



Why Small is Still Beautiful: Establishing Micro-Economic Research, Policy, and Outreach Agendas for Emerging Markets

**Asian Development Bank
Office of Regional Economic Integration**

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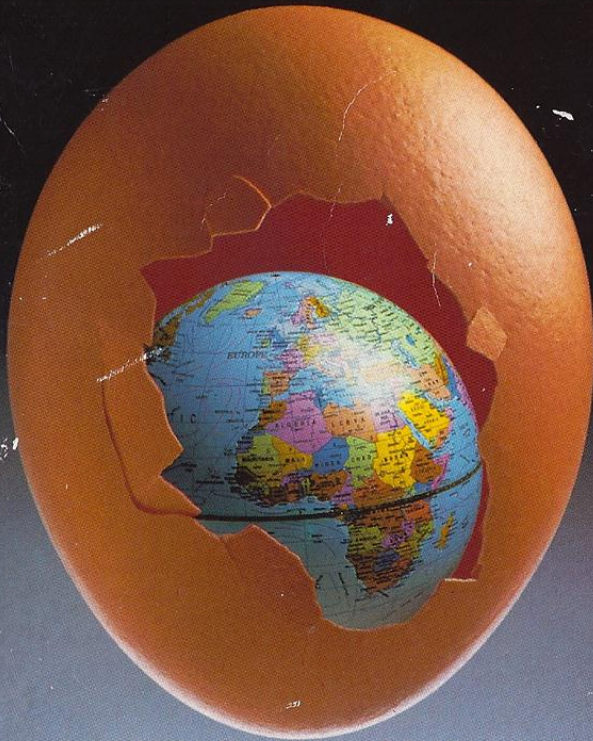
July 17, 2012

ABACUS

E. F.

SCHUMACHER

SMALL IS BEAUTIFUL



A STUDY OF ECONOMICS AS IF
PEOPLE MATTERED

“In small-scale enterprise,
private ownership is
natural, fruitful, and just.”

E. F. Schumacher
(1973)

Schumpeter's Theory of Economic Development (1911)



What is Entrepreneurship?

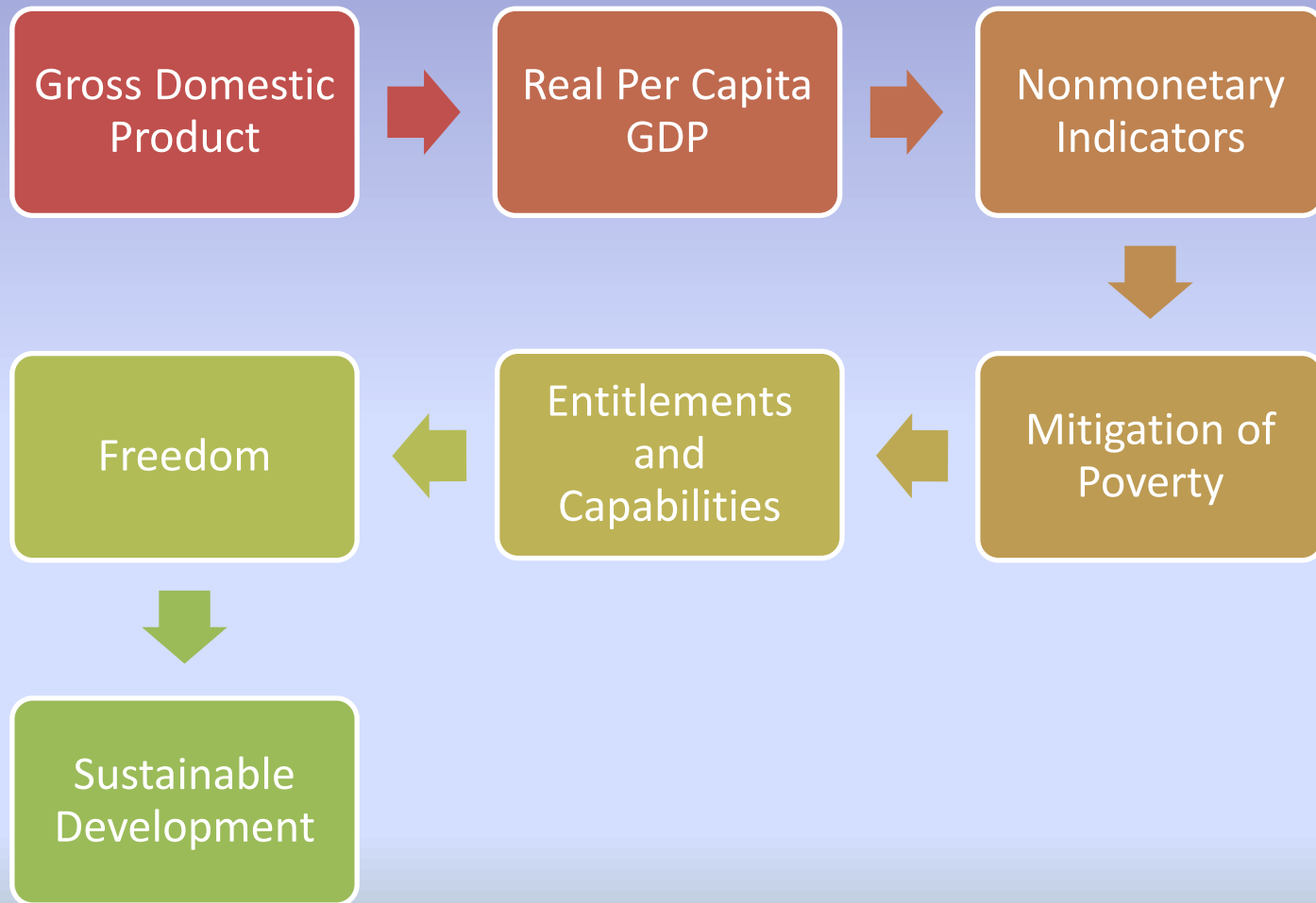
Entrepreneurship refers to both owning and managing a business at one's own risk and also to taking advantage of economic opportunity.

(Sternberg and Wennekers, 2005)

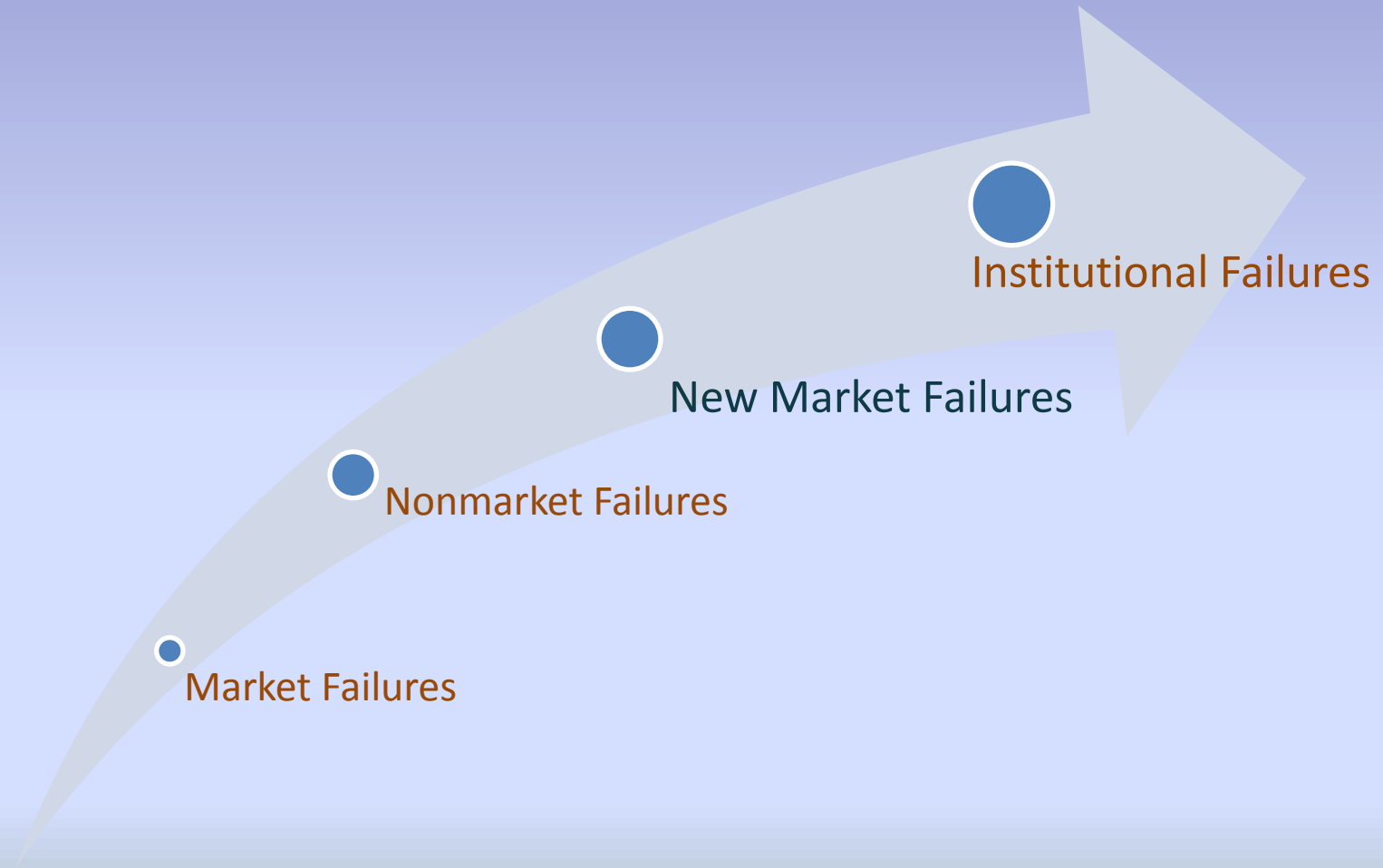
Burning Questions

1. What is the state of research on small business?
2. How can we reform the state, in the context of radical change, to enact policies that support small business development?
3. How can capacity building programs improve the economic performance of small-to-medium enterprises?

Goals of Development



Evolution of Development Thought: State and Market

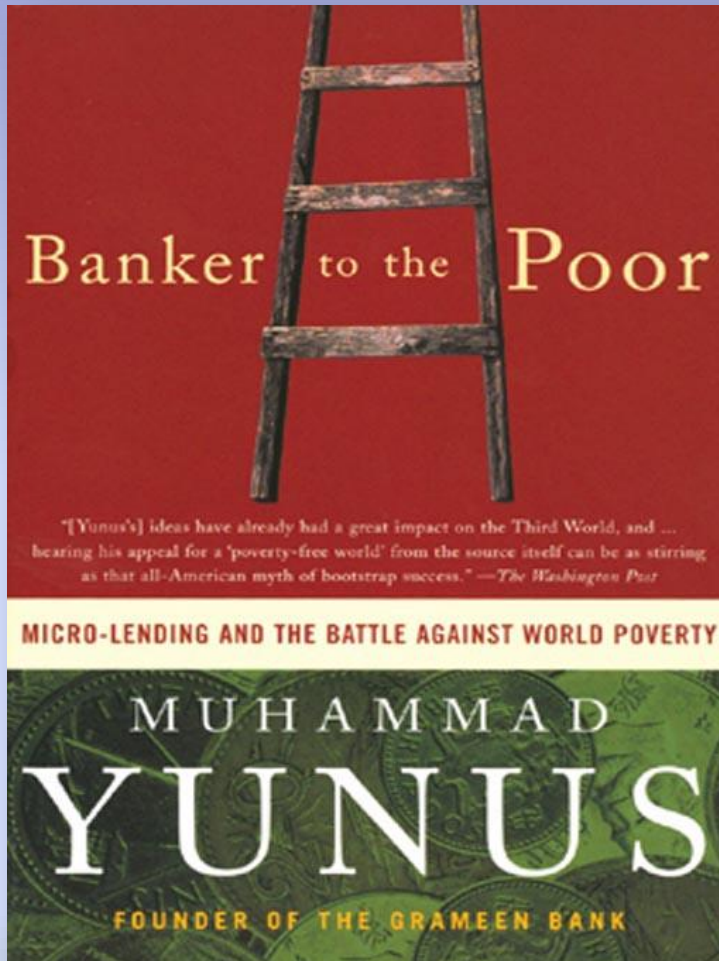


Contemporary Strategies

Washington Consensus: Macroeconomic Policies and Economic Freedom (1980s)

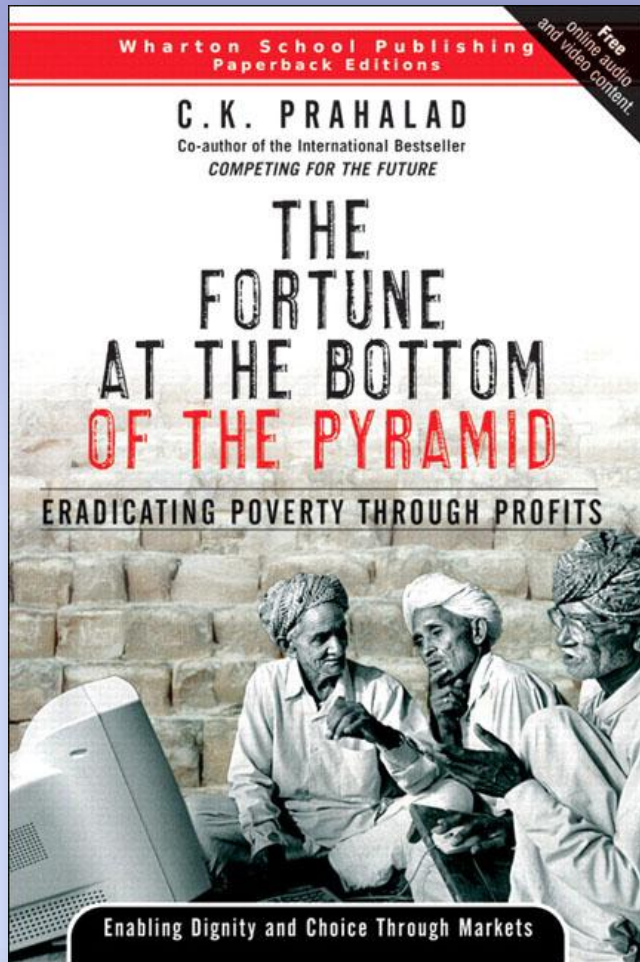
- Micro-finance
- Bottom of The Pyramid
- Millennium Villages project

Micro-finance



- Bangladesh's Muhammad Yunus founded the Grameen Bank.
- Grameen Bank created a new category of banking by granting millions of small loans to poor people with no collateral.
- Yunus won the Nobel Peace Prize in 2006.
- Grameen Bank started a microcredit movement across the developing world.

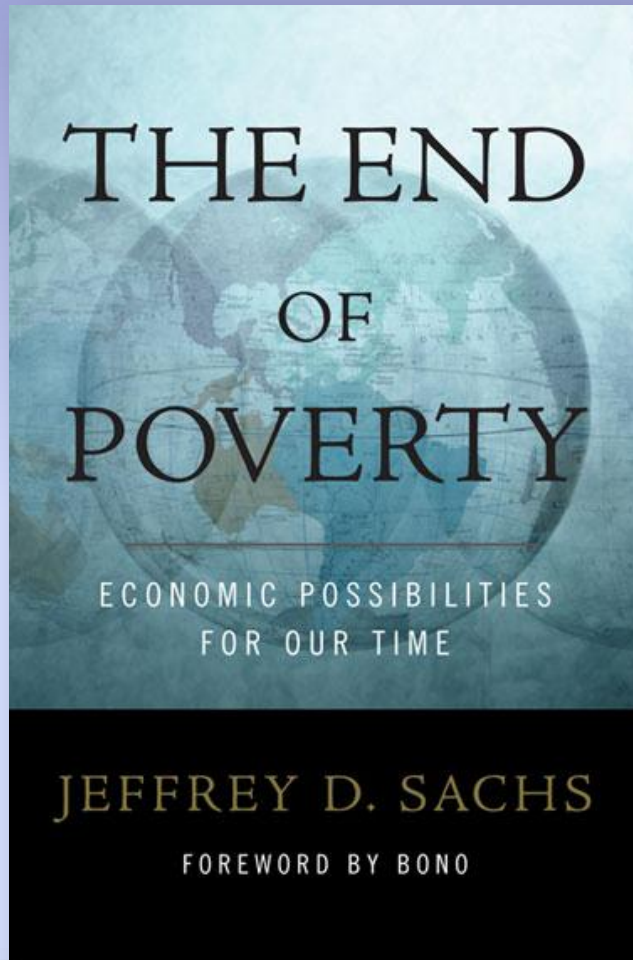
Bottom of the Pyramid



- Much untapped purchasing power at the bottom of the pyramid. Private companies can make significant profits by selling to the poor.
- By selling to the poor, private companies can bring prosperity to the poor, and thus help eradicate poverty.
- Large multinational companies (MNCs) should play the leading role in this process.

Prahalad, C. K. *The Fortune at the Bottom of the Pyramid Eradicating Poverty through Profits*. Upper Saddle River, NJ: Pearson, 2009. Print.

Millennium Villages Project



- Initiated by Jeffrey Sachs, the project gives funds to the poor in selected African villages.
- Project focuses on key investments in people and infrastructure to give improvised communities around the world the tools for sustainable development.

“Small is Still Beautiful”



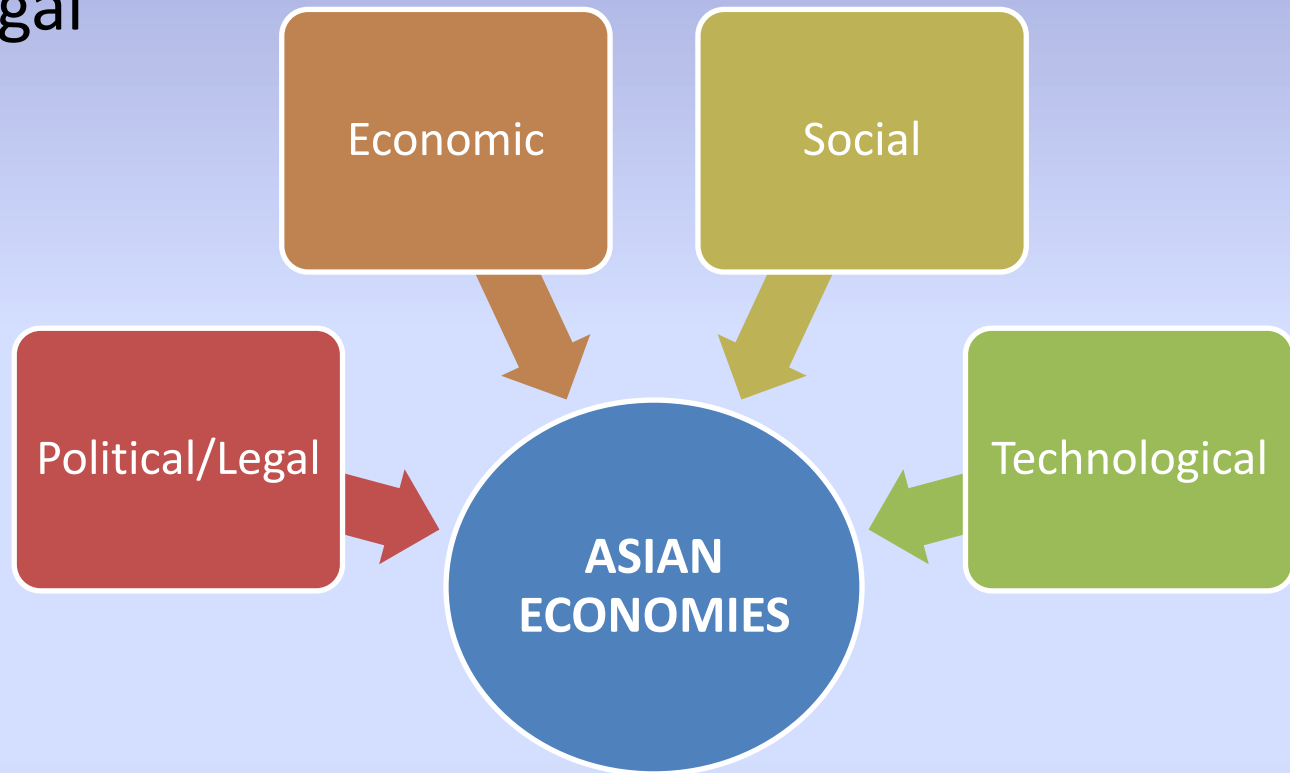
Forces Shaping Economic Systems

P olitical and legal

E conomic

S ocial

T echnological



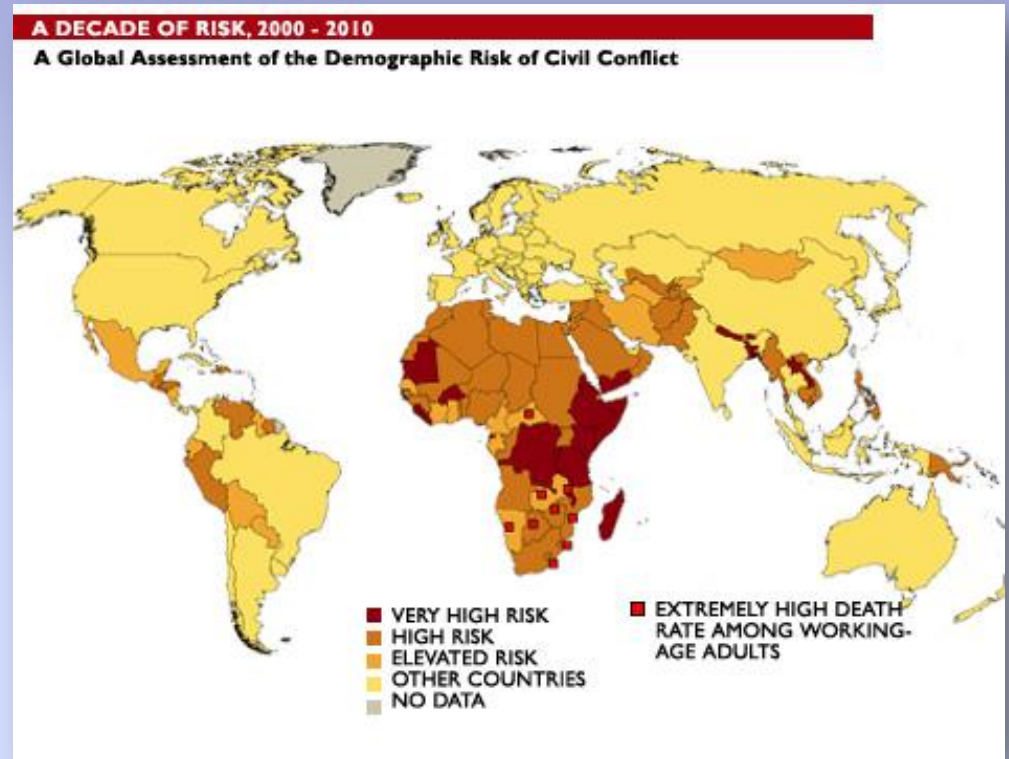
Political and Legal Forces

Political Stability

Regional Integration

Institutional Capacity

Business Climates



Source: *The Security Demographic*, Population Action International

Economic Forces

Infrastructure

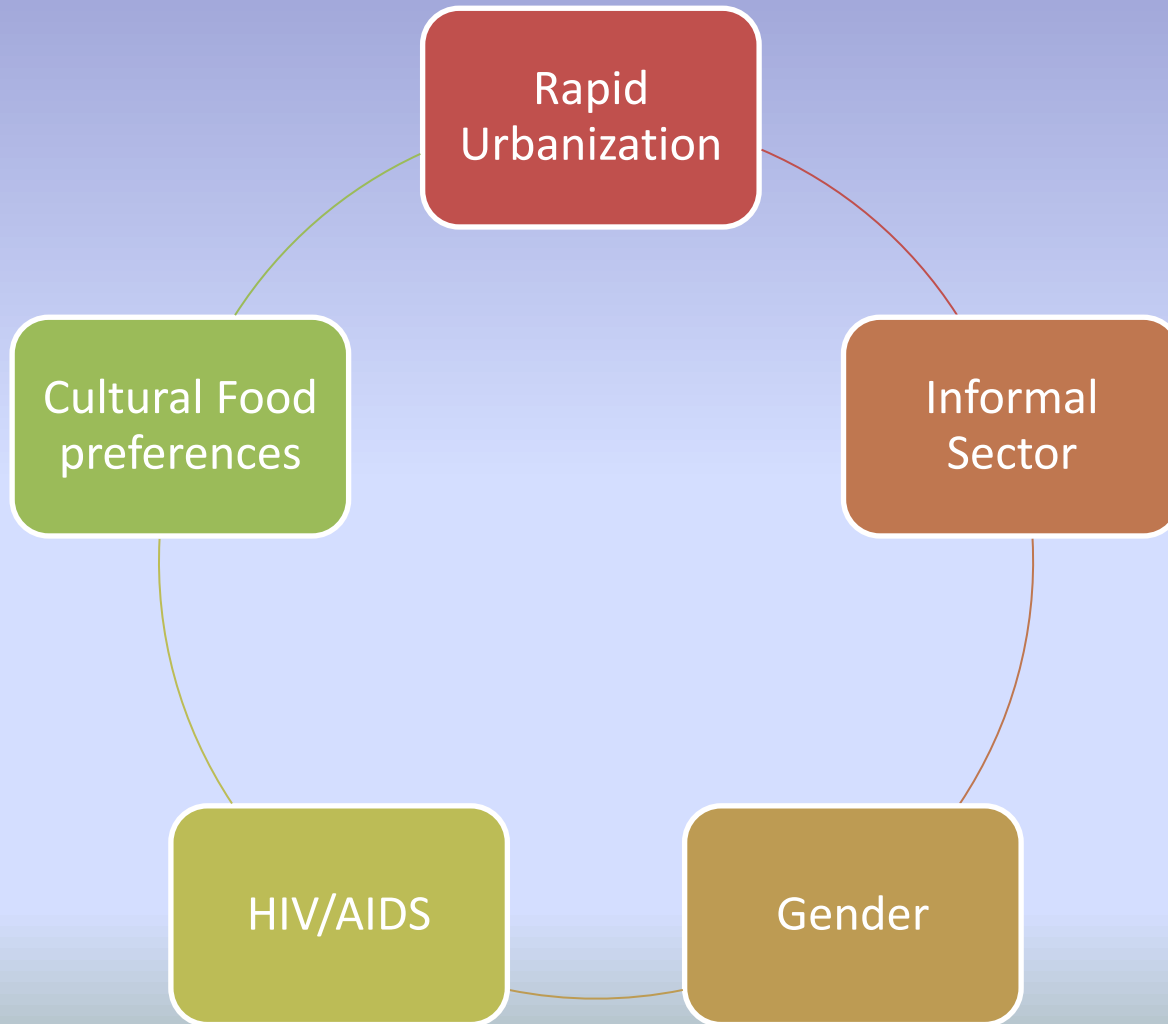
Financial Sector

Foreign Direct Investment

Global Financial Crisis



Social Forces



Technological Forces

Technology Acquisition Capacity

Information and Communications
Technology

Biotechnology

Food Processing Technology



Research

The current state of entrepreneurship research



Schumpeter's Theory of Economic Development (1911):

The Entrepreneur creates new economic combinations by:

- Introducing new products;
- Introducing new production functions that decrease inputs needed to produce a given output;
- Opening new markets;
- Exploiting new sources of materials; and
- Reorganizing an industry.

(Source: Nafziger, 1997)

Gaps in Entrepreneurship Research

Reasons:

- No comparable national data sets on entrepreneurial activity;
- Available data lacked information about entrepreneurial qualities;
- No data about the business start-up process.

In short: Until the past decade, scholars could not produce international comparisons of entrepreneurial activity.

The Role of Government

How can we reform government?



The Role of Government

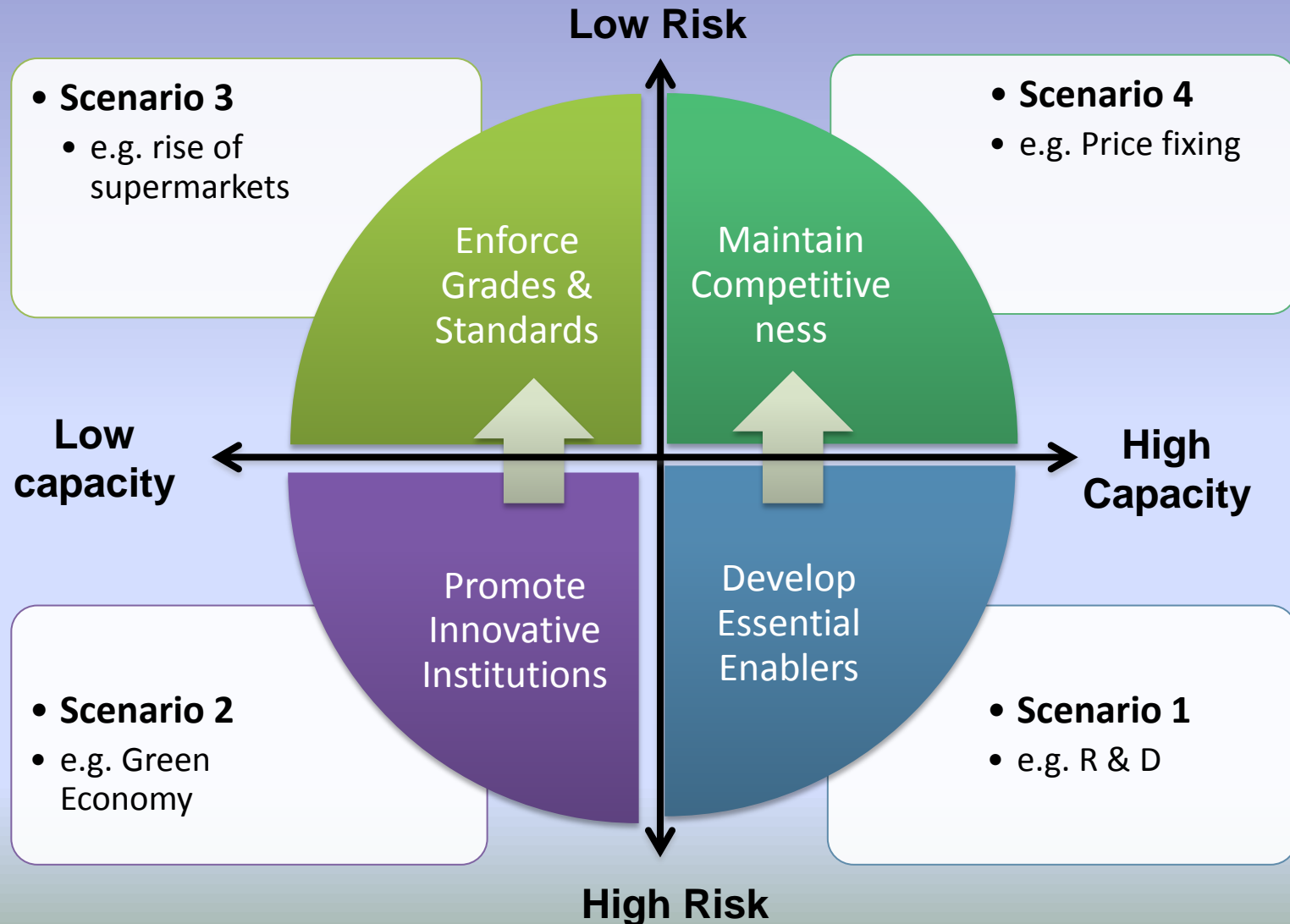
A source of heated debate:

- Government should not manage development (Voslee, 1994).
- Successful economic development requires significant government involvement (Handy and Swinton, 1984)

Reform Public Policy

- What is the capacity of the state?
- What is certain (no risk) and uncertain (risky) about the environment?

Scenarios for Agricultural Reform



Scenario 1

High government capacity,
Low risk environment,
e.g., R&D in Asia.

-> *Government should
focus on developing
essential enablers*



Scenario 2

Low government capacity,
High risk environment,
e.g., Green Economy.

-> *Develop innovative
institutions*



Scenario 3

Low government capacity,
Low risk environment,

e.g., rise of supermarkets in
developing countries.

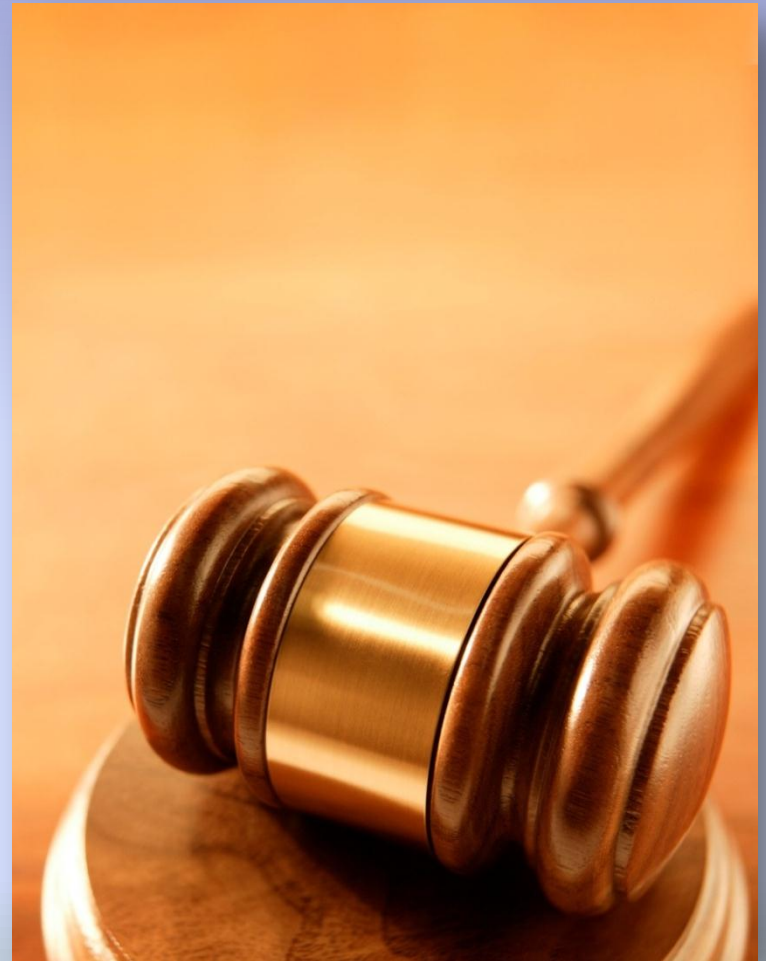
-> *Government should
enforce grades and
standards.*



Scenario 4

High government capacity,
Low risk environment,
e.g., price fixing.

-> *Government should
maintain
competitiveness.*



Outreach

How can capacity building programs improve the performance of small businesses?



Making Markets Matter



Making Markets Matter



Challenges to Capacity Building

- Monitoring and Evaluation
- High transaction costs
- Sustainability
- Scalability

Thank you!

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