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# MAKING THE CASE FOR MICRO ENTERPRISES

**FINAL REPORT**

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Making the Case for Micro Enterprises  
Final Report

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## EXECUTIVE SUMMARY

The purpose of this paper is to demonstrate two working hypotheses related to micro enterprises and economic growth:

*Hypothesis 1:* Micro enterprises contribute to economic growth at both the national and/or local levels, primarily through outsourcing relationships maintained with medium and large enterprises.

*Hypothesis 2:* Microenterprise households with outsourcing relationships are better off than microenterprise households without outsourcing relationships.

Using information collected through surveys conducted with 30 medium and large enterprises (hereafter 'MLEs') and 264 micro enterprises located in the regions of Ayacucho, Cajamarca, Junin, Puno and Cuzco, the paper is structured around two main objectives.

**OBJECTIVE 1: Demonstrate whether and how micro enterprises contribute to economic growth at both the national and/or district levels.**

### Main findings

1. Medium and large enterprises actively contribute to and benefit from economic growth, which translates into increased investment and employment generation in these enterprises. However, according to respondents, the growth of their enterprises is caused primarily by a favorable business environment.
  - Among enterprises surveyed, 87% reported an increase in sales since they began outsourcing, while 13% indicated that sales levels have remained unchanged.
  - According to the enterprise respondents, the primary reason reported for this increase in sales since the MLEs began outsourcing was heightened demand (38%), while a secondary reason was commercial relationships (15%). In contrast, product diversification (12%) and improvements in product quality (8%)—reasons associated with outsourcing— were reported less frequently.
  - Sales growth has led to greater investment and increased employment generated by MLEs.
2. Micro enterprises, do not supply a significant percentage of inputs to larger enterprises, and their participation in the growth of MLEs is less than 40% in the majority of cases. Nevertheless, the majority of MLE's could not sustain their growth without outsourcing to the microenterprises.
  - Micro enterprises provide approximately 29% of MLE's primary input.
  - For over half of the MLEs surveyed, micro enterprises' contribution to sales growth was just under 40%. In contrast, only 28.6% affirmed that the growth resulting from outsourcing to microenterprises was greater than 60%

- Approximately 65% of MLEs surveyed reported that they could not have maintained the same growth rate without the contributions of micro enterprises.
  - Approximately 50% of MLEs state that having a business relationship with a larger enterprise has been beneficial to them, while 27% report that it has not been beneficial. Roughly 41% of MLEs suggest that having a business relationship with a smaller-sized enterprise has been beneficial to them, while the same percentage maintains that these relationships had negative effects.
  - Approximately 41% of MLEs maintain that without business relationships with larger or smaller enterprises their performance would not have produced less. Roughly 31% stated that they would not have been able to survive as a business without such relationships.
  - According to 93% of respondents, micro enterprises have benefited from sustaining business relationships with larger enterprises.
  - Thirty percent of respondents reported that they had never provided training of any sort to the micro enterprises to whom they outsourced.
3. There are no laws or regulations in place which encourage or discourage the establishment of business relationships with input suppliers.
- Only 30% of entrepreneurs reported the existence of a legal framework at the national level that promotes the establishment of outsourcing relationships. Similarly, only 30% of entrepreneurs reported the existence of a legal framework at the local level that promotes outsourcing relationships.

## Conclusions

Micro enterprises do not supply a significant proportion of inputs or finished goods. Despite their somewhat limited contribution in this regard, the MLE's could not operate without the microenterprises given their commercial nature. Consequently, micro enterprises are vital to MLE sustainability, although they do not directly cause growth.

The survey does not provide adequate insight into micro enterprise contributions to broader economic growth via the outsourcing relationships themselves. To gain greater insight we would need to examine whether such relationships promote the creation of economies of scale among MLEs in the long term. This would require examining the relative growth of MLEs over time with respect to micro enterprise contributions.

Since the survey does not contain specific questions about the role micro enterprises play in outsourcing relationships, in other words, regarding their contribution to growth, **there is not sufficient evidence to prove the first hypothesis.**

**OBJECTIVE 2: Demonstrate whether and how outsourcing to micro enterprises contributes to social development at household level.**

**Main findings**

1. Increased family income among micro enterprise households and recognition of positive effects resulting from outsourcing relationships.
  - More than 50% of the households with outsourcing relationships reported having higher revenues after entering into outsourcing relationships.
  - Approximately 63% of micro enterprises acknowledged that their business relationship with the MLE has been beneficial.
  - When asked how they would be faring now if they had not had the chance to enter into business relationships, more than 50% of the micro enterprise respondents said that they would be worse off, but nearly 30% replied that they would have looked for other markets.
2. The business relationships have contributed to increased investment in micro enterprises.
  - Roughly 67% of micro enterprises have made some sort of investment in their businesses since entering into outsourcing relationships.
3. Outsourcing relationships have not contributed to improved household wellbeing so the increase in investment is not reflected in the increase in consumption of goods, which, according to the survey, impacts the economic wellbeing of the households.
  - Around 28% of the micro entrepreneurs had never acquired any of the products specified prior to establishing their business connections. After establishing outsourcing relationships this percentage rose to 48%.
  - Prior to establishing their business relationships, 60% of micro entrepreneurs had never made any improvements to their homes. After establishing their outsourcing relationships, this percentage rose to 71%.
  - Eight percent of micro enterprises without any outsourcing relationship did not purchase any of the specified products, whereas 48 percent of microenterprise households with outsourcing relationships did not purchase any of the specified products.
  - The percentage of micro enterprises without any sort of outsourcing relationship that did not make any improvements to their homes was 27%, for those that did have business relationships the percentage was 74%.
  - On average, micro enterprise families with outsourcing relationships spent more money on clothing during the last few months than those who did not have outsourcing relationships.

4. If offered another job, about half of the micro entrepreneurs surveyed indicated that they would give up their current businesses.
  - On average, micro enterprises from the control group (i.e. enterprises without business relationships) are more inclined to give up their current jobs than those who have outsourcing relationships. While 53% of the microenterprises with outsourcing relationships would not leave their enterprises if they were offered a job with similar benefits, almost the same percentage would leave their jobs.

## **Conclusions**

Given the objective to evaluate whether micro enterprises contribute to social development through outsourcing relationships that lead to increased family consumption, including both the acquisition of goods and investments in home improvements, **the information obtained leads us to refute the second hypothesis.**

We did however identify an interesting phenomenon, which was that while family income rose, expenditures on household goods and home improvements declined. The questionnaire should have contained questions that investigated the relationship between micro enterprise investment and household spending.

## Chapter I. Analysis of results

The survey focused on obtaining information from enterprises located in the departments of Ayacucho, Cajamarca, Junin, Puno and Cuzco. In total, the CIUP team surveyed 30 medium sized enterprises and 264 micro enterprises. With respect to the latter, 110 did not have any outsourcing relationships with medium sized enterprises, while 154 did<sup>1</sup>. This section of the paper describes the main findings of the field research regarding the following two hypotheses:

*Hypothesis 1:* Micro enterprises contribute to economic growth at both the national and/or local level, primarily through outsourcing relationships with medium and large scale enterprises. Finding regarding the this first hypothesis are presented in the context of Objective N° 1 of this study.

*Hypothesis 2:* It is through these outsourcing relationships that micro enterprises contribute to social development at household level. This second hypothesis is discussed in the context of Objective N° 2 of this study.

**Table 1: Number of medium scale enterprises surveyed, by region and product promoted**

Product promoted	Ayacucho	Cajamarca	Junín	Puno	Cuzco	Total
Clothing and apparel	0	0	3	4	0	7
Artichokes	0	1	2	0	0	3
Tara	0	3	0	0	0	3
Trout	0	0	3	4	0	7
Ceramics	1	0	0	0	2	3
Jewelry	0	1	1	1	1	4
Engraved gourds	0	0	2	0	0	2
Others	1	0	0	0	0	1
<b>Total</b>		<b>5</b>	<b>9</b>	<b>9</b>	<b>3</b>	<b>30</b>

Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*

Prepared by: Centro de Investigación de la Universidad del Pacífico

<sup>1</sup> The Chemonics International team considers that it is important to note that some micro enterprise households (21) with outsourcing relationships, but that were not affiliated with the PRA project, were included in the treatment group.

**Table 2: Micro enterprises surveyed, by region and product promoted**

Region	Product promoted	Without business liaisons	With business liaisons	Total
Ayacucho	Ceramics	11	9	20
	Textiles	19	15	34
	Tablas de Sarhua	2	3	5
	Altarpieces	2	4	6
	Huamanga Stone	5	6	11
	Others		2	2
	<i>Total</i>	<i>39</i>	<i>39</i>	<i>78</i>
Cajamarca	Artichokes	0	17	17
	Tara	0	12	12
	Jewelry	0	14	14
	<i>Total</i>	<i>0</i>	<i>43</i>	<i>43</i>
Junín	Clothing and apparel	5	5	10
	Artichokes	23	23	46
	Trout	5	5	10
	Engraved gourds	9	9	18
	<i>Total</i>	<i>42</i>	<i>42</i>	<i>84</i>
Puno	Clothing and apparel	13	13	26
	Trout	10	10	20
	<i>Total</i>	<i>23</i>	<i>23</i>	<i>46</i>
Cuzco	Ceramics	6	7	13
	<i>Total</i>	<i>6</i>	<i>7</i>	<i>13</i>
<b>TOTAL</b>		<b>110</b>	<b>154</b>	<b>264</b>

Source: Chemonics International (2006) Making the Case for Micro Enterprises Peru HH Questionnaire  
Prepared by: Centro de Investigación de la Universidad del Pacífico

**1. OBJECTIVE 1. Demonstrate whether and how micro enterprises contribute to economic growth at both the national and/or district levels.**

The analysis focused on a sample of 30 **medium and large enterprises (MLEs)** that purchase inputs, products or services from other enterprises.

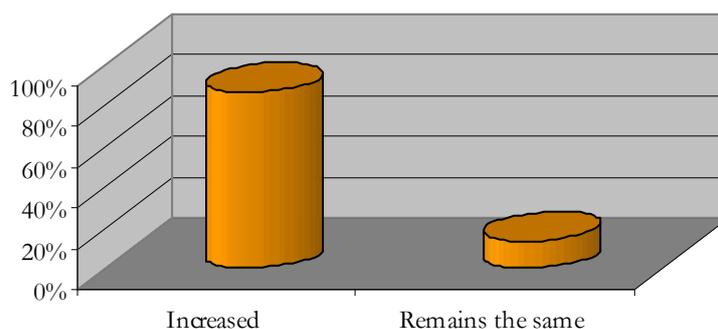
**1.1 Main findings**

**1.1.1 Medium and Large Enterprises**

(i) Medium and large enterprises contribute to economic growth

One of the first steps is to analyze whether the **MLEs** actually play a part in the current dynamics of economic growth.. To determine this relationship between MLEs and economic growth, we shall refer to the question on variation of sales. This question also helps to resolve the first objective, by comparing the sales dynamics of the periods both before and after an intervention.

**Graph 1: Variation of sales reported by medium scale enterprises**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
Prepared by: Centro de Investigación de la Universidad del Pacífico

Of the enterprises included in the survey, 87 % stated that their sales have increased since they began working with suppliers, while only 13% indicated that their sales levels have remained the same. In neither case has there been a decline in sales. This increase in sales confirms that the sample of enterprises studied here have experienced growth.

**Table 3: Percent variation of sales reported by medium scale enterprises by product**

Sales variation	Clothing & apparel	Artichokes	Engraved gourds	Tara	Trout	Ceramics	Jewelry	Others
Increased	71%	100%	100%	100%	86%	100%	75%	100%
Remained unchang	29%	0%	0%	0%	14%	0%	25%	0%

Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
Prepared by: Centro de Investigación de la Universidad del Pacífico

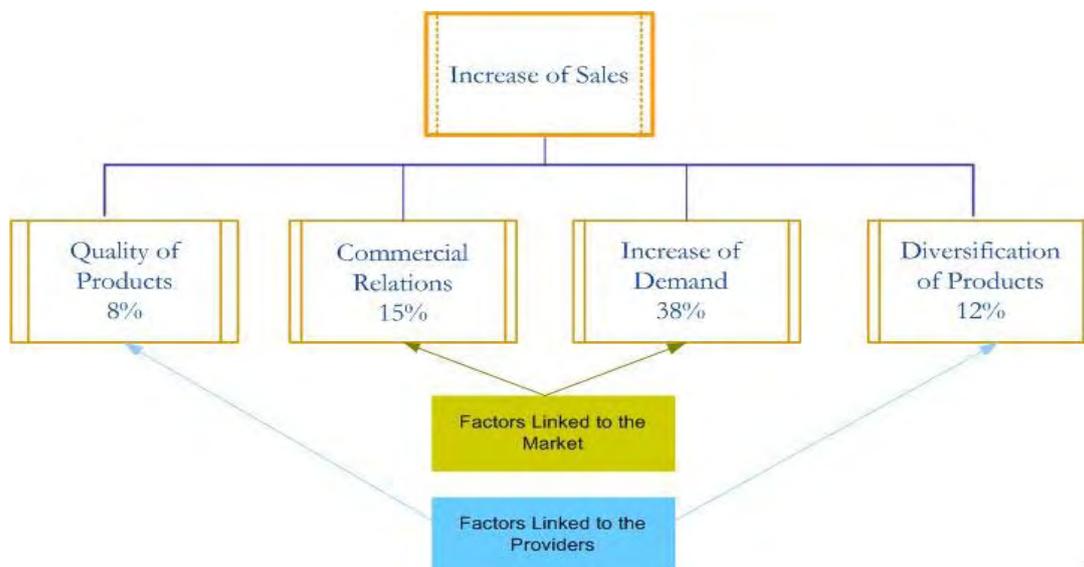
After examining the trends according to type of product, it is evident that all have experienced growth. In the case of artichokes, engraved gourds, tara, ceramics and products classified as ‘others’ (handiwork in general), all producers (100%) reported an increase in sales. This was not the exact case for clothing and apparel (71%), trout (86%)

and jewelry (75%) producers, although over 70 percent of the producers did report increased sales. Those unable to increase their sales were at least able to maintain them.

(ii) Business management factors explaining the increase in Sales

There is no better authority to explain what causes sales to rise than the entrepreneur himself. Thus, the entrepreneur’s point of view is crucial to our understanding of how micro enterprises contribute to increased sales. According to the responses provided by entrepreneurs, increased sales can be attributed to the outsourcing relationship an enterprise has with its suppliers and to other environmental factors, such as higher demand or easier access to external markets.

**Graph 2: Reasons explaining the sales increase according to the entrepreneur**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
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Given that the question contained in the questionnaire was not a multiple choice question, but rather allowed the respondent to answer in his/her own words, the end result was a series of different responses which later were grouped together under more general classifications according to the frequency of the responses. This exercise resulted in 5 groups of answers, within which “the quality of the products” and “product diversification” were the two replies that reflect supplier contribution to egrowth. Other options such as “commercial relationships”, “increased demand” and “others”, were primarily oriented towards factors related to the enterprise’s management with respect to its commercial connections or to clients.

The data obtained points to increased demand (38%) as the main cause of sales growth since enterprises began working with outsourcing relationships, with business relations (15%) as the second factor. The latter is understood to mean a greater number and improved quality of clients. In both cases the suppliers’ impact is only indirect. Where it is evident that the suppliers play a significant role, however, is in the answers ‘product diversification’ (12%) and ‘product quality’ (8%). These replies reflect the idea that supplier

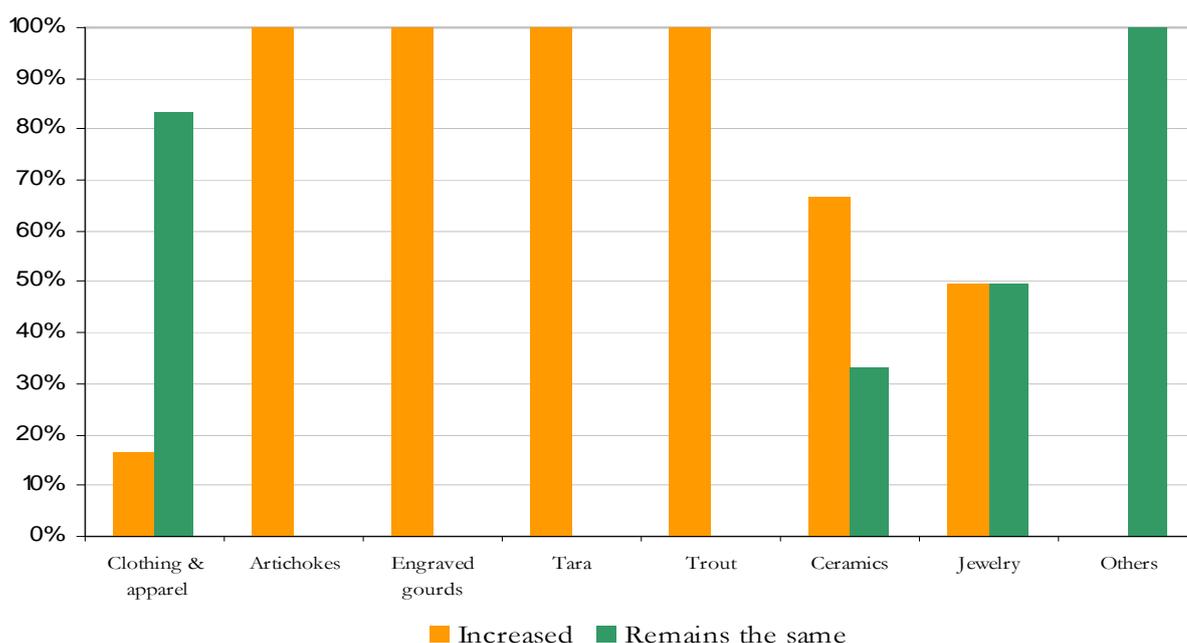
productivity strengthens the capacity of the [MLE](#) to generate income. In this context, we can conclude that the increased [MLE](#) sales are fundamentally due to factors related to enhanced business management strategies and favorable market conditions. These two factors appear to have a greater bearing on sales growth than their actual production capacity, where the suppliers play an important role.

(iii) [MLEs promote economic growth through investment and employment](#)

*Investment*

The graphs below illustrate whether [MLE's](#) sales growth translates into greater investment in infrastructure, machinery and equipment, and/or land. This is one method to determine that multiplying effects in the economy exist. The following graph illustrates how investment in **infrastructure** increased in all of the enterprises engaged in the production of artichokes, engraved gourds, tara and trout. On the other hand, investment in infrastructure only rose in 67% of the enterprises engaged in the production of ceramics, in 50% of the enterprises engaged in the production of jewelry, and in 17% of the enterprises engaged in the production of clothing and apparel. These dramatic reductions in investment reveal that most of the enterprises engaged in these lines of business did not increase their investment levels in infrastructure.

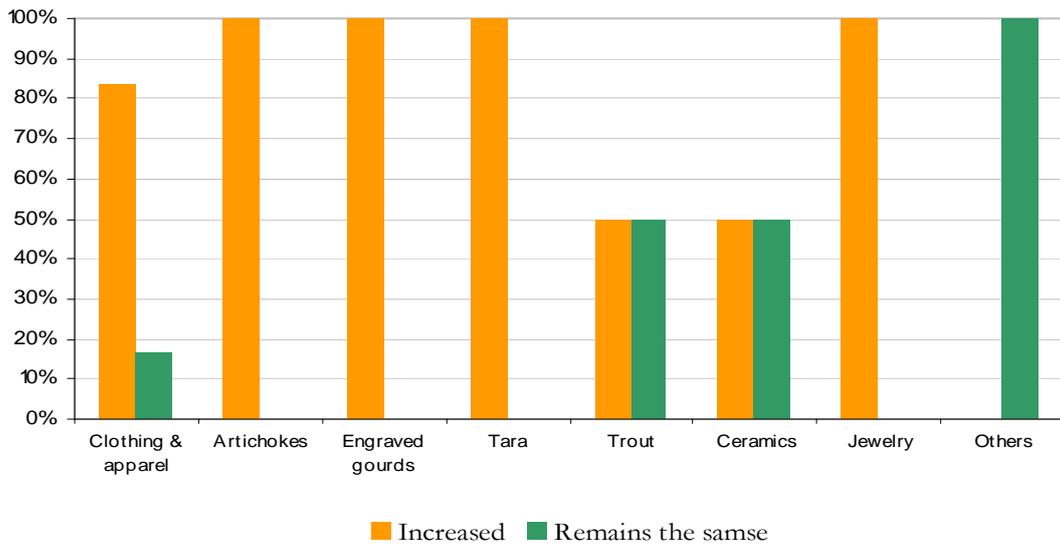
**Graph 3: Variation in [MLE's](#) infrastructure investment**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

Regarding investment in **machinery**, all enterprises engaged in the production of artichokes, engraved gourds, tara and jewelry were able to increase their investment. In contrast, only 50% of the enterprises engaged in trout farming and ceramics were able to increase their investment. In the case of clothing and apparel, only 17% of the total number of enterprises surveyed increased investment in machinery. Notwithstanding, in all product lines, those enterprises that did not increase investment in machinery did at least maintain investment at the same levels as before intervention.

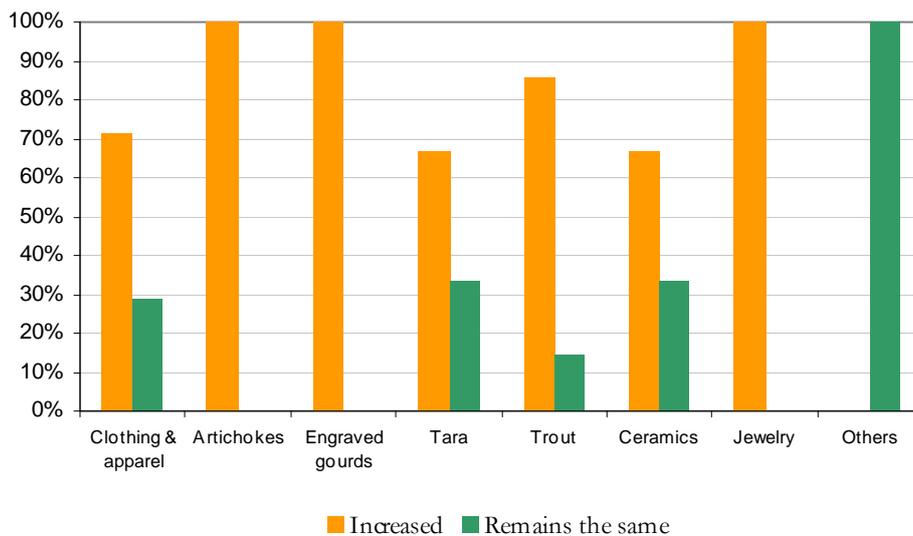
**Graph 4: Variation in MLE's investment in machinery**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
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All enterprises engaged in the production of artichokes, engraved gourds and jewelry reported increased levels of investment in **equipment** required for production. The same occurred with over half of all clothing and apparel enterprises (71%), enterprises producing tara (67%), enterprises producing trout (86%) and enterprises producing ceramics (67%). This indicates that more than half of the enterprises engaged in these lines of business increased their investment levels in equipment. The only exception, demonstrated in the “other” column, was the group that did not make any investments.

**Graph 5: Percent variation in MLE's investment in equipment**

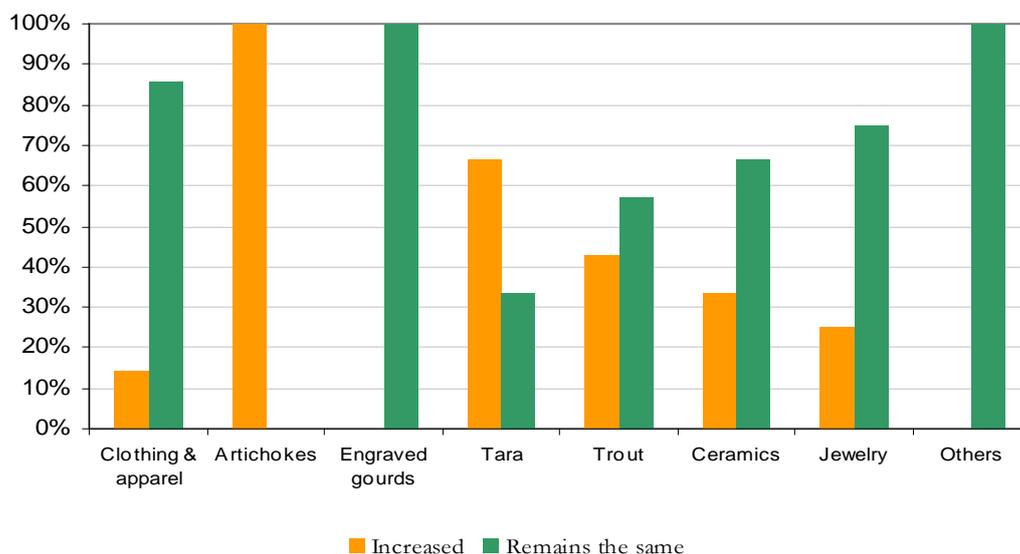


Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

Over half of the enterprises engaged in clothing and apparel (86%), engraved gourds (100%), trout (57.1%), ceramics (67%), jewelry (75%), and others (100%), said that they

had not varied their level of investment in **land**. By contrast, 100% of enterprises engaged in the production of artichokes, 67% of enterprises engaged in the production of tara and 100% of ‘others’, maintained their previous levels of investment in land.

**Graph 6: Percent variation in MLE’s investment in land**



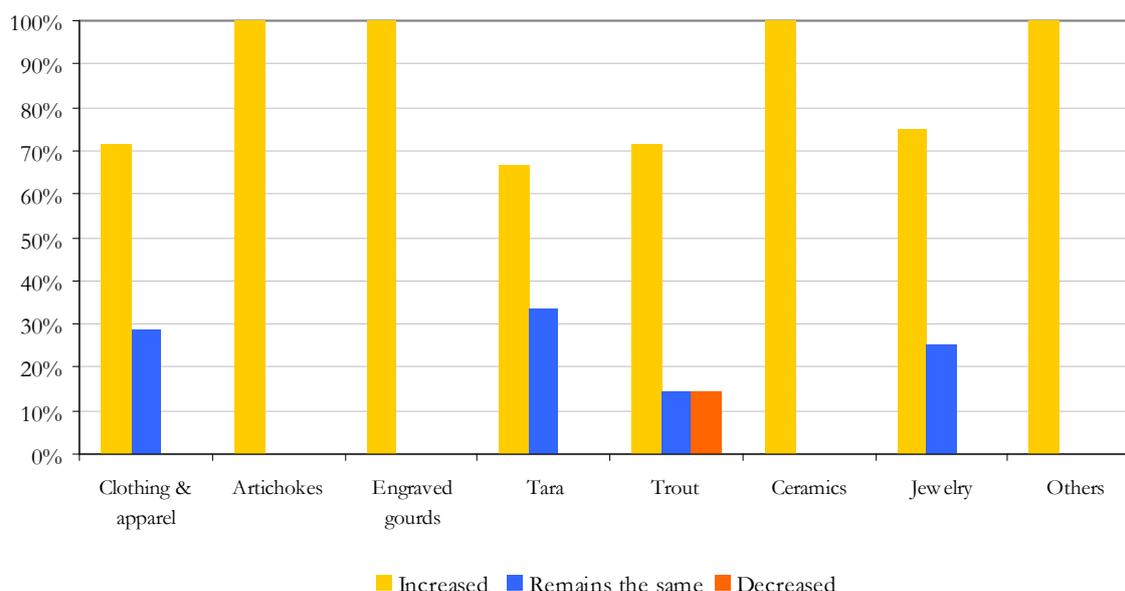
Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
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These results confirm that MLE growth translates into investment to improve productivity, which in turn fosters future competitiveness. In this context, it would appear that the MLEs have a long term vision for growth.

### *Employment*

The best way to understand how the growth of an enterprise affects the economy is to measure the creation of new jobs. In this sense it is interesting to note that absolutely all of the enterprises engaged in the production of artichokes, engraved gourds, ceramics and others, increased their labor force. Moreover, over 70% of enterprises engaged in the clothing and apparel industry (71%), 67% in the production of tara, 71% in trout farming, and 75% in jewelry also increased their number of employees. The only case where jobs were reduced was in enterprises engaged in trout farming and 14% of enterprises showed no variation in their numbers of employees.

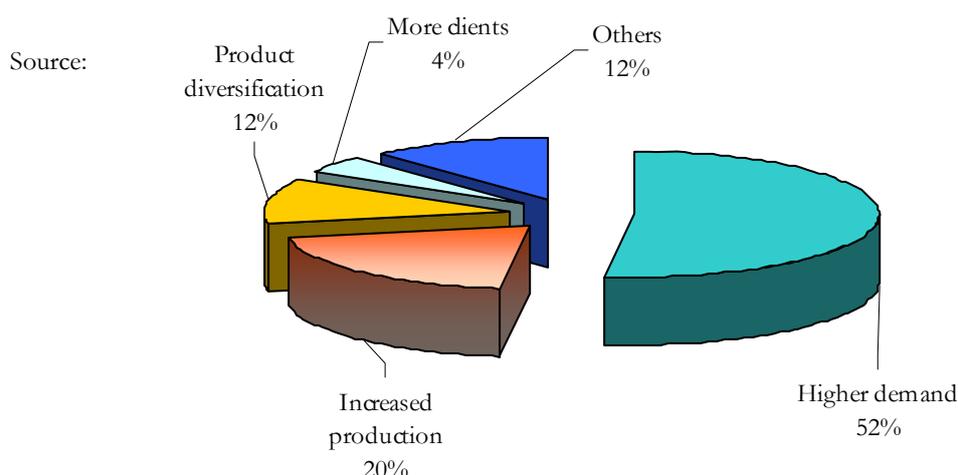
**Graph 7: Percent variation in investment in employment**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
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In order to further investigate the employment aspect enterprises were asked to explain why they needed to hire more employees. As in the case of the question regarding increased sales, the responses were grouped under common classifications according to the frequency of the responses given. According to 52% of the 25 respondents, the most important reason was increased demand, followed by increased production (20%), product diversification (12%), other reasons (12%), and more clients (4%). These results are consistent with the findings on factors causing sales increases, as it seems that favorable macroeconomic conditions (higher demand) are more important than those related to the productive system *per se*. In general terms it can be said that in the opinion of the enterprises the factors causing the rise in sales and the increased number of employees are primarily attributable to the higher demand. Thus, we can conclude that factors such as the search for new markets, the commercial environment, and commercial facilities are in fact more important for their growth than their productive organization.

**Graph 8: Reasons explaining variations in the number of employees**



Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
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Table 4 (below) shows which products have had a greater impact on the economy, in terms of investment and employment generation, with artichoke emerging as the most dynamic. Of all the sectors studied, artichoke production has the greatest multiplying effects. Within this sector we see increased investment in infrastructure, machinery and equipment, and land, as well as increased employment. The production of engraved gourds, and to a lesser extent the production of tara, have also proved to have a significant impact, except with respect to investment in land.

**Table 4: The impact of each product on investment and employment**

Increase of:	Infrastructure	Machinery	Equipment	Land	Employees
Clothing & apparel	17%	83%	71%	14%	71%
Artichokes	100%	100%	100%	100%	100%
Engraved gourds	100%	100%	100%	0%	100%
Tara	100%	100%	67%	67%	67%
Trout	100%	50%	86%	43%	71%
Ceramics	67%	50%	67%	33%	100%
Jewelry	50%	100%	100%	25%	75%
Others	0%	0%	0%	0%	100%

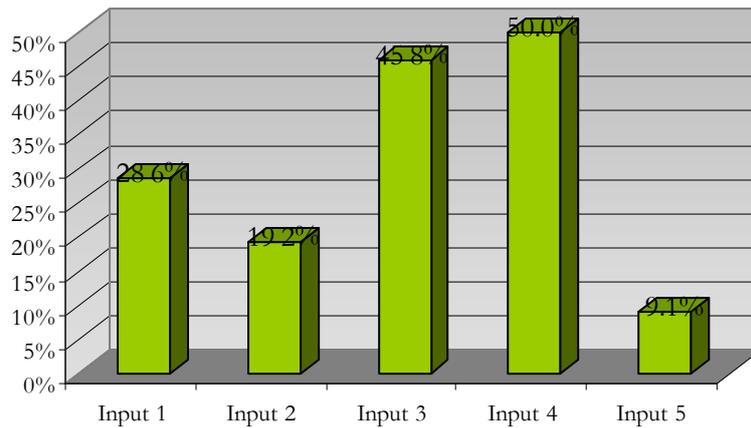
Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
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### 1.1.2 The role of micro enterprises in outsourcing relationships

Having examined the characteristics of the [MLEs](#), we now examine the MLE-supplier relationship illustrated in the outsourcing section of the questionnaire, starting with the question asking the respondent to name his/her enterprises five main inputs and the type of enterprise that supplies them (micro, medium or large scale enterprise). The information supplied by these responses will further identify whether the micro enterprises are in fact suppliers and their level of participation as such.

The study will assume that the first input listed by the respondent is the most vital. Given that the questionnaire requires the respondent to list the main inputs, it is logical to assume that the respondent prioritized his/her answers with the first input listed being the most crucial. Based on this assumption, the micro enterprises will be analyzed as suppliers of the first input listed by the surveyed enterprises.

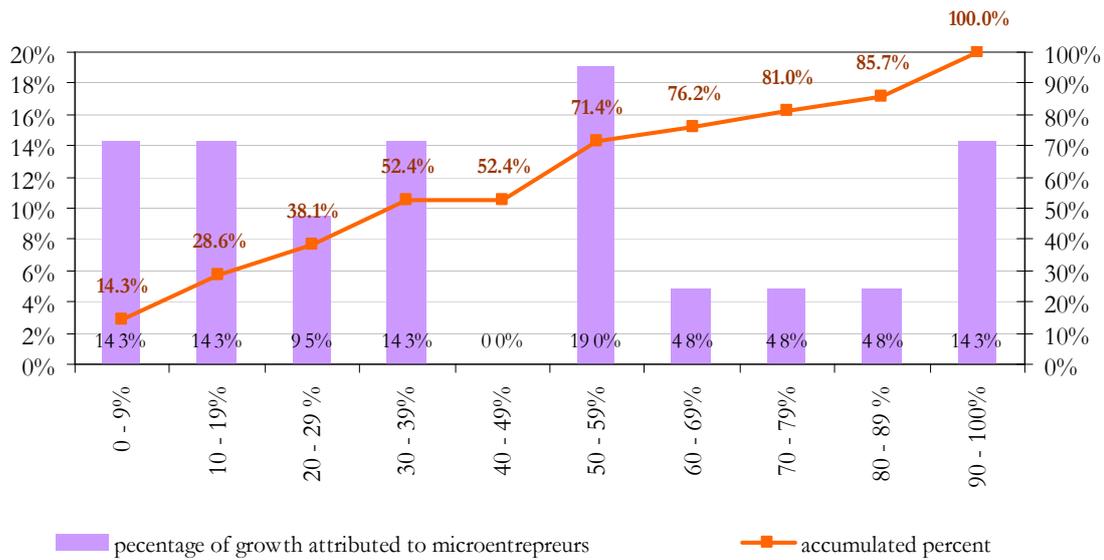
**Graph 9: The importance of micro enterprises as suppliers of the main five inputs required by the MLEs**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

It should be noted that only 29% of MLEs replied that their main input – the first one listed – was supplied by micro enterprises. This would imply that the role of micro enterprises as the MLE’s main suppliers is in fact quite limited. Regarding the subsequent inputs (inputs 2-5), micro enterprises supply a maximum of 50% of the fourth input followed by 46% of the third input. These results contribute to the conclusion that micro enterprises complement the inputs supplied by larger enterprises and that the larger enterprises are more important suppliers (with the exception of fourth input).

**Graph 10: What percentage of growth of large scale enterprises is attributed to their outsourcing relationship with micro enterprises?**



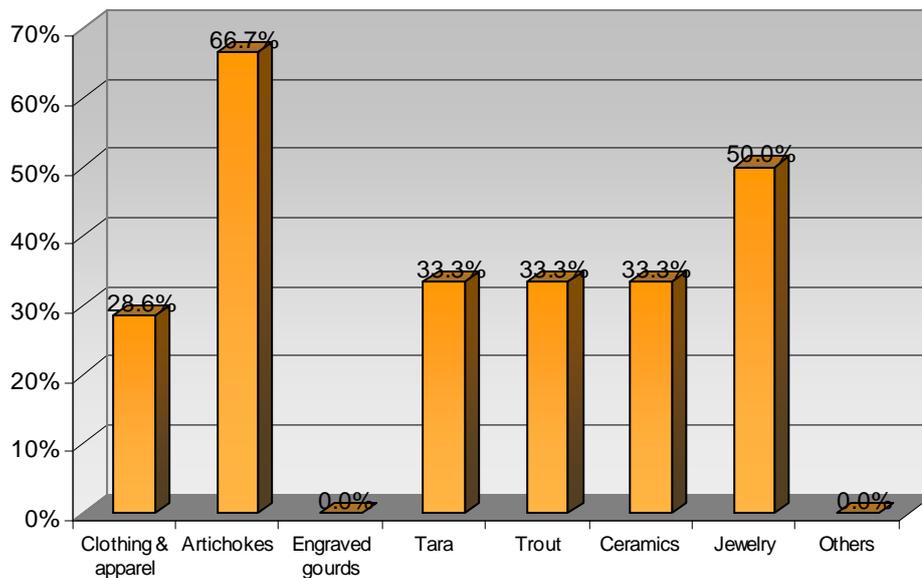
Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

To further investigate outsourcing, MLEs were asked to determine what percentage of their growth could be attributed to their outsourcing relationships with micro enterprises. Since the replies were extremely diverse, they were ordered by range within a scope of 10% (see axis of Graph 10). According to this design, if 20% of respondents said that micro enterprises' contribution to the growth of their business falls between 10 and 19%, it is expected that the second bar would reach 20% on the left axis.

Of the 21 enterprises that replied, 52% stated that micro enterprises' contribution to the growth of their businesses falls within the first four ranges (between 0 and 39%), with surveyed enterprises accounting for less than 14.3% for each range. The largest percentage of respondents in any single range—19%—attributed 50 to 59% of their growth to micro enterprises. Finally, it is surprising to note that 14.3% of the enterprises stated that 100% of their growth was attributed to outsourcing to micro enterprises.

If we group the data on the percentage of growth attributed to relationships with micro enterprises more broadly and significantly, we obtain more interesting data. We find that 52.4% of the MLEs indicated that between 0% and 39% of their growth can be attributed to outsourcing relationships with micro enterprises. Another 19% indicate that 40% to 59% can be attributed to micro enterprises. On the other hand, 28.6% state that more than 60% of their growth can be attributed to outsourcing relationships with micro enterprises. From this analysis we can conclude that the majority of MLEs consider micro enterprises' contribution to growth low and the percentage that attribute an important role to micro enterprises is not that significant.

**Graph 11: Proportion of MLEs that stated that they would have continued to grow at the same rate even without their outsourcing relationships with micro enterprises**



Source

: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

MLEs were also asked to indicate whether they would have been able to maintain their growth rate without micro enterprise participation. Only 35% said that they would have been able to do so. In other words, 65% would not have been able to maintain their growth rates without the micro enterprises to which they outsourced. At the level of individual products, a high percentage of artichoke producers (67%) and jewelry producers (50%) stated that they would be able to maintain their growth rates. Most of the enterprises engaged in other product lines did not think that they would have been able to maintain the same growth rate without the help of micro enterprises.

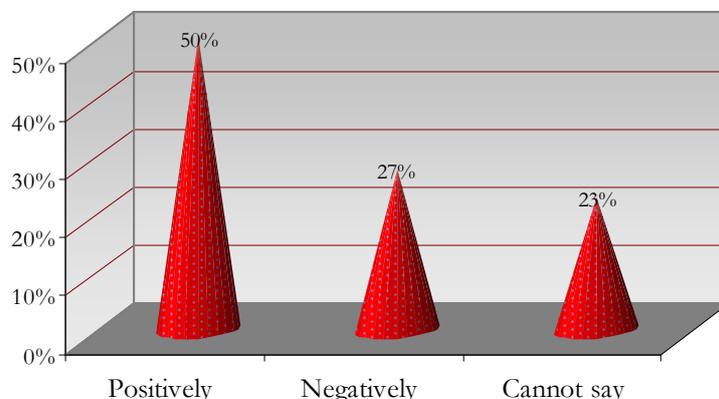
That the majority of enterprises (65%) felt that they could not have maintained the same growth rate without the outsourcing relationships with micro enterprises does not necessarily contradict the previous findings, which suggest that micro enterprises only play a very limited role. This is because: i) if these enterprises supply inputs, it is logical that the larger enterprises would not have been able to respond to demand and consequently would not be able to maintain or increase their growth levels without these relationships; and ii) the question emphasizes the microenterprises that currently provide the inputs, so a possible alternative answer could be that, if the MLEs did not have relationships with their current micro enterprise suppliers, they could seek out other suppliers. Therefore, this does not highlight the role of microenterprises in general, but rather the role of the current suppliers.

(i) Effect of outsourcing relationships with both smaller and larger sized enterprises

The graphs below provide more detailed information about the outsourcing relationships between the surveyed enterprises and both small and large enterprises. The graphs reflect the opinion of the enterprises regarding the effect that outsourcing relationships have had on their businesses. Given the variety of replies, they were grouped according to positive effects, negative effects, and unspecified effects. Graph 12 shows that maintaining commercial relationships with larger scale enterprises has had a positive effect on 50% of

the interviewed enterprises, while 27% believe commercial relationships have not had a positive effect. In sum, it has been largely beneficial for the enterprises to work with larger scale enterprises.

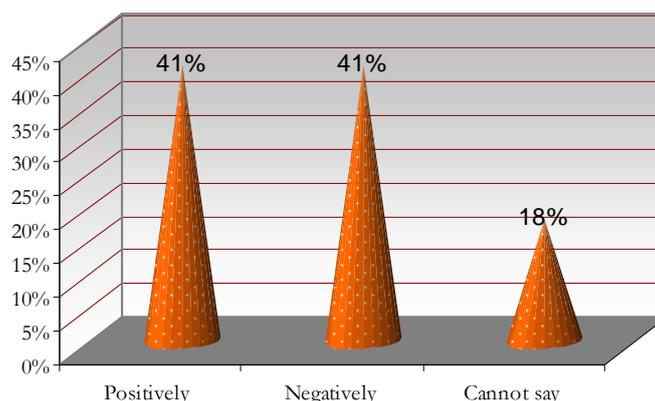
**Graph 12: Effects of outsourcing relationships with larger scale enterprises**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

Regarding outsourcing arrangements with smaller scale enterprises, the trend changes: 41% of respondents said that the effects were negative while a similar percentage stated that the effects were positive. Given that one always expects a commercial relationship to yield positive effects, what stands out in this graph is the percentage of those who noted negative effects. This means that if this information is taken into account along with the previous findings, it could be argued that the role played by smaller scale enterprises is smaller than that played by larger enterprises, and the level of MLE satisfaction with the former is not that high.

**Graph 13: Effects of outsourcing relationships with smaller enterprises**

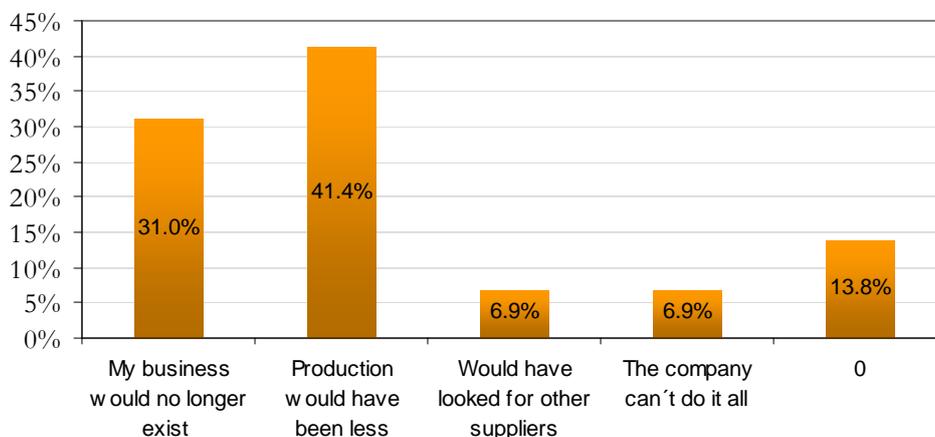


Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

Finally, going a step further, the micro enterprises were asked whether they thought that they would be in the same situation today if they had not entered into outsourcing relationships. Forty one percent thought that they would not be producing as much as they are today and 31% thought that they would have had to close their enterprises. Those whose reply fell into the category of “other answers” (13.8%), who “would have looked for

other suppliers” (6.9%) or who stated that “the enterprise can’t do it all” (6.9%), represent the minority.

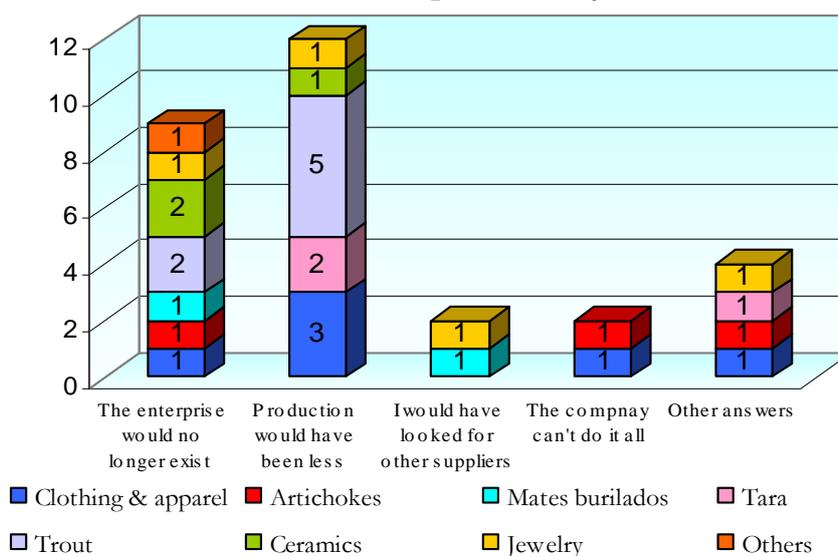
**Graph 14: What would the situation of your business be today if you did not have outsourcing relationships with larg and small enterprises? (in percentages)**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

Apart from being relatively insignificant in percentage terms, the following answers: “would have looked for other suppliers” (2), “the enterprise can’t do it all” (2) and “other answers” (4), are also immaterial in absolute terms. The other two options, however, are not. Based on this information we can say that without the outsourcing relationships with both small and large enterprises, the MLEs would indeed be worse off.

**Graph 15: What would the situation of your business be today if you did not have outsourcing relationships with large and small enterprises? According to business lines and enterprises surveyed**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

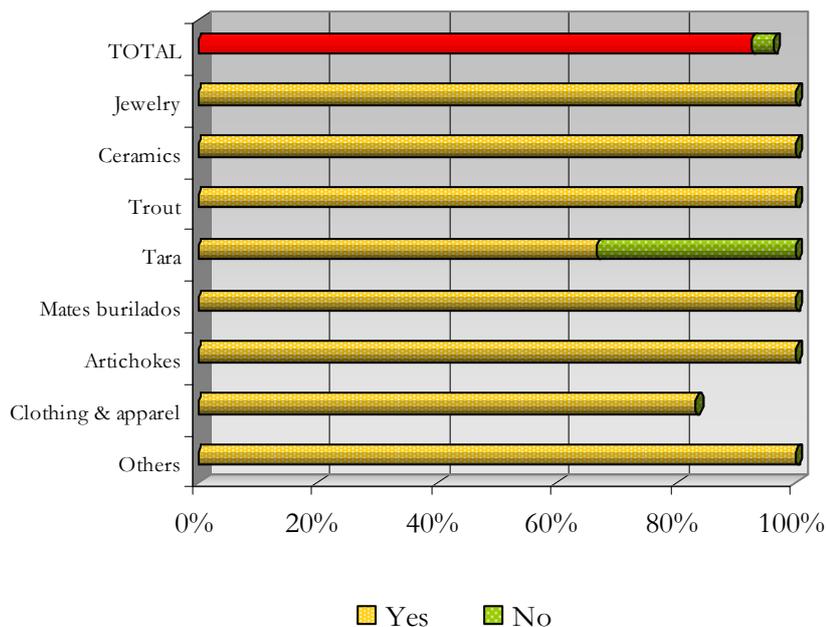
These results clearly indicate that it would be very difficult for MLEs to operate without outsourcing relationships. This conclusion is quite logical as 70% of the enterprises are

engaged in trade. Consequently, outsourcing relationships play a vital role in supporting growth. However, this does not indicate that the outsourcing relationships cause growth. This statement is based on the fact that enterprise growth may be the result of external, rather than internal factors, such as an increase in demand. An increase in the number of orders will necessitate an internal organizational response in order to take advantage of the growth. While the opposite is possible—improved internal organization can cause growth—based on the responses provided by the entrepreneurs, (Graphic 2), this is not the case.

(ii) In what ways are micro enterprises affected by their outsourcing relationships with the MLEs?

The analysis of the MLE’s outsourcing process illuminates the role played by micro enterprises in the economic growth of these enterprises. However, it also suggests a link that can benefit micro enterprises. The survey question referring to the effect of the relationship on the rate of growth of micro enterprise sales, sheds light on this aspect of the outsourcing relationship.

**Graph 16: Does the outsourcing relationship benefit micro enterprise growth?**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

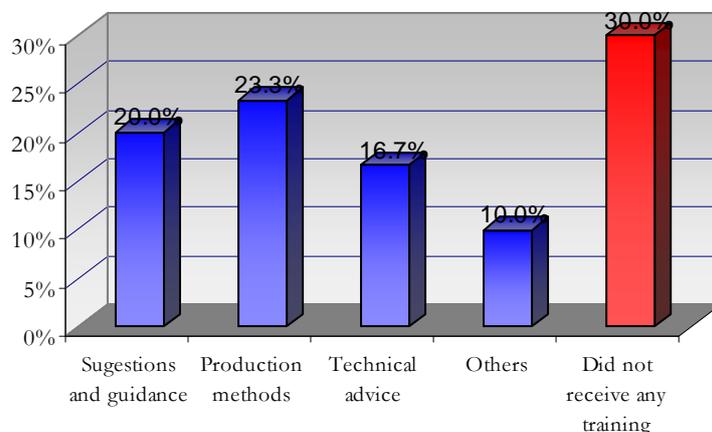
As demonstrated by Graph 16, as far as the MLEs are concerned, the relationship with micro enterprises has contributed to a rise in micro enterprise sales. In this sense, it could be said that despite the fact that micro enterprises only contribute to MLE’s growth in a very small way, micro enterprises benefit in a much larger way. Under this logic, the most benefited parties are in fact the micro enterprises.

(iii) Does training reinforce the outsourcing connection?

As Graph 17 shows, the majority of enterprises (30%) did not receive training. Of the remaining enterprises, 23% received training related to production methods, 20% received

suggestions and orientation and 17% received technical advice. These findings suggest that training is not that significant a part of the business relationship.

**Graph 17: Have the micro enterprises received training?**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

### 1.1.3 The absence of rules of the game

The data in Table 5 is consistent with the first objective of this study. It summarizes the responses with respect to the existence of laws or rules designed to encourage and/or discourage the establishment of outsourcing relationships with input suppliers at both local and national levels. Based on the premise that the entrepreneur is a person with the skills and knowledge needed to run a business, we would expect the individual to be familiar with all factors that facilitate his or her business activities. Consequently, if the majority respond that they are not aware of legal incentives or disincentives that encourage or discourage outsourcing, one can infer that these laws do not exist.

**Table 5: Were you aware of the existence of incentives/disincentives for the establishment of outsourcing relationships at both local and national levels?**

National Level		Local Level	
Encourage	Discourage	Encourage	Discourage
30%	20%	13%	0%

Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru MLE Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

In all the cases, the maximum percentage of respondents that agreed that national regulation existed in favor of outsourcing relationships was only 30%. In conjunction with the other data, we can conclude that the entrepreneurs feel that the legal framework is indifferent (it provides neither incentives for nor disincentives to closer relationships with suppliers).

## 1.2 General conclusions

### 1.2.1 Reviewing the main findings:

- Approximately 87% of the surveyed MLE enterprises reported that their sales had risen since entering into outsourcing relationships.
- The main cause of this increase in growth is considered to be heightened demand (38% of the cases), followed by outsourcing relationships (15%). In both cases, the role of micro enterprises is only indirect.
- Sales growth principally translates into increased investment in infrastructure, machinery, and equipment.
- This economic boom also contributed to employment generation within the enterprises. According to entrepreneurs, this growth was caused principally by increased demand for their products (52% of the cases).
- Micro enterprises only supply 29% of MLE's main inputs, which indicates that it is the larger scale enterprises that are actually the most important suppliers, rather than the micro enterprises.
- When asked to quantify micro enterprises' contribution to MLE sales growth the majority of respondents (52.4%) attributed 0-39% of the growth to their small-scale outsourcing partners. On the other hand, 28.6% stated that greater than 60% of the MLE's growth could be attributed to micro enterprises
- Sixty five percent of the MLEs stated that they could not have maintained their level of growth without outsourcing to micro enterprises.
- When comparing the effect of the outsourcing relationships between large enterprises and small enterprises, it is evident that outsourcing relationships with large enterprises have been more beneficial. For the entrepreneurs, outsourcing relationships with large enterprises are decisively more beneficial.
- At the same time, without outsourcing relationships with either of the two, the enterprise's operations would certainly be adversely affected, resulting in either lower production or closure.
- The majority of entrepreneurs think that micro enterprises benefit from outsourcing relationships with their enterprises. However, this sentiment does not translate into training for micro enterprises.
- The legal framework neither motivates nor discourages the establishment of outsourcing relationships by the MLEs.

### 1.2.2 Key relationships:

- a. The medium and large enterprises included in this study have experienced increased sales, in turn resulting in increased investment and employment creation. Increased demand has triggered this growth, or, in other words, the ability of the enterprises to insert themselves into markets or maintain their market position.
- b. Regarding the extent of micro enterprise contribution to growth, larger enterprises are the primary contributors while micro enterprises play a secondary role. Although micro enterprises are secondary contributors to sales growth, the larger scale enterprises cannot afford to do without them.
- c. From the perspective of the MLEs, outsourcing relationships with small enterprises are not as beneficial to them as they are to the small enterprises.

### 1.2.3 Affirming the findings:

- Micro enterprises supply the inputs required by MLEs to do business. This makes them key players in that they allow MLEs to continue their business, but are not direct causes of growth.
- In the short term, micro enterprises benefit from MLE growth, but, as demonstrated by the low levels of training, those benefits do not translate into entrepreneurial strengthening.
- Demonstrating that micro enterprises contribute to the outsourcing relationships and by extension, to economic growth, would require a long term study to determine whether these relationships favor the generation of economies of scale in the MLEs. This would further require information indicating how micro enterprise participation evolves over time and how it affects the growth of the larger enterprises.
- The fact that training is practically non-existent is an indication that the commercial relationship does not translate into greater productivity at the microenterprise level. This suggests that the benefits of the relationship are primarily short term in nature (increase in sales, income). Furthermore, the State fails to provide measures to encourage the establishment of longer term outsourcing relationships of broader scope.

### 1.2.4 Final conclusions

The research conducted and described herein explains the role played by micro enterprises in their outsourcing relationships with the MLEs. Notwithstanding, the survey does not offer sufficiently robust information to confirm micro enterprise contribution to growth, particularly with respect to the medium and long term, for which the survey does not compile relevant information.

In this context, **there is not sufficient evidence to prove the first hypothesis.**

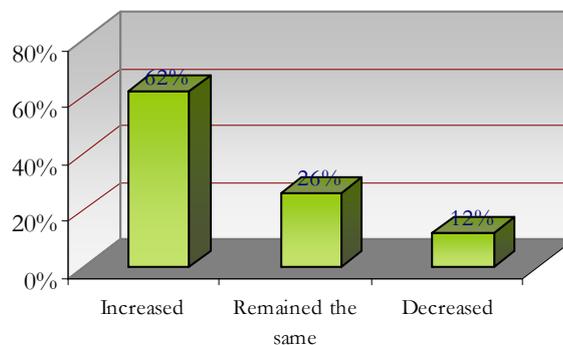
## 2. OBJECTIVE 2: Demonstrate whether and how micro enterprises contribute to social development at the household level

### 2.1 Main findings

#### 2.1.1 Family income variations among micro enterprises with outsourcing relationships and their causes

As demonstrated by Graph 18, of the 150 micro enterprises who answered the question related to changes in family income, 62% reported increased earnings. However, in 26% of the cases income remained the same and only 12% reported a reduction. Thus, initial findings suggest that in the homes of the majority of micro enterprises, family incomes increased following the establishment of outsourcing relationships with MLEs.

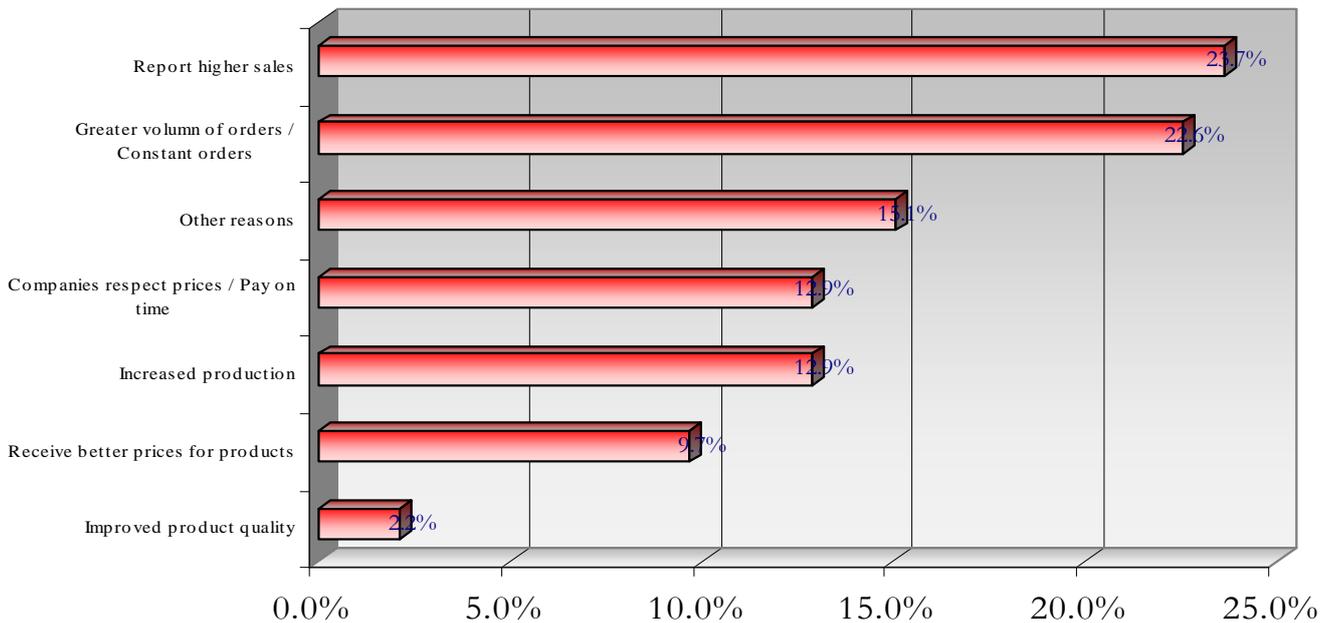
**Graph 18: Changes in levels of micro enterprise family incomes since entering into outsourcing relationships**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
Prepared by: Centro de Investigación de la Universidad del Pacífico

Since the previous question does not make any reference to the causes of the changes in family income, we must refer to question 23 of the questionnaire. Graph 19 (below) shows the results. Higher sales (34%), larger orders and constant orders/sales (23%) are among the main reasons causing sales to increase. Despite this, the answers fail to make it clear whether the increase in sales and frequency of orders are entirely caused by the enterprises with which they have outsourcing relationships, or whether they are the result of having other clients as well. This significant limitation makes it impossible for us to gain a deeper understanding of the benefits of maintaining outsourcing relationships with the MLEs. By contrast, in the case of enterprises reporting reduced incomes, the main reasons for this are attributed to delayed payments and a downturn in profit levels.

**Graph 19: Reasons explaining the rise in family income**

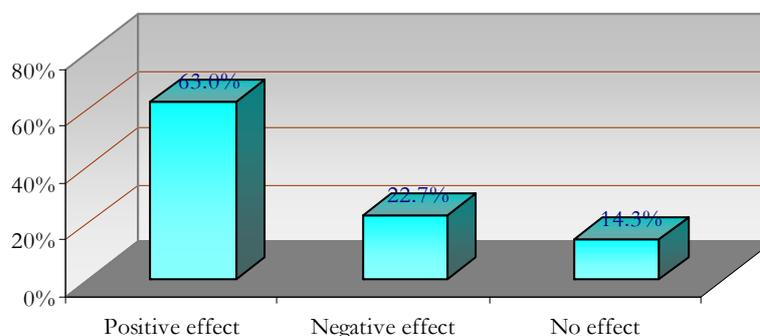


Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

### 2.1.2 The relationship between micro and larger enterprises

Analysis of the micro entrepreneurs' opinions with respect to the type of outsourcing relationship they maintain with larger enterprises also contributes to objective one of the study. In this section we first examine whether the relationship has had positive or negative effects on the micro enterprise. Graph 20 shows that for 63% of the respondents outsourcing relationships with large companies have had positive effects, while 23% of respondents claim the opposite, and 14% claim not to have experienced any change whatsoever.

**Graph 20: How has the outsourcing relationship with the large enterprise affected you?**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

Key positive effects reported include: contractual compliance with respect to orders and payments (30%), other effects (24%), higher income for the home and the micro enterprise (22%), a larger number of orders (10%) and the provision of production facilities by the enterprise (9%). This suggests that the opportunities provided by the outsourcing relationships have been perceived by the micro enterprises as favorable to their development.

Regarding the negative effects, two reasons, account for 95% of the responses. The first failure to fulfill company obligations (62%) and the other failure to make payments (33%). This reveals that the outsourcing relationships are not entirely problem-free and that these problems have certain repercussions for micro enterprises.

Interesting information can also be drawn from a hypothetical scenario in which micro enterprises are asked to consider what the situation of their micro enterprises would be without the outsourcing relationships. According to Table 6 (below), it is clear that the most popular course of action would be to continue producing and selling to other clients (24%). Similarly, another group responds that they would seek other markets/buyers (9%). These replies are very significant since they indicate that over 33% of micro enterprises are confident that they could develop their businesses just as well without their current outsourcing relationships.

**Table 6: What would the situation of your business be today if you were not supplying the MLEs?**

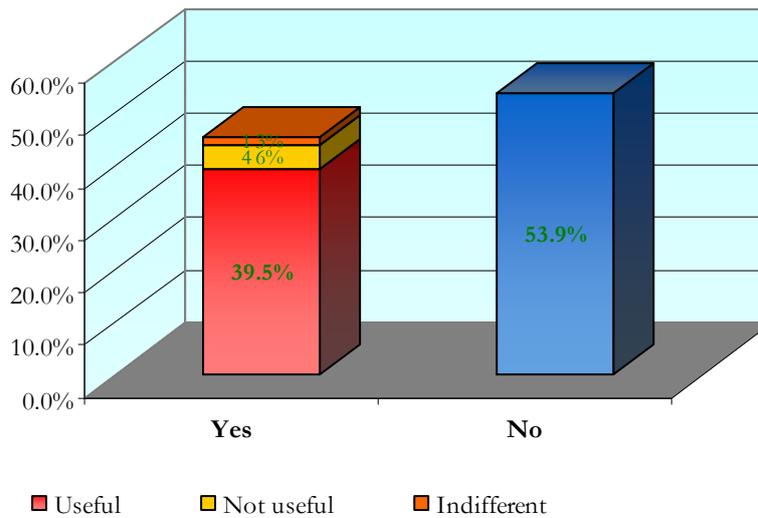
Answer	%
To continue production and sell to other clients	23.8%
Smaller orders; smaller volume of production and sales	18.5%
Would not exist/Would not have produced	18.5%
Would carry out a different activity/Would produce another product	15.2%
Some other way	9.9%
Would seek other markets/buyers	8.6%
Would remain the same	4.6%
Others	0.7%

Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

However, other options mentioned, when taken together, suggest that the absence of outsourcing relationships would have a negative effect on micro enterprises. Thus, smaller orders, smaller production, smaller sales (18.5%), would not exist/would not have produced (18.5%), and would carry out a different activity/would produce another product (15.2%) are other options which, when combined as one, support the value of outsourcing relationships to micro enterprises. Thus, we can confirm that more than half of the surveyed micro enterprises would be affected by the absence of outsourcing relationships, but close to 30% would possibly enter into business arrangements with other clients.

Moving forward, the paper will now evaluate replies to the question on training. To begin, it is important to keep in mind that the majority of micro enterprises (54%) have never received training of any sort. Those who did receive training were asked to state whether this training was useful. Forty percent of the respondents considered the training useful, meaning that only a minority had access to beneficial training on productive processes.

**Graph 21: Have you received any type of training?**



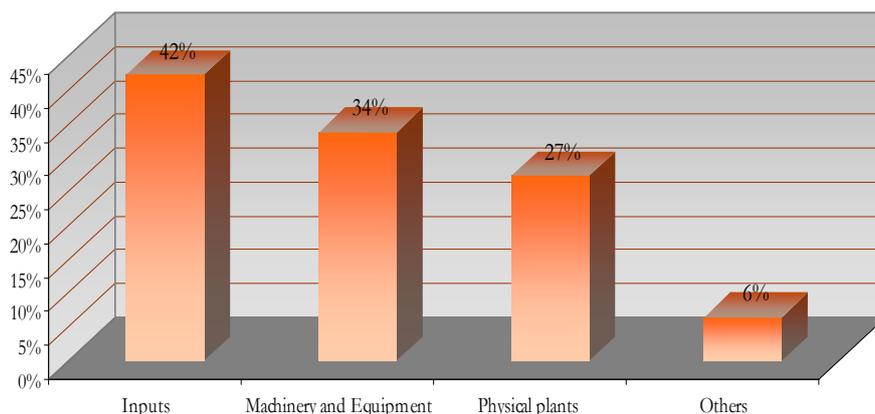
Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

These results fully coincide with the answers provided by MLE enterprises on the subject of training. Only 23% confirmed that they offered training in production methods while 17% confirmed that they provided technical advice. These findings support the fact that training is not considered an important element in the outsourcing relationships.

### **2.1.3 Outsourcing relationships with MLEs as a cause of business improvements among micro enterprises**

In order to determine if outsourcing relationships are mutually beneficial it is important to know if these relationships led to improvements in the micro enterprises. According to the survey, 67% of the micro enterprises with outsourcing relationships increased investments in their enterprises. As illustrated by the graph below, most of the investment was oriented towards improving or upgrading the quality of inputs (42%), followed by improvements made to machinery and equipment (34%) and installations (27%). This information leads us to conclude that commercial relationships have enabled micro entrepreneurs to invest more in improving their enterprises.

**Graph 22: Improvements by micro enterprises after entering into outsourcing relationships with MLEs**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
Prepared by: Centro de Investigación de la Universidad del Pacífico

#### **2.1.4 Outsourcing relationships as a cause of standard of living improvements in micro enterprise households**

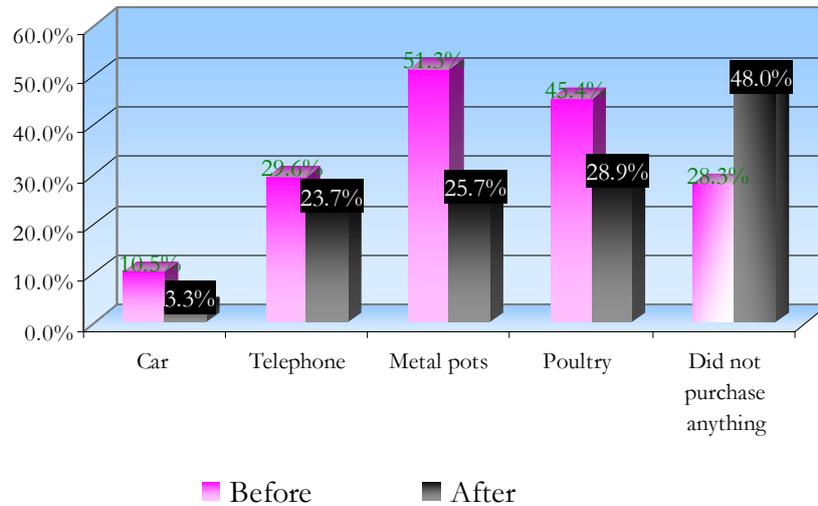
In this section we seek to determine if entering into outsourcing relationships with MLEs has improved the standard of living of the families of the outsourced micro enterprises. For the purposes of this study it is assumed that expenditures on the selected consumer goods are adequate approximations of the well-being of the families studied.

First, we compare the consumption of selected goods before and after the establishment of the outsourcing relationship to assess any changes in the consumption pattern. We then compare the consumption trends of micro enterprise with and without outsourcing relationships with the MLEs.

##### **(i) Expenditures before and after the establishment of the outsourcing relationship**

As demonstrated in Graph 23 (below), the number of micro enterprises surveyed that purchased the selected consumer goods was higher before the establishment of the outsourcing relationship than after. This result is further confirmed by the reply “I do not purchase anything” which occurs more in the present (48%) than in the past (28%).

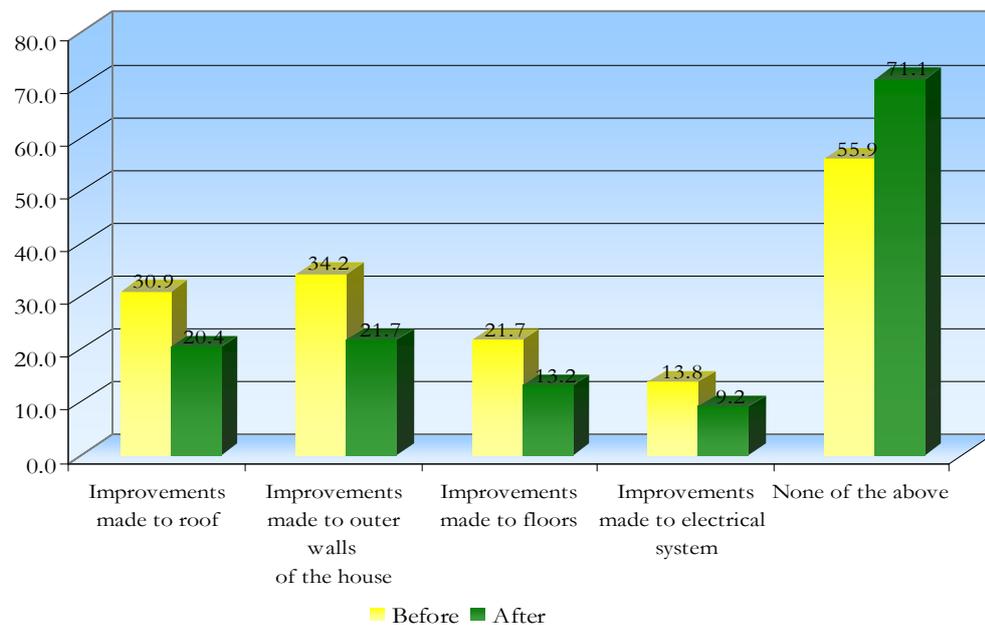
**Graph 23: Acquisition of the following goods before and after establishing outsourcing relationships**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

In the case of home improvements and repairs, the trend repeats itself. Here, micro entrepreneurs dedicated more resources to roofing material and related supplies, outer walls, flooring, and electrical systems before entering into the outsourcing relationship with the MLEs. Likewise, and most importantly, at present, nearly 72% of micro enterprises have not invested in home improvements of any kind, indicating that there is very little progress being made with respect to the well being of the family since the establishment of outsourcing relationships by the micro enterprises.

**Graph 24: Household improvements by micro enterprises before and after establishing outsourcing relationships**

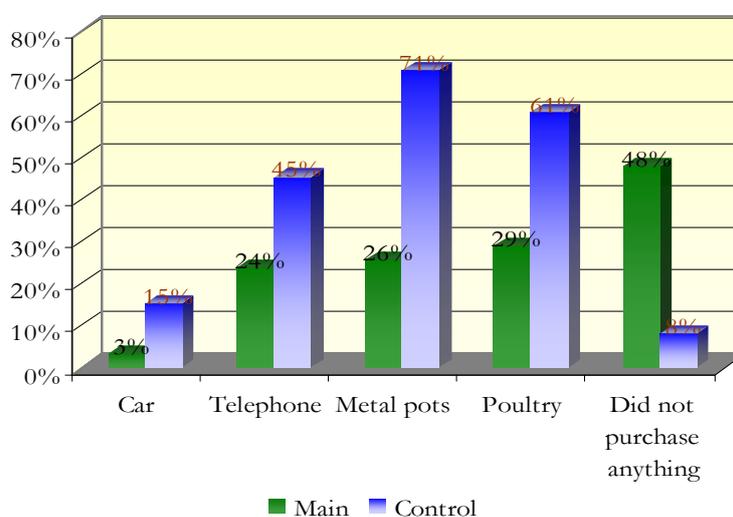


Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*

(ii) A comparison of micro enterprises without outsourcing relationships with larger enterprises

To better understand whether having an outsourcing relationship with an MLE offers benefits at the household level, this section focuses on comparing the pattern of expenditures by households with and without these relationships. In the case of goods such as automobiles, telephones, and metal pots, the micro enterprises without relationships (the control group) report greater levels of expenditure than those with relationships. Likewise, fewer enterprises with outsourcing relationships acquired goods (48%) compared with those in the control group (8%).

**Graph 25: Consumption of goods of micro enterprises with/without outsourcing relationships**

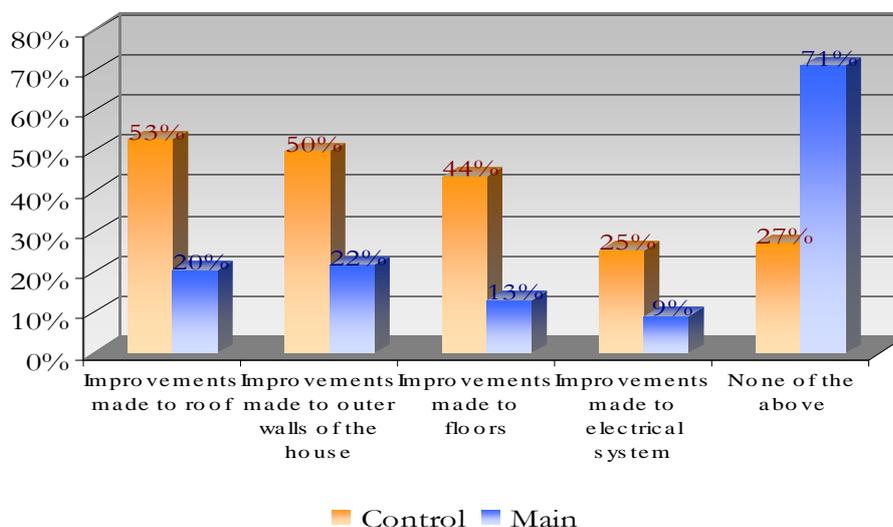


Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

After comparing home improvements or repairs, findings confirm what was previously stated: enterprises with outsourcing relationships report less expenditure than enterprises in the control group. Most notably, micro enterprises with outsourcing relationships did not make more home improvements than those in the control group. Further, the percentage of micro enterprises without outsourcing relationships that made no investments in home improvements (27%), is substantially lower than the percentage of micro enterprises with these relationships that made no investments in home improvements (71%).

By comparing the finding on expenditures on consumer goods and household improvements we can affirm definitively that consumption among families that have microenterprises with outsourcing relationships is lower than consumption among families without these relationships. While it may seem excessive to base our conclusions on the consumer goods detailed in the household questionnaire, there is a clear tendency in both cases indicating that the families with microenterprises and outsourcing relationships spend less on household expenditures. This finding supports the conclusion that the family wellbeing of microenterprise households is not positively related with an outsourcing relationship.

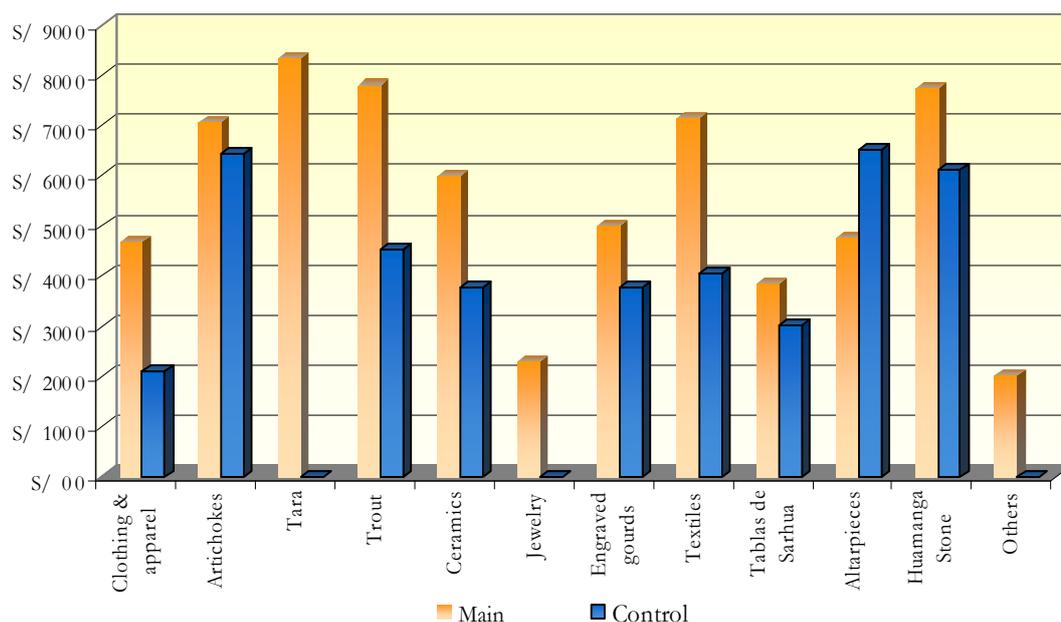
**Graph 26: Household improvements made by micro enterprises with/without outsourcing relationships**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

Finally, regarding clothing expenditures in the last six months, the results are interesting in that they depart from the trend observed in the graphs above. The enterprises with established relationships show greater expenditure on clothing than the families of the control group, with the exception of the enterprises producing Ayacucho altarpieces. However, it is important to note that the interviewers had their doubts about how the question was formulated, observing that respondents tended to reply without giving very much thought to their answers. And in many cases it was observed that the respondent's answer was not consistent with his or her spending capacity. Consequently, in the opinion of the interviewers, the results may not be an accurate reflection of the situation.

**Graph 27: Family expenses in clothing for main and control group enterprises during the last six months, organized by product**



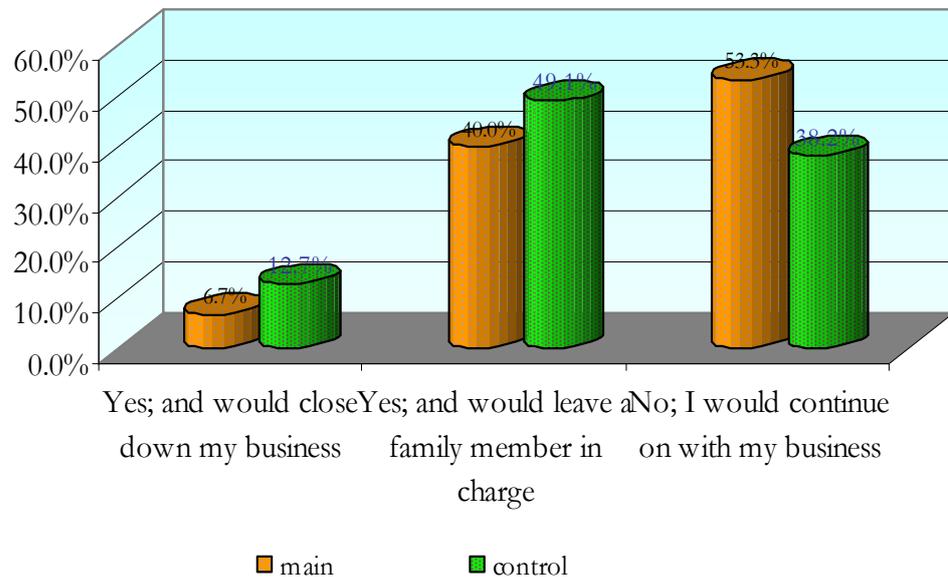
Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

### 2.1.5 Valuation of micro enterprise benefits

Whether or not a micro entrepreneur would abandon his/her enterprise for a different job offering the same amount of money and requiring the same number of work-hours is very relevant to this study. It is assumed that if the micro entrepreneur opts for a different job, he/she would be doing so because his/her present occupation does not satisfy his/her expectations. This could be interpreted as an expression of dissatisfaction with the level of well-being that the micro enterprise offers him/her, prompting him/her to seek out other alternatives.

As far as the control group is concerned, only a few respondents indicated that they would be willing to close down their enterprises and accept new work opportunities (13%). However, the percentage of entrepreneurs willing to accept another job increases when there is another family member who could remain in charge of the micro enterprise (49%). Furthermore, only approximately 38% indicate they would continue with their micro enterprises even if offered a new work opportunity, indicating that the majority of the control group would welcome the chance to pursue other employment options.

**Graph 28: Would you give up your work in the micro enterprise for another job paying the same and requiring the same amount of time?**



Source: Chemonics International (2006) *Making the Case for Micro Enterprises Peru HH Questionnaire*  
 Prepared by: Centro de Investigación de la Universidad del Pacífico

Approximately 53% of micro entrepreneurs with established outsourcing relationships stated that they would continue with their present occupation, but 40% of these said that they would be willing to give up their present employment if another member of the family could replace him/her and continue the business. Those who would be willing to give up their enterprise entirely are the minority (7%). According to these results there would be a significant group willing to pursue another activity, though fewer than in the case of micro enterprises without outsourcing relationships.

## 2.2 General conclusions

### 2.2.1 Reviewing the main findings:

- Family earnings have increased since establishing outsourcing relationships with MLEs.
- These increased earnings are mainly attributed to an increase in sales and the constancy of orders. It is not clear whether this is due to the business relationship or because they have additional clients.
- The majority of micro entrepreneurs (63%) acknowledge that the outsourcing relationships with larger enterprises have brought about positive effects. Contract compliance is mentioned as being one the most significant reasons.
- When asked how they think they would have fared in a hypothetical scenario in which there was no outsourcing relationship, more than 50% of the micro enterprises indicated that they would be worse off, but roughly 30% indicated that

they would have looked for new markets. It is not clear if those new markets included selling directly to the public or to another intermediary, such as an MLE.

- Only 40% of the micro enterprises consider the training received from MLEs useful.
- A considerable percentage of micro enterprises with established outsourcing relationships have invested in the improvement of supplies (42%), machinery and equipment (34%), and installations (27%).
- With respect to the increased consumption of household goods, results show that consumption was higher before the establishment of outsourcing relationships, and among micro enterprises that have not established outsourcing relationships with MLEs.
- The previous trend is repeated for household improvements.
- With respect to clothing expenditures, the families of micro entrepreneurs with established relationships spend more now than they did before the relationship began. They also spend more than the enterprises without established relationships.
- In general, micro enterprises from the control group are more inclined to leave their present occupation than those who have established outsourcing relationships. However, the percentage of micro entrepreneurs with outsourcing relationships that would not leave their current enterprise faced with a job offer including similar benefits—53%—is slightly higher than the percentage of micro entrepreneurs with relationships that would leave their enterprises.

### **2.2.2 Key relationships:**

- The parties involved acknowledge that outsourcing relationships increase sales and family income and provide them with certain additional comforts.
- The evidence reveals that the increase in income has not translated into greater household/home expenditures, with the exception of clothing expenditures.
- A little over half of the micro entrepreneurs with established outsourcing relationships would not accept a new job and would continue with their micro enterprise.

### **2.2.3 Affirming the findings:**

- Given that the stated objective is to evaluate whether micro enterprises contribute to social development, which is reflected in increased family consumption (on consumer goods and housing), it would appear that micro enterprises with outsourcing relationships do not contribute to social development.
- The study is unable to explain why while there is an evident increase in family income, there is also a decrease in expenditures related to household goods and home improvements.

- Family expenditures on clothing do contradict the aforementioned trend in expenditures.

#### **2.2.4 Final conclusions:**

The information extracted from the questions related to household spending disprove the second hypothesis.

## Chapter II. Lessons Learned

### 3. Regarding the survey (questionnaire)

#### 3.1 Questionnaire for micro enterprises

##### Insist on interviewing the owner

Field work has shown that this questionnaire can be used to interview the owner or manager of a micro enterprise but not when the interviewee is a farmer or *campesino*.

##### The importance of using simple language

It is important to bear in mind the reality in which the large majority of micro entrepreneurs or small scale producers live. The questionnaire must be adapted to the reality of the respondent, and must use simple language to ensure that the same information is collected from all respondents. This is especially true when one considers that the average respondent has not completed high school. Using complex language only complicates the task of collecting the necessary information.

##### A horizontal relationship is helpful

It is necessary to maintain a horizontal relationship with the respondents rather than a vertical one as suggested by the team that prepared the questionnaire. In this sense, field work has demonstrated that it is much more useful to collect the information through informal conversations guided by the interviewer, rather than simply carrying out questions and answer session.

##### Pros and cons of open questions

There are seven questions that require respondents to provide an open answer. Although this may well enrich the resulting information, it can also make it very difficult to process the information. The interviewer must be trained to capture the underlying information in the respondent's reply, if he/she provides a more elaborate answer.

##### Do the questions directed at family expenditures really represent the family's well-being?

Does the acquisition of the specified goods truly reflect the family's well-being? According to what we were able to observe it does not. For example, families may have domestic animals such as guinea pigs or pigs, but as the questionnaire has been formulated, this information is not captured under the "domestic animals" item, and is thus lost in the process. Nevertheless, since the questions consider both micro enterprises without outsourcing relationships and the level of household well being before the micro entrepreneur entered into an outsourcing relationship, it is possible to observe a tendency in household wellbeing with these questions.

##### Are all of the questions comparable?

In the case of the question which attempts to collect information on clothing expenditures in the last six months, it was repeatedly noted that respondents did not really know how to calculate the amount spent. Thus, the results obtained for this question may not be true indicators. Apart from this, and given that the families interviewed have varying lifestyles and come from diverse geographical environments, it is of little use to compare clothing expenditures (i.e. micro entrepreneurs in Puno versus those in Ayacucho).

### **3.2 Questionnaire for Medium and Large Scale Enterprises (MLEs)**

#### Avoid redundant questions

The answer to question 8 of the questionnaire for MLEs also provides the answers for open questions numbers 10 and 12. We recommend reorganizing the order of the questions so as to avoid repeating questions which have already been answered.

#### Is growth a short term issue?

When asked to what extent he/she considers that growth is due to micro enterprise contributions, the respondent will restrict his/her answer to the actual period of the interview. However, if he/she is asked to base his/her answer on two different periods, one can observe how the importance of the micro enterprise has changed over time. This would be much more useful, as this would give a better idea of the importance of the micro enterprises in economic growth. Using this technique would be better for studying the link between micro enterprise and growth. The questions in the questionnaire are too limited in this regard.

#### Why not use the number of workers?

Lastly, we must comment on the classification of enterprises by sales volume, in the questionnaire. The enterprises should also be classified according to the number of workers to reflect the Peruvian reality. We would also like to suggest preparing a separate sheet showing how enterprises are classified to aid respondents in their answers.

### **3.3 Listed micro enterprises**

#### The list of micro enterprises

The list of micro enterprises provided by each of the MLEs included in this study are an important tool for carrying out the survey. However, the location of the beneficiaries' homes must be explicit and interviewers should be given indications on how to locate them in cases where the geography of the area makes access difficult.

#### Access to rural localities

It is important to consider that accessing rural localities usually implies serious transportation difficulties. Because of this, it is necessary that the interviewing team knows how to reach the places where they are expected to collect the information. In the case of Cajamarca for example, it took over six hours to get to Bambamarca from Cajamarca to interview the artichoke producers. In many cases walking was the only means of accessing these remote locations. The same occurred in Puno. It took over four hours of travel time from the city of Puno to reach the locality of Santa Lucia, where the majority of trout producers are based. Public transport in those areas is not readily available which makes it practically mandatory to use private transport (usually 4 x 4 trucks).

Based on the lessons learned from this study, we would recommend reformulating the survey (questionnaire) so that it includes questions or alternatives that adjust to the reality of the great majority of Peruvian micro enterprises or small scale producers. For instance, the use of indicators such as the purchase of a car or a telephone are inadequate examples of household goods purchased by micro entrepreneurs in Peru. The questionnaire should also include more quantitative questions regarding the development of the business but also related to subcontracting. For example, the questions should ask the entrepreneurs what percentage of supplies or services contracted by the MLEs are provided by micro enterprises, or how many micro enterprises he/she works with throughout the calendar

year, how permanent they are, and whether it is easy to replace them with other suppliers of goods and services.

Another aspect that should be taken into account in both questionnaires is the emphasis placed on the relationship with the outsourcer or outsourcee (MLE or micro enterprise, as the case may be), in order to understand what is due to the current relationships. Due to the way questions are currently worded, it is possible that the answers given take into consideration other enterprises from the same category (MLE or micro enterprise, as the case may be), which makes it difficult to differentiate the changes. The questions do not clearly establish a dividing line between the impact of the micro enterprises or the MLEs.

### 3.4 Lessons learned from the field work

According to the Terms of Reference the work program included:

- 20 Interviews to MLEs (First Contract)
- 6 Interviews to MLEs (Second Contract)
- 160 Interviews to micro enterprises with established outsourcing relationships (First Contract)
- 48 Interviews to micro enterprises with established outsourcing relationships (Second Contract)
- 160 Interviews to micro enterprises without established outsourcing relationships (First Contract)
- 76 Interviews to micro enterprises without established outsourcing relationships (Second Contract)

However, what was in fact carried out included:

- 26 Interviews to MLEs (First Contract)
- 4 Interviews to MLEs (Second Contract)
- 106 Interviews to micro enterprises with established outsourcing relationships (First Contract)
- 48 Interviews to micro enterprises with established outsourcing relationships (Second Contract)
- 34 Interviews to micro enterprises without established outsourcing relationships (First Contract)
- 76 Interviews to micro enterprises without established outsourcing relationships (Second Contract)

#### Rate of contact and replies

To MLEs (First Contract)	130.0% <sup>2</sup>
To MLEs (Second Contract)	66.6%
To micro enterprises with established outsourcing relationships (First Contract)	66.3%
To micro enterprises with established outsourcing relationships (Second Contract)	100.0%
To micro enterprises without established outsourcing relationships (First Contract)	21.3%

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<sup>2</sup> Considered as the percentage of replies obtained from an initial list. The 130% would indicate that the number of the individuals interviewed was greater than that indicated on the list.

To micro enterprises without established outsourcing 100.0%  
relationships (First Contract)

The main reasons explaining the differences are:

1. Not all of the MLEs that subcontracted goods and services had 20 micro enterprises on their lists as stated in the Terms of Reference.
2. Inaccessibility of rural locations where the homes of the micro entrepreneurs are located.
3. Difficulties in accessing the remote locations and substantial distances between the homes of the micro entrepreneurs.
4. Cases where the micro entrepreneurs were not at home when we arrived to interview them.

Consequently, the first important lesson is to clearly understand where the subcontracted micro enterprises are located. If this initial research had been carried out, the beneficiary homes would have been much easier to locate. The second lesson learned relates to the first, in that the interviewing team must have detailed knowledge of how to access the areas where they are to carry out the interviews. Since public transportation is not readily available in these remote areas, private transport is a must.

Finally if the questionnaire is to be improved, it should include questions or alternatives that more accurately reflect the reality of the majority of Peruvian micro entrepreneurs or small scale producers. For instance, the use of indicators such as the purchase of a car or a telephone are inadequate examples of household goods purchased by micro entrepreneurs, since theirs is a completely different reality. Instead of using this type of indicator, the questionnaire should be asking families of entrepreneurs if they have recently installed any type of flooring in their home, which is a better way of measuring their level of well-being as it relates to their particular situation.