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# Micro Enterprises

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**D-Lab**

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# Three Types of Assistance Efforts

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- Increase the supply productivity of MEs
- Increase the demand for goods and services for MEs (not as common as supply-side policies)
- Empowerment

# Supply Side Policies

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- Provision of credit
- Training of ME owners and workers
- Development of low cost technologies for MEs
- Creation of trade organizations and cooperatives
- Improvement of working conditions and repealing government regulations



# Provision of Credit

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- Basic assumption underlying this approach: Formal financial institutions are reluctant to provide credit because:
  - 1.) High risk of default
  - 2.) High administrative cost of lending
  - 3.) Prejudice against poor women
  - 4.) Inability of MEs to meet bureaucratic procedures

# Provision of Credit

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- 5.) Existing loan repayment system not convenient for MEs



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- As a result MEs have to rely on local money lenders who charge very high interest rates.



# Lessons Learned About Credit Delivery

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- MEs are not necessarily a very high risk group if there is good outreach to identify good loan candidates and check references.
- Use of “solidarity groups” can reduce the need for collaterals by creating a social pressure system for timely repayment.

# Lessons Learned About Credit Delivery

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- There should be two types of loans: small, short term working capital loans, and larger, renegotiable, long term fixed asset loans.
- Credit should be extended wisely and at market rate. In case subsidies are necessary, they should be extended in forms unattractive to non-target groups.





# Lessons Learned About Credit Delivery

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- There is no evidence to suggest that credit must be accompanied with business advice and technical assistance.
- In fact, the scale of operation can be expanded quickly if assistance is restricted to only credit.



# Lessons Learned About Credit Delivery

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- Most institutions created to provide credit are yet to become self-sufficient.
- Mandatory saving schemes have helped create financial viability and accountability, but most institutions still rely on donors.

# Lessons Learned About Credit Delivery

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- To ensure lending to large numbers of MEs, commercial financial institutions should be involved. Credit guarantee schemes help.

# Lessons Learned About Credit Delivery

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- Credit delivery has not reduced, significantly, the role of money lenders in credit provision.



# Training and Technical Assistance

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- Key assumptions underlying assistance efforts:
    - Low productivity of MEs is due to low level of technology used by those enterprises which lack technical knowledge necessary for use of better technologies
    - ME owners lack managerial and business skills
    - Training is particularly important for women owners who, if they are to be liberated from the drudgery of household work, must be taught new skills
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# Training and Technical Assistance

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- Learning new skills will not encourage labor mobility (skills are firm specific in nature)

# Lessons Learned

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- Management problems are rarely the key factor inhibiting growth of MEs. On the contrary, ME owners are very skillful in responding to market fluctuations.



# Lessons Learned

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- Successful projects did not train ME owners in new skills; the key to success was the access to new markets for old skills.
- Projects that required new skills and products faltered not because ME owners could not learn new skills, but because the market for products requiring new skills was limited.



# Lessons Learned

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- ME owners rarely agreed to pay for training; and most training programs “reimbursed” the trainers for learning new skills. This required subsidies which hurt replicability of programs.



# Lessons Learned

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- Training, when it was successful, came as response to a real, concrete problem faced by MEs. This confirmed the importance of learning on the job and had to be very simple.



# Lessons Learned

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- Trained employees often took jobs in formal sector!

# Lessons Learned

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- Behavioral traits, such as risk taking and entrepreneurship, cannot be pumped into the poor through training programs. What can be taught are disciplines needed for attending meetings, arranging solidarity groups and so on. NGOs are good at these sorts of activities.



# Lessons Learned

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- Can the productivity of service sector as compared to manufacturing jobs, (which is the largest share of MEs) be increased through training?

# Technological Change

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- Key assumptions underlying assistance efforts
  - Low productivity of MEs and poor quality of their products result from the use of inferior technologies.
  - MEs would like to upgrade their technologies, be more productive, and sell more (or new) products but cannot do so because:
    - they do not have the capital to purchase new technologies

# Technological Change

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- They lack the skills necessary for using new technologies and
- Appropriate technologies ( simple and inexpensive) do not exist because research institutions which generate technological inventions cater to the needs of large scale, formal firms.

# Lessons Learned:

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- To induce technological change in the production process without significantly increasing the price of production is very difficult as MEs are worried about losing market share because of cost increases.
- Lumpiness of investment necessary to reorganize production technologies is a risk for MEs who worry about competition from large firms which can adopt new technologies quickly.





# Lessons Learned

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- MEs prefer new technologies for marketing than for production. When new technologies for production were adopted, they were not meant to produce new products, or create new production processes, but very low cost changes were adopted to reduce the vulnerability of ME workers to health hazards.

# Lessons Learned

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- Well established research institutions have been generally unsuccessful in devising and disseminating “appropriate technology” for MEs. Though some efforts have been made, none have made the impact of, say, “the green revolution”. One factor that prohibits large-scale impact is the predominance of service providers among MEs.



# Demand-Side Policies:

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- Aimed to generate new demand for ME produced goods and services from
  - 1.) private consumers
  - 2.) private formal sector firms, through either subcontracting or piece-rate work
  - 3.) public sector firms and businesses



# Demand from Private Consumers:

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- Key assumptions
  - 1.) Relatively high income consumers can be induced to shift their purchasing preferences towards buying from MEs.
  - 2.) Low income consumers can be induced to continue to buy from MEs and increase their purchasing when disposable income increases.

# Lessons Learned

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- 1.) There is no evidence, as yet, of successful strategies which induced upper income consumers to buy more from MEs. Instances where assistance was provided to improve the packaging and appearance of ME produced goods to attract upper income consumers have not had much impact.

# Lessons Learned

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- 2.) It is hard to test whether low income consumers would behave differently if their income increased. Little evidence that exists indicates that the income elasticity of demand of goods and services produced by MEs may be negative, partly because of advertisements.



# Political Mobilization through MEs

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- Key Assumptions:
  - 1.) MEs are not politically conscious of their rights as citizens because dominant political institutions did not care to mobilize them politically.
  - 2.) Solidarity groups which were created to repay loans could also be used for raising the consciousness of MEs.

# Political Mobilization through MEs

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- Key Assumptions
  - 3.) MEs are particularly appropriate for the purpose of raising political consciousness because they provide immediate economic benefits without which the poor may be reluctant to spend time in discussing political issues.



# Lessons Learned

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- 1.) There is no evidence of a project having mobilized the MEs, the group continues to function as an independent political force. In fact, successful implementation of projects required the approval of local elite and political party officials from the area. So, successful projects could never mobilize the MEs around fundamental issues, such as uneven distribution of economic resources and political power.

# Lessons Learned

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- 2.) Projects in which the beneficiaries shared ethnic, caste or religious backgrounds created a cohesiveness good for group dynamics. These same factors, however, prohibited large-scale mobilization involving many groups because that group worried about losing their identity and opposed opening their organizations to “outsiders”.



# Lessons Learned

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- 3.) Mobilization of MEs almost always focused on the owners, not their workers, who are more vulnerable politically. And, even in organizing MEs, no attempt was made to link them to dominant political parties.



# Lessons Learned

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- 4) The ME projects did contribute to the creation of a political constituency, not of MEs but of young, middle class youth who worked for NGOs which implemented ME projects. It was in the interest of this group that donors continue to support ME projects unconditionally.

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