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# MICROENTERPRISES IN BANGLADESH: CONTRIBUTION TO ECONOMIC GROWTH

**SEPTEMBER 2008**

This microREPORT was produced for review by the United States Agency for International Development. It was prepared by the IRIS Center, at the University of Maryland.

# MICROENTERPRISES IN BANGLADESH: CONTRIBUTION TO ECONOMIC GROWTH

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**CONTRACT NUMBER**

GEG-1-00-02-00029-00 Task Order # 5

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**ACKNOWLEDGMENTS**

This paper was written by Geetha Nagarajan with assistance from Anthony Leegwater and Arthur Shaw. Theresa Condor conducted and wrote the case studies used in the report, and the JOBS staff in Bangladesh conducted the surveys to gather the data for the study. IRIS expresses its appreciation to the authors for the innovative research and analysis, and JOBS staff for data collection they undertook to produce this paper.

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# ACRONYMS

<b>Acronym</b>	<b>Explanation</b>
AMAP	Accelerated Microenterprise Advancement Project
GDP	Gross Domestic Product
IQC	Indefinite Quantity Contract
IRIS	Institutional Reform and Informal Sector
JOBS	Job Opportunities and Business Support
LE	Medium and Large Enterprises
M	Microfinance
MCME	Making the Case for Microenterprises
ME	Small and Micro Enterprises
NGO	Non Governmental Organization
OECD	Organization for Economic Cooperation and Development
P	Private Trader Linkage
T	Training
USAID	US Agency for International Development

# EXECUTIVE SUMMARY

## MICROENTERPRISES IN BANGLADESH: CONTRIBUTION TO ECONOMIC GROWTH

This report<sup>1</sup> presents the results from a micro-level study conducted in Bangladesh that examines whether microenterprises (MEs) contribute to economic growth through forward linkages in value chains with larger enterprises (LEs). During the period from October 2005 to February 2006, quantitative and qualitative data were collected from 15 export-oriented LEs that outsource to producer MEs, as well as 301 MEs that have some history of linkages with traders and/or access to microfinance and training. The sample was limited to the non-agricultural sector.<sup>2</sup>

### DO MICROENTERPRISES HELP LARGE ENTERPRISES TO GROW?

The study finds that outsourcing relationships with MEs were associated with growth of LEs in size.<sup>3</sup>

- Outsourcing to MEs offers substantial cost advantages to LEs (especially newer firms) engaged in exporting merchandise that are labor intensive to produce. However, by outsourcing to MEs, the majority of LEs also experience many challenges and some additional expenses in supervision and training.
- LEs that depend heavily on MEs to produce part or all of their **exportable** products, as compared to those that are less dependent, grew in size, in terms of both the number of MEs for outsourcing and the number of hired employees.
- The LEs that perceive MEs of high importance for their sales growth report larger annual net sales compared to those that consider MEs of medium importance.
- Increased share of MEs on **sales volume** may not directly translate to increased annual net **sales value** since value addition is required for which hired workers are employed.

It appears that outsourcing to MEs does not limit LE growth in size and sales. In other words, linkages with MEs may help LEs to grow rather than stagnate or die. This offers some insights into the contribution of MEs to economic growth through forward linkages with exporting LEs. The contribution from MEs to LEs' sales, however, is not direct. Value addition is required to augment the products made by MEs to increase sales value in export markets.

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<sup>1</sup> This study is part of a broader research effort commissioned by USAID and implemented by the IRIS Center, titled "Making the Case for Microenterprises (MCME)."

<sup>2</sup> The implications of the study are therefore especially relevant for MEs in non-agricultural sectors that produce labor-intensive merchandise for export.

<sup>3</sup> Because of methodological limitations, however, the study does not strongly support a case that, through linkages, MEs help LEs to substantially grow (and thus contribute to economic growth). Data were not gathered to compare the findings with firms that do not engage in outsourcing relations with MEs., and data were not gathered to compare the findings with firms that only serve domestic markets.

## DO MICROENTERPRISES BENEFIT BY LINKAGES, AND CONTRIBUTE TO ECONOMIC GROWTH?

The data show that:

- MEs that sell to large size traders that are linked in higher level value chains tend to realize higher profits compared to those MEs that sell to medium/small size traders that only serve domestic markets.
- Household incomes appear to increase significantly with sales to large traders (compared with medium-sized traders). Such increased incomes are used, in part, to make investments in business assets.
- The higher incomes realized by selling only to large traders, however, do not significantly translate into household improvements in education, health conditions and housing that could lead to some reduction in poverty levels.

The above results may indicate that MEs stand to gain in terms of increased incomes useful for business investment if they can sell to traders that are linked in higher value chains such as export markets. Therefore, it may be imperative for MEs to be able to sell to large traders engaged in exports.

The study hypothesized that a **history of forward linkages with traders** might be essential for MEs to access buyers, to help them realize higher profits required for investments and making household improvements. The study data, however, do not strongly support this hypothesis.<sup>4</sup>

- Large buyers are found to likely buy from MEs that produce labor-intensive outputs, from well-developed areas, and from MEs with a history of access to microfinance and training facilities. History of forward linkages with traders is not essential.
- Activities that are dominated by women entrepreneurs tend to be associated with large buyers, while the reverse is true of medium sized buyers. Women run activities are generally labor-intensive, and women in Bangladesh have good access to microfinance and training.
- In general, large buyers report being linked with exporters that are higher up in value chains such as export markets, while medium-sized buyers only serve larger domestic markets.

In sum, the study indicates that MEs can contribute to economic growth through increases in their incomes and business related investments. It also suggests that selling to large buyers linked in higher level value chains is important for MEs to increase their incomes. However, improved access to microfinance and training appears more important for such connections than a history of forward linkages with traders.

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<sup>4</sup> The MEs were asked if, since the start of the current enterprise, they have accessed microfinance (M) for working capital for the ME, and/or training related to production (T) and/or linked with traders (P) for selling their outputs. This information constitutes the *history* of access to M and/or T and/or linkages with P.

## **PROGRAMMING IMPLICATIONS**

For LEs to contribute to economic growth, programs focused on improving access to export markets can be helpful. For such export-oriented large firms – especially young firms and those engaged in labor-intensive production – linkages with MEs can be advantageous.

For MEs to make a clear contribution to economic growth in terms of increased incomes and business-related investments, program interventions are essential to facilitate ME access to large buyers that can in turn access higher level value chains. To that end, improving access to microfinance and training, especially in well developed areas, can help more than fostering linkages with traders. However, such program interventions may not be effective in actually reducing poverty levels of ME households.

# CHAPTER ONE

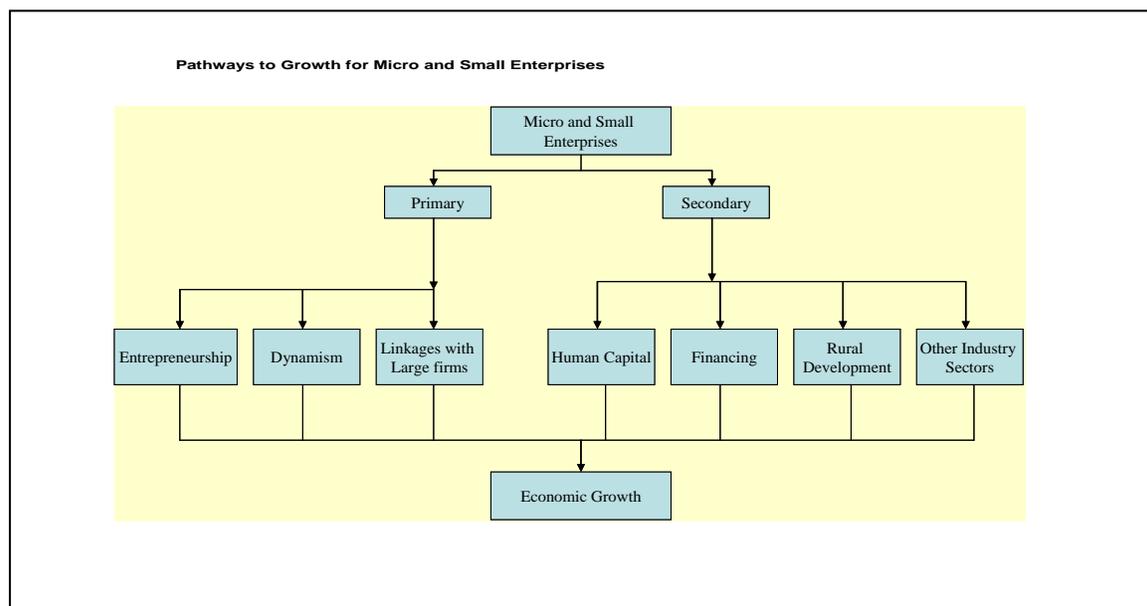
## BACKGROUND AND INTRODUCTION

### THE STUDY BACKGROUND

In 2004, USAID, under the AMAP IQC, commissioned the IRIS Center for a research study to examine if and how microenterprises contribute to economic growth in developing countries.

A detailed literature survey shows that micro and small enterprises (MEs) contribute to economic growth through several pathways that go beyond job creation.<sup>5</sup> A conceptual framework was developed for the study, based on literature surveys and consultations with an advisory panel. We identified unexplored primary and secondary pathways for MEs to contribute to economic growth, including entrepreneurship, economic dynamism, linkages in value chains, and societal development (see Figure 1).<sup>6</sup> “Primary pathways” have greater and more direct impact on growth; they include promoting entrepreneurship and economic dynamism, and creation of value chains through linkages with large firms. “Secondary pathways” are the indirect channels through which MEs may contribute to overall economic growth and include human capital improvement, financial market development, societal development, and contributions to other industry sectors.

We then formulated the following broad hypotheses. (1) Growth of small and microenterprises is positively associated with economic growth, (2) For small and microenterprises to grow, industry dynamism and linkages within value chains are important. (3) A good business environment is required for small and microenterprises to grow.



<sup>5</sup> See the Literature Review undertaken by the IRIS Center as part of the MCME project.  
[http://www.microlinks.org/ev\\_en.php?ID=12577\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=12577_201&ID2=DO_TOPIC)

<sup>6</sup> See Ayyagari and Maksimovic, 2006.  
[http://www.microlinks.org/ev\\_en.php?ID=12578\\_201&ID2=DO\\_TOPIC](http://www.microlinks.org/ev_en.php?ID=12578_201&ID2=DO_TOPIC).

In order to test the hypotheses, detailed analyses were carried out at three levels: (i) the macro level, using secondary aggregate static data from 53 countries, to examine causal effects of micro, small and medium enterprises on economic growth measured by GDP; (ii) the meso level, using secondary panel data from small and large industries in Canada, OECD and developing countries, to identify characteristics of dynamic industries and how they map into small and large industries and cause economic growth; and (iii) the micro level, using primary cross section data gathered for the study from larger firms and MEs in Bangladesh and Peru, to examine if forward linkages facilitate MEs to contribute to economic growth. The current report presents the results of the micro-level research conducted in Bangladesh.

For this study, “forward linkages” are defined as the working links, established either formally or informally, between the producer micro-enterprise and its distribution and/or exporting outlets. They are also referred to as links to enterprises “higher” in the value chain. (Lower or backward links are links to suppliers of materials or other inputs to the producer MEs.)

The study interchangeably uses the term MEs, MSEs and small industries. Large and medium enterprises are referred to as “larger firms.” The definition of MEs, small, medium and large enterprises/industries is based on the number of employees (defined specifically for each country or regional context).

## INTRODUCTION

This report presents the results of a micro-level study conducted in Bangladesh that examines whether, and how, micro and small enterprises (MEs) contribute to economic growth through forward linkages in value chains with larger enterprises (LEs).

Linkages between larger firms and MEs appear to perform complementary roles within the value chains.<sup>7</sup> As suppliers, MEs may form alliances, clusters and networks to facilitate such linkages with firms higher in the value chain in order to enter national and global markets. Such linkages may help MEs to grow and to contribute to overall economic growth. Even MEs that remain stagnant may contribute to economic growth indirectly through human capital formation, if (as has been suggested in the literature) micro and small enterprise households have a higher propensity to send their children to school, to provide better nutrition and to pay for medical services. By providing employment for women, MEs may have a significant impact on overall household welfare.

The study, conducted in Bangladesh from October 2005 to April 2006, explored the hypothesis that MEs contribute to growth in two ways:

- A primary effect, through forward linkages with medium and large enterprises (LEs).
- A secondary effect, through household improvements reflected in income, asset formation and human capital.

We expected that ME linkages contribute to growth of LEs through increased sales, employment, and ability to enter and compete in global markets. We also anticipated that MEs contribute to the

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<sup>7</sup> For this study, the *value chain* describes the full range of activities which are required to bring a product or service from conception, through the different phases of production, delivery to final consumers, and final disposal after use.

wider economy by serving as a supply base for larger firms. We predicted that MEs – assisted by value chain linkages – may experience improved incomes and human capital (health, education, consumption, and housing), with positive effects on economic growth.

Bangladesh was selected as a study location because of its poverty level and large number of MEs. A survey in 2003 estimated that small enterprises in Bangladesh – those employing 100 workers or fewer – number 6 million, employing about 31 million people. The survey estimated that these enterprises contribute 20-25% to GDP, and that half of them are based in households. About 36% of these enterprises were operated by single proprietors and 83% have one to five workers. The majority of these enterprises were linked with LEs to access inputs, markets for outputs, finance and training (Daniels, 2003)<sup>8</sup>.

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<sup>8</sup> See Lisa Daniels, *National Private Sector Survey of Enterprises in Bangladesh, 2003*, International Consulting Group, October 2003.

# CHAPTER TWO

## STUDY SAMPLE

### SAMPLING METHOD

During the period of October 2005 to February 2006, quantitative and qualitative data were gathered in two separate surveys using specifically designed survey instruments. The surveys targeted 15 LEs and 301 MEs. In addition, three LEs were selected for detailed case studies to map the evolution and growth of the LEs through linkages with MEs.

Logistical and financial constraints precluded the use of random/proportional sampling methodology. The MEs were identified instead by local NGOs or by LE representatives. Participants were selected based on their availability and willingness to participate on the day of the field visit. (The NGO/LE representatives did not participate in the research and had no vested interests in the results.) The field study was conducted through a local team from JOBS, a private sector development project in Bangladesh, funded by USAID and administered by the IRIS Center. The LEs were selected from a list of firms in Dhaka that participated in a JOBS project for accessing business development services, including fostering linkages with MEs and matchmaking with overseas markets. Care was taken, through detailed interviews using trained enumerators, to minimize the inevitable sampling bias.

### SAMPLE CHARACTERISTICS

The sample characteristics are described in Table 1.

**Table 1: Study Sample in Bangladesh**

Items	Large and Medium Enterprises (LE)	Microenterprises (ME)
Sample size	15	301
Location	Dhaka	Bogra, Mymensingh, Tangail and Rangpur
Sectors	Textiles, handicrafts, jute floor mats and coverings, hand made paper.	Textiles, crafts, handmade paper, jute products, bakery, small groceries/trade, and furniture making
Markets	All are exporters; About 75% is exported and rest sold in domestic markets.	7% sell to large buyers/exporters; 40% to medium buyers that sell in domestic markets; and 53% to combination of both large and medium buyers.
Linkages	All are currently linked with MEs in outsourcing relations	56% had <i>history</i> of linkages with traders since start of the enterprise while 44% were not.

### LARGE AND MEDIUM ENTERPRISES (LES)

The first survey covered 15 LEs that are linked with MEs in outsourcing relationships. In linked contracts, the LEs supply certain raw materials to MEs and/or commit to buy the merchandise produced by the MEs. All sampled LEs are exporting firms from Dhaka, with many also selling domestically. Most of the enterprises are in the homemade textiles, handicrafts, and jute sectors, which are labor intensive industries with few inputs. No control group for LEs was interviewed.

## MICROENTERPRISES (MES)

The second survey covered 301 ME households that produce outputs intended to be exported or sold in major domestic markets. All of the sampled MEs were in the non-agricultural sector.

**History of Linkages:** The households were asked whether, since the start of the current enterprise, they had accessed any of the following:

- microfinance (M) for working capital for the microenterprise
- training related to production (T)
- links with traders (P) for selling their outputs<sup>9</sup>

This information gave the history of access to M and/or T and/or linkages with P.

**Control and Treatment Groups:** Households that reported a history of linkages with traders (P) – either exclusively or in combination with microfinance (M) and training (T) to sell their outputs – were considered as treatment/experimental group (56%). Those households that only accessed microfinance and/or training were considered as control group (44%).

**Geographic Areas:** The sample was drawn from one district that has well-developed infrastructure and access to factor and financial markets, as well as three relatively less-developed districts (see map of sample area in Appendix 1).

**Production Methods:** The MEs that participated in the study used several methods of production, not mutually exclusive: (i) cluster-based approach, (ii) home-based work, and (iii) centrally located work. In cluster-based production, MEs within a given geographic area service specific buyers and receive group training to comply with the technical and design specifications of the buyer. The MEs and LEs achieve a solid supplier-buyer relationship through single access points for specific product parts, providing the capacity to consistently fill large orders. Cluster-based MEs can be both home-based and centrally located. Some entrepreneurs, especially women, may work from home with little professional interaction with other members of the cluster who are producing for the same order. In this case, the buyer or buyer's representative will make door-to-door house calls to collect finished products. In other circumstances, the buyer will establish a central location for all of the cluster members to work. This arrangement resembles an employee-employer relationship, but all the MEs receive payment based the number of units produced, just like home-based enterprises. MEs who are not part of a cluster may also work either from home or from a central location.

## CAVEATS

The MEs' history of linkages with traders may not accurately represent their current relationships with traders. Note that the control group members may sell to large and medium traders, with or without contractual linkages. Similarly, treatment group members may currently sell to traders with whom they had no historic linkage.

Since (unlike the LEs) the MEs are all drawn from outside of Dhaka, their links are to buyers who are not sampled as LEs for the study. Thus there are no direct links between the sampled LEs and MEs for the study. While this is a limitation in examining the effects of direct outsourcing

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<sup>9</sup> All traders were from the private sector; hence the label P.

relationships on the export-oriented LEs and linked MEs, it may not affect the analysis of effects of linkage on MEs.

The study was designed to examine the growth effects due to linkages at both LE and ME levels. Since baseline data were not available, and no reliable recall data could be collected for a longer time period, qualitative responses were relied on to indicate household growth. Also, qualitative and subjective responses were used to assess the quality of the business relationships in value chains. In addition, quantitative data were self-reported and could not be verified with documented records. However, surveys were conducted by a reputable local firm, familiar with the area and the sampled firms, that could check on the accuracy of some of the information.

The small sample size for LEs (15) limits the appropriateness of some rigorous statistical tests. Therefore, simple statistical tests that could accommodate small samples were used to examine the data.

The samples are drawn from non-agricultural sector; the study results may thus be less relevant for the agricultural sector.

# CHAPTER THREE

## STUDY ONE: MICROENTERPRISE LINKAGES AND GROWTH OF LARGER ENTERPRISES

### FINDINGS

The study found that microenterprises (MEs) contribute to economic growth through forward linkages with larger sized enterprises (LEs). In other words, LEs grow (in part) through linkages with MEs.

The analysis is based on data gathered from 15 export-oriented LEs that outsource from MEs. All 15 LEs sold their products in both foreign and domestic markets. However, domestic sales accounted for only a small share in total sales. The median annual total sales from combined domestic and overseas markets were US\$300,000. Individually, the median annual export sales were US\$ 145,000, compared to only US\$12,000 for domestic markets.

Growth of LEs was inferred from self-reported data covering yearly sales, employees, and the share and importance of outsourcing to MEs for sales volume, value and growth.

#### KEY FINDINGS

- LEs that highly depend on MEs to produce part or all of their **exportable** products grew in size both in number of MEs for outsourcing and in number of hired employees, compared to those that are less dependent.
- LEs that perceive MEs as of high importance for their sales growth report larger annual net sales value compared to those that consider MEs of medium importance.
- Increased share of MEs on **sales volume** may not directly translate to an increased share in annual net **sales value** since value addition required additional hired workers.

### WHY OUTSOURCE?

**Outsourcing to MEs present many challenges and some additional expenses.** The most difficult challenges of working with MEs were ensuring quality and timely delivery of products.

**Box. 1. Outsourcing Challenges**

Karupannya was started in 1991 as a small firm serving domestic markets. Since 2003, it produces floor coverings for Honda and hand crafted products for Ikea using microenterprise clusters as production base. In four years it has grown from outsourcing to only 200 microentrepreneurs to 600. Micro-enterprises are trained by Karupannya and are reported to be responsible for manufacturing around 60% of the products that are supplied to Ikea and Honda. The remaining 40% –finishing and packaging – is completed by a technical staff of 50. Outsourcing to microenterprises has been efficient. However, despite consistent training, the micro-entrepreneurs require careful oversight to ensure quality and to deliver on time. The cluster-based method appears to help minimize supervision costs, as compared with working with individual home based microenterprises. Nonetheless, Karupannya intends to operate in a factory setting and to hire the micro-entrepreneurs as full-time employees. But, due to the high initial investment and overhead expenditures of maintaining a factory, for the immediate future it will continue to rely on micro-enterprises.

Training and constant supervision are required to ensure quality and timely delivery. About 80% of the sampled LEs provide sector-specific technical training to the MEs. Several firms also pay a portion of the expected earnings up front, along with providing raw materials, to ensure timely and reliable supply.<sup>10</sup> These approaches increase the costs of outsourcing. Nonetheless, while teaching MEs to adapt to new designs was challenging, one respondent noted that MEs sometimes contribute their own designs that are then adopted by the LE.

Identification of reliable MEs is very important. Whereas some LEs hire middlemen to locate ME producers and collect products, and have little direct interaction with the rural producers, the smaller and newer LEs locate their supply base through more direct interaction with the MEs. Word of mouth and interaction with existing ME suppliers seem to be a common method for locating the supply base.<sup>11</sup>

**If costs of outsourcing to MEs are high, why do LEs engage in outsourcing?** The responses from the surveys showed that, despite the challenges, there are several advantages to outsourcing.

**Outsourcing to MEs is observed in labor intensive production activities.** All sampled LEs outsourced part of the production to MEs, especially for labor intensive products that cannot be easily completed in a factory setting (e.g., hand braided strands for jute rugs, handmade paper, and traditional embroidery). While MEs are able to work for multiple clients at once, some work exclusively for a single firm. All LEs reported that the majority of their MEs supply base is comprised of women working in their homes.

<sup>10</sup> This also created trust between the LEs and MEs. As a result, even though MEs are able to work for multiple clients at once, many worked exclusively for a single LE.

<sup>11</sup> One LE began the outsourcing relationship very informally by teaching the housemaid how to make a particular product. In time, the housemaid's family and home village neighbors were recruited to participate.

**Box. 2. Bengal Braided Rugs Ltd. (BBRL)**

BBRL was started in 1996 with outsourcing relations with only 50 micro-entrepreneurs. It is now an international supplier of hand made jute-braided rugs. It manufactures the rugs through a combination of home-based micro-enterprises and factory-based employees. In order to produce the colored hand-made braids that make up 50% of the value of these rugs, BBRL relies on home-based micro-entrepreneurs residing in near-by villages. The company is currently working with over 800 micro-entrepreneurs, predominantly female, in 30-50 households per village in several close-by villages. The micro-entrepreneurs are paid by the weight of the braids that they produce, and average around US\$12 per month. The home-based micro-enterprise workers are an indispensable component of BBRL's success. Because the braided yarn that is used to manufacture the final product can only be done by hand, BBRL plans to continue to rely on micro-enterprise producers.

**Outsourcing to MEs offers cost advantages to new and young LEs.** Nearly 80% of the sampled LEs indicated that working with MEs reduces start-up business investments and overhead expenditures. The LEs could grow to meet demand from export markets without hiring new employees or building new infrastructure such as factories.

**Box. 3. Benefits of Outsourcing: Creation**

Creation Private Limited, has been working since 1997 to produce handmade paper and jute products that are predominantly sold in the international market. The firm works with both micro-entrepreneurs and factory workers and has achieved average annual sales of approximately USD 800,000. Creation depends on the labor-intensive work of micro-entrepreneurs for nearly 85% of the finished paper goods that it exports to Europe. Much of the value-added work for jute products, such as block printing, is also dependent on micro-entrepreneurs. Finishing and packaging are performed as a last step in Creation's factory. According to the owner, nearly 75% of his yearly sales are dependent on the work provided by micro-entrepreneurs. From a financial perspective, working with micro-entrepreneurs has allowed Creation to maintain a low overhead and to grow organically as it continues to develop an international reputation.

**Outsourcing helps manage market fluctuations.** During periods of uncertain sales, working with MEs provides the exporting LEs the flexibility they need to remain in business. Since many outsourcing relationships involve a buying obligation with no explicit requirement of quantity, the LEs reported adjusting their orders with MEs based on the orders from their buyers.

## OUTSOURCING AND GROWTH OF LARGER ENTERPRISES

### GROWTH IN SIZE INDICATED BY LABOR FORCE

**LE Growth in Number of Outsourced MEs.** Since start-up, many of the sampled LEs reported an increase in number of MEs outsourced for production. One successful LE reported a three-fold increase in the number of MEs in the past three years (see Box 1 on Karupannya).

**LE Growth in Factory-based Hired Workers.** About 80% of the sampled LEs reported maintaining hired employees in addition to outsourcing from MEs to meet their export and domestic markets requirements. The average number of employees in 2005 ranged from zero to 498, with an average of 118.

While the number of hired employees tends to decline with increased share of MEs in volume of **domestic market** sales, it appears to increase with increased share of MEs in volume of **export** market sales, net export sales value, and firm's perception of high importance of MEs in sales growth (see Table 2 and Fig. 1). In most cases, the factory employees are needed to complete partially produced outputs by MEs and/or for packaging and marketing. The employees may add value for exportable products, but they do not replace production activities that can be outsourced to MEs. Value addition was important to obtain better prices and to retain/grow sales orders.

**Table 2: Kendall tau Correlation Coefficients: Employees, Sales, and Share of MEs in production**

	No. Employees
Share of MEs in Domestic Sales Volume (%)	-0.3352
Share of MEs in Export Sales Volume (%)	0.0303
ME Importance in Sales Growth (Scale 1-10)	0.03
Net Export Sales (US\$)	0.6057***
Total net Sales – domestic and exports (US\$)	0.5167***

\*\*\* = Represents significance at 1 percent level

**Figure 1: Employees and Share of MEs in Sales, by Importance of MEs in Sales Growth**

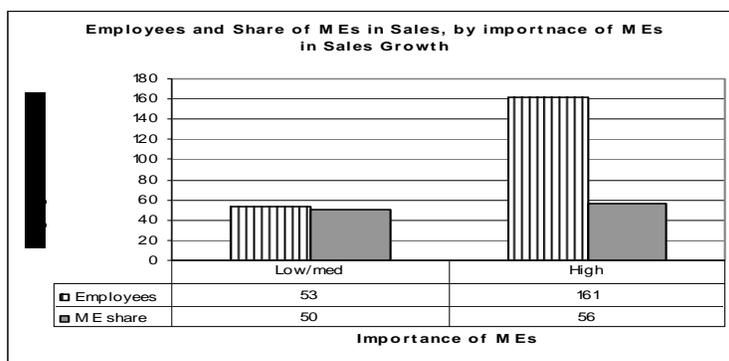


Figure 1 presents data showing the average number of employees by importance of MEs in sales growth. Firms that considered MEs as highly important for their sales growth employed, on average, three times more workers than those that considered MEs as less important for their sales growth (161 vs. 53).<sup>12</sup> In summary, firms that depend more on MEs for export sales volume and that consider MEs as highly important for sales growth employ additional workers in order to add value to the products produced by the MEs. They also engage in more outsourcing activities.

## GROWTH IN SIZE INDICATED BY SALES

**MEs contribute to over half of the export market production and export sales.** The sampled firms outsource part or all of their exported products from MEs. On average, MEs are found to be responsible for producing about 45% of the complete export products and 68% of the components of export products. Accordingly, about half of the sampled LEs report that MEs

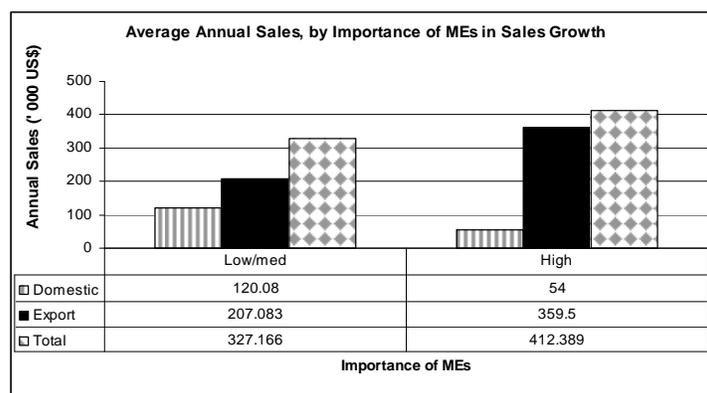
<sup>12</sup> The difference, tested using t-statistics for small samples, was statistically significant at 10% level. Pooled estimates for variances were used since difference in variances was insignificant.

contributed to at least 50% of their average annual net export sales value. The other half of the LEs attribute at least 20 to 40% of their net export sales to MEs.

**MEs considered highly important for sales growth.** Two thirds of the sampled LEs responded that MEs are “very important” for their firm’s sales growth (in order of importance on a 1 to 10 points scale, with 10 points as the highest importance). 9 LEs ranked MEs importance above 8, reflecting high importance, while the other 6 LEs ranked their importance between 4 and 7.5 (medium importance). Most of the LEs have a long-standing relationship with MEs (more than 5 years). Indeed, one of the sampled LE started to export jute floor coverings only after securing outsourcing relations with MEs, and has grown its export sales by over 55% over the past 5 years.

**Export sales are higher for LEs that perceive high importance of MEs for their sales growth.** Information presented in Figure 2 can be used to infer growth effects in net export sales attributable to linkages with MEs. The average annual net export sales for LEs that consider MEs of only medium importance for their sales growth was US\$207,083 – about two-thirds of the level of those that considered MEs of high importance (US\$ 359,500).<sup>13</sup>

**Figure 2: Average Annual Sales by Importance of MEs in Sales Growth**



**Nevertheless, the higher share of MEs in sales volume does not directly map into higher net sales value.** On average, the LEs’ dependence on MEs for total sales (export and domestic markets) was 53%. As can be seen in row 1 of Table 3, higher dependence on MEs for sales volume is not significantly associated with higher ME share in annual net sales, in either export or domestic markets. This may indicate the importance of value addition, that is, the need to hire additional workers for the finishing and packaging phases in order to increase sales value. While a positive association appears between LEs’ perception of importance of MEs and their sales growth (see above), it appears that their sales do not totally come from MEs’ inputs. In short, perception of the importance of MEs in sales growth does not directly map into actual average net sales.

**MEs produce completed products as well as product parts for outputs sold by exporting LEs.** Dependence on MEs for making product parts is higher for export markets than for domestic markets (41 vs. 27%). Information in Table 3 (rows 2 and 3, and column 2) shows that export sales (domestic sales) tend to be positively associated with higher dependence on MEs for both completed products and product parts. The LEs employ workers to complete and package

<sup>13</sup> While the differences in the average annual sales between the two groups were not statistically significant, a trend is suggested.

the products outsourced from the MEs. Nonetheless, MEs serve as an important production base for exporting LEs.

**Table 3: Kendall tau Correlation Coefficients: Sales, and Share of MEs in Sales and Production**

	Domestic Sales (US\$)	Export Sales (US\$)	Total Sales (US\$)
Share of MEs in Total Sales (%)	-0.2626	-0.1373	-0.1171
Share of MEs in Producing Completed Products for Export Markets (%)	-0.0829	0.0201	0.1302
Share of MEs in Producing Parts for Export Markets (%)	-0.1307	0.0317	0.1473

## DID LARGE ENTERPRISES GROW DUE TO LINKAGES?

The above findings suggest that LEs that developed linkages with MEs to produce part or all of their exportable products grew in size and annual sales. This would indicate some support for the study hypothesis, that linkages with MEs facilitate LE growth that, in turn, contribute to economic growth.

However, two important methodological issues limit the significance of these findings. (i) Comparative data were not gathered for firms that do not engage in outsourcing relations with MEs, data which would have provided a more robust test of the study hypothesis that MEs contribute to economic growth through forward linkages. (ii) An implicit assumption, supported by empirical findings from many countries, was made that growth of export-oriented larger firms contributes to overall economic growth. Therefore, comparative data were not gathered for those firms that only serve domestic markets.

**Summary.** Despite the data limitations, it is clear that outsourcing to MEs, at least, do not limit LEs' growth in size and sales. In other words, production linkages with MEs may help LEs to grow and not just stagnate or die. This offers some insights into MEs' contribution to economic growth through forward linkages with growth-oriented exporting LEs. However, the contribution from MEs to LEs' sales, as we have seen, is not direct. Value addition is required to augment the products made by MEs to increase sales value in export markets. The study was not designed to examine either the magnitude of MEs' contribution or the advantages of outsourcing over other production methods.

The next section explores whether selling to LEs also benefit MEs by increasing their incomes, and whether a history of linkages with traders improves ME chances of selling to LEs.

# CHAPTER FOUR

## STUDY TWO: LARGER ENTERPRISES AND FORWARD LINKAGES: DO MICROENTERPRISES GAIN?

### FINDINGS

**Do microenterprises increase their incomes by selling to larger firms? Are these LEs influenced by MEs history of forward linkages with traders?**

We examined this hypothesis by examining whether incomes of MEs significantly increase when merchandise is sold to larger enterprises in the context of linkages, as compared to firms that are not linked. Data were available on type of current buyers and history of linkage with traders who may not be the current buyers. But because information on linkages with current buyers is not available, the hypothesis cannot be directly addressed. Nevertheless, it is possible to make reasonable inferences.

We will posit that, because a history of linkages is associated with certain buyer types, and because buyer types that are influenced by such linkages are associated with higher enterprise profits, then a history of linkages, under certain environments, can potentially affect microenterprise profits in a positive way.

The analysis is based on cross-section data gathered from 301 MEs engaged in the non-agriculture sector. The MEs operated in a number of export-oriented sectors – textiles, crafts, handmade paper, and jute products – as well as in bakery, small groceries/trade, and furniture-making for domestic markets. The MEs are, on average, about 9.5 years old. About 43% of the MEs are primarily operated by women. Microenterprises contribute over half of the total family incomes.

#### KEY FINDINGS

- ME incomes tend to be higher when they sell exclusively to large buyers, compared to selling only to medium sized buyers.
- 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 history of access to microfinance and training rather than history of linkages with traders.
- The likelihood of ME profits invested in business-related improvements increases when MEs sold to large buyers.
- While ME profits are used for making household welfare improvements, the level of improvements do not significantly differ either by type of buyer or by the magnitude of ME profits.

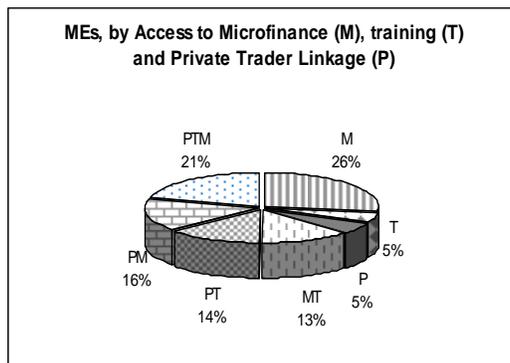
## ACCESS TO INFORMATION, CAPITAL AND TRADERS

Since starting the enterprise, many of the sampled MEs reported accessing microfinance (M) from MFIs, training (T) from some external agency, and/or linkages with some private buyers (P). This information constitutes a history of access to M and/or T and/or linkages with P.

Since no data are available on forward linkages with their most recent buyers, the history of linkages with traders (or lack of it) is used as an approximation to infer the importance of such linkages on the buyer types. We posit two possible, opposite directions of influence. On the one hand, history of linkages with some traders in the past may signal the ability of MEs to produce for traders under contractual obligations, and thereby improve their chances of selling to better (i.e., larger) buyers. On the other hand, such linkages may also indicate exclusive arrangements with specific traders who can make first claims on the MEs outputs, which may discourage prospective buyers.

One third of the sampled households reported a history of obtaining microfinance or have developed linkages with some private buyers that outsource some of their production or have received some business related training. About two thirds of the households reported access to some combination of microfinance, training, and private trader linkages (Figure 3). These factors –access to production technology and marketing information, finance, and linkages with traders – can potentially improve quantity and quality of production.

**Figure 3: MEs, by Access to Microfinance (M), Training (T) and Private Trader Linkage (P)**



If such access and linkages can increase MEs' chances to sell to better buyers and thus to increase their income, MEs would gain from forward linkages. With such increases in incomes, MEs may contribute to economic growth through (a) increased investments into the enterprise for further growth and (b) investment in the household to improve human and financial capital essential for economic growth.

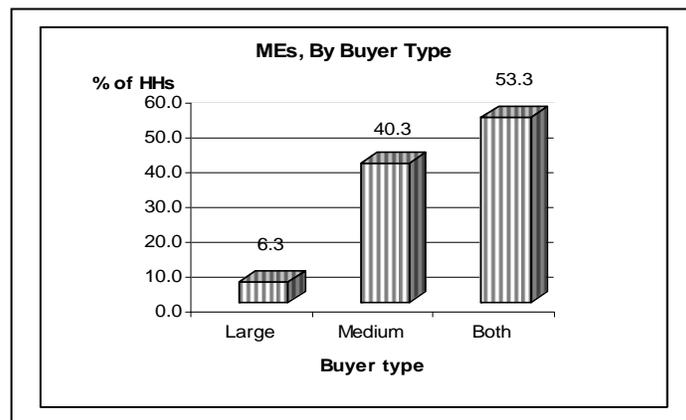
**What type of buyers help MEs realize higher profits? Are these buyers influenced by history of trader linkages?**

## THE RECENT BUYERS

Over the past year, the sampled MEs sold their products to large and medium-sized domestic buyers. (Firm size is indicated by sales volume.) The MEs were not directly linked in an

outsourcing relationship with any exporting LE.<sup>14</sup> However, the majority of their large domestic buyers were reported to be linked with exporters/overseas buyers. The medium-sized buyers serve only domestic markets in larger cities. Some MEs sold exclusively to either large buyers (6.3%) or medium buyers (40.3%). Over half the sampled MEs (53.3%) sell to both large and medium sized buyers (Figure 4).

**Figure 4: MEs, by Buyer Type**



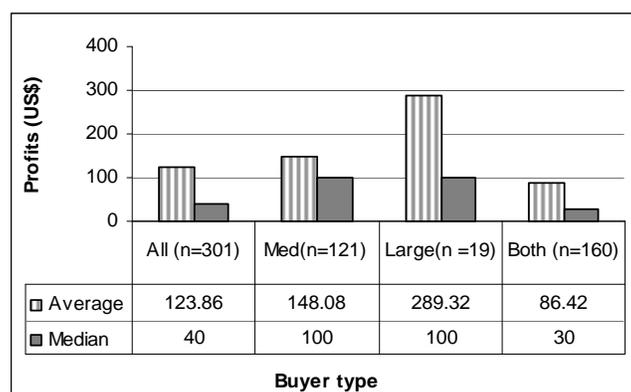
## DOES BUYER TYPE AFFECT MES' PROFITS?

The average monthly net profit from the microenterprise activities for all MEs was US\$124. A simple (two-way) comparison of average net monthly profits showed that profits were (statistically) significantly higher for MEs that sold either to large or medium-sized buyers, as compared to a combination of large- and medium-sized buyers. However, average profits were not significantly different if sold to either large- or medium-sized buyers (Figure 5).<sup>15</sup> The results may indicate that selling only to large buyers will help MEs to realize the highest profits, followed by selling only to medium-sized buyers. It is possible that larger-sized buyers, who are in turn linked to exporters, may have better high-value marketing opportunities and therefore can realize higher profits compared to medium-sized buyers who only serve domestic markets.

<sup>14</sup> The export oriented LEs were only located in Dhaka. The MEs were sampled outside of Dhaka. Therefore, they tend to sell their products to domestic and large buyers in the local area; some of these in turn sold to exporting LEs.

<sup>15</sup> T tests were conducted to test for equality of average profits between the buyer types. Since samples exhibited unequal variances, Cochran method was used to obtain T-ratios. Significance is reported for a p-value of 0.05 (5 % level).

Figure 5: Monthly ME Profits, by Buyer Type (US\$)



Microenterprise incomes were a major source of total household income for the majority of the ME households interviewed for the study. Nearly 80% of the ME households reported an increase in total household incomes in the past year (Table 6). Average monthly net profits from microenterprises for the households that reported increase in total household incomes were significantly higher as compared to those households that reported a decline/no change in total household incomes. Moreover, those households that reported an increase in total household incomes **and** sold exclusively to large (or medium) buyers showed a significantly higher level of average monthly profits from microenterprises, compared to those households that reported decline/no change in household incomes. This was not the case with MEs that sold to a mix of large- and medium-sized buyers. **These results may indicate that selling only to large/medium buyers may improve monthly profits and thus total household incomes of ME households.**

Table 6: Average Monthly Profits from MEs (US\$), by Buyer Type and Changes in Total Household Incomes

Changes in Total household Incomes in Last 12 Months	Type of Recent Buyers			All MEs (n=301)
	Large (n=19)	Medium (n=121)	Large+Medium (n=160)	
Increase	282.92 (n= 14)	167.75 (n = 88)	88.35 (n = 137)	132.11 n = 240
Decline / No Change	139.2 (n = 5)	95.59 (n = 33)	74.96 (n = 23)	91.39 n = 61
T-tests	Significant	Significant	Not significant	Significant

These results need to be examined in the light of several other factors that interact with buyer types. A regression analysis, using a Tobit model,<sup>16</sup> was performed to examine the effects of buyer types on microenterprise profits when controlling for geographic regions and firm age (Table 7). The analysis shows the following: (i) compared to selling only to medium- sized buyers, selling only to large buyers is highly profitable for MEs; (ii) compared to selling only to medium-sized buyers, profits realized by selling to a combination of large- and medium- buyers were not significantly higher for MEs; (iii) profits are high for MEs operating in well-developed areas, and (iv) although age of the ME was not a significant factor, well-developed geographic regions were important for realizing higher profits. The importance of regions indicate that MEs

<sup>16</sup> Tobit model with normal distribution was used to obtain efficient and robust results. This regression only checked the *association* among types of buyers and microenterprise profits, and controlled for firm age and geographic regions.

in well-developed areas have better chances to sell exclusively to large or medium-sized buyers who bring higher profits. Those that operate in less developed areas may find it necessary to sell to both, based on trader availability and quantity demanded, in order to realize their incomes.

**Table 7: Buyer Types and Microenterprise Profits - Tobit Regression Results**

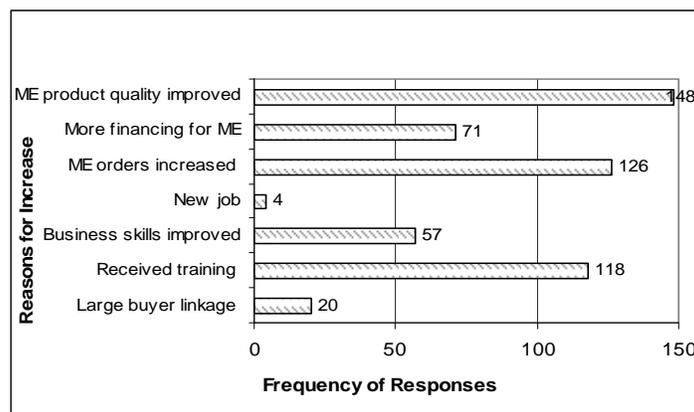
Independent Variables	Estimates
Constant	480.56
Large Buyer (dummy)	5807.06***
Large+Medium Buyer (dummy)	1264.53
Well Developed Area (dummy)	8213.16***
Firm Age (years)	44.79
Log Likelihood	-3152.103664

\*\*\* indicates significance at 1% level

## HISTORY OF TRADER LINKAGES AND RECENT BUYER TYPES

**Total household incomes have increased due to microenterprise activities.** About 80% of the sampled households report an increase in income in the past 12 months, while 17% report that the incomes remained the same or declined during that period. Increases in household incomes are primarily related to microenterprises. Improvement in quality of the products and increase in demand, are the most frequently cited reasons for increases in household income, followed by obtaining training and financing. Linkages with large traders are not cited as major reason (Figure 8). It is possible that better access to training and financing could help MEs improve quantity and quality of their products and so attract larger buyers. Without such access, explicit linkages with larger buyers who may provide access to finance and information may become essential.

**Figure 8: Reasons for increase in household incomes**



Regression analyses, using binary logit models, were carried out to examine if a history of access to training, microfinance and linkages are associated with observed patterns in recent buyer

types<sup>17</sup>. In order to examine the effects of linkages with traders, the analysis checks whether “recent buyer types” is affected if MEs only have a history of access to microfinance and training, as compared with access to a combination of microfinance, training **and linkages with traders**.<sup>18</sup> The analysis controls for gender, geographic regions, and age of the microenterprise. Results, based on good model fits, are presented in Table 8.

**Table 8: Access to History of Training, Microfinance, Trader Linkages, and Buyer Type - Binary Logit Regression Results**

Items	Large Buyers Only	Medium Buyers Only	Large + Medium Buyers
Constant	-2.706***	-1.3976***	0.6581**
Linkage (dummy)	-2.5452***	-0.8418***	1.2362***
Well Developed Area (dummy)	3.6048***	0.8956***	-1.5406***
Male Owner (dummy)	-3.6837***	1.1729***	-0.4210
Firm Age (in years)	-0.0301	0.0197	-0.0161
- 2 Log L (intercept only)	140.966	394.517	406.836
Likelihood Ratio Test (Chi square)	61.9701***	67.0396***	92.8490***
Score Test (Chi square)	48.9936***	62.7241***	85.9688***
Wald Test (Chi square)	35.8792***	53.8013***	71.1495***

\*\*\*, \*\* and \* = Significance at 1, 5 and 10% levels, respectively.

**History of linkages (in combination with and without access to training and/or microfinance) is likely to be associated with some recent buyer types.** Large-sized and medium-sized buyers are significantly **less likely** to be exclusively matched with MEs with a history of trader linkages, whereas a **mix** of large- and medium-sized buyers is associated with these MEs. Moreover, while presence of history of linkages are less likely to affect exclusive selling to large or medium-sized buyers, **absence** of such a history can positively affect such likelihoods. Note that the linkage variable is modeled as a binary dummy variable (1 and 0): One for those that reported P, PT, PM or PMT. No household reported absence of P or T or M; therefore Zero indicates those that reported M, T or MT. As a result, absence of history of linkage indicated by zero also means presence of M and/or T. So, we can infer that **presence** of microfinance and/or training is more likely to be associated with selling exclusively to large or medium sized buyers.<sup>19</sup>

**Geographic regions influence buyer type.** In areas with well-developed infrastructure and access to financial and input markets, there is significantly higher likelihood of MEs to sell exclusively to large- or medium-sized buyers, and a lower likelihood to sell to a **mix** of large and medium-sized buyers.

<sup>17</sup> Logit models were used for the analysis since the dependent variable, buyer type, was represented by a binary variable, and data conformed to a logistic distribution.

<sup>18</sup> For these regressions, MEs that reported access only to microfinance (M) or training (T) or a combination of M and T were considered as one group. MEs that reported linkages with private trader (P) only, P and M, P and T, and P, M and T were considered as another group. No household reported absence of P or M or T.

<sup>19</sup> An alternate specification that uses a dummy to only capture history of access to M and/or T instead of history of trader linkage was tried. Results show a positive and significant association between selling exclusively to large buyers or medium buyers and access to M and/or T.

**Gender significantly affects buyer type.** Women-operated MEs are not discriminated against by large buyers. While men-operated enterprises are highly likely to sell exclusively to medium-sized buyers, women-operated MEs showed higher likelihood to sell exclusively to large-sized buyers. It is highly likely that women produce labor-intensive products that are bought by large traders who then sell to exporters. In other words, the activities performed by women appear to have a high likelihood of being preferred by large buyers.

**Summary.** The analysis shows that MEs are able to sell exclusively to large and medium-sized buyers, irrespective of their history of linkages with any traders with any degree or combination of access to microfinance and/or training. Linkages with traders actually tend to reduce the probability of exclusively selling to large or medium-sized buyers. However, history of access only to microfinance and/or training appears to increase the likelihood of selling exclusively to large and medium-sized buyers.

### How do these results affect enterprise profits?

Regression analyses, based on a Tobit model, is used to examine the effect of buyer type on enterprise profits, when the influence of history of linkages on buyer types, presented in Table 8, can be incorporated into the analysis.<sup>20</sup> Results presented in Table 9 indicate whether a history of linkages, that may influence buyer types, affects ME profits. The results confirm earlier results (presented in Table 7) that microenterprise profits are higher when their products are sold exclusively to large buyers compared to medium-sized buyers. But these results additionally show that recent profits realized by selling to large buyers are not affected by any history of linkages with traders.

**Table 9: Microenterprise Profits, by Buyer Type Controlled for History of Trader Linkages - Tobit Model**

Items	Coefficients
Intercept	1948.648
Large Buyer Only (Predicted Value)	2540.025
Large + Medium Buyer (Predicted Value)	-3640.98
Well Developed Area (dummy)	9301.002***
Firm Age (in Years)	115.9394
Log Likelihood	-3094.0439

\*\*\*, \*\* and \* = Chi-square significance at 1%, 5% and 10%, respectively.

The results, however, need to be interpreted with caution since the linkages refer to historic links with any trader – not necessarily with the recent buyer as reported by the ME. Nonetheless, the results show that history of linkages with traders may not be required for MEs to exclusively sell to large buyers (with whom they tend to realize higher profits). But, a history of access to microfinance and training may increase MEs' likelihood of selling to large buyers. This may not be surprising since large buyers tend to more likely buy from women (compared to men), who

<sup>20</sup> Predicted values calculated from logit model regressions estimated (results presented in table 8) for large, mix of large and medium buyers, and medium buyers is used to re-estimate regression performed earlier and reported in table 6 above.

generally have better access to microfinance and training from many NGOs in Bangladesh. Therefore, buyers may not be required to provide additional finance and training to these MEs.

MEs may directly contribute to economic growth if they can use their higher incomes – realized with certain types of traders - to grow their business, and indirectly if they can make household improvements. The next section examines the use of profits by the MEs, by buyer type.

## ME INCOMES AND ME INVESTMENTS IN ENTERPRISES

We examined investments made by MEs into the business in the past year using ME profits. More MEs that only sold to large buyers made investments using ME profits, compared to those that sold to both large- and medium-sized buyers; those that sold only to medium-sized buyers were intermediate (Table 10). Earlier, it was found that ME incomes were substantially higher from selling only to large-sized buyers than from selling to a combination of large- and medium-sized buyers. These data may imply that MEs that are able to sell to large traders are more likely to invest in their business, due to higher incomes realized through such sales.

**Table 10: ME Profits for Enterprise Investments (% of MEs Reporting)**

Investment Made in Last 12 Months Using ME Profits	Buyer Type		
	Large	Medium	Large+Medium
A. Made Investments <sup>1</sup>	57.9%	53.7%	39.4%
B. No Improvements	42.1%	46.3%	60.6%

1: Investments in machinery & equipment, buildings and inputs.

Our earlier analysis also showed that large buyers are not associated with any history of trader linkages. If incomes realized by selling to large buyers are found to result in better investments, we might infer that a history of linkages may not be essential to positively impact higher investments in the enterprise.

## ME INCOMES AND HOUSEHOLD IMPROVEMENTS

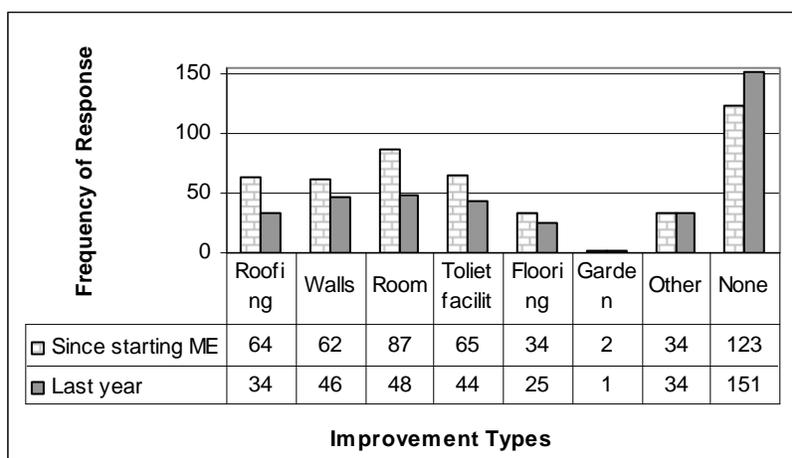
**Microenterprise incomes significantly affected changes in total household incomes.** While 80% of the households report an increase in total household incomes in the immediate past year compared to the previous year, the rest experienced a decline or no change. For households that report increases in household incomes (US\$ 132), average monthly profits from microenterprises (for the past one year) were significantly higher than for those that report a decline or no change (US\$ 91).<sup>21</sup>

**Microenterprise incomes paid for consumption and emergencies.** All households report that they had used profits from their enterprise to pay for household related expenses such as health, education, food, and savings for emergencies. Most respondents used enterprise profits to purchase items in at least two of these categories.

<sup>21</sup> Cochran method was used to conduct T-test. Differences in means were significant at 5% level.

**Microenterprise profits were used to buy assets.** About 90% of the households have purchased an asset during the last 12 months. The most popular purchases were household furniture, followed by jewelry and household appliances. Two thirds of the households report using profits from the MEs to purchase those assets.

**Figure 9: Type of Home Improvements**



**Microenterprise profits contributed to home improvements.** About 59% of respondents report home improvements since starting their enterprise, while 50% of respondents report making an improvement in the past 12 months. Of those who made improvements, 74% report using enterprise profits to pay for the expenses.

This information suggests that profits from MEs are used to make household improvements that may indicate reduction in poverty levels. However, it is not clear if such improvements would be possible in the absence of ME activity.

**No clear pattern, however, was evident when ME households are examined for household improvements by buyer type.** We would expect that the improvements made by households in housing, education, and health conditions, using the higher profits realized by exclusively selling to large buyers, will be significantly different from those that realize smaller profits. However, the data show that higher profits from MEs do not significantly translate into household improvements that may lead to some reduction in poverty levels.

# CHAPTER FIVE

## CONCLUSIONS AND IMPLICATIONS

### **IS GROWTH OF LARGER ENTERPRISES (LES) ASSOCIATED WITH LINKAGES WITH MES?**

Linkages with MEs appear not to limit LE growth in size or sales. Moreover, linkages with MEs may help LEs to grow rather than stagnate or die. This offers some insights into MEs contribution to economic growth, through forward linkages with growth-oriented exporting LEs. The contribution of MEs to LEs' sales, however, is not direct. Value addition is required to augment the products made by MEs to increase sales value in export markets.

The data specifically show that:

- LEs that engage in exporting labor-intensive products stand to gain from outsourcing to MEs, despite some challenges related to quality and contract enforcement.
- LEs that depend heavily on MEs to produce part or all of their exportable products grow in size in terms of both the number of MEs for outsourcing and the number of hired employees.
- LEs that perceive MEs as being of high importance for their sales growth report larger annual net sales, as compared to those that consider MEs to be of medium importance.
- Increased share of MEs on sales volume does not imply a direct increase in annual net sales value, since value addition was required for which hired workers were employed.

The study did not attempt to assess the magnitude of MEs' contribution, or the advantages of forward linkages over other production methods.

### **DO MICROENTERPRISES (MES) GROW WITH FORWARD LINKAGES?**

The data show that:

- MEs that sell to large traders, that are linked in higher-level value chains, tend to realize higher profits compared to those MEs that sell to smaller traders that only serve domestic markets.
- Household incomes appear to increase significantly with sales to large traders, compared with medium-sized traders. Such increased incomes are used to make investments in business assets.
- The higher incomes realized by selling only to large traders, however, do not significantly translate into the household investments (in education, health conditions and housing improvements) that may lead to some reduction in poverty levels.

The above results suggest that MEs stand to gain by selling to traders that are linked in higher value chains, in particular to large traders engaged in exports.

The study hypothesized that a **history of forward linkages with traders** is essential for MEs to access buyers that help them realize higher profits. The study data, however, cannot strongly support the hypothesis.<sup>22</sup> Specifically,

- Large buyers are likely to buy from MEs that produce labor-intensive outputs, within well-developed areas, and from MEs with a history of access to microfinance and training facilities. History of forward linkages with traders was not essential.
- Activities that are dominated by women entrepreneurs tend to be associated with large buyers, while it was the opposite for medium-sized buyers. Women-run activities are generally labor-intensive, and women in Bangladesh have good access to microfinance and training.
- In general, large buyers report being linked with exporters that are higher up in value chains, while medium-sized buyers only serve larger domestic markets.

Therefore, conclusive evidence cannot be drawn to support any significant role of a **history of forward linkages with traders** in increasing incomes and thus ME business investments. In other words, the study does not support the hypothesis that a **history of forward linkages with traders** helps MEs to positively contribute to economic growth by increasing their incomes and investments.

In sum, the study indicates that MEs can contribute to economic growth through increases in their incomes and business related investments. Moreover, selling to large buyers linked in value chains is important for MEs to increase their incomes. Improved access to microfinance and training may be more important in this regard than a history of forward linkages with traders.

## PROGRAMMING IMPLICATIONS

For LEs to contribute to economic growth, programs focused on improving access to export markets can be helpful. For such export-oriented large firms, especially young firms and those engaged in labor-intensive production, linkages with MEs can be advantageous.

For MEs to make a clear contribution to economic growth in terms of increased incomes and business-related investments, program interventions are essential to facilitate MEs to improve their access to large buyers that in turn access higher level value chains. To that end, improving access to microfinance and training, especially in well developed areas, can help more than fostering linkages with traders. However, the impact of such program interventions on the poverty level of ME households is uncertain .

These findings apply primarily to MEs engaged in non-agricultural sectors and that produce labor-intensive merchandise for exports.

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<sup>22</sup> The MEs were asked whether, since the start of the current enterprise, they have accessed microfinance (M) for working capital for the ME, and/or training related to production (T) and/or linked with traders (P) for selling their outputs. This information constitutes the *history* of access to M and/or T and/or linkages with P.

**Appendix 1 – Sample Area for Household Surveys in Bangladesh (marked in red box)**

