



# DCED

The Donor Committee for Enterprise Development

## Latest Research & Evidence on PSD June 2015

### Contents

#### 1. \*\*\* [Special Feature: MSMEs and ICTs](#)

Summary: Key findings of recent research

- a. [What influences the adoption of ICTs by MSMEs?](#)
- b. [What impacts do ICTs have on the performance of MSMEs?](#)

#### c. [Agricultural Value Chain Development](#)

#### d. [Structural Transformation](#)

#### e. [Small Enterprise Growth](#)

*This DCED Research and Evidence Update compiles recent books, journal articles and studies that offer credible findings on the effectiveness of private sector development (PSD), reviews of current trends and approaches in PSD, or research on economic development more broadly. Relevant evidence is also collated in the [Evidence Framework](#) on the DCED website.*

*[Click here](#) to subscribe to future issues, as well as our separate Newsletters on the latest developments in PSD.*

[www.Enterprise-Development.org](http://www.Enterprise-Development.org)

[www.Value-Chains.org](http://www.Value-Chains.org)

[www.Business-Environment.org](http://www.Business-Environment.org)

### 1. \*\*\* [Special Feature: Micro, Small and Medium Sized Enterprises and ICTs](#)

#### **SUMMARY: Key findings of recent research on Micro, Small and Medium Sized Enterprises (MSMEs) and Information Communication Technologies (ICTs)**

New technologies are affecting small businesses in many ways; much research currently focuses on rapidly-increasing access to ICTs particularly through smart phones. The first study summarized below focuses on the variables that influence the adoption of ICTs by small business. The second explores the effects of mobile-phones on business growth and the third on the effects of mobile-phones on agricultural outcomes; the fourth looks specifically at the effects of mobile payment technology on entrepreneurial development.

#### **a. What influences the adoption of ICTs by MSMEs?**

**Adoption of information and communication technology for development: A case study of small and medium enterprises in Bangladesh**, by *Rakibul Hoque, et al.*, *Journal of Information Development*, June 2015.

The objective of this study is to identify **the factors that influence the adoption of ICTs, particularly telecommunications and internet, by SMEs in rural areas of Bangladesh**. 50 interviews were conducted with employees of three different SMEs. The results revealed six independent variables that significantly influence the adoption of ICTs. These are: awareness of benefits, financial support, infrastructure, resistance to organizational change, lack of top management support, and lack of government support. These hypotheses were tested through structured surveys of 150 individuals from 25 firms. **Awareness of benefits and in particular financial support both had significant positive effects on the introduction of ICTs in rural MSMEs**, whilst the lack of top management support and especially the lack of government support had significant negative impacts. Infrastructure and resistance to change were found to have no significant impact. [>> Article Abstract](#)

#### **b. What impacts do ICTs have on the performance of MSMEs?**

**The amplification effect of mobile phones on female-owned microenterprises**, by *Han Chew, Vigneswara Ilavarasan and Mark Levy*, *Journal of Mobile, Media and Communication*, January 2015.

Based on a survey of 335 urban female micro entrepreneurs who own mobile phones in Chennai, India, the authors contend that **access to mobile phones is a necessary but not sufficient condition for achieving business growth**. The authors use the concept of 'entrepreneurial expectations', or the relative ambitiousness of different entrepreneurs. Among micro entrepreneurs with high entrepreneurial expectations (14% of the sample), **business use of mobile phones amplified the impact of entrepreneurial expectations and was associated with greater microenterprise growth**. 'Reluctant' or 'necessity' entrepreneurs with low levels of

entrepreneurial expectations, however, do not seem to benefit from the business use of mobile phones. This conclusion lends an important perspective to the failures of earlier ICT for development interventions, which often operated on the assumption that access and use of technology would be sufficient to alleviate poverty. >> [Article Abstract](#)

**Can mobile phones improve agricultural outcomes? Evidence from a randomized experiment in Niger**, by Jenny Aker and Christopher Ksoll, *Journal of Food Policy*, April 2015

The authors report the results of a randomized evaluation in Niger. The results suggest that farmers who receive access to a joint mobile phone and teaching on how to use it increase the variety of crops they grow, primarily by increasing their production of marginal cash crops. There is also evidence to suggest that they are more likely to engage in selling two or more crops. **However, there are no statistically significant impacts on the quantity grown or the quantity sold of each crop**, and so these changes in behaviour do not translate on average into significant improvements in household's well-being. **Improved access to information might not result in economic benefits for agricultural populations if markets are uncompetitive or if credit market failures exist.** The authors' findings indicate that improved access to information technology changes households' production decisions, but does not lead to a substantial improvement in economic benefits. >> [Article Abstract](#)

**Effect of Payment Technology on Entrepreneurial Development: Perspective of Micro-Business Owners in Nigeria**, by O.O. Akanda, *International Journal of Management Services*.

This study aims to explore **the effectiveness of mobile payment technology on entrepreneurial development in Nigeria**, using 260 questionnaires administered to micro and small businesses owners in Mopo Market Ibadan, Oyo State of Nigeria. Findings reveal that payment technology has a positive effect on entrepreneurial development in Nigeria. Mobile payment technology reduces the cost and time of transactions, and the financial gains outweigh the costs. >> [Article Abstract](#)

>> [A recent report by UNCTAD investigates unlocking the potential of E-Commerce for developing countries.](#) The report examines opportunities and challenges faced by enterprises in developing countries that want to engage in electronic commerce. The global landscape of online transactions is rapidly changing, with developing countries as a group assuming a more prominent role as both buyers and sellers of goods and services online.



## 2. Agricultural Value Chain Development

**Small Farmers in High-Value Chains: Binding or Relaxing Constraints to Inclusive Growth**, by Roehlano Briones, *World Development* forthcoming August 2015.

A considerable body of empirical work relates participation in contract farming to farm profitability. However, the direction of causation is unclear. Few studies control for endogeneity of participation – i.e. the self-selection of more successful farmers into contract schemes. Moreover, even if beneficial, contract farming may serve to perpetuate or aggravate rural inequalities; buyers may prefer farmers with greater landholdings or asset endowments, excluding the smallest and poorest farmers from high-value chains. The case study is based mainly on primary data collected from 316 farmers interviewed in the Ilocos Region of the Philippines, the country's main tobacco-growing area. The reference period is the planting season of 2013. Using multivariate analysis and treatment effects to control for endogeneity, the authors find that **being a contract farmer raises net farm income** per hectare by Php 121,511 (77% larger than mean income per hectare). The analysis further shows that participation in contract farming is negatively related to farm size, so exclusion of the smallest farmers does not hold in this case. However, **transport cost and inadequate physical accessibility** tends to undermine profitability as well as the likelihood of contract participation. >> [Full paper](#)

**Contract Farming: Risks and Benefits of Partnerships between Farmers and Firms**, by Nicholas Minot and Loraine Ronchi, *World Bank Trade and Competitiveness Global Practice*, October 2014

This study reviews the literature on contract farming, and concludes that in almost all cases contract farming does increase farm profitability – by between 25 and 75 percent. This is particularly true for high value crops. A review of the literature also shows that contracting firms are typically willing to work with small-scale farmers. However, disputes between contracting firms and farmers are very common. In many countries, settling disputes through the legal system is impractical because of costs and delays. Alternative dispute resolution mechanisms are one way to address these conflicts. In particular, **third-party verification** appears promising. A study by Saenger et al. provided vouchers to randomly-selected dairy farmers in Vietnam, allowing them to verify quality with a third-party laboratory. These lab tests showed that the company was not falsifying quality,

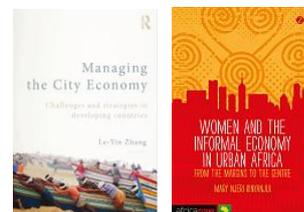
and the reassurance of the third-party testing incentivized voucher recipients to increase output, resulting in increased dairy revenue by 16 percent. Another study used field experiments to show that farmers do not fully trust their contractors, but the presence of a third party at the quality testing increased trust in the validity of the results. **The level of trust of male farmers was not affected by opportunities for collusion between the company and the third-party testers. The trust of female farmers was negatively affected if such opportunities existed** (Torero and Viceisza 2013). [>> Full paper](#)

### 3. Structural Transformation

**Premature Deindustrialization**, by Dani Rodrik, *NBER Working Paper No. 20935, February 2015*.

In this paper, Dani Rodrik argues that in recent decades there has been a **significant trend towards deindustrialisation in developing countries**. The author uses a comprehensive data set from the Groningen Growth and Development Center covering the period between the late 1940s/early 1950s to the early 2010s in 42 developed and developing countries. He finds that the hump-shaped relationship between industrialization (measured by employment or output shares) and incomes has shifted downwards and moved closer to the origin. This means countries are running out of industrialization opportunities sooner and at much lower levels of income compared to the experience of early industrializers, with Latin America and Sub Saharan Africa particularly badly affected. The explanation presented for this is that, as developing countries opened up to trade, those without a strong comparative advantage in manufacturing could not compete on the global market and thus became net importers of manufacturing. In addition, (with the exception of Asia) developing countries' manufacturing output is a small fraction of the global total. They are thus exposed to the relative price trends in advanced economies. Productivity increases in advanced countries have led prices of manufacturing goods to fall, and these prices are the same which developing countries who have not yet become so productive must also offer. In the absence of sizable manufacturing industries, Rodrik argues, most developing economies will need to discover new growth models. One possibility is services-led growth. **Many services, such as information technology and finance, are high in productivity and tradable**, and could play the escalator role that manufacturing has traditionally played. However, these service industries are typically highly skill-intensive, and do not have the capacity to absorb – as manufacturing did – the type of labour that low- and middle-income economies have in abundance. [>>Article Abstract](#)

► **Book tips:** Two new books explore the challenges and opportunities of urbanisation in Africa. [Women and the Informal Economy in Urban Africa](#) explores the trajectory of women's movement from the margins of urbanization into the centres of business activities in Nairobi and its accompanying implications. [Managing the City Economy: Challenges and Strategies in Developing Countries](#) provides a broader perspective, with a chapter on managing sectoral growth.



### 4. Small Enterprise Growth

**The Entrepreneur Makes a Difference: Evidence on MSE Upgrading Factors from Egypt, India and the Philippines?** Aimée Hampel-Milagrosa, Markus Loewe, Caroline Reeg, *Journal of World Development, February 2015*.

This study assesses the relative importance of three common explanations - entrepreneur or firm characteristics, business networks, or the business environment - for MSE owners in Egypt, India and the Philippines. The authors conducted simultaneous surveys of about 100 MSE owners with two sub-samples respectively in each of the three countries: one sub-sample consisting of successful upgraders; the other consisting of comparable non-upgraders. The robustness of these qualitative findings was tested by comparing them to data from two rounds Egypt Investment Climate Survey (2004 and 2008).

The authors conclude that **the entrepreneur and the entrepreneur's coping strategies matter much more than what the recent literature on Doing Business indicators and the business environment would suggest**. In all three countries, upgraders tend to: be better endowed with human capital (high-quality education, relevant work experience, be more motivated and more willing to take risks, invest more in human resource development, spend more on research and development and market research, and have personal wealth or easy access to finance in the core family. [>> Article Abstract](#)