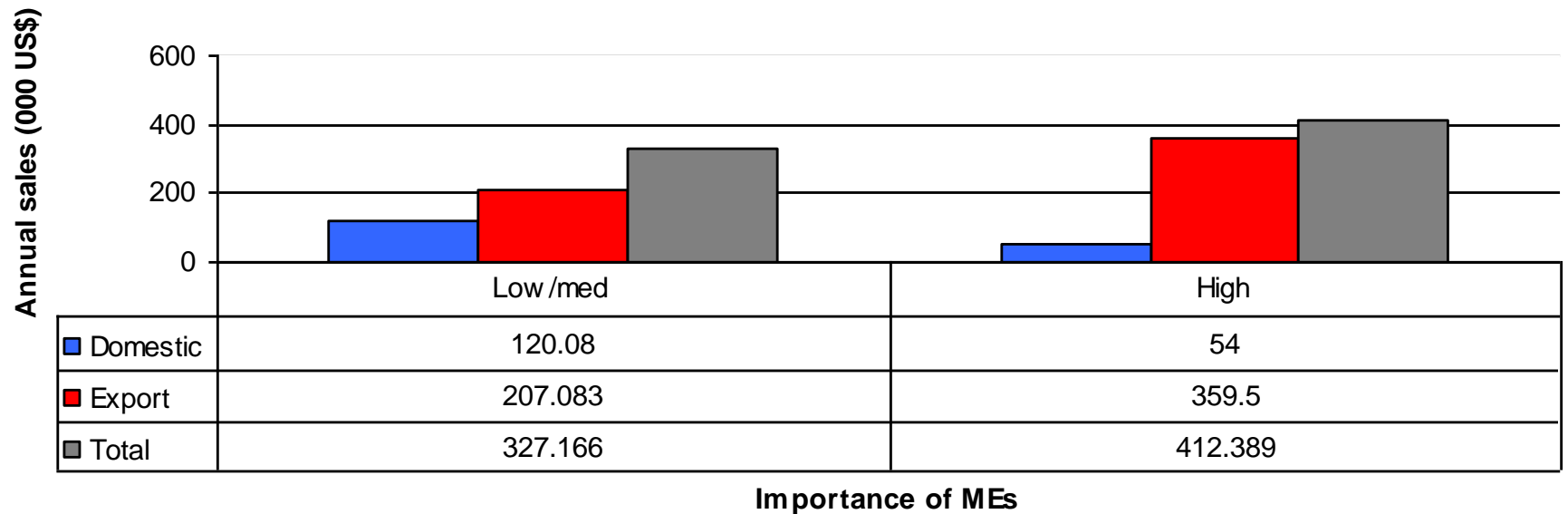
- Micro and Small Enterprises linked into value chains exhibit improved household well-being
 - Improvements are noted in income, asset formation and human capital.

PRIMARY GROWTH EFFECTS: LARGE ENTERPRISES (LE) GROW WITH MICROENTERPRISE (ME) LINKAGES

- **Sample:** Interviewed 15 large exporters of non-agricultural products, with outsourcing relationships with MEs.
- **Outsourcing from LEs to MEs:**
 - observed in labor-intensive production
 - offers cost advantages to new and young LEs
 - helps LEs manage market fluctuations
 - but, training & constant supervision are required to ensure quality & timely delivery

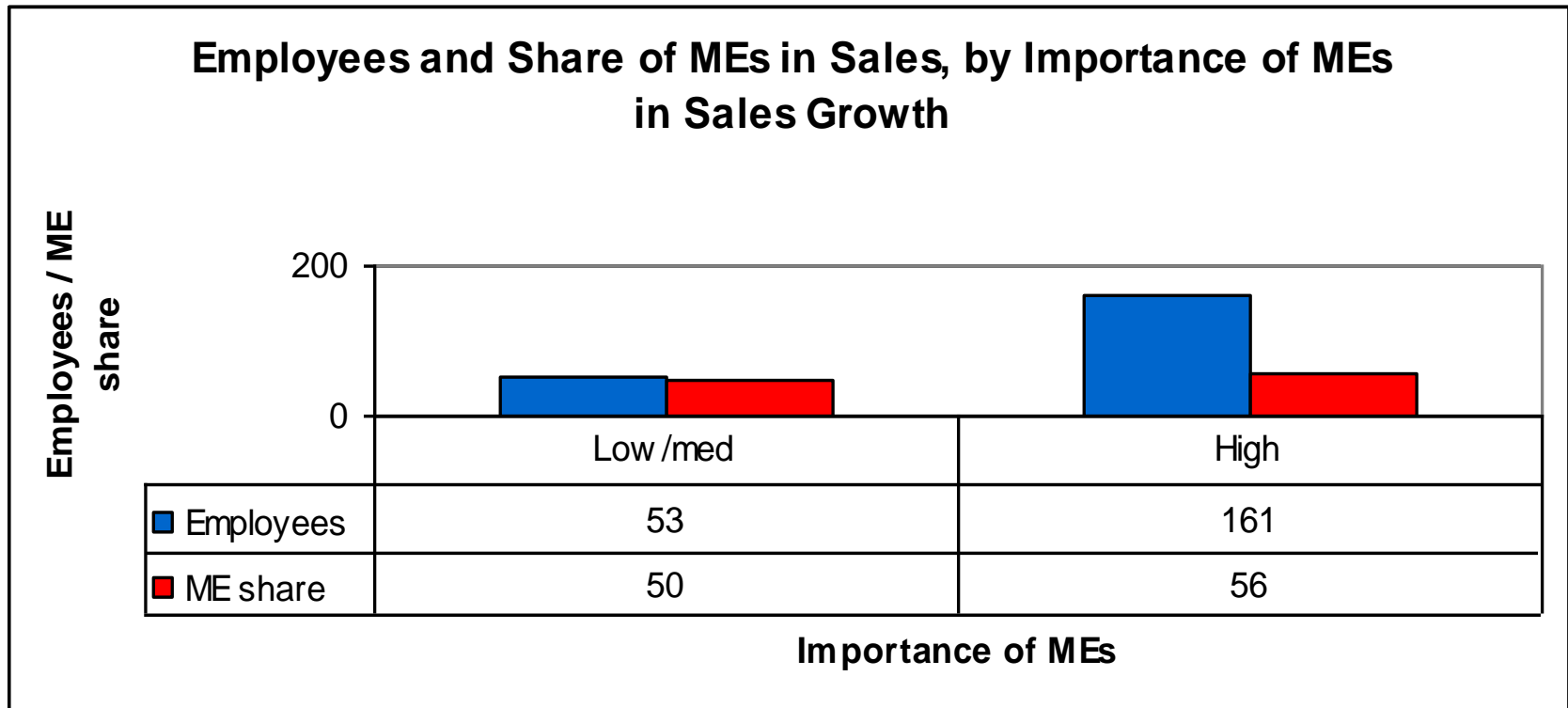
GROWTH IN SIZE INDICATED BY SALES

Average Annual Sales, by Importance of MEs in Sales Growth



LEs that perceive MEs of high importance to their sales growth report higher annual sales

GROWTH IN SIZE INDICATED BY LABOR FORCE



LEs that depend highly on MEs to produce part or all of their **exportable** products grew in size – (i) in the number of MEs for outsourcing, and (ii) in the number of hired employees



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Why did LEs grow their own labor force in addition to increased share of MEs for production?

MEs produced partially completed products - MEs helped increase sales volume

But, value addition was required to obtain higher prices - So, additional factory level workers were required

Therefore, increased share of MEs in sales volume did not directly translate into an increased annual net sales value

As LEs mature, they tend to shift to workshops or cluster-level linkages compared to individual ME-level linkages.

SECONDARY GROWTH EFFECTS: LINKAGES IMPROVE MICROENTERPRISE HOUSEHOLD INCOMES AND WELFARE

- Do MEs increase their incomes by selling to larger firms?

If so,

- Do MEs require a *history* of forward linkages with traders to link with larger firms?
- **Sample:** Interviewed 301 ME households engaged in non-agricultural activities.

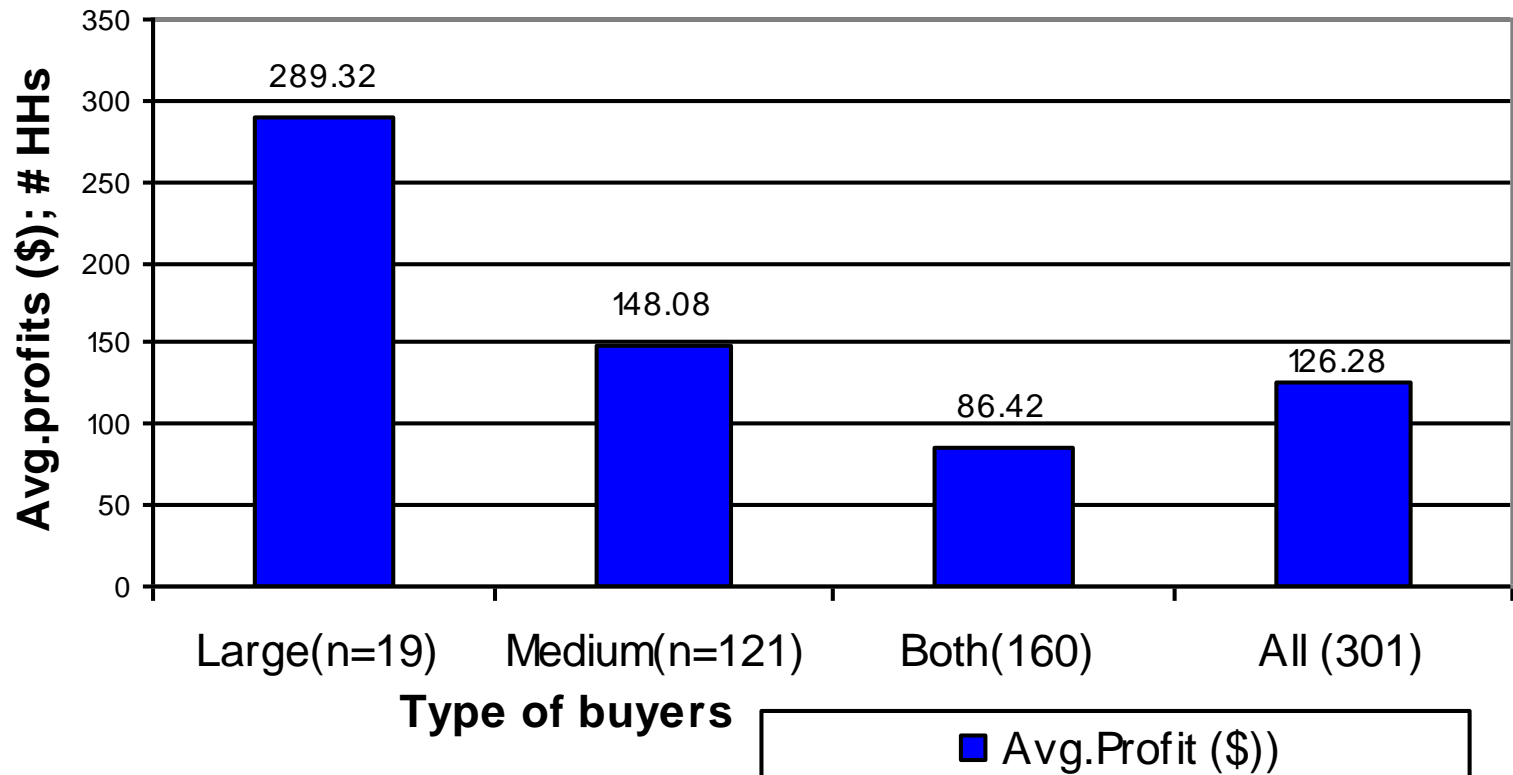
STUDY SAMPLE & DEFINITIONS

- **History of Linkages:** Since the start of the current enterprise, have ME households (HHs) accessed any of the following?
 - microfinance (M) for working capital for the ME
 - training related to production (T)
 - links with traders for selling their outputs (P)
- **Treatment Group:** 56% of HHs reported a history of linkages with traders (P) – either exclusively or in combination with microfinance (M) and training (T) to sell their outputs
- **Control group:** 44% of HHs accessed microfinance and/or training only.



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Type of Buyers and Average Profits



BUYERS AND MEs

- Incomes of MEs that sold to **large** buyers were not affected by any historic linkages with traders.
- The likelihood of selling to large buyers increases with a history of access to microfinance and training rather than with a history of linkages with traders.
- *History of only forward linkages with traders was not essential.*

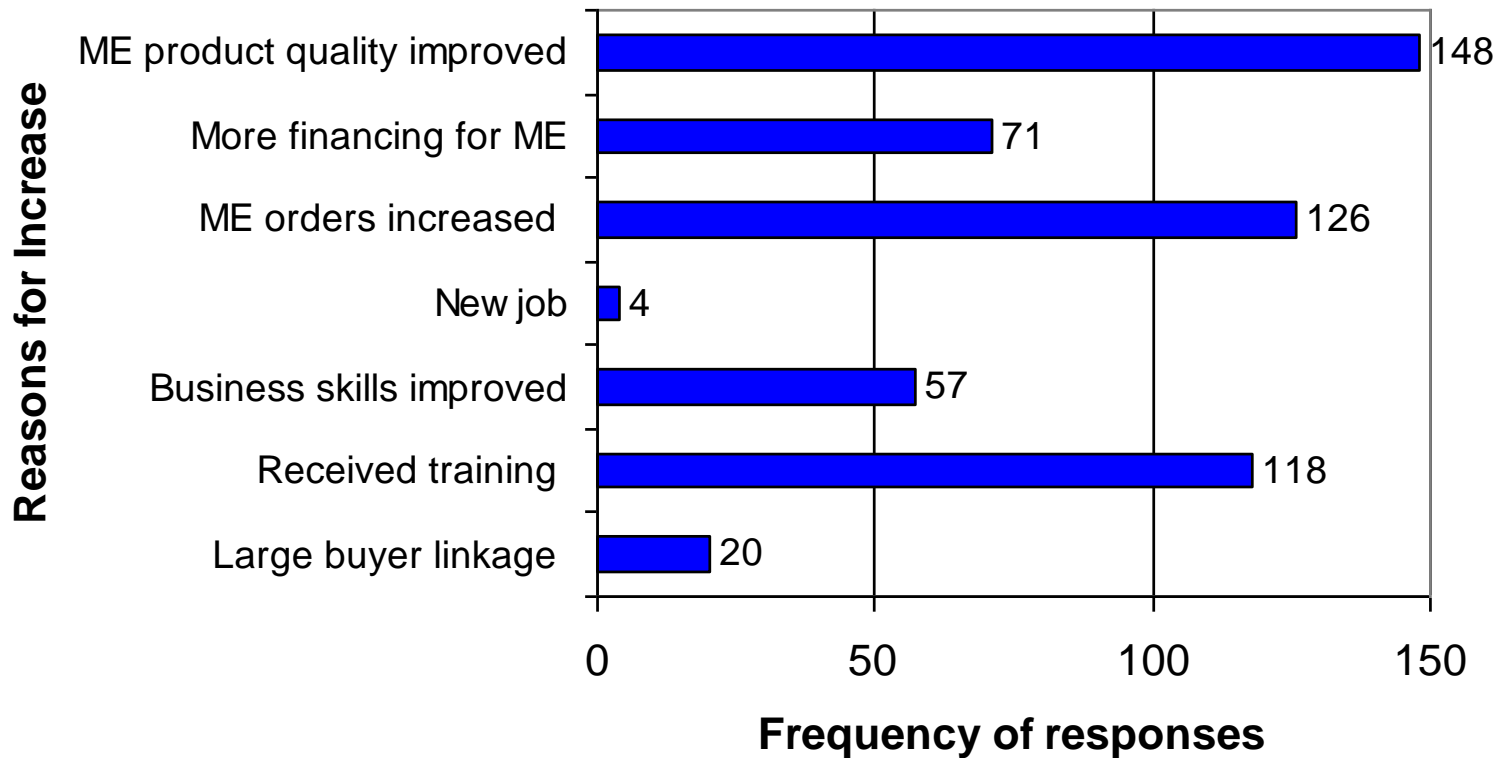
BUYERS AND MEs – Continued.....

- Large buyers buy from MEs in well-developed areas
- Activities that are dominated by women entrepreneurs tend to be associated with large buyers, while it was the opposite for medium-sized buyers.
- Large buyers link with exporters that are higher up in value chains, while medium-sized buyers only serve larger domestic markets.



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Reasons for Increase in Income Last Year



BUSINESS & HOUSEHOLD IMPROVEMENTS

- When MEs sell to large buyers, the likelihood of ME profits invested in business-related improvements increases.
- Differences in household improvements, by buyer type, is weak
 - MEs selling to large buyers, compared to others:
 - do not accumulate large amounts of household assets,
 - do not exhibit higher levels of improvements in education and health levels;
- Higher incomes realized by selling only to large traders, did not significantly translate into the *household investments* that may lead to some reduction in poverty levels.

PROGRAM IMPLICATIONS

- **For LEs to contribute to economic growth:**
 - Can focus on improving access to export markets
 - For export-oriented large firms, especially young firms and those engaged in labor-intensive production, linkages with MEs can be advantageous.
- **For MEs to contribute to economic growth:**
 - Can facilitate MEs to improve their access to large buyers that in turn access higher level value chains.
 - Improving access to microfinance and training, especially in well developed areas, can help more than just fostering linkages with traders.
 - The impact of these programs on the poverty level of ME households is uncertain.



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THANK YOU!

For more information on Making the
Case for Microenterprises (MCME)
please visit the Enabling Environment
page at www.microlinks.org