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

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

E. F. Schumacher (1973)
Schumpeter’s Theory of Economic Development (1911)

Entrepreneur: source of Innovation

Innovation: source of Profit

Profit: source of Economic Growth
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

- Gross Domestic Product
- Real Per Capita GDP
- Nonmonetary Indicators
- Mitigation of Poverty
- Entitlements and Capabilities
- Freedom
- Sustainable Development

Evolution of Development Thought: State and Market

- Market Failures
- Nonmarket Failures
- New Market Failures
- Institutional Failures

Contemporary Strategies


- 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.
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.
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

Political and legal
Economic
Social
Technological
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
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
  - e.g. R & D
- Scenario 2
  - e.g. Green Economy
- Scenario 3
  - e.g. rise of supermarkets
- Scenario 4
  - e.g. Price fixing

Enforce Grades & Standards
Maintain Competitiveness
Develop Essential Enablers
Promote Innovative Institutions

Low Risk
High Risk
Low capacity
High Capacity
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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