

Firms and Capital

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Microdevelopment Research in the Last 20 Years: What Have We
Learned?
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Firms and innovation

Eric's focus is on large firms and innovation, and given the focus on growth, that is probably the right focus.

If large firms are the engine of growth...



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If large firms are the engine of growth... microenterprises might be the bicycle rickshaws of growth



Micro firms dominate employment...

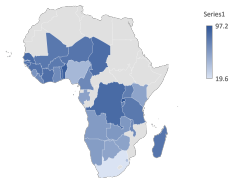
... So I want to give them some love

Bearings – Motivation – Urban Informal in SSA – Welfare I – Welfare II – Interventions – SPI Role – Annex – End Matter

Why focus on informal?

75% of working-age urban sub-Saharan Africans work in the informal sector

Share of Urban SSA working in the Informal Sector



Source: generated using data from Cunningham et al (2023) and ILO (2018)

- On average, half the urban population is of working age; more than 300 million adults are age 15-65.
- 75% of the urban SSA workforce are in the informal sector, as compared to 88% of the rural workforce
- In 32 of the 36 countries for which we have data, more than half the urban labor force works in the informal sector
- Urban informality rates are particularly high, exceeding 75% of the urban labor force, in Western and Central Africa

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Source: Cunningham and Bodewig 2023

Small firms past and future

There is a vast literature on microenterprises, much of it grounded in RCTs

This is likely a function both of their predominance in the economy and the ease in finding samples.

Nearly everyone who does research in the area at some point thinks "Why are they all selling the same thing?"

In the interest of saving time to focus on an angle related to innovation, a whirlwind tour of 4 points.

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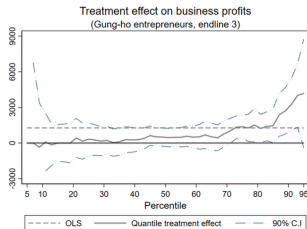
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1. Capital

Returns to capital are reasonably high, but concentrated in the upper tail.



(A) Gung-ho Entrepreneurs

BBDK

1. Capital

Can we identify these firms ex-ante?

- Communities: Hussam, Roth and Rigol (2022);
- Business plan competitions: e.g., McKenzie (2017)

If we identify them, can they take more capital?

- Bryan, Karlan and Osman (2023)

How do we deal with risk?

- Flexibility: Field, Panda, Papp and Rigol (2013); Barboni and Agarwal (2018); Battaglia, Gulesci, Madestram (2023)
- Risk sharing: Bari, Malik, Meki, and Quinn, (2024); Cordaro, Fafchamps, Mayer, Meki, Quinn and Roll (2023); Global Investment Partners (BII, Ghana)

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2. Training

Modest positive effects to standard (e.g., ILO) training. (Mckenzie 2020)

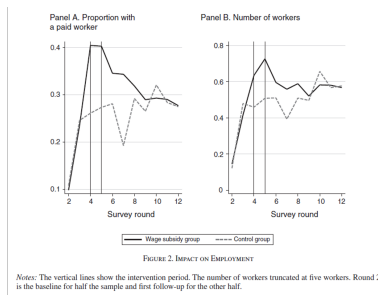
- Maybe not if we take publication bias into account?
- But overwhelmed by heterogeneity (e.g., Anderson, Chandy and Zia, 2018)

Mentoring is interesting, but perhaps difficult to scale. (Cai and Szeidl 2018; Brooks, Donovan and Johnson 2018)

Insourcing / outsourcing show promise in one study. (Anderson and McKenzie 2024)

3. Labour and 4. Marketing

3. Labour: MRPK is high; MRPL appears close to w .



4. Marketing: Innovation as simply offering new products: Interesting work by Steve Anderson and others.

Innovation: Private sector development, not just firms

This is all from the lens of the enterprise, but we need to think about markets. In Eric's focus on large firms, the key is mainly reaching higher income, more sophisticated consumers. The markets are mostly foreign destinations.

- Some small firms may do this by supplying MNCs in country (e.g., Alfar-Urena, Manelici and Vasquez 2022)
- These attract our attention, but they are a tiny minority of the SMEs

Instead, most small firms will trade in domestic markets. I see the most interesting / exciting research area as understanding local market structures.

- Bergquist-Falcao and Dinerstein (2020); Bassi, Muoio, Porzio, Sen, Tugume (2022); Bergquist-Falcao, McIntosh and Startz 2024; Cai and Szeidl (2024).
- Also as markets as they relate to quality upgrading (Bai (2024), Bai, Bergquist-Falcao, Morjaria and Morton (2024, coffee, Uganda); Cajal-Grossi, Vandewalle and Woodruff (2024, Uganda carpenters), etc.

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Private sector development

Technology platforms: B to B sourcing; Fin tech POS (Higgins 2024; Moniepointe)

- The fintech platforms create data; these data will be analysed with ML; For good or bad, we need to understand.

Scaling from small to large:

- VC/PE funds: interesting ongoing work from Colonnelli, Porzio and others.
- Aid agency programs to incubate firms to the stage the VC / DIFs will invest in them. (See, for example, DFID-backed <https://www.agdevco.com/>)

The missing (from research) middle

We should care about micro and small firms as subsistence income generation because it is where the majority of the workforce in LMICs will work for the foreseeable future.

And we should care about the large exporting firms that generate growth today.

But what we really need is more work on the firms investing \$500k - \$5M, and (even) more on local market structures.