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**THE IMPACT OF THE SMALL AND MEDIUM ENTERPRISE  
SUPPORT PROGRAMMES ON THE LIVELIHOODS OF MICRO-  
ENTREPRENEURS USING SUSTAINABLE LIVELIHOOD  
FRAMEWORK:**

**A Case Study of Enterprise Mongolia Project Phase 2 by United Nations  
Development Programme in Mongolia**

A thesis presented in partial fulfillment of the requirements for the  
Degree of Master of Philosophy in Development Studies at Massey University,  
Palmerston North, New Zealand



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## ABSTRACT

The aim of this research is to explore the impact of Enterprise Mongolia Project EMP-2 project on the livelihoods of the Small and Medium Entrepreneurs (SMEs) using Sustainable Livelihood Framework (SLF) in the context of Mongolia. Both qualitative and quantitative research methods are used in order to carry out this research. The study started firstly with the review of existing literature followed by field research to explore in depth rural livelihoods and SMEs in Mongolia. The research is conducted in two phases. The first phase comprises examining the case study of Enterprise Mongolia Project 2 (EMP-2) and discusses the role of SME support programmes in poverty reduction. The second phase of the research method comprised of conducting in-depth semi-structured interviews with 20 entrepreneurs. The overall objective of the research is to identify the changes resulting from the project intervention (EMP-2) using sustainable livelihood approach and to find out the relationship between the livelihood assets and enterprise of SME owners. The researcher uses Sustainable Livelihoods Framework (SLF) to explore the human, social, financial, and physical and natural resource based assets that enable the poor to enhance their capabilities and reduce their vulnerabilities. A qualitative study is conducted by consenting the SME owners who were beneficiaries of the EMP-2. Unstructured and in-depth interviews were conducted; interviews were taped, transcribed and thematically analyzed by using NVivo 10. Data has been collected from three major regions of Mongolia which are Selenge Aimag, Khenti Aimag and Uvurkhangai Aimag. Out of 20 respondents, 8 belong to Selenge Aimag, 6 belong to Khentii Aimag and 6 belong to Uvurkhangai Aimag respectively. Results are extracted from Nvivo 10, word frequencies, word trees, results previews and qualitative model is generated with the help of Nvivo 10. Results clearly demonstrate that the EMP-2 project provided support in terms of financial capital, human capital, physical capital, social capital and natural capital and this improves the livelihoods of the small and business entrepreneurs in Mongolia. Findings of the study also illustrates that EMP-2 project ease out the funding's and loan processes, provide training to their workers and resolve the issues in regards to water shortage and energy shortage. The results of this study can be used by the NGO's and other charity organizations to go in Mongolia and introduce projects like EMP to provide support to SME owners so that their livelihood can improve and poverty can be reduced or eliminated.

**Keyword:** *EMP, SMEs, Mongolia, Livelihoods, Sustainable Livelihood Framework*

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## LIST OF ACRONYMS

Aimag	:	Provincial level in Mongolia
ARD	:	Assessment of Development Results
DFID	:	Department for International Development
EC	:	European Commission
EMC	:	Enterprise Mongolia Centers
EMP-2	:	Enterprise Mongolia Project Phase-2
GoM	:	Government of Mongolia
IFC	:	International Finance Corporation
JICA	:	Japan International Cooperation Agency
LCD	:	Local Cluster Development
NGO	:	Non-governmental Organization
NZAID	:	New Zealand Agency for International Development
OVOPI	:	One Village One Product Initiative
SLA	:	Sustainable Livelihood Approach
SLF	:	Sustainable Livelihood Framework
SMEs	:	Small and Medium Enterprises
UNDP	:	United Nations Development Programme
WB	:	World Bank

# CHAPTER ONE

## INTRODUCTION

This study is concerned with the effects of a donor-led project (Enterprise Mongolia Project) on the livelihoods of the small and medium sized business owners and families that were the target beneficiaries of the intervention.

This chapter provides the background of the study and introduces its critical components such as the Sustainable Livelihood Framework (SLF), the Enterprise Mongolia Project (EMP) and the livelihood of small entrepreneurs. The chapter also provides some insight into small and medium enterprises in Mongolia. The discussion then moves on to the problem statement and the objective and research questions of the study. This chapter also explains the significance of the study. The final section of this chapter presents the structure of this thesis.

### **1.1 Background of the study**

A livelihood is considered to be naturally supportable when it sustains or improves the global and local resources in which livelihoods rest on, and has net valuable impact on other livelihoods. A livelihood is the set of assets, capabilities and activities that supply the values for people to meet their basic needs and provision their well-being (Ingold, 2000). According to Chambers (1987), DFID (1999), Ellis (2000), Polanyi (1977) and Scoones (1998) a livelihood is the resources (social capital, natural capital, human capital, physical capital and financial capital), the actions, and the access to these (arbitrated by social relations and institutions) that combine to define the living gained by household or individual.

The concept of livelihoods encompasses both experiential and material needs. The concept of livelihood is not restricted to individuals and communities, but also associated by economic, environmental, cultural and political processes to broader regional, national and international fields.

The concept of livelihood security has been treated in various ways by researchers. While livelihood has been well-defined by Scoones (1998; p 14) as sufficient movement of capitals (both cash and kind) to meet the basic requirements of individuals, access to social networks that connect family and neighborhoods and community as well as possessions and privileges obligatory to sustain and support a given standard

of living. Livelihood security has been understood to include access to assets and resources to mitigate dangers, mediate surprises and pursue opportunities.

## **1.2 The Sustainable Livelihood Framework**

The Sustainable livelihoods framework is not a prescription for alleviating poverty. It is rather a tool or means of understanding the difficulty and complexity of livelihoods, assessing impacts on poverty and recognizing where interventions can best be made. The statement is that individuals follow a range of livelihood outcomes which are health, income and reduced vulnerability, etc. (van Hoes & van Koppen, 2005). The undertakings they espouse and the approach they take towards resource-building are determined in part by their own predilections and situations. They are, however, also influenced by the types of susceptibility, together with shocks (such as deficiency), general inclinations (in, for example, resource stocks) and cyclical disparities. Choices are also influenced by institutions (for example the roles of the private sector and government sector) and procedures (for example policy, institutional and cultural issues) which individuals face. Collectively, these circumstances govern their access to resources and livelihood prospects, and the way in which these can be used to change outcomes. In this way, poverty, and the prospects to escape it, may be contingent on all of the above (Bebbington, 1999).

The sustainable livelihood framework recognizes five kinds of capital asset which individuals can develop and/or appeal to: financial, social, human, natural, and physical. Together these assets form the building blocks of livelihood construction (Scoones, 1998). To a partial degree they can be substituted for each other. Therefore, the poor might rely on social capital such as family or neighborhood support at times when financial capital is scarce.

In this setting, persons are likely to follow numerous activities and concerns. They might, for example, be reliant on their own farming, on selling their work locally, or internationally, all in the same year. The consequences will not be only financial, nor even perceptible in all cases. They might comprise, for example, a sense of being authorized to make extensive, or stronger, choices.

In truth, the processes defined here are not 'cut and dried'; just as poverty is a vibrant process, with many random changes in setting, restraints and opportunities so too are domestic approaches and activities. For example, a household's lasting approach might be to reduce exposure to risk, for instance, spreading rainwater overflow to farmland might be one set of actions in this approach. On the other hand, some of the essential labor might be unprepared to respond to new migration chances, or some of the assets

wanted may be unavailable to respond to a medical disaster. In fact, a sustainable livelihood framework approach is thus fundamentally concerned with the dynamic and, at times, iterative nature of livelihood approaches (Farrington et al, 1999).

### **1.3 SMEs in Mongolia**

Over the last ten years Mongolia has experienced dynamic economic growth, mainly enhanced by the profits from raw materials. Mongolia's economic growth is decelerating although the informal sector is growing. Nearly 90 per cent of firms in Mongolia employ fewer than 10 people. Therefore, assisting small and micro enterprises (SMEs) is an important factor in alleviating unemployment and poverty (Severinghaus, 2001).

Due to a lack of resources including finance and capital, physical resources, human resources, skilled workers, social resources and natural resources, SMEs struggle to succeed in Mongolia. These are some of the factors in which they need development in order to rise up and stand beside the SMEs of developed countries. Without any doubt small entrepreneurs have got the capacity and intellectual ability to start businesses and run them smoothly at an advanced level. However, due to less exposure, lack of technology and lack of capital they are unable to perform to their potential and enhance their business operations. Gaps and discrepancies in the controlling framework, bad corporate governance, and absence of suitable capital equipment in Mongolia continue to hinder the progress of both female and male-owned SMEs (Tsogtbaatar, 2005). The burden is particularly strong at the smaller end of SMEs with a substantial share of micro-enterprises ceasing to operate soon after being registered and recognized.

As is the case with numerous developing markets, one of the barriers to development for smaller companies in Mongolia is access to finance. It is very tough, particularly for the micro enterprises, to get finance to increase their trade or increase their manufacturing capacities. NGOs and the government have now taken some measures to resolve this, and SME credit to small and micro businesses in Mongolia has grown in the past few years. The German Development Bank, World Bank and the Japan International Cooperation Agency have formed a sequence of pass-through credit programs that have delivered long-standing, low-interest money to banks, which in turn can give credits to SMEs (Hodorogel, 2009). The government has also formalized an SME fund that delivers credit to banks at below-market rates, which can then be used to offer loans to local companies (Firdmuc, 2009).

The major need is for enduring low-cost financial support, either from international sources or government. Extending these programs will certainly aid banks to increase the range of credit they offer to SMEs. Small and medium enterprises can be incentivized by government grants, direct contributions, less bureaucracy, and particularly by a decent education arrangement. Education must inspire people to be micro-entrepreneurs and take business risks while emerging at the same time with essential business and technical skills (Fritz, 2007).

There are several small and medium enterprises, primarily situated in the capital, which have, in some of the segments maintained by the EMP project, been able to share in this dynamic growth. Nevertheless, there are important inadequacies in the professional development and training of staff, along with approaches to increasing access to the market, and difficulties with product value. These are the circumstances that the EMP project had to contend with initially (Minchener, 2013).

#### **1.4 Enterprise Mongolia Project (EMP)**

In June 2005, UNDP, in partnership with the Ministry of Industry and Trade of Mongolia, propelled the Enterprise Mongolia Project (EMP-Phase One) with the support of the Government of Japan. It intended to help business/private enterprise growth and job creation, therefore lessening poverty, mainly in rural Mongolia.

On appeal from the Government of Mongolia in 2012, the UNDP extended its provision to the second phase of EMP (EMP-2) which has been running since 2008. The EMP-2 has built on the accomplishments of the EMP Phase 1 with the objective of reinforcing newly developed local enterprises and small and medium enterprises in order to guarantee their sustainability (UNDP, 2013).

The EMP-2 project was designed to focus more on the basic needs of small and medium enterprises such as financial capital, social capital, natural capital, human resource capital and physical capital. EMP-2 adopted a two-pronged approach to help the small and medium enterprises. One approach was the “One Village One Product” Initiative in which villages that produced a particular product or service were identified and taken appropriate measures to minimize their problems. Second, the EMP-2 pursued Local Cluster Development creation, in which they provided support to the small and medium business growth and increased their access to finance.

EMP-2 also aimed to help people in terms of gaining funding for their business on easy terms. The project dealt with local lending institutions such as Khan Bank and other commercial banks and convinced them to relax their lending process by reducing the mortgages and guarantee requirements. This helped a variety of businesses to obtain finance on favorable terms to expand their businesses and improve their livelihoods as a result.

The EMP-2 project also sought to assist SMEs to increase their distribution networks in order to get more sales. They provided training in human resources to small and medium enterprises owners and their employees to improve their skills in this area. EMP-2 also assisted micro-entrepreneurs in terms of physical resources. They trained micro-entrepreneurs to enhance the productivity of their businesses and showed how they can get more output with long term results. Furthermore, EMP-2 also helped small micro-entrepreneurs regarding their natural resources such as land and livestock. They aided small entrepreneurs to understand how they could increase their productivity by using existing physical resources.

A formal assessment and evaluation of the EMP-2 project has been carried out (Zhen, 2013), and found the key effects of the project's design and status investigations were achieved in an appropriate way; the discussion program of knowledge and good practices in clusters was vital for all cluster members, in addition to cluster leaders; the Loan Guarantee Fund was a good substitute funding tool for small and medium enterprises, and it shaped an innovative business atmosphere and business faith in rural regions. The results of the EMP-2 were regarded as satisfactory and small and medium enterprises owners were largely satisfied to have had such an extensive cooperation from the EMP-2. This thesis seeks to deepen understanding of the effects of the EMP by focusing on the livelihood effects of the project on the target beneficiaries.

### **1.5 Structure of the Thesis**

The study has been carried out in the conceptual framework of the sustainable livelihood framework. Chapter Two of this study provides a substantive review of the literature on SMEs in development...

Chapter Three considers the literature on the impact of the project on the livelihoods of the small entrepreneurs using the Sustainable Livelihood framework. In rural zones of Mongolia people are involved in a range of enterprises, jobs, farming, subsistence living and other activities and approaches to attain their objectives and livelihood consequences, and to meet the needs of themselves and their families.

This investigation considers the impact of EMP-2 on the livelihoods of micro-entrepreneurs through the sustainable livelihood framework, in order to demonstrate and clarify matters that are significant in supporting sustainable livelihoods in Mongolia.

Chapter Four sets out the methodological aspect of the study. It also includes the operational and conceptual definitions of micro enterprises in Mongolia, identifies a sample selection of SMEs from three regions of Mongolia, the data collection method and the data analysis technique (using NVIVO software) to be employed in determining the relationships between the different parts of the project support and the livelihood effects.

Chapter Five of the study documents the outcomes of the major findings as they related to the objective of the investigation. The chapter summarizes the findings of the study using presentation visualization tools from the NVIVO software. The chapter also speculates as to the contribution this research to the existing body of knowledge in the context of the SME sector of Mongolia, and serves as a culmination of this investigation.

The final chapter of the study (Chapter Six) discusses the challenges, recommendations and limitations encountered in undertaking the research, and the need for improved methods for future studies.

# CHAPTER TWO

## SMALL AND MEDIUM ENTERPRISES, ECONOMIC GROWTH AND POVERTY REDUCTION

### 2.1 Introduction

The role of micro, small and medium enterprises (SMEs) in fostering economic growth and contributing to socio-economic development has received widespread attention in academic and decision making circles (Mnenwa & Maliti, 2008; Nestorovska, 2014; Bowale & Akinlo, 2012). Scholars have emphasized that SMEs in both developed and developing countries represent a key opportunity for contributing to the social and economic development of a country, promoting economic growth, creating greater employment, generating competitive markets, feeding technological innovation and reducing poverty (Acs & Audretsch, 1990; Peci et al., 2012). However, skeptics of the pro-SME view suggest that an SME-centered approach is not a viable strategy for economic growth and development as well as poverty alleviation.

In this chapter I will attempt to review the existing literature and current debates on the role of SMEs in fostering economic growth and reducing poverty. In doing so, I will first give an overview and definition of SMEs and the concept of poverty. Following this, the current academic debates on the potential contribution of SMEs to economic growth is presented. Thirdly, the nexus between SMEs and poverty reduction is explored based on theoretical research and empirical studies. The last section covers a critical review of the limitations of SMEs in socio-economic development.

### 2.2. The definition of SMEs and microenterprises

There is no standard, universally accepted definition of microenterprises, small enterprises (SE), medium enterprises (ME) and small and medium enterprises (SMEs). Different countries adopt varying criteria for defining SMEs and even within the same country different institutions adopt different interpretations of SMEs (Ayyagari, Beck, & Demirguc-Kunt, 2007; Mukras, 2003). Storey (1994) has posited that absence of

common definitions and lack of data sources have been a hindrance to international comparisons of small firm statistics. The Bolton Report (1971) in the UK was one of the first documents to frame the economic and statistical definitions of SMEs and signified their importance in the economy of the UK. According to the definition provided by the Bolton Committee, SMEs are independent firms that are managed by their owners and have an insignificant market share in the economy (Bolton, 1971). According to Abor and Quartey (2010), SMEs can be categorized according to their size, contribution to GDP and national economy, employment generation capacities and export potential (see Table 2.1 below).

**Table 2.1: The Bolton Report’s quantitative definition of smaller enterprises.**

Sector	Definition
Manufacturing	200 employees or fewer
Construction	25 employees or fewer
Mining and Quarrying	25 employees or fewer
Retail	Turnover of GBP 50,000 or less
Miscellaneous	Turnover of GBP 50,000 or less
Motor trades	Turnover of GBP 100,000 or less
Wholesale trades	Turnover of GBP 200,000 or less
Road transport	Five vehicles or fewer
Catering services	All (excludes multiples and brewery managed houses)

Source: (Bolton, 1971)

Various criteria are used to define SMEs in developing and developed economies including the number of employees, volume of sales return, and the total value of assets and operating capital of the firm (Ayyagari et al., 2007; Mukras, 2003). Some authors segregate on the basis of capital assets and others on the basis of sales turnover and employment (Sharafat et al., 2014). Jordan et al. (1998) applied the term SME to firms with fewer than 100 employees and annual sales turnover of less than 15 million Euros. The EU adopts the number of employees as the main criterion for defining SMEs (see Table 2.2). The United Nations Industrial Development Organization (UNIDO) also defines SMEs based on number of employees, however, the classification differs in developed and developing countries (Abor & Quartey, 2010). The United Nations Development Programme defines businesses with 1 to 4 employees as micro enterprises and those with 5 to 25 employees as small firms (Bowale & Akinlo, 2012). According to The World Bank’s classification (see Table 2.2), firms with up to 50 employees and annual turnover of less than 3 million

USD are categorized as Micro and Small scale enterprise (World Bank, 2008). Furthermore, there are more divergent alternative classifications of SMEs such as formal and informal, rural based, knowledge driven and high technology SMEs (Bowale & Akinlo, 2012).

**Table 2.2: Definition of SMEs by European Commission (EC) and World Bank (WB)**

	<b>The European Commission (EC) definition of SMEs</b>	<b>World Bank (WB)/ International Finance Corporation (IFC) definition of SMEs</b>
<b>Micro</b>	Up to 10 employees	Up to 10 employees
	Annual sales up to 3 mln USD	Annual turnover less than 100,000 USD
	Total assets up to 3 mln USD	Value of assets up to 100,000 USD
<b>Small</b>	Up to 50 employees	Up to 50 employees
	Annual sales up to 13 mln USD	Annual turnover less than 3 mln USD
	Total assets up to 13 mln USD	Value of assets up to 3 mln USD
<b>Medium</b>	Up to 250 employees	Up to 300 employees
	Annual sales up to 67 mln USD	Annual turnover less than 3 mln USD
	Total assets up to 56 mln USD	Value of assets up to 15 mln USD

**Source:** (Dababneh & Tukan, 2007)

### **2.3 The role of SMEs in economic growth and development**

The mounting interest in the development of SMEs among developing nations is explained by their significant potential to generate income and bring about equitable social and economic development both in rural and urban areas (Small, 2004; Williams, 2006). SMEs play critical roles in ensuring income stability, employment generation and economic growth (Schmitz, 1995). Policymakers, academics and economists have generally agreed that enhancing SMEs and promoting entrepreneurship can be a viable strategy for promoting economic development (Kongolo, 2010). Historically SMEs had a significant impact on the economic development of many countries around the world and have had a substantial contribution in the industrialization process of agriculture-led economies (Kongolo, 2010).

The experiences of countries around the world confirm that stable economic development cannot be attained without a major presence of the SME sector in their economies (Naudé & Krugell, 2002). Many countries around the world have been supporting their SME sector by developing such policies and regulations which can flourish their businesses as without any doubt it is the best way to achieve economic

development (Yusuf, 2001). SMEs represent a significant segment of the economies of developed countries and are regarded as the engine of growth in developing countries (Phaho & Pouris, 2008).

SMEs represent a vast proportion of businesses in developing countries and are considered to be contributing to the generation of economic growth (Audretsch, 2007; McMillan & Woodruff, 2003; Peci et al., 2012, Ardic, Mylenko, & Saltane, 2011; Cull et al., 2006; Gunasekaran et al., 2011; Ozgulbas et al., 2006). Gebremariam et al (2004) recognize a positive correlation between SMEs and economic growth. Abrahams (2003) contends that a well-supported SME sector has the potential to contribute to economic development in the same capacity as large businesses. A well-developed SME sector signifies a flourishing and growing economy (Kongolo, 2010). Several studies have confirmed that SMEs are positively correlated with national economic growth factors including Gross Domestic Product (GDP) (Newberry, 2006).

Significant variations exist in the size and economic activity of SMEs across countries and their contributions to economic growth varies accordingly. Since the Global Financial Crisis of 2008-2009, the interest in the role of SMEs in job creation and economic growth has significantly increased. The World Bank has estimated that 13 percent of GDP in developed countries and 3 percent of GDP in developing countries are constituted by SME loans whereas in OECD countries SMEs employ two-thirds of the total work force (Ardic et al., 2011).

Industrialized economies like the United States (US) and the United Kingdom (UK) have been profoundly reliant on their SME sectors, which account for a sizable amount of their national GDP and employment (Fredrick, 2005). SMEs are considered as the primary sector of the US economy, accounting for 99.9 percent of total number of firms and employing 80 percent of the total labor force (Tamburan, 2005 cited from Piper, 1997). In the Netherlands, SMEs account for over 95 percent of all business establishments (Bijmolt & Zwart, 1994). In many other industrialized countries including Australia, Canada, Germany and France, SMEs represent the engine of economic growth and progress (Audretsch, 2001). The role of SMEs is well recognized in the economic miracles of Japan, South Korea and newly industrialized countries in terms of poverty reduction, employment creation and welfare promotion (Pang, 2008). Harvie (2004) notes that SMEs have played a substantial role in the economic recovery of East Asian economies, contributing to economic growth, employment generation, trade and investment promotion and increased competitiveness.

Pro-SME advocates present three principal arguments in support of the importance of SMEs on economic development. Firstly, they suggest that SMEs boost efficiency and increase productivity growth through

enhanced competition and entrepreneurship. Secondly, SMEs are viewed as more productive than large enterprises, notwithstanding impediments to their growth and formation including institutional failures and financial markets. Thirdly, SMEs are more labor intensive and have more capacity to generate employment than large firms (Thorsten Beck, Demirguc-Kunt, & Levine, 2005; Sokoto & Abdullahi, 2013). Beck et al, (2005) argue that the entrepreneurial ventures in SMEs intensify economic growth through increased competition and entrepreneurship, and bring about economy wide benefits in innovation, productivity growth and efficiency. They find a robust relationship between the size of SME sector and growth in GDP per capita. Research results show that countries with a larger manufacturing SME sector tend to grow faster(Thorsten Beck et al., 2005)

In developing economies, SMEs play a crucial role in employment creation, income distribution, poverty reduction, rural development and industrial development (Abor & Quartey, 2010). Accordingly, governments of these countries have been providing extensive support to their SME sectors through implementation of various programmes including subsidized credit schemes. The positive role of SMEs in the economic development of Pakistan has been widely acknowledged by researchers. SMEs represent 90 percent of all businesses in Pakistan, provide 80 percent of all non-agricultural employment opportunities, constitute 25 percent of total exports and contribute to over 30 percent of the national GDP (Sharafat et al., 2014, p. 69). In China, the role of the SME sector is growing exponentially as reforms are being introduced to open up the economy. SMEs are regarded as the key drivers of the rapid economic growth in China, representing 99% of all enterprises and accounting for 55% of the GDP (Jiantuo et al., 2007). In the early 2000s there were over 10 million SMEs registered in China, producing 60 percent of the gross industrial input and 60 percent of total exports (Chunyun, 2003, p. 51). These provide 75 percent of the jobs in the towns and cities, attracting labor from rural areas (Chunyun, 2003, p.51). Of the 150 million people working in the industrial sector, 70 percent are employed in SMEs and the rising SME sector has been viewed as a successful remedy to unemployment problems during the period of reforms (Chunyun, 2003, p.52). Moreover, non-state-owned SMEs have become the main place of employment for workers laid off from state-owned enterprises who re-enter the workforce (Li, n.d.).

SMEs have also played a notable role in development and employment generation in African economies: “The contribution of SMEs to the economy of South Africa is remarkably high, where an estimated 91% of formal business entities are classified as SMEs and contribute to over half of the country’s GDP and provide over 60 percent of employment opportunities” (Kongolo, 2010, p. 2288; Abor & Quartey, 2010, p. 218). “The SME sector in Ghana constitutes 92 percent of business entities, contributes to 70 percent

of GDP and provides about 85 percent of the manufacturing employment” (Abor & Quartey, 2010, p. 218).

There is a consensus in much of the literature that SMEs bring numerous benefits to the economies of both industrialized and developing countries (Advani, 1997). They increase employment, promote private ownership and entrepreneurship, enhance the skills and technical knowledge of the people, broaden the extent of new resource usage in the economy with more flexibility, intensify market competitions and enhance the export competitiveness of domestic economies. Research findings support the notion that small and medium businesses play a major role in human resource development, contributing to tax and trade revenues, and boosting entrepreneurship in the society (Agyapong, 2010). SMEs assist in the distribution of goods and services and serve as sources of innovation (Buame, 2004). Moreover, SMEs are more labor intensive than large scale businesses and require less capital to create jobs.

Academics argue that SMEs have numerous advantages over large scale businesses as they are more flexible and adaptable to new market conditions. Aggregate data suggests that SMEs demonstrate higher levels of growth than larger firms (Nichter & Goldmark, 2005). It has been suggested that the role of SMEs in economic growth and development can go beyond increasing per capita output and income as SMEs can bring about change in the structure of business and society (Audretsch, 2000; Hisrich et al., 2009).

International organizations and donor countries share the view that SME promotion policies stimulate economic growth and aid in reducing high poverty rates in developing countries (Thorsten Beck, Demirguc-Kunt, & Maksimovic, 2004). The World Bank and the United Nations Industry and Development Organisation (UNIDO) have been providing technical and financial assistance to developing countries through their private sector development programmes. The World Bank supports SME development programs in developing countries based on the argument that SMEs generate incomes for the poor and thus constitute an effective poverty alleviation tool (Thorsten Beck et al., 2005). Moreover, policies of direct government support of SMEs have been promoted to help countries reap their development potentials.

It is widely recognized by policy makers and researchers that SMEs have enormous potential to create employment for the growing labour force (Kongolo, 2010). One of the pioneer SME proponents, Birch (1979), confirmed the importance of small businesses in job creation, reporting that the majority of new jobs in the United States created during the 1970s were provided by firms with fewer than 100 employees. Employment generation is key to reducing the incidence of poverty and studies have found that private sector development, including the growth of SMEs, have the potential to create sustainable employment

for the poor (Sokoto & Abdullahi, 2013). Mukras (2003) explains that the attraction of SMEs as an alternative generator of employment is due to their nature which is characterized by low start-up capital and low skill requirements. Moreover, these enterprises are highly labor intensive, require low start-up capital and encourage indigenous technological development (Mlambo, 2001).

The employment generation capacity of SMEs varies greatly in different countries and income groups (ILO, 2004-2005). "According to OECD statistics, SMEs' share of GDP contribution and total employment in 2004 in developed countries was over 55 percent and 65 percent respectively, while in low income countries the number was higher (60 percent and 70 percent), while middle income countries enjoyed the highest contribution of the sector (70 percent and 95 percent respectively)" (Agyapong, 2010, p. 201). One of the particular advantages of SMEs is their ability to survive economic downturns and maintain their competitiveness while larger firms are more vulnerable to economic stress (McPherson, 1996).

## **2.4 Contribution of SMEs and microenterprises to development objectives**

The rising level of poverty in developing countries poses a significant threat to the sustainability of these economies. The failure of countless development programmes to impact the livelihoods of the poor has prompted a renewed focus on the role of SMEs as a way of attaining economic growth and development (Bowale & Akinlo, 2012).

SME proponents argue that SMEs are an important mechanism for providing a variety of benefits in terms of socio-economic development (Advani, 1997). In many countries SMEs are considered as the engine of economic growth and development, generating employment and contributing to poverty reduction (Kongolo, 2010; Nestorovska, 2014; Oba & Onuoha, 2013; Winfred Jr, 2006). A well-developed SME sector is considered as one of the vital characteristics for a growing economy. SMEs constitute the vast majority of the enterprises in many developing countries and they play a significant role in their development (Kongolo, 2010). Empirical studies have found a positive role for small businesses on poverty alleviation efforts (Mnenwa & Maliti, 2008). SMEs can support and sustain the livelihoods of households and families, contributing to poverty alleviation (AKDN, 2008). Thus, the next section will closely examine the role of SMEs in poverty reduction.

### **2.4.1 SMEs and poverty reduction**

It is a recent phenomenon that SMEs are regarded as one of the foremost strategies for poverty reduction by policymakers around the world. The role of SMEs as generators of employment and income was not recognized by development economists in the 1960s and 1970s as SMEs were believed to have serious

disadvantages owing to their rudimentary nature and characteristics. Meanwhile, the development of large scale enterprises was believed to be the most efficient way to accelerated growth and development during this period (Loveman & Sengenberger, 1991). The late 1980s and 1990s witnessed a new era for SMEs with a sharp increase in the number of SMEs and rising donor interest in the enterprises (Mukras, 2003). Thus, there has been a renewed focus on the role of SMEs in achieving broader development objectives including poverty reduction.

Nowadays, it is widely acknowledged that the development of SMEs can accelerate the attainment of wider socio-economic goals including poverty alleviation and employment generation (Cook & Nixon, 2000; Kongolo, 2010; Levine, 2005; Sokoto & Abdullahi, 2013). The development of the SME sector can have both direct and indirect impacts on a large proportion of the population (Fida, 2008). Along with the direct impact on poverty reduction through employment generation, they can help increase incomes by linking entrepreneurs with outside markets, expanding value chains and opening up new economic opportunities for rural households (Jiantuo et al., 2007). Maliti and Mnerwa (2008) maintain that SME ownership encourages self-determination of the poor as they gain more control and ownership of resources. Often SMEs are the only employment sector providing jobs for the poor and low-income groups, particularly in rural areas (Chunyun, 2003).

A study conducted in Xiji, a poverty-ridden province of China, demonstrates a successful example of dramatically reducing absolute poverty rates through implementation of an agricultural industrialization and SME development program. The study concluded that the critical factors influencing the success of the program included a comprehensive system of agricultural production and marketing, investment in R&D and assistance from the local government through the provision of public services including the industrial program, infrastructure, and information and marketing services (Jiantuo et al., 2007).

Due to the heterogeneous nature of SMEs, poverty rates of SME owners and employees can greatly vary. Orlando & Polack (2000) contend that among those most vulnerable to poverty are youth, women and rural workers. He further suggested that in the 1990s microenterprise workers were twice as susceptible to poverty as non-microenterprise workers, further increasing the poverty gap. As opposed to public servants, microenterprise sector employees were less likely to receive non-salary benefits including health insurance, pension funds and emergency funds (Orlando & Pollack, 2000).

Aanalysis by Bowale & Akinlo (2012) showed that there are significant differences between microenterprises, small enterprises and medium enterprises in terms of their capacity to alleviate poverty.

It has been concluded that the prospects are better for small businesses to contribute to the different components of poverty reduction measures. Thus, removing barriers for vertical growth can engender more poverty alleviation than promoting horizontal growth of enterprises (Bowale & Akinlo 2012). Similarly, other major differences were identified between microenterprises, small enterprises and medium enterprises. The factors influencing their performance include the age and location of the business and the owner's education and income. For small-scale businesses, age, gender and income of the micro-entrepreneurs were considered as significant variables while the success of medium scale enterprises was determined by the education and income of the owner. Moreover, the size and nature of the business and financing sources were found to be key factors determining the potential of SMEs to generate income and create more employment. Similarly, Mnenwa and Maliti (2008) agreed that firm size was a crucial factor for the potential of SME to alleviate poverty.

Unavailability of data on SMEs and differences in definition of the key variables have made the measurement of the relationship between poverty and SMEs a complicated task. Given this, most research on the contribution of SMEs to economic growth and poverty reduction have been theoretical and unsupported by comprehensive empirical analysis (Agyapong, 2010; Bowale & Akinlo, 2012). Some researchers including Gebremariam et al (2004) and Beck & Demirguc (2004) have used econometric analysis to explore a relationship of SMEs, poverty reduction and economic growth (Agyapong, 2010).... good to have a summary sentence here, linking to direction of this research and/ or to next section...

## **2.5 Critiques and Limitations of SMEs and microenterprises for poverty alleviation**

Despite the enormous attention given to SMEs by donors and policymakers around the world, there is little empirical justification supporting this policy. The effectiveness of SMEs in poverty reduction through economic growth and development has been critically examined by many researchers. Numerous studies have produced results rejecting the idea that SMEs are the engines of economic growth and employment generation (Dunne et al., 1989; Leonard, 1986; Liedholm & Mead, 1987; Rosenzweig, 1988). A cross-country comparison of 45 countries provided by Beck et al (2005) reveals that although a thriving SME sector is a characteristic of a flourishing economy, SMEs are not necessarily the growth factor. The study finds no evidence that SMEs exert any influence on income generation for the poor nor a significant impact on the depth and breadth of poverty (Thorsten Beck et al., 2005). Furthermore, the study reveals that a larger SME sector does not contribute to the equal distribution of income (Thorsten Beck et al., 2005).

This SME critique argues that SMEs neither create better jobs nor are more labor intensive than large firms

(Agyapong, 2010; Levine, 2005; Little, Mazumdar, & Page, 1987). SMEs are regarded as inferior to large enterprises in terms of their capacity to provide employment due to their lack of capital and asset base (Sokoto & Abdullahi, 2013). Similarly, findings of studies of Biggs et al. (1998) find that large firms generated more jobs in the manufacturing sector of Sub-Saharan Africa. Davis et al (1996) contend that there was no systematic relationship identified between the firm size and net job creation, suggesting that firm size is not a suitable predictor for labor intensity. Skeptics question the effectiveness of using firm size as a determinant of the SME's contribution to economic growth. As the most decisive factors for a country's economic success are its natural and human resource endowments, pro-SME policies may "distort firm size and potentially hurt economic efficiency" (Levine, 2005, p.4).

Moreover, microeconomic evidence suggests that SMEs do not create better quality jobs than large firms, while the latter is more likely to offer stable employment, higher wages, more benefits, better working conditions and opportunities for further training (Biggs, 2002; Brown, 1990; Hallberg, 2000; Rosenzweig, 1988). Empirical studies find that small firms were found to be more capital intensive than large firms (Little et al., 1987; Snodgrass & Biggs, 1996). This suggests that SMEs may not be the panacea for solving the problems faced by developing countries.

Furthermore, critics point to microeconomic research that does not support the claim that SMEs stimulate innovation, competition or productivity growth (Thorsten Beck et al., 2005; Levine, 2005). They argue that large enterprises have advantages over SMEs in terms of innovating and boosting productivity through research development activities (Agyapong, 2010). This is associated with the fact that "large firms can exploit economies of scale and more easily undertake the large fixed costs associated with research and development" (Levine, 2005, p. 3). Accordingly, Pagano and Schivardi (2001) find that larger firms had faster innovation rates in Europe. Technology transfers from abroad have the potential to improve productivity in developing countries and often large firms are the primary mechanism for adapting new technologies to local settings (Baumol, 1993). While small enterprises may bring innovation, they often lack resources to adopt and implement them, thus taking longer to contribute to productivity compared to larger firms (Acs, Morck, Shaver, & Yeung, 1997). Productivity studies find that small firms are least efficient and both small and large firms are weaker than medium-sized firms, while the latter have the highest level of total factor productivity (Little et al., 1987).

Levine (2005) suggests that an expanding SME sector may be a sign of a poorly functioning financial and political system as those can impede the development and growth of firms to their most efficient sizes. He also put forward the argument that in those countries with malfunctioning political and financial

systems SMEs are most in need of government subsidies, while it is most likely that SME subsidization programs run ineffectively (Levine, 2005). Skeptics argue that instead of focusing on subsidizing and promoting SMEs per se, policy makers should consider undertaking institutional change that affects the overall business environment to support firms of all levels and sizes (Levine, 2005).

The most common obstacles faced by SMEs around the world are lack of finance, difficulties in acquiring technology, lack of entrepreneurial skills and managerial capabilities, low productivity and regulatory issues (Observer, 2000). Developing countries and transition economies, in particular, face greater challenges in developing their SME sectors owing to the process of transformation from the former socialist centrally planned system to a free market system (Peci et al., 2012). Thus, governments around the world have undertaken a number of interventions to ameliorate these bottlenecks. The set of factors that have been effective include improving access to finance, training and skills enhancement, infrastructure development, government assistance and elimination of corruption (Okpara & Kabongo, 2009).

## **2.6 SMEs and donors**

Development agencies have long recognized the critical importance of private sector development as the key driver of economic growth and poverty reduction (Deloitte Touche Tohmatsu Emerging Markets, 2004). Donor agencies recognize that growth of the SME sector in development countries brings about numerous benefits to the economy including economic stability, broad-based growth, job creation and a more flexible economy. SMEs are the engine for the private sector led growth and can boost innovation and provide entrepreneurial approach in business sector (Deloitte Touche Tohmatsu Emerging Markets, 2004).

It is also accepted by the development community that a vibrant SME sector can provide empowerment and a route out of poverty for the poor people in developing countries. The positive impact of SMEs on income distribution is well recognized, and targeting the smaller enterprises will make sure the benefit of SME development reaches the poorest (Deloitte Touche Tohmatsu Emerging Markets, 2004).

Over the years there have been numerous SME development programs implemented in different parts of the world. Some programmes have developed out of the private sector initiatives while other have been driven by the development community. Development agencies including the United Nations and the World Bank have been supporting SMEs for many years using variety of methods, including cooperating with governments to improve the regulatory environment for SMEs, facilitating the linkages between

large corporations and SMEs as well as assisting SMEs with finding new markets (Deloitte Touche Tohmatsu Emerging Markets, 2004). Donor organizations can act as a 'neutral broker' and play a significant role to bring governments, corporations, SMEs and NGOs together (Deloitte Touche Tohmatsu Emerging Markets, 2004; p. 10).

## **2.7 Summary**

The existing literature contains two divergent views of SMEs, the pro-SMEs and the anti-SMEs (the sceptics). While pro-SMEs believe that SMEs play a significant role in the economic development of a country, the sceptics challenge the view by concluding that larger firms have greater economy-wide influence than SMEs (Agyapong, 2010). Pro-SMEs support the notion that SMEs significantly contribute to the economy as they provide stimulus to economic growth and development, create new employment opportunities, develop human capital and enhance entrepreneurial skill. They further argue that SMEs foster competition and entrepreneurship contributing to technological innovation and productivity growth. Moreover advocates support the notion that SMEs are a viable tool for poverty alleviation. The set of factors that make SMEs a favorable tool for poverty alleviation is associated with the fact that SMEs are highly labor intensive, require low levels of capital input, have low labor skills requirements and boost technological development.

Contrary to the prior notion, though, the critique of SMEs rejects the idea that SMEs are the engine of growth and employment generation. They argue that SMEs are not more labor intensive nor create better quality jobs than large firms. The critics point to microeconomic research and evidence to show that SMEs neither necessarily stimulate innovation and competition nor boost productivity growth. Moreover, they suggest that there is not sufficient cross-country evidence to demonstrate that SMEs have any influence in reducing poverty levels.

Thus, there have been varying opinions expressed by researchers on the role of SMEs in boosting economic growth and reducing poverty levels. The diverse opinions by different groups may be attributable to the fact that research studies employed different methodological approaches and were conducted in different economic settings. This research tries to contribute to the debate by providing results of a study of a SME support program in a developing country like Mongolia.

The following chapter reviews the Sustainable Livelihood Framework (SLF) applied for the research and discusses the relationship between SLF and SMEs.

# CHAPTER THREE

## LITERATURE REVIEW: SMALL AND MEDIUM ENTERPRISES AND SUSTAINABLE LIVELIHOOD FRAMEWORK

This chapter provides a substantive review of the literature on the livelihoods of people involved in Small and Medium Enterprises (SMEs), using the Sustainable Livelihood Framework (SLF). The existing state of knowledge provides the relevant concepts, methods and technique for the qualitative investigation that follows. The chapter contributes to the conceptualization of a theoretical framework and research questions for the present study.

### 3.1 Introduction

The aim of this chapter is to explore the term “sustainable livelihood”, its origin and definition, and its development into the Sustainable Livelihood Approach (SLA) that defines the framework that evolved to model sustainable livelihood systems. This chapter also uses literature to illustrate how projects focused on small entrepreneurs can enhance their sustainable livelihoods when using SLA as a strategy. The persistence and utility of the approach are discussed in relation to microenterprises. Furthermore, this chapter explores how SMEs can be integrated or related to the sustainable livelihood approach, relating the SMEs to the language of sustainable livelihood and at the same time integrating sustainable livelihood theory into dialogue with SME. The chapter emphasizes the strong association between SMEs and the SLF.

The concept of sustainable livelihood proposes a more integrated and comprehensive approach to poverty. The sustainable livelihoods notion was first presented by the Brundtland Commission on Environment and Development in 1987. The 1992 United Nations Conference on Environment and Development extended the idea, supporting the attainment of sustainable livelihoods as an objective for poverty elimination (Iorio, 2010).

Conway and Chambers (1992, p.6) suggested the definition of a sustainable rural livelihood:

*"A livelihood comprises the capabilities, assets (stores, resources, claims and access) and activities required for a means of living: a livelihood is sustainable which can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other livelihoods at the local and global levels and in the short and long term".*

The first part of this definition deals with the components that make up a livelihood, including assets such as financial resources, rights and claims, access to social networks and stores of food, for example, as well as the activities in which an individual is engaged, and the range of capabilities they have that can contribute to living. This first element of definition of sustainable livelihood has been rigorously researched within the context of different countries and diverse cultures. The first clause of this sustainable livelihood definition is subjective and can be reasonably evaluated and validated both objectively and subjectively (Krishna 2012). For comparative subjective investigations the second part of the definition comprises theoretical and practical provisions that are pivotal to enhancing livelihoods. This part explains how this approach understands that livelihoods are sustainable when they are able to deal with the shocks and stresses and not only maintain these capabilities but also enhance the sustainability of them for the next generation (Birkmann, 2006). The third and last part of the definition proposed by Conway and Chambers (1992) for the sustainable livelihood comprises the context of a livelihood. It explains that if a livelihood is to be sustainable it can increase capabilities not only locally but globally as well. Moreover, if a livelihood is sustainable it must be not only for the short term but long-term as well (Carney, 2003).

### **3.2 Sustainable livelihoods approach**

In the late 1980's the sustainable livelihoods approach term evolved in order to cater to the need to explore more effective methods of approaching poverty reduction (Scoones, 2009). Even though the sustainable livelihoods approach has been altered and refined for a broad array of resolutions, the primary notion of this approach has remained extraordinarily constant.

First, it is significant to understand that sustainable livelihoods approach was formulated from an approach to development of what can be called an 'intentional' approach. Chambers, a significant devotee of a sustainable livelihoods approach, claims that the way development specialists theorize poverty and development is actually dissimilar from how poor people themselves think about this Chambers (2011). Poor people observe poverty in a much more composite way than most development experts and they

access a variety of approaches, not merely to make the most of income, but also to diminish the threat and to defend other things with meaning to them (social and cultural aspects).

The definition of sustainable livelihood by Chambers is closely allied with the assertion of Cowen & Shenton (1995), who advocate that development has numerous meanings, but the two basic forms of development are immanent development and the Intentional or interventionist development.

**1. Immanent development** is what people are doing anyway: this means a comprehensive procedure of progression in human societies determined by an array of social and economic aspects together with developments in medicine, science, communication, the arts and governance etc. This is heightened by processes for instance globalization which facilitates the sharing of novel ideas and technologies.

**2. Intentional (or Interventionist) development** is a concentrated and fixed procedure in which non-government and government administrations initiate development programs and projects (often a series of correlated projects) to support the poor. The developments are typically bounded by time and resource, although they have an assumption that the improvements attained would endure after the particular project/development has ended.

Both forms – immanent development and intentional development – can and do take place in parallel. Typically, immanent development provides the broad context of change in cultures whereas ‘Intentional’ development happens as planned projects. Therefore, a country will be constantly undergoing ‘Immanent’ development as its private, public and “outsider” sectors progressively invest in infrastructure such as hospitals, roads, water provision, consumer products and services and education and training. The same country might also be host to a variety of development projects, possibly subsidized by foreign-based parties. Consequently, it is important to note the context created by immanent forms of development that can influence the form and outcomes of intentional development projects that seek to improve livelihoods.

### **3.2.1 Origin of sustainable livelihoods approach**

The concept of sustainable livelihood originated in the 1992 Earth Summit held in Rio (Perrings, 1994). As soon as the idea of a sustainable livelihood had been adopted then it is a minor step to go from there to the sustainable livelihoods approach as a mean to conceptualize international development interventions.

However SLA did not become mainstream until the late 1990s. Just like other approaches, sustainable livelihoods approach did not come out from a vacuum nor can we say that it has a particular originating point. It basically comes from older ideas, theories and trends. The key points in this evolution are shown below in Table 3.1.

Table 3.1 depicts the chronology of thinking related to the sustainable livelihoods approach. This chronology is adapted from Morse (2013) and it illustrates the original thinking about SLA starting from the 1960s, and its embedding in institutions and global discourse, culminating with the 2015 SDGs. A reader can therefore say that SLA is actually a new name for old thoughts and concepts. The sustainable livelihoods approach provides a suitable framework for this research which takes together the numerous arguments debated so far, nonetheless it is possibly most unique in its origins in financial thoughts of capital.

**Table 3.1: Sustainable livelihoods chronology (adapted from Morse, 2013)**

1960s/1970s	Integrated Rural Development projects funded by the World Bank and others Concept of Agro-ecosystem Analysis emerges (combines ecological, social and economic components)
1980s	1980s sees the rise of New Household Economics
1984	Long refers to 'livelihood strategies' in his book 'Family and work in rural societies' (Long 1984)
1985	Amartya Sen's book Commodities and Capabilities is published by Oxford University Press
1987	The World Commission on Environment and Development (WCED) publishes its report: Our Common Future (often referred to as the 'Brundtland Commission report'). The notion of 'sustainable livelihood' is referred to
1988	International Institute for Environment and Development (IIED) publishes papers from its 1987 conference: The Greening of Aid: Sustainable Livelihoods in Practice (Conroy and Litvinoff 1988)
1990	United Nations Development Programme (UNDP) publishes the first Human Development Report (HDR) which included the Human Development Index (HDI); an amalgam of income, life expectancy and education regarded as important components within a capability.
1992	United Nations (UN) holds a Conference on Environment and Development; the Earth Summit. Held in Rio de Janeiro. Institute for Development Studies (IDS) at the University of Sussex in the UK publishes 'Sustainable Rural Livelihoods: Practical concepts for the 21st century' (Chambers and Conway 1992)
1993	Oxfam starts to employ SLA in formulating overall aims, improving project strategies and staff training
1994	CARE adopts household livelihoods security as a programming framework in its relief and development work
1995	UN holds World Summit for Social Development UNDP adopts Employment and Sustainable Livelihoods as one of five priorities in its overall human development mandate, to serve as both a conceptual and programming framework for poverty reduction. IISD publishes Adaptive Strategies and Sustainable Livelihoods (Singh and Kalala 1995), the report of a UNDP-funded programme SID launches project on Sustainable Livelihoods and People's Everyday Economics

1996	Adaptable Livelihoods: coping with food insecurity in the Malian Sahel (Davies 1996) is published by Macmillan. DFID invites proposals for major ESCOR research programme on Sustainable Livelihoods. ISD publishes Participatory Research for Sustainable Livelihoods: A Guidebook for Field Projects (Rennie and Singh 1996)
1997	New Labour elected by a landslide (179 seat majority). New Labour government publishes its first White Paper on international development, <i>Eliminating World Poverty: A Challenge for the 21st Century</i>
1998	DFID's Natural Resources Department opens a consultation on sustainable livelihoods and establishes a Rural Livelihoods Advisory Group. Natural Resources Advisers annual conference takes Sustainable Livelihoods as its theme and later publishes contributory papers: <i>Sustainable Rural Livelihoods: What Contribution Can We Make?</i> (Carney 1998)
1999	DFID creates the Sustainable Livelihoods Support Office and appoints Jane Clark as its Head. DFID publishes the first Sustainable Livelihoods Guidance Sheets. These have been regularly updated and are available at <a href="http://www.nssd.net/references/SustLiveli/DFIDapproach.htm#Guidance">www.nssd.net/references/SustLiveli/DFIDapproach.htm#Guidance</a>
2000	DFID commissions and funds Livelihoods Connect, a website serving as a learning platform for SLA. United Nations Food and Agriculture Organisation (FAO) organises an Inter-agency Forum on Operationalising Sustainable Livelihoods Approaches, involving DFID, FAO, WFP, UNDP, and International Fund for Agriculture and Development (IFAD). DFID publishes Sustainable Livelihoods—Current thinking and practice
2001	Millennium Development Goals established. New Labour wins election. DFID commissions research on further development of the SLA framework; practical policy options to support sustainable livelihoods. <i>Sustainable Livelihoods: Building on the Wealth of the Poor</i> (Helmore and Singh, 2001) is published
2002	World Summit on Sustainable Development (Earth Summit 2002) takes place in Johannesburg, South Africa. Called Rio +10
2012	World Summit on Sustainable Development takes place in Rio de Janeiro Called Rio +20
2015	UN Summit adopts Sustainable Development Goals (SDGs)

### **3.3 Sustainable Livelihoods Framework**

The sustainable livelihoods framework is one way of explaining the complex issues around poverty. It is not the only way, and it needs to be adapted, modified and made appropriate to local priorities and local circumstances (Coulthard et al., 2011). According to McGregor & Simon (2012) the Sustainable livelihoods framework is a tool frequently utilized by development bodies for formulating and evaluating development interventions. It emphasizes how individuals deliberately utilize the capitals accessible to them to forge livelihoods, and how development interventions can impact on obtainable capitals and integrate with them. Although it is usually the public face of the approach, the SLF does not or cannot aspire to capture all features of the sustainable livelihoods approach, and is one tool among a number that can be utilized when applying the approach.

The findings of the study conducted by Sallu (2010) reveal that there are a significant number of sustainable livelihoods frameworks that have been established and accepted by research organizations, NGOs and donor agencies. Out of many the most famous one is DFID's framework (Sallu 2010), though the key overall ideology applies to all. All of the frameworks emphasize the recipients of development projects as actors who chose options, and make livelihoods grounded on the capitals accessible to them and the situation in which they exist. Intrinsically, these selections are grounded on apparent risks and opportunities. Dent (2013) reveals that one aspect of poverty is vulnerability to life's changes (the "vulnerability context") and can comprise exposure to aspects of changes for instance, shocks (war, drought, sickness or the death of a relative, etc.), seasonality (i.e. any changes related to the seasons such as commodity price fluctuations), and trends (inflation, decrease of certain types of employment, rising land prices, etc.).

#### **3.3.1 DFID's Sustainable Livelihoods Framework**

The notion of 'Sustainable Livelihoods' establish the foundation of diverse 'Sustainable Livelihood Approaches' (SLA) and has been taken up by various development bodies, for example the British Department for International Development. The DFID has established a 'Sustainable Livelihood Framework' (SLF) that is one of the most extensively used livelihoods frameworks in development work. The Sustainable Livelihood Framework was incorporated in DFID's package for development collaboration in 1997 (Ferrol-Schulte 2013).

DFID adapts the concept of Conway and Chambers' livelihoods, as consisting of assets, capabilities and activities which are needed for living (Bennett & Dearden, 2014). Adato and Meinzen-Dick (2002) shows

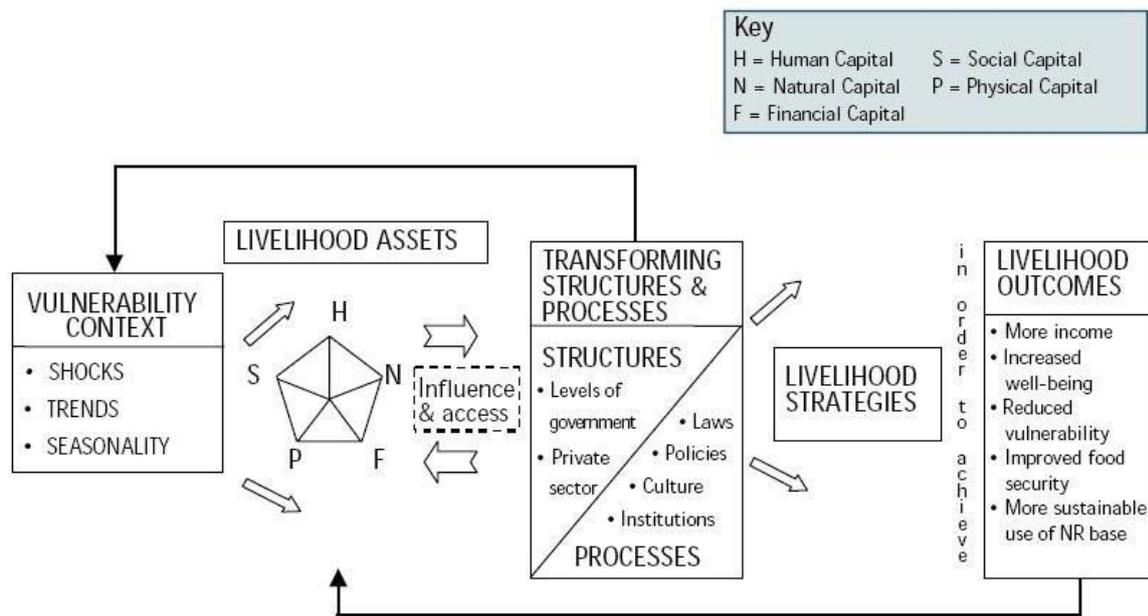
how a livelihood can become sustainable if it can cope with shocks, and not just remain the same but also sustain and increase people's livelihood assets and capabilities both in their current condition and in the future. DFID, maintains that there are numerous methods of implementing livelihoods methods and the implementation of the livelihoods method is adaptable and flexible to different local situations and it triggers a couple of essential ideologies.

Scoones (2009) illustrates that DFID has instituted a practice of adopting livelihoods approaches in program development and projects and in the evaluation and monitoring of existing activities. A key phase of this work is to recognize the importance of the existing livelihoods of the deprived people, specifically when steering livelihood investigations. According to Soltani (2012) the livelihood investigation will be the foundation for development, prioritizing and observing. There is though, no single arrangement or approach for livelihood investigations, nor has DFID established specific methods for such scrutiny. The emphasis is on using the best of available methods for the given conditions. There is, on the other hand, a distinctive DFID sustainable livelihood framework (Fig 3.1) that delivers an organizing arrangement for examination. The sustainable livelihood framework is fundamental to the Sustainable Livelihoods Approach. Sife et al. (2010) says that the framework utilized can be taken as a method or specification to recognize poverty by promoting poor people's opinions and their own understanding of poverty.

The DFID framework works as follows:

- A standing point in the recognition of how individuals work in a vulnerability context that is formed by diverse elements – unstable seasonal limitations (and prospects), monetary shocks and longer-term developments.
- There is also a sensitivity to how people behave with diverse forms of livelihood capitals or assets in dissimilar arrangements which are shaped by: the vulnerability context, a variety of organizations and procedures and how they utilize their strength base to develop a variety of livelihoods approaches to accomplish their aspirational livelihood outcomes.

**Fig 3.1 Department for International Development (DFID) Model**



Adapted from (Cahn, 2006)

The major component of SLF is a framework that shows stakeholders as functioning in a Vulnerability Context, in which they access to particular assets. Assets gain weight and value through the principal social, institutional and administrative elements of the environment. This framework outlines the livelihood options that are open to people searching for their self-defined valuable livelihood aspirations and consequences (Kollmair & Gamper, 2002)

### 3.4 Capital and Assets

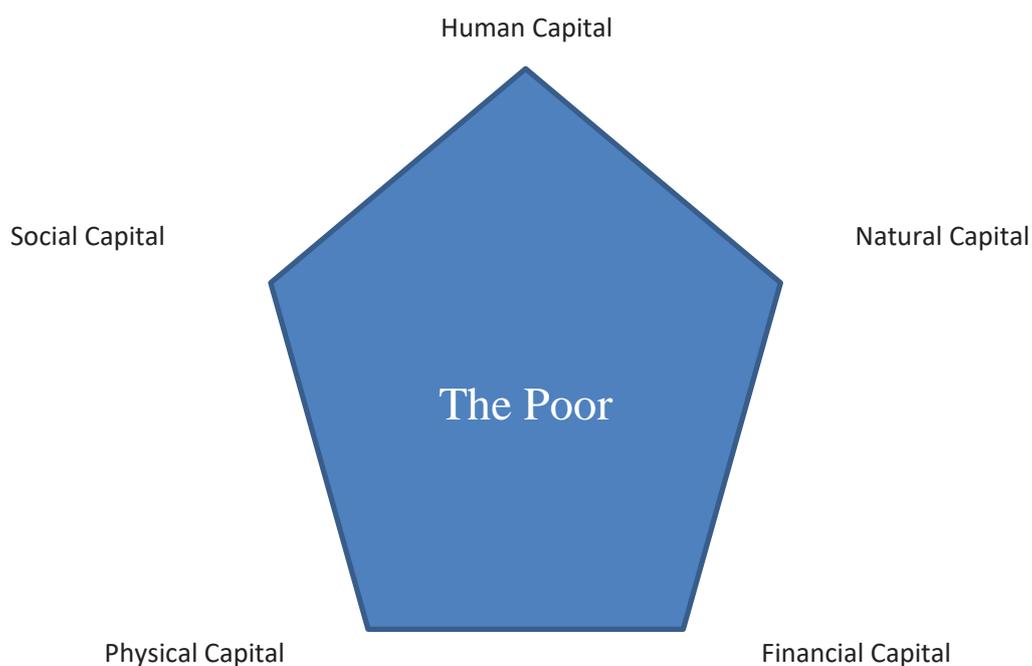
In DFID’s framework, there are five kinds of capitals visualized as corners of a pentagon that is intended to highlight their interrelatedness. The five effects are also known as livelihood assets which are physical, human, financial, social and natural. These can too be referred to as social capital, human capital, financial capital, physical capital and so on. The terms “capital” and “asset” are unevenly substitutable in this framework, excepting that the term “capital” highlights the idea of possible depletion or investment. Every aspect might have admission to an exclusive set of these effects, though shapes of proprietorship/convenience might be very different in a given social setting.

In this Research report the words capitals, assets and resources are used interchangeably. The livelihood approach is grounded on the evidence that the asset position of the poor is vital to accepting the choices

available to them, the approaches they accept to achieve livelihoods, the consequences they seek to, and the vulnerability context under which they work (Fraser, 2011). Correspondingly, it points out that people's assets are not only of value to an economic livelihood, but they also give sense to an individual's life. Capital or assets are both the means individuals utilize in structuring livelihoods, and such assets that offer individual capabilities "to be and to act". Moreover, the right to access and use the assets could be argued to be the most imperative element of all in terms of structuring sustainable livelihoods (Elliott, 2012).

The five major capitals frequently recommended as vital to livelihood are presented as a pentagon in Fig. 3.2. Some have already been stated, and are tangible. For instance, the man-made physical capitals of machinery and buildings and the natural or capitals of crops, water and soil so on. On the other hand, some are less instantly understandable, for example good health, knowledge and social networks which make up social capital. Every capital is essential though obviously the degree of their significance will vary from household to household and over the period of time. Without a doubt, societies might substitute a number of capitals for others if they consider it more suitable for livelihoods, and that exchanging might reverse at some other time (Bebbington, 1999). Therefore, even a comparatively simple diagram such as Fig. 3.2 has much entrenched complication and can hide what is in practice a compound dynamic of change in the context of numerous capitals for any one household (Erenstein, 2011).

**Fig 3.2 The capital in the DFID sustainable rural livelihoods framework (after Carney 1998)**



### **3.5 Vulnerability context**

Once these capitals have been identified and assessed for the contribution they make (or could make) it is necessary to explore the vulnerability context in which they exist; what are the trends (over time and space), shocks and stresses? Firstly, the Vulnerability Context refers to the external environment in which people are living. For instance, national and international economies, trends in population growth, politics and technology, natural resources, earthquakes, agriculture problem, diseases, economic shocks and seasonal vulnerability of production, prices, health or employment opportunities can also put a severe impact on livelihoods (Birkmann et al., 2013).

Secondly, the vulnerability context denotes the trends, seasonality and shocks that impact people's livelihoods. The important quality of these features is that they are not able to be regulated by local persons themselves, however they do have some control in the medium or short term (Mach & Mastrandrea, 2014). It is hence vital to recognize secondary ways by which the damaging effects of the Vulnerability Context can be diminished – often by strengthening livelihood safety and building greater flexibility and diversity. This is of specific importance for the poor, and a shared response to adjust to shocks and seasonality is a significant driver to organize properties and activities. However, the poor frequently have few assets or lands. Their absence of assets resources also shows that they are normally less capable than their richer colleagues to response to positive trends and opportunities (Preston et al., 2011).

According to Bene (2012), vulnerability to shocks can differ too. A drought for instance will have effects upon natural capital and can gradually decrease crop production. In the same way, flooding might harm natural and physical capital without having a direct effect on the other capitals.

### **3.6 Small Medium Enterprises (SME) and Sustainable livelihoods**

Microenterprise has been carefully chosen as a subject for study for the reason that it characterizes a feasible way out of poverty by giving improved and more specialized revenue streams for poor families. For instance, microenterprise activity has been witnessed to improve livelihoods by reducing vulnerability and risk, by establishing monetary and non-monetary resources, and by sponsoring economic and social liberation. Banchirigah et al. (2010) indicates that microenterprises that are commercial, although they may be to lesser in number, can better play a role in supporting livelihoods, for the reason of their greater growth, profits, and work-creating probability. Poor families on the whole will probably step in and step

out of microenterprises depending upon the seasonal demand, nature of the activity, the accessibility of capitals, and other social and personal factors.

When defining the small and medium enterprises (SME) in terms of sustainable livelihoods framework, *“SMEs are small revenue making enterprises that are operated and managed by the proprietor, frequently with the aid of his or her peers. SME is a livelihood approach that, if sustainable and successful, can get the livelihood consequences of the small and medium enterprises and their families”* (Lawrence et al., 2006).

### **3.7 Support for micro-enterprise**

The small and medium enterprises often are aided directly or indirectly by NGO's, government, multilateral and bilateral donors, through the assistance and financing these institutions provide to the NGO's (Duncombe, 2006). In this section of the paper, support for micro enterprise development is discussed to provide context and to understand the rationale for supporting for micro enterprises. There are number of reasons why support of micro enterprise has been seen as an effective strategy in promoting and sustaining livelihoods. Primarily, it is an operative method of motivating employment and economic growth, but it also fits with a donor emphasis on poverty mitigation and individual level development at the masses rather than on macroeconomic procedure. The nature of micro enterprises is such that the businesspersons are generally vulnerable and poor and these are the very people that are the focus of poverty improvement agendas (Bekele & Muchie, 2009).

Furthermore, micro enterprise fits the existing international neo-liberal approach that encourages devolution and organizational improvements, and endorses private enterprise as an approach for macroeconomic development (Woodward et al., 2011). Thirdly, support for micro enterprises can give attention to concentrate on women as economic actors, who regardless of providing vital and considerable economic inputs, have been mainly overlooked by strategy makers in the past (Blattman et al., 2013).

Roy (2006) argues that there is undoubtedly great interest for funding of micro enterprise as an approach for poverty alleviation, economic development, work, and liberation. Question persist, though, concerning the prospect of micro enterprises generating work. (Fafchamps, 2011) argued that there are a great number of individuals working in micro enterprises due to the great number of such enterprises, rather than for the reason that they hire a large number of individuals.

### 3.8 SMEs and the household

There are numerous unanswered questions concerning the links between poverty and micro enterprises in the region: Are micro-entrepreneurs and their employees poor? Who are the poor among the local? Are households with a great reliance upon micro enterprise-generated income poorer as compared to other households?

In emerging countries, the micro-enterprise is typically just one of a variety of income producing accomplishments and livelihood approaches that happen on an everyday basis in the household (De Mel et al, 2012). Strier (2010) says that the micro-entrepreneur hardly ever works alone, and it is typical that the enterprise merges into the livelihoods of the household and the family. According to Fafchamps et al. (2011), the affiliation between the micro-enterprise and the household is significant in terms of control and access to the capitals utilized in the micro enterprise, the distribution of work, and who in the household profits from the earnings made by the micro-enterprise. In the unitary model the household performs as per the rationale behavior-making decisions on the basis of demand and supply, perfect competition and market forces (Becker & Tomes, 1976). As per this model all household members behave selflessly for the advantage of the family with no personal interest, and family heads (which are usually male) are caring rulers who make sure family assets are properly dispersed (Becker, 1991).

In the 1980s a number of other models that sought to clarify household economics were recognized including 'collective' or 'bargaining' models. Karlan & Zinman (2010; p. 121) defines the household in terms of a model of 'bargaining' that clarifies the 'wide struggles and unescapable co-operation in household procedures'. Berhane (2011) proposes that household success depends on both family members adding to the assets available to the family (income and food), and outcomes of negotiation as to how the assets are dispersed within the household.

Microenterprise growth is a measure for poverty reduction in household, grounded in its capability to produce work and increase incomes. Meller & Tokman (1996) explains the significance of the microenterprise sector as a security net for expatriate employees across the four countries including Chile, Sweden, Germany and Spain in the area do not have provision for job loss insurance. Furthermore, this sector comprises clusters that are mainly susceptible to poverty among numbers among the households. Conversely, some studies Dupas & Robinson (2009) and Adekunle (2011) show that the poorest of the poor are not necessarily micro-entrepreneurs. For that reason, an analysis of the occurrence of poverty

in the microenterprise sector is vital to assess the part that microenterprise programs play in poverty reduction among households.

Obviously, the financial contribution that an individual can make to the family (for instance through micro-enterprise) can affect their bargaining power over utilization of capitals, and notably the rights to determine how earnings are used and the distribution of work (Sharma et al, 2012).

### **3.9 Cooperative enterprises**

This section provides background on the cooperative enterprise as most of the selected micro-entrepreneurs of the case study in Mongolia are involved in cooperative enterprises. A cooperative enterprise can be defined as "*a jointly owned enterprise engaging in the production or distribution of goods or the supplying of services, operated by its members for their mutual benefit, typically organized by consumers or farmers*" (Sabatini et al., 2014; p. 93). As per Fakhrutdinova (2013) co-operative enterprises are often stronger than many other types of businesses, with double the number of cooperatives (80%) surviving their first five years compared with other corporate proprietorship models (41%). Cooperative enterprises often have public goals which they intend to achieve by capitalizing a percentage of exchange profits back into their societies.

Cooperative enterprises are designed for different purposes. Parnell & Hatem (1999) clarify that when the members are fishermen, farmers, and craft workers or primary manufacturers the core advantage of cooperative enterprises will be making quality products at reasonable prices, and ongoing entry to markets which safeguards a reasonable price for their products. Where cooperatives are resource-based, they typically share property for example machinery, labor, land, or credit, however where cooperative enterprises are service based, they allocate member's produce or sell inputs to associates (Zamagni, 2012).

Studies by Travaglini (2012) shows that the Worldwide Co-operative Association was the first global association originated by the cooperative drive. It contains the World Council of Credit Unions. It works to ensure that cooperative enterprises have similar prospects as other enterprises working in the country and that customers have right to use to cooperatives in the market.

According to Monostori et al. (2009) regardless of high principles and regulation to defend co-operative enterprises, the record of progress by cooperative enterprises has been varied. Borzaga (2009) suggests

that there a variety of reasons which are significant to the prosperity of cooperative enterprises. Primarily, the cooperative enterprise must be established for a particular purpose that is appropriate, clear and intensive, and is agreed by all co-operative associates (Borzaga, 2009). Moreover, the co-operative model must be adjusted to fit the economic and cultural requirements of the operating environment rather than rely on obsolete co-operative values (Tung, 1994).

Findings of Lyons (2001) suggests that cooperative enterprises need to have systems to cope with negative features of the enterprise such as people who utilize the cooperative enterprise to fulfill their personal needs at the expense of the enterprise. Additionally, co-operative enterprises ought to be self-governing and not over dependent on funding from NGOs or governments. NGOs and governments can provide initial facilitation support by setting, outlining suitable rules providing assistance in terms of teaching, material and advice securing the right to use to credit and controlling market provision (Parnell, 1995). This is of particular interest in the context of this thesis.

### **3.10 Assessing the success of micro-enterprise and micro-enterprise support**

It is important to consider whether results from programs run by micro-enterprise are rational in terms of the returns. The majority of micro-enterprise programs are assisted by communal units or NGO's whose job is to encourage the development of micro-enterprises in their society, and so aiming to reducing poverty and build local financial strength Kantor (2002). This objective is achieved by contributing direct nominal help and provision to local businesspersons and by giving funding required to empower micro-enterprise schemes to continue. Microenterprise funding commonly fills the gap among the partial assets that the businessperson has access to and the total cost of the plan (Cahn, 2008). Micro-finance funds are usually obtainable for almost every purpose: building acquisition, machinery or equipment, working capital, new construction, inventory, and remodeling (Duncombe, 2006).

Midgley (2008) reveals that over and over again the metric against which accomplishment of a plan is measured did not equate with the objectives of the plan. For instance, in micro-credit provision, objectives are typically to decrease poverty and improve the position of the debtors and their households. On the other hand, official measurement often includes, for example levels of payments, number of debtors, and sustainability of the monetary service organization, all of which are regularly used to assess the achievement of the plan. Though certainly quantifiable, such measures tell us little or nothing about the effects of the provision on the micro-entrepreneurs (Gulyani & Talukdar, 2010).

From the viewpoint of the agency who is supporting the project, the indicators used in the assessment of 'success' of micro-enterprise provision projects typically relate to the goals of the project which rest with the donor party (Monahan et al., 2011). Parties functioning under a neo-liberal ideology will be most concerned in financial results, improved macro-economic development, and price efficacies. Micro-entrepreneurs' aims are expected to be mainly revenue generation and business development, but the donors provision of support for micro-entrepreneurs is usually planned to stretch further than the returns to the businesspersons themselves to the broader macroeconomic situation (Chew et al., 2011).

In order to satisfactorily meet the goals of microenterprise development plans working in areas where socio-cultural restraints on females' prospects to contribute in civic life occur (and to improve the capability of women to take advantage of their contribution) the aims of the business support attainment should comprise both empowerment and economic outcomes (Ekpe, 2011). According to studies of Otoo (2012) empowerment outcomes must include, for example, women's control over the funds flowing from the enterprise and how her contribution in the marketplace translates into better participation in the family and other related circumstances.

Hussain & Yagub (2010) indicates that economic dissimilarity and restraints on prospects for marginalized groups also are common in established countries, creating the need for a multidimensional idea of equality to exist and to influence the aim of micro-enterprises there as well. Obviously, suitable assessment approaches are very imperative to measure the 'success' of any project assisting micro-enterprise.

### **3.11 Conclusion: micro-enterprise and sustainable livelihoods**

The final part of this chapter summarizes the theories of sustainable livelihoods discussed in this chapter. In this chapter the definition of micro-enterprise, and micro- entrepreneurs in the framework of sustainable livelihoods has been discussed and the different features by which micro-enterprise can be distinguished have been outlined. The review of literature has provided some conclusions about micro enterprises and sustainable livelihoods. This study is basically concerned with identifying and examining the elements of the sustainable livelihoods approach, along with the sustainable livelihoods framework derived from DIFD, and the components such as capital and assets, vulnerability context, small and medium enterprises and sustainable livelihoods in the context of the UNDP EMP.

This section has provided an outline of the academic viewpoints and notions of sustainable livelihoods, integrating micro-enterprise into the discussion of sustainable livelihoods. Microenterprise literature was reviewed and defined, as a livelihood approach, which can potentially frame approaches that are effective and if maintained, deliver livelihood improvements.

Micro-entrepreneurs' efforts are often aimed at advancing livelihood results that particularly belong to them and their household. These livelihood consequences might be physical (for example financial results), or intangible (for example respect and status) (Pingle, 2008). Attaining livelihood improvement delivers the micro-entrepreneurs a wisdom of welfare. The accomplishment of their micro-enterprise ultimately hinges on whether or not their living standards are being maintained or improved. Where micro-entrepreneurs are supported by plans or institutions, the achievement of the micro-entrepreneurs might also hinge on the extent to which this outcome matches that the plan or supporting group.

A finding in this chapter is that, micro-entrepreneurs and their enterprises can impact on household assets and security. According to the literature the micro-entrepreneur can help play a vital role in sustainable livelihoods. The micro-enterprise is a strategy that can help in reducing poverty and attaining more sustainable livelihoods. Projects that focus on the livelihoods of the small entrepreneurs using a sustainable livelihood framework have found that it is relatively easy to reduce or eliminate poverty among the targeted groups in developing countries. Moreover, the literature illustrates that micro-entrepreneurs can play an effective role by growing the micro enterprise sector in the economy of developing countries. The broader population of developing countries can thus obtain benefits by supporting this micro enterprise strategy. People can get more jobs, access better financial solutions, and hence can bring greater prosperity to the society.

The last theme developed in this chapter is the proposed connection between these two ideas: the 'success' of micro-enterprises and the 'projects' that support them. Success is about attaining planned results, and for strategy and project designers the results proposed will be closely linked the basis for the project or strategy. On the other hand, in order to accomplish any project or strategy results, the micro-enterprise must initially offer, or somehow support, a sustainable livelihood for the entrepreneur and their household by ensuring positive livelihood outcomes.

The study has contributed to the sustainable livelihoods base literature in two ways: First it supports the DFID framework as an effective sustainable livelihoods tool as it focuses on how people can use existing resources or capitals in order to attain sustainable livelihoods. Secondly, this chapter emphasizes the

strong association between small and medium enterprises and the sustainable livelihood framework. It focuses on how micro-enterprises or small medium enterprises can help poor people to attain more sustainable livelihoods. Moreover, it has shown how small and medium enterprises can bring prosperity in developing economies. Also this study takes the SMEs into the language of sustainable livelihoods, and has sought to integrate the concept of sustainable livelihoods into the discussion of SMEs.

# CHAPTER FOUR

## METHODOLOGY

### 4.1 Introduction

This chapter outlines the research methodology of the study. Both qualitative and quantitative research methods were used while gathering information (Creswell, 2013). The research for this study was conducted in two phases. The first phase comprised of examining the case study of Enterprise Mongolia Project and focused on the role of SMEs support programmes in poverty reduction. The second phase of the research method comprised in-depth semi-structured interviews with 20 entrepreneurs; 8 in Selenge Aimag, 6 in Khentii Aimag and 6 in Uvurkhangai Aimag respectively. The interviews with these 20 micro-entrepreneurs comprised of a number of key structured questions and open ended questions. One of the biggest advantages of in-depth interviewing is that there can be a greater use of open questions and the interviewer can provide additional explanation, if required, to aid the respondent's understanding of the questions (Anderson and Shattuck, 2012).

Moving forward, this chapter presents the research methodology and describes the research methods that were selected to answer the research questions. A review of the researcher's positionality and ethical procedures are provided in different sections of this chapter. The data collection techniques are discussed in detail in one section and lastly, the limitations of the research are noted in final section of the chapter.

The overall objectives of the research are to identify the changes resulting from the project intervention (EMP-2) using the sustainable livelihood approach and exploring the relationship between livelihood assets and enterprises of SME owners. I used the Sustainable Livelihoods Framework (SLF) to explore the human, social, financial, physical and natural resource based assets that enable the poor to enhance their capabilities and reduce their vulnerabilities.

In order to identify the reported change in the livelihoods of the SME owners since the project intervention, the method used to collect data was in-depth semi-structured interviews based on a set of selected questions with individual SME owners and cooperative members. Data were collected in three provinces of Mongolia including Selenge Aimag, Khentii Aimag and Uvurkhangai Aimag from 10th of July to 10th of August of 2015.

### **4.3 Research Objectives**

In a research methodology, research objectives form an important part and should be very clear. The research objectives of this study, as discussed above, are as follows.

- To determine the role of SMEs in reducing poverty with respect to Mongolia
- To study the benefits of Enterprise Mongolia Project (EMP)
- To identify the changes resulting from the project intervention (EMP-2) using the sustainable livelihood approach
- To investigate the relationship between the livelihood assets and enterprise of SME owners

### **4.4 Research Methodology**

As per Anderson and Shattuck (2012), research methodology is defined as the process of collecting information and data in order to make decisions regarding the research questions of a study. The methodology often includes a series of steps such as referring to publications, surveys, interviews, analysis etc. There are two kinds of research methodologies typically used by researchers; quantitative or qualitative. In many studies, a mix of the two methodologies is also used to achieve the research objectives (Anderson and Shattuck, 2012).

Typically, the terms qualitative and quantitative are extensively used for research purposes to distinguish data collection techniques and data analysis methods (Saunders et al., 2012). Quantitative research implies a data collection technique and data analysis method that heavily relies on numbers and frequency-type data (Saunders et al., 2012). Qualitative research, on the other hand, avoiding numerical data, often contains the collection and analysis of lived histories, narrative stories, detailed observations, pictures, sounds and videos (Weathington et al., 2012).

The distinctions between the two forms of methodology can be further defined as:

- qualitative research, often known as exploratory research, is used to gain an understanding of different reasons for actions, principles and concepts or practices. In this type of research structured and unstructured methods are used which can include examining case studies interviews and different forms of surveys. In these methods, the sample size is often small (Bartunek et al., 2006).

- Quantitative research is used to quantify data to generate numerical data. In this type of research, the researchers usually study attitudes, patterns, behaviors and opinions. Quantifiable facts and measurable data are usually preferred in these types of research methods (Bartunek et al. 2006).

In this study, I have used a combination of quantitative and qualitative research approach in order to explore and understand the role of SMEs in reducing poverty with respect to the Enterprise Mongolia Project. Furthermore, my research has been informed by the sustainable livelihood framework. The methodologies associated with livelihoods research are of value because they require a bottom-up approach to collecting and analyzing data at the household and community level. This allows for evidence-based research that can be operationalized within an accepted framework for understanding poverty and implementing poverty reduction strategies.

Although either qualitative or quantitative methodology could have been used for this study, I have used a combination of the two methodologies. As far as qualitative research methodology is concerned, it provides the tools to make the voices and concerns of poor and marginalized groups heard (Stewart-Withers et al, 2014). Qualitative research helped the researcher to study in detail the Enterprise Mongolia Project, and hence helped provide an in-depth understanding of the changes that have been brought in the lives of people in Mongolia. Qualitative research methods and SLF in particular, helps to gain deeper understanding of the livelihoods of the researched and the changes brought about in their livelihoods.

#### **4.4.1 Positionality**

In this study, I carried out the research in two phases. In the first phase, I examined the case study of Enterprise Mongolia Project and discussed the role of SMEs support programmes in poverty reduction. The second phase of the research method comprised conducting 20 in-depth semi-structured interviews with entrepreneurs. I had chosen this research topic and showed interest in determining the role of SME programmes in poverty reduction in Mongolia for a variety of reasons. Foremost, I was raised and brought up in Mongolia, which was one of the biggest reasons why I pursued this study. Secondly, I had an interest in small businesses, and as a result due to which I picked EMP as a topic in order to study poverty reduction efforts in Mongolia.

#### **4.5 Research Paradigm**

Chang et al. (2010) state that a research paradigm refers to a belief system which guides the people about the way things are done. There are different kinds of paradigms used by researchers to conduct studies.

These include positivism and interpretivism. The positivist paradigm considers experiments and analysis as the basis to understand human behavior. However, interpretivist paradigm considers social reality as constructed by the individual himself. In this study, I have adopted both elements of the research paradigms to conduct the study. The first phase of the study will comprise examining the case study of Enterprise Mongolia Project and discussing the role of SMEs support programmes in poverty reduction in a largely positivist paradigm. The second phase of the research study is based on more interpretivist approaches and comprises in-depth semi-structured interviews with 20 entrepreneurs.

#### **4.6 Population and Sample size**

In this study, the sampling technique selected is a combination of purposive and random sampling: that is I selected interviewees randomly from my target group – people who were assisted by the EMP. Each participant had the chance to provide his or her opinion effectively. I selected 20 entrepreneurs, which forms the sample for the research. The sample size is kept small due to financial constraints, but there was also a need to ensure that the amount of data collected was kept to manageable levels so the research objectives can be achieved effectively.

#### **4.7 Ethical process**

Research requires an ethical process is followed in order to carry out a legitimate study. There are numerous ethical issues to be considered for a research study. It is critical for researchers to obtain consent of all the participants involved before using their information or opinion for the purpose of the study (Gephart, 2004). The researcher cannot misuse the information and should keep it as private as possible. She needs to be very sure about her responsibility towards participants. It is the duty of the researcher to safeguard the interest of the participants. For those participants who do not wish to reveal themselves in the study, the researcher should try to keep them anonymous. Hence, it is critical for the researchers to adhere to a code of ethical conduct in order to categorize the project as low or high ethical risk project. Prior to commencing the study, I read the Code of Ethical Conduct for Research, Teaching and evaluations involving Human Participants by the Massey University Human Ethics Committee (MUHEC) and completed the screening questionnaire to determine the approval procedure. Based on my responses to the questions, my project was categorized as a low ethical risk and a Low Risk Notification was approved by MUHEC, as the research was judged to possess minimal potential for harming participants. I acknowledged issues of confidentiality and informed consent and participated in an in-house meeting of academic staff of the Institute of Development studies for a formal internal ethics review of my research

process. This comprised me, my main supervisor Associate Professor Glenn Banks and Professor Regina Scheyvens. During the in-house meeting, we discussed the relevant ethical issues and I received valuable feedback in terms of ethical principles for conducting my research. The Massey University Ethics committee approval letter is in Appendix 1.

#### **4.8 Data collection**

Baskerville (1999) notes that data collection refers to the process of gathering the information to achieve the objectives of the research. The choice of data collection for the study depends on various factors such as the methodology, paradigm, type of variables, accuracy required, and skill of the researcher. In quantitative research the researchers depend upon structured data collection methods such as interviews and questionnaires. Besides quantitative research data collection methods, qualitative methods are also used for data collection (Morgan and Smircich, 1980). The qualitative data collection methods include in-depth interviews, observation methods and document review. I adopted different data collection methods including both qualitative and quantitative types. Prior to embarking on field work, I conducted an extensive secondary data literature review on the role of SMEs on economic development and the relationship between SMEs and Sustainable livelihood framework. The research questions used in the field were informed by this literature review.

##### **4.8.1 Analysis of Case Study**

In the case studies, the focus is on understanding the particulars of each case in its complexity. A case study focuses on a bounded system, usually under natural conditions, so that the system can be understood in its own habitat (Stake, 1988 cited in Hoepfl, 1997). For that reason, the SME owners who were beneficiaries of the Enterprise Mongolia Project 2 (EMP-2) were chosen as the researcher's case study area, because these cases enabled the researcher to gain an in-depth understanding of the livelihoods of the individuals, families, groups and the events and activities of associated organizations, institutions or other social units involved in SMEs.

##### **4.8.2 Semi-Structured Interviews**

Interviews are methods of field investigation whereby the researcher meets her respondents and through the interaction asks specific questions to seek answers to a research problem. This method is used when the respondents are willing to talk and have knowledge of the research problem (Twumasi, 2001).

Typically, the researcher prepares an interview schedule consisting of several specific questions, or various aspects of the topic under investigation. Interviewing therefore offers flexibility. This is because the interviewer is in a position to sense the situation and can adapt her questions to suit the psychology of the people involved in the field situation. Also the interviewing situation creates a learning environment in which the two, the researcher and the respondent, are involved in a purposeful discussion. Interviewing in qualitative research utilizes open-ended questions that allow for individual variations. Hence, Patton (1990, cited in Hoepfl, 1997) wrote about three types of interviews used in qualitative research: informal, conversational interviews; semi-structured; and standardized, open-ended interviews.

The main focus of my data collection was the small micro-entrepreneurs who had been involved in the EMP. My fieldwork was from July to August 2015 during which I was able to meet with 20 entrepreneurs across 3 Aimag. I conducted in-depth semi-structured interviews comprising a number of structured key questions and a series of open ended questions. One of the biggest advantages of in-depth interviewing is that there can be a greater use of open questions and the interviewer can provide additional explanation, if required, to aid the respondent's understanding of the questions (David and Sutton 2004).

The interview questionnaire was originally developed in English and then translated into Mongolian. The questionnaire was designed to collect both qualitative and quantitative data on changing livelihood circumstances (such as employment, assets, business activities, incomes, savings, investments and vulnerability factors at household level). This method has been found to be a very useful method of data collection by many researchers in developing countries where level of education is low and postal services are lacking or unreliable (Scheyvens, 2014). The interviews with the micro-entrepreneurs and field walks were mainly conducted in homes or workplaces, in some cases both. During the interviews I used a digital voice recorder while taking detailed notes. All interviews were transcribed and analysed to present the results in the following chapters.

### **Identifying interview participants**

This research involved a case study of small business participants of the UNDP-implemented EMP. Entrepreneurs were selected from the list of EMP beneficiaries who had been identified in UNDP literature as examples of project success in three different provinces: Selenge Aimag, Khentii Aimag and Uvurkhangaigai Aimag. A total of 20 entrepreneurs were interviewed – 18 from the UNDP list and a further two who were recommended by other interviewees.

### **Conducting interviews**

I met with participants in their place of business. Meetings were arranged ahead of time by telephone. Interview questions were not provided in advance. Most interviews were conducted between the researcher and participant without anyone else present, although on some occasions family members were present also. Interviews took approximately 30 minutes and were recorded for later transcription. I asked the questions systematically and clarified them whenever it was found necessary. Before the interviews, I explained the purpose of the study and requested the interviewees fill in the consent form if they had approved.

### **Field walks and observation**

As far as field walks and observations are concerned, I observed the enterprises and viewed equipment, products and awards presented in the business premises. Apart from the detail provided by micro-entrepreneurs in interviews, I examined the businesses' facilities, equipment and products to gain a better understanding of the quality and condition of their physical assets.

### **4.9 Data analysis**

The study scrutinizes the success of EMP-2 by examining how this project reduces the vulnerabilities in the livelihood of the micro-entrepreneurs. Data from the semi-structured interviews were analyzed to identify the relationship between entrepreneurship and livelihood assets and to detect the changes in the livelihoods of the entrepreneurs after involvement in the project. After collecting the data it was recorded, translated, transcribed and then analyzed using NVivo 10. The NVIVO software permits users to arrange, sort and classify information; study relationships in the data; and carry out analysis with connecting, molding, modeling and searching tools. The researcher can examine theories, recognize trends and cross-examine information using several techniques utilizing its query functions and search engine. They can make observations in the software and build a body of evidence to support their case or project. In this case, nodes were formed with the help of research questions and research objectives. After that different queries were run through the software in order to analyze the data as per the DFID sustainable livelihood framework capitals which are financial capital, human capital, physical capital, social capital and natural capital.e

After running the queries and stating the results a qualitative model was obtained from Nvivo 10 which created themes according to the research questions and research objectives of the paper. The qualitative

model depicts the direct relationship between DFID sustainable livelihood framework capitals, EMP-2 and livelihoods of the Mongolian entrepreneurs.

#### **4.10 Limitations of the research**

In any study, there are various limitations encountered which weaken the findings of this study. Hence, there is a need to take utmost precaution to overcome these limitations when carrying out the research (Lewis, 2015). As far as the interviews are concerned, there are some limitations. First, the sample chosen for the semi structured interviews was small; hence I was not able to get the opinion of many micro-entrepreneurs. If the sample would have been bigger, I would have got a better chance to analyze the opinions of a wide range of different entrepreneurs. Secondly, the micro-entrepreneurs were given a chance to answer open ended questions which means it cannot be judged whether the response is true or not. Hence, there is a chance of results being wrong or misleading due to errors in understanding and concealment. In addition, there are limitations to the case study approach. In the case studies, the researcher has emphasized the understanding of the particulars of each case in its complexity. As far as the case study is concerned, there is a need to consider the authenticity and integrity of the data before using it. The limitations of the research are unable to establish baseline data before the intervention. Some other limitations about the study include interviewing examples of successful businesses, the indicators being hard to measure, a reluctance of the interviewees to reveal their incomes, difficulty validating the responses of the participants, and also identifying EMP participants who had failed so that it was hard to contrast with the successful cases (Lewis, 2015). A gender analysis is outside the scope of this study, and also the study and its findings are restricted to Mongolia.

#### **4.12 Summary**

This chapter reviews the research methodology, and the methods used in fieldwork preparation and process are covered in detail, along with ethical considerations. This chapter provided the rationale for the methodology adopted in this research and the methods applied for data collection. The research methodology was based largely on a qualitative approach informed by sustainable livelihood framework. The qualitative approach helped to provide an in-depth understanding of the livelihoods of the entrepreneurs and the relationship between the donor-funded project (EMP-2), livelihoods and enterprises. The sustainable livelihood framework defined the boundaries for the research while ensuring that important livelihood aspects were covered.

According to Creswell, (2013), quantitative research choice helps to offer a numerical explanation of obtained data. In this method concepts of statistics are being utilized. The numerical explanation provides a great understanding of the diversification of obtained data.

The qualitative research approach enabled flexibility in terms of the selection of participants and a few of the interviewees were selected randomly using the snowballing technique. Among research methods used were literature review, semi-structured interviews and field walks. Both qualitative and quantitative material was generated through these methods. To analyze the data qualitatively Nvivo software was used. NVivo is basically used to assist with analyzing and organizing the unstructured or non-numerical data generated as part of the research.

# CHAPTER FIVE

## RESULTS AND DISCUSSION

### 5.1 Introduction

This results and discussion chapter presents the findings of the field research with the aim of analysing the contribution of Enterprise Mongolia Project (EMP) to the livelihoods of the project beneficiaries. The research findings are based on data collected through semi-structured interviews with 20 micro-entrepreneurs in three provinces: Selenge, Uvurkhangai and Khentii Aimags, where EMP has been implemented. This chapter also relates the findings to the objective of the investigation. Findings from secondary data analysis will identify the role of SMEs on the livelihood of the EMP beneficiaries.

### 5.2 Enterprise Mongolia Project Phase 2 (EMP-2)

Enterprise Mongolia Project (EMP-Phase One) was launched in June 2005 by the UNDP and the Ministry of Industry and Trade of Mongolia (MIT) with the support of the Government of Japan. The project aimed to create new jobs and reduce poverty through aiding business and entrepreneurship development in rural Mongolia. The project delivered notable improvements in local enterprises and was highly appreciated by the local people and Government of Mongolia. Thus, on request from the Government of Mongolia, the UNDP supported the second phase of the project Enterprise Mongolia Project 2 (EMP-2) which was launched in 2008.

The EMP-2 focused on increasing the incomes and enhancing the livelihoods of small and micro-entrepreneurs by supporting the expansion of small businesses and opening up new market opportunities. The project has adopted a range of strategies including developing business skills of the micro-entrepreneurs, organizing business training events and improving access to bank credit. The following description is drawn primarily from the EMP-2 final report (UNDP, 2013).

The Enterprise Mongolia Project (EMP-2) utilized a two-pronged methodology. The first is the One-Village One-Product Initiative (OVOPI) which identified and targeted local areas with the existing businesses that were already known for a specific product. Services were then delivered to micro-entrepreneurs, with the aim of growing production so that the product can be sold outside the area. Compared to the second approach the beneficiaries were more experienced micro-entrepreneurs in the respective businesses in

the market. Under this component six Aimags (Bulgan, Dornogobi, Selenge, Uvurkhangai, Uvs, Zavkhan) and a total of seven business clusters were selected as project beneficiaries. The second approach was the Local Cluster Development (LCD) which aimed to aid numerous micro-entrepreneurs by providing business expansion facilities and enhanced access to financing. Four Aimag (Khentii, Khovd, Selenge, Uvurkhangai) and 22 business clusters were selected under this component. Moreover, the EMP contracted with NGOs to establish indigenous Enterprise Mongolia Centers where indigenous micro-entrepreneurs can obtain advice and training. Furthermore, the EMP guarantees loans issued by Khan bank under a business development agreement. These provisions were to help resolve the issues related to the lack of skills, resources and access to finance.

At the time of the Assessment of Development Results (ADR) mission in 2009, phase I of the EMP project was finished and EMP-2 had just been launched after an interval of over a year. Initial research delivered the ADR team with evidence of the constraints confronted by EMP-2 and related schemes. Regional entrepreneurs expressed gratitude for the project's technical backing and the help in accessing money and marketplace prospects. On the other hand, ADR also found that:

- Most cooperatives and clusters that received assistance were household businesses that employed non-family members as they expanded. Increased income was more likely to be invested in buying machinery rather than employing and training external workforces.
- Several of the combined businesses could not source essential inputs on the local market and had to import them from either Ulaanbaatar or Aimags, therefore restraining the multiplier effect on the indigenous economy (UNDP, 2013).

The following summarizes the official findings. Like other schemes with similar objectives in Mongolia, the EMP addressed the physical restraints of small regional marketplaces and underprivileged transport structure, which extremely limit the possibilities for business advancement in the areas. The difficulty is compounded when the target areas are selected by poverty indicators rather than business prospects. Whereas the commitment of EMP-2 is credible, in review the question of its viability had to be considered. Though a business assistance plan cannot be expected to have adequate capital to overcome all of the structural constraints, the limited capital of EMP-2 spread over the Aimags perhaps added a further constraint. For instance, the small amount of capital accessible for the loan guarantee structure might have directed Khan Bank to view the programme more as a community support initiative than as a scalable business opportunity. As a proposed example, EMP-2 could have combined services and functioned

collaboratively with another local business progress plan with compatible methodologies. Under such an arrangement, the loan guarantee structure could have developed a critical mass and received greater consideration from Khan Bank and other financial institutions. Moreover, if EMP-2 can collaborate with other similar projects they could more easily address and overcome other hurdles and glitches that they face due to lack of resources. Without any doubt, EMP-2 helped local micro-entrepreneurs access additional markets and expand their businesses. However results could be fruitful if they collaborated more with similar business support projects in Mongolia.

### **5.2.1 EMP-2 Objectives**

The EMP-2 project intended to aid local micro-entrepreneurs to expand their businesses by identifying more markets, improving access to loans and by providing training. The core objective of the EMP-2 is to improve the livelihoods of the marginalized and poor men and women, mainly in countryside zones, and to help attain the primary objective of poverty elimination in Mongolia through job creation and increased income.

The EMP-2 sought to accomplish three objectives:

#### **1. Sustainability of micro and small businesses reinforced by the EMP**

Output 1 aimed to develop the ability of SMEs and small and micro-entrepreneurs in the project target areas to be involved in viable business accomplishments and to produce value added products. Encouraging higher quality in the products or services offered by micro-entrepreneurs is seen as extremely important to bring more prosperity into their businesses.

#### **2. Sustainable SME provision appliance over the EMCs on the ground**

Output 2 aimed to improve operating capability and business independence of the Enterprise Mongolia Centers (EMCs) to increase the number of beneficiary projects and to guarantee sustainability of small & medium enterprise by giving them the resources they need. Most of the businesses are struggling with collateral and they owe huge amounts to the vendors. This output sought to ease the financial situation by removing the constraints around collateral.

#### **3. Sustainability in the policy structure**

Output 3 aimed for full assimilation of the constituent projects into the National Programme to guarantee synergistic association amongst the policy objectives of the government and the

project. It was important to bring government action to the project so as to ensure policies that will support prosperity to the businesses and encourage a business-friendly environment in the wider society over the long-term.

### **5.2.2 EMP-2 Approach and Results**

The primary approach of the EMP-2 was to provide necessary assistance to the micro businesses regarding training and development, gaining access to financial capital by altering bank credit structures and to reduce the differential treatment between rural and urban economies. Moreover, EMP-2 aims to support the casual economy in the rural areas so as to better incorporate them into the formal economy. Lastly, the project approach is grounded on cultivating emerging business abilities, through the provision of relevant information and business training & development, and aggregating access to bank loans. According to the EMP-2 assessment (EMP-2 2012) the project produced the following outcomes:

- **Knowledge and skills of micro and small & medium Enterprises on business growth and business management were supported**

Project scoping and results identified a significant need to develop and build a better understanding of the micro businesses in the rural areas. EMP-2 helped micro-entrepreneurs in rural areas by providing relevant technical and business development knowledge and skills. Rural small and micro-entrepreneurs obtained a better understanding of the gains and possible advantages of cooperating with others in establishing business activities. The outcome of these capacity-building interventions included twenty new business units, together with seven associations, five partnerships and eight limited liability corporations which have been newly established by project recipients.

- **Technical ability of the project recipients in product manufacturing is upgraded**

EMP-2 has significantly supported the development and expansion of different product types as well as product design. It has also cemented a cooperative work approach, sharing skills amongst businesses, and development of combined enterprise actions.

- **Increased ability of the EMP-2 recipients in sales promotion and marketing**

As an outcome of the market linkages services delivered by the project, the recipients have extended their marketing channels, increased their sales and improved revenue by attaining enhanced relations for the marketing and promotion of their products. A total of fifty market association activities, including exhibitions, trade fairs, market days and sales advertising movements were planned from which

participants received sales income of one hundred and seventy thousand US dollars. These events enabled relationships to be formed with possible consumers of their products by joining those occasions. Recipients have enhanced their business performance by attaining combined purchases and sales and drawing the consideration of larger suppliers and buyers as a consequence of contributing in these events.

Government agencies, non-Government organizations (NGOs), project recipients and regional government authorities have all increased their understanding of market connection activities and the benefits and importance of shaping them, and now have an understanding of these processes to shape such activities themselves without external assistance.

- **Access of the project beneficiaries to locally available microfinance services has increased**

Local business clusters were offered the opportunity to reach out to financial lending institutions and get loans for their small business operations which are guaranteed by EMP-2. Funding makes it easier for the clusters of vegetable growers to not only produce high-quality crops but to store them for some time in order to sell them at better prices. Business clusters can manage and grow their combined funds. They can then construct creative resources such as handicrafts utilizing loans through the EMP-2 Loan Guarantee Fund and increase their trade. Vegetable grower clusters in Khentii and Selenge have made investments for business structure improvement, for instance constructing or fixing warehouses, greenhouses, and acquiring mini-tractors and drip irrigation. The dairy cluster in Selenge has erected winter lodgings for their cows and established a joint workplace where they intend to open dairy handling works. Constructing storerooms allowed the clusters to store their crops till the prices go up and as a result, protect their year-round income making prospects. Commissioning the dairy treatment workshop permitted the cluster to produce value-added goods rather than selling only milk at wholesale price

- **Access to Microfinance services increased in seven Aimags**

Access to microfinance has been a challenge for the Mongolian people. The major reason is lack of collateral or warranties which they need to provide to financial institutions to obtain business loans. Even though there are numerous microfinance facilities and products accessible in the regional market, it is still tough for most small and micro businesspersons to access loans due to the lack of adequate collateral or absence of a good trade record with recognized organizations. SMEs' inability to access official credit from financial organizations is related to the fact that they cannot pledge a guarantee. This can be due to

different circumstances; some micro businesses might be newly set up, or might simply not have sufficient resources to pledge.

- **Obtaining Loan Guarantee Funds became more convenient**

Another major hurdle for the recipients was to get access to a loan guarantee fund. Due to the lack of exceptional business records, it was hard for small and micro businesses to get loans from proper financial institutions. To improve access to credit, the Grant Agreement between the Khan Bank and the Government of Mongolia established a Loan Guarantee Fund to aid creditworthy small and medium enterprises to get easy access to microfinance. The loan guarantee system planned to link the EMP-2 recipients to the proper microfinance facilities. The EMP-2 aided the recipients with their first loan with a recognized financial institution. The loan assistance programmes were started mainly by the regional EMCs with aid from the project's microfinance expert. Valuation and payment of the loans were led by Khan Bank as per its usual lending processes and went through the same bank appraisal process as non-EMP-2 supported loans.

- **Improvement in book keeping and cash flow management of micro enterprises**

Poor cash flow management was a major challenge for the project recipients. The EMP-2 delivered training to SMEs staff regarding bookkeeping and managing the cash flows effectively to help them track their revenue and expenses and develop effective strategies to enhance the revenues and cut the costs. Home Revenue & Expenditure Brochures are printed with the help of the EMP-2 for small and micro businesspersons. This convenient-to-use brochure permits recipients to keep daily records and thus supports them to regulate expenses; with this exercise, it is hoped they will progressively advance accounting expertise.

- **Policy dialogue with government on SME sales management**

In order to reach out to international markets and expand local businesses, there was a need to establish or review existing trade policies. The Ministry of Labour, the government's executing organization of EMP-2 in collaboration with the UNDP, initiated a policy discussion on Small and Medium Enterprises Sales administration on 24<sup>th</sup> January 2013. The purpose of the dialogue was to detect the extent of the partnership between private and public corporations in order to uncover explanations for specific difficulties confronting SMEs; for instance, government guidelines associated with custom, tax and

funding issues in addition to small and medium enterprises' willingness to engage in new business. A total of seventy-three individuals representing a broad range of stakeholders including local and central public administrations pertinent to the small and medium enterprises and service, international development organizations, NGOs and specialized associations and SMEs participated. International Consultant, Mr. J. Ikeda-san of Japan International Cooperation Agency (JICA) gave a presentation on small and medium enterprises Sales Chain Management, explaining the development stages of business to improve sales.

As an outcome of the meeting, a first step was taken in Uvurkhangai where a JICA volunteer worked together with a Yak-hair manufacturing cluster to conduct additional research on the prospects of exporting yak-hair products to the global market. Several of those who worked with the JICA said that they now have a very optimistic outlook for their SME, and they realize the benefits of working together with others cooperatively.

### **5.2.3 External Assessment of Project**

In October-November, 2012 an external assessment team evaluated the significance and effect of UNDP's Livelihood support project EMP-2, and its influence to decreasing rural poverty and susceptibility Enterprise Mongolia Project – Phase II report (2012) The assessment also evaluated the promotion of recognized best practice and training given by the EMP-2 regarding restructuring the standing policies on poverty elimination, revenue generation and monetary safety in the rural regions.

The assessment found that:

- The key effects of EMP-2 design and status investigations were achieved in an appropriate way;
- The discussion program of knowledge and good practice of clusters was regarded as vital for all cluster members, in addition to cluster leaders;
- The Loan Guarantee Fund is a good substitute funding tool for SMEs and it shaped an innovative business atmosphere and business faith in rural regions;
- EMC administration is a significant aspect of the achievement of EMP-2 success;
- Capacity building and the organizing abilities of the EMC management have been improved;
- Collaboration among administration of EMP-2 and the government were implemented at a satisfactory level. However, there is a need to improve coordination and dialogue among SME support agencies and development projects to achieve greater synergies. Various project

recipients highlighted that technical support and loan guarantee support are the most effective elements of the project.

#### **5.2.4 The evaluation of the EMP-2 project**

The evaluation of the EMP-2 (2013) project found that the project accomplished the following key results:

- The networking and capacity outreach of the prevailing of the EMCs has been supported to allow them to extend their facilities further than the existing physical coverage; capabilities of the present EMCs have been heightened to offer specialized client-oriented business advancement facilities.
- EMP-2 saw the establishment of 273 jobs in target Aimags and permitted rural business workers to go into 50 novel marketplace activities, by expanding to new geographical areas, getting new customers and presenting new products. Moreover, the supported enterprises started production and promotion of 15 fresh value-added products and improved their sales.

#### **5.3 Profile of selected micro-entrepreneurs**

The formal evaluation of the EMP-2 in the previous section provided an institutional view of the project and its effects. The focus of this research was to examine the livelihood effects of the project at the household level. I contacted project beneficiaries and targeted business clusters that were involved in the Local Cluster Development (LCD) approach in preference to One Village One Product OVOPI as the former participants are startup businesses on which the livelihoods of the people depend significantly. I contacted 23 potential participants in total but only 20 micro-entrepreneurs agreed to participate, while the other three refused to take part in this research. So the response rate is 87% which is appropriate for this form of research. Out of 20 participant families, eight (40%) belonged to the Selenge Aimag, six (30%) participant families belonged to the Khentii Aimag and six (30%) participant families belonged to the Uvurkhangai Aimag. Brief details about the participant range of enterprises, location and a total number of respondents are shown in Table 5.1.

**Table 5.1: Livelihood Activities of the Entrepreneurs**

Location	Range of enterprises	Number of Respondents (out of 20)
Selenge Aimag	Vegetable farmer	3 (see Figure 5.6)
	Art craft	1 (see Figure 5.1)
	Herbal tea producer	1 (see Figure 5.3)
	Dairy farm	2
	Bakery	1 (see Figure 5.4)
Khentii Aimag	Tailoring	1 (see Figure 5.2)
	Vegetable farmer	1
	Art craft	1
	Boot Maker	1
	Carpentry	2
Uvurkhangai Aimag	Carving, wieding	2
	Boot-Maker	2 (see Figure 5.5)
	Wool Processing	2

Source: *The Author's Fieldwork survey, 2015*

#### 5.4 Livelihood changes after EMP-2 in Three Provinces

Since the start of the project, the beneficiaries have profited from training and capacity-building activities as well as market linkage facilitation support provided by the project. Findings from the semi-structured interviews with the 20 respondents across three provinces suggest that the EMP-2 has significantly improved their livelihoods and development of the enterprises. EMP-2 not only helped micro-entrepreneurs in Selenge, Khenti and Uvurkhangai Aimag, but it also provided support in terms of funding and loan approval processes with local financial institutions. The EMP-2 results were not only appreciated by the local micro entrepreneurs but also got strong support from the local government. Results from the interviews show that only a few micro entrepreneurs received any support from the local government directly. This is mainly due to the fact that local governments do not have sufficient funds or budget for assisting micro-entrepreneurs, nor could they offer capacity-building business plans for local businesses.

**Figure 5.1: An elderly project beneficiary showing her handcrafts at home**



*Source: The Author, 2015*

**Figure 5.2: Tailor-made traditional costumes**



*Source: The Author, 2015*

### **5.5 Introduction and household livelihood results**

Participant information about their businesses and livelihood activities was obtained and participants answered questions regarding the business type, highest education level attained of the business person(s), family size and their prior experience. The responses of all 20 participant business households to these questions are shown in Table 5.2.

**Table 5.2: Respondents household livelihood Results**

<b>Questions / Responses</b>	<b>Business Type</b>	<b>Family Size</b>	<b>Education</b>	<b>Prior Experience</b>
<b>Selenge Aimag</b>				
<b>Family 1</b>	Vegetable farmer	Husband and Wife, no children	Incomplete Secondary	The wife used to work as insurance inspector and her husband was a combine operator
<b>Family 2</b>	Vegetable farmer	Single woman	Complete secondary	She used to do different types of jobs
<b>Family 3</b>	Art Craft	7 family members with 5 children	Complete Secondary	Used to work in mill factory during the socialist period, had been running private enterprise in all kinds of activities including bread making, shoemaking, hats and tailoring.
<b>Family 4</b>	Herbal tea producer	7 family members, 5 children	Complete Secondary	Husband used to work as sculptor and wife was a teacher
<b>Family 5</b>	Bread making factory	2 family members, 1 daughter	Parents have incomplete secondary education, daughter higher education	Started business in 2000 after retirement. Doing business for 15 years
<b>Family 6</b>	Dairy Farming	2 family members	Higher education in agronomy, husband technical	Previously had trading business. Started business two years ago

Questions / Responses	Business Type	Family Size	Education	Prior Experience
<b>Family 7</b>	Dairy farming, Altanbulag soum (town)	One female with a partner	Incomplete secondary	Previously was employed in trading sector. Started the current milk factory 2 years ago.
<b>Family 8</b>	Vegetable farmer	7 families cooperate	Incomplete secondary education	Has been farming for 30 years since 1982.
<b>Khentii Aimag</b>				
<b>Family 9</b>	Tailoring	Three children	Complete Secondary education	Doing business since 2010. Prior working in garment firm
<b>Family 10</b>	Vegetables & fruits	Two sons and a daughter	Higher education	Doing business for the last 10 years
<b>Family 11</b>	Boot-maker	Two sons one daughter	Incomplete secondary, children higher education	Doing business for 15 years. Prior working in a shoes factory
<b>Family 12</b>	Art Craft	One son	Complete secondary, Son higher education	Doing business for the last 22 years
<b>Family 13</b>	Carpentry	Six children, elder daughter helping	Higher education both husband and wife	Since 2009 involved in Carpentry business
<b>Family 14</b>	Carpentry	No children just husband and wife	Female, Incomplete Secondary education	The wife used to stay at home and husband was a police officer. Carpentry business started since 2007

Questions / Responses	Business Type	Family Size	Education	Prior Experience
<b>Uvurkhangai Aimag</b>				
<b>Family 15</b>	Carving wedding	Two daughters, one business partnership	Male, Incomplete Secondary education, Partner is higher education	Business running for last 12 years, prior was in the military
<b>Family 16</b>	Boot-Maker	Two son, one daughter, Wife dead	Male, Incomplete Secondary education, Son has higher education	Previously worked in a farm
<b>Family 17</b>	Wool Processing	One son one daughter, work with my father	Female, Incomplete Secondary education both	Was working in a big garments factory, husband was working as supervisor in the same factory
<b>Family 18</b>	Carving wielding	Elder son, one mother and father	Male, Secondary education, Parents are not educated	Previously was a student and parents were handling this business. Since 1998
<b>Family 19</b>	Boot-Maker	Husband and Wife, Two children	Male, Secondary education	Wife was in shoes production company and husband was in a laboratory
<b>Family 20</b>	Wool Processing	Husband and Wife, Two daughter and one son	Female, Secondary education, Husband is higher education	Working as a supervisor in a factory, husband still works in a NGO

Results from the household livelihood activities in Table 5.2 show that most of the family members who are running businesses are husband, wife or children. However, a few businesses were found to be in partnership, and the partnership happens because of major funding which a partner brings into the business. So one partner brings funding, the other partner has relevant business experience which makes a good combination for the business.

**Figure 5.3: Locally produced herbal tea**



*Source: Author's Fieldwork, 2015*

Most of the micro-entrepreneurs interviewed were educated up to a secondary education level. Out of 20 families selected for the interviews, 11 micro-entrepreneurs have secondary education, while five people have higher education. Most micro-entrepreneurs did not have relevant previous working experience. Seven of the twenty micro-entrepreneurs had industry-specific prior experience and they are now running their own businesses, while 13 micro-entrepreneurs did not have the relevant prior experience in running a business.

**Figure 5.4: Bakery employee, Selenge Aimag**



*Source: The Author, 2015*

**Table 5.3. Business startup and business goals results**

<b>Questions / Responses</b>	<b>Livelihood after business</b>	<b>Business goals</b>	<b>Obstacles and challenges</b>	<b>Support for the business</b>
<b>Selenge Aimag</b>				
<b>Family 1</b>	Livelihood has improved	Agriculture expansion, build a greenhouse, grow more types of vegetables	Main challenges were low capacity of the irrigation system, invasion of the field by livestock due to lack of fence	EMP-2 assisted with purchasing irrigation pump, seeds, pipe and a greenhouse
<b>Family 2</b>	The income from the business is just sufficient for supporting the livelihood but no surplus	Not sure, no sufficient capacity to expand the business, next year not planning to grow vegetables	Main obstacles were lack of finance, land, farming and managing the human resources	The farming business provided household supply of vegetables, however the sales profit are not large, as the merchants buy for very low prices
<b>Family 3</b>	The family had significant outcomes from the business, supported the children in higher education	To capture more markets for tailoring	Major challenge was finding the space to start the business	Support received from family and friends. EMP-2 played an important role for developing the business
<b>Family 4</b>	Changes in livelihood since tea producing: became known as one of the first tea producers in Selenge Aimag	Goal is to enhance this business on modern steps	Major problem was arranging the resources	Support from local NGOs and EMP-2 provided valuable support.

Questions / Responses	Livelihood after business	Business goals	Obstacles and challenges	Support for the business
<b>Family 5</b>	Livelihood has improved significantly	Next 5 years plan is to diversify the types of bread.	The initial challenges while starting the business were the high prices of wheat and wood for burning	EMP-2 role was: purchased 6 bread ovens, built 8 room house, introducing packaging for breads. Received loan in 2003 and 2005. 5 mln and 8 mln MNT respectively.
<b>Family 6</b>	Livelihood has improved. Now milk is produced year round	The plans for the next 5 years are to develop the factory, meet the hygienic standards, packaging, human resources and technical capacity	The biggest challenges are financial issues. Climate factors have great impact on sustainability. This year due to drought there is no milk, thus the families are moving to other places	Improvement since EMP-2: milk sales used to be just 300 to 400 liters in summer, now has increased to 700 liters
<b>Family 7</b>	Livelihood improved, now the family is dependent on the business	Planning to move to the center of the town and rent a place for formal operation	Climate factors including the pasture land and drought impact the stability of the business	EMP-2 assisted with milk production and getting a loan approved

Questions / Responses	Livelihood after business	Business goals	Obstacles and challenges	Support for the business
<b>Family 8</b>	Livelihoods have increased moderately since the start of the project	The next 5 year goal is to grow the farm business, build greenhouse and expand the variety of vegetables.	The biggest challenge is the sales. The wholesale market price of vegetables are too low and the costs of growing and harvesting vegetables too high	Skilled human resources to handle the business
<b>Khentii Aimag</b>				
<b>Family 9</b>	Livelihood has improved	The 5 years goal is to enhance the business and to produce more products.	The major obstacle is financial. We don't have any financial resources so cannot expand The business.	EMP-2 provided valuable support in training the staff and opened up new market opportunities
<b>Family 10</b>	Not very happy with the income but it is sufficient for the family to live on.	My goal is to expand the business in next 5 years	The major problem was the human resources and finances	EMP-2 supported with training and assisted with getting loan approved
<b>Family 11</b>	Livelihood has improved	The goal is to expand the business and make it a big business in the region	The major problem was to get more funding and finding people to the business. However EMP-2 helped us in this regards.	the trainings and support for participating in local fairs and exhibitions were extremely valuable

Questions / Responses	Livelihood after business	Business goals	Obstacles and challenges	Support for the business
<b>Family 12</b>	The livelihood has changed a lot and I am happy with the business. Income security is good but I am more looking forward to expand my business	3 years goal is to expand my business and 5 years goal is to make a company	The major obstacle was how to sell the product and how to reach out the customer	EMP-2's technical and business trainings were most useful
<b>Family 13</b>	Livelihood has improved and satisfied with the business	Looking to expand to a medium sized enterprise in the next 5 years	The major obstacle was to hire the skilled workers	The most significant changes in The livelihood is the financial impact. The business is good and we are earning well enough
<b>Family 14</b>	Business is good, before that we were working for others but now we work for Theself we are happy and satisfied	The goal is to become medium sized business	The major obstacle was the society, they try to stop us to start this business	The things that helped me most was idea given by the EMP-2, and that they also they help me to start this business. The livelihood become changed and improved after starting this business

Questions / Responses	Livelihood after business	Business goals	Obstacles and challenges	Support for the business
<b>Uvurkhangai Aimag</b>				
<b>Family 15</b>	Ever since we have started the business it brings good results for us. The partnership is going good the livelihood is improved and better than previous	Looking to expand the business	It is very difficult to get loans for expanding the business	EMP-2 trainings and market linkage activities were foremost useful. Working in partnership is very rewarding
<b>Family 16</b>	Business has changed The livelihood and we are now earning good amounts to take care of The family and even do some savings	Goal is to expand the business and within three year's opening a new bakery outlet	Financial issues	The most significant challenge is finding financial assistance for expanding the business
<b>Family 17</b>	Livelihood has improved since starting the business	Expand the business and generate more employment	Economic downturns affect the sustainability. During the startup purchasing machinery was a major problem	The family support was very helpful. EMP-2 support extremely valuable
<b>Family 18</b>	Livelihood improved significantly	The next 5 years goal is to expand the business and purchase more land and labor	The major obstacle at that time was the funding and people, basically most of the people do not want us to start the business due to professional rivalry.	Initially family support and NGOs helped me to start this business and this changes The livelihood in terms of that they provide us support. EMP-2 support was valuable in terms of accessing the market

Questions / Responses	Livelihood after business	Business goals	Obstacles and challenges	Support for the business
<b>Family 19</b>	“The business brought major changes in the livelihood”	“The 5 years goal is to expand the business and get more lands and workers”	Finance (difficult to find loans)	“The most helpful thing was getting an easy loan through the help of EMP-2 to start the business”
<b>Family 20</b>	Livelihood has changed and the family earns enough income and resources to run the business and fulfil the household needs”	The next 5 years goal is to start a products business sale point or retail	Major obstacle was to purchase livestock	Participation in exhibitions and fairs with the assistance of EMP-2

The results of the interviews are found to be consistent with the majority of respondents stating that their livelihoods improved since they started their business. Along with the household livelihood improvements, the sustainability of their livelihood has been also enhanced. Similarly, the results are found to be consistent that the majority of the respondents have a goal to expand their business, by hiring more people for their business. Three respondents mentioned their intention to establish a retail sale point in order to sell their products directly to the customers. Some of the respondents long-term goals include purchasing more machinery (two respondents) and land to increase their resources and expand their businesses.

**Figure 5.5: Handmade felt shoes**



*Source: Author's Fieldwork, 2015*

Most respondents answered that the major obstacles faced during start-up were a lack of resources, including access to skilled human resources, technical issues and finance. Respondents also said that due to decreases in prices they could not get better sales, and that it is hard for them to even cover the cost of their product or service. The major cause of this was considered to be the economic condition of the country.

Furthermore, the majority of respondents stated that the financial assistance provided by EMP-2 was a turning point for their businesses. EMP-2 assisted participants in relation to technical issues and training the workers for their business. Moreover, EMP-2 activities to link the businesses to new markets have been successful and helped the micro-entrepreneurs promote their sales volume.

**Figure 5.6: Vegetable growing farm, Selenge Aimag**



*Source: The Author, 2015*

## **5.6 Sustainable livelihood framework results**

This study uses the DFID sustainable livelihood framework and the questionnaire was designed according to the DFID sustainable livelihood framework capital assets. The following results are explained by each livelihood capital assets in the framework. Analysis and presentation tools from NVIVO are used to display the results in each section.

### **5.6.1 Financial assets**

In this section research investigated the financial assets of the businesses, and for this purpose questions were asked in the interviews about the source of capital for business, monthly return of the business and initial investment and initial patterns. More importantly, respondents were canvassed about the significant changes that the EMP-2 brought regarding financial assets into their businesses.

Figure 5.7 shows the Word Frequency used by the participants in response to the questions about financial assets. The most frequently used words by respondents were 'Support' 'Loan', 'EMP-2' and 'Funding'. These findings suggest that EMP-2 supported the SME owners regarding access to loans and concessional funding. The results show that EMP-2 not only eased the loan approval process from the

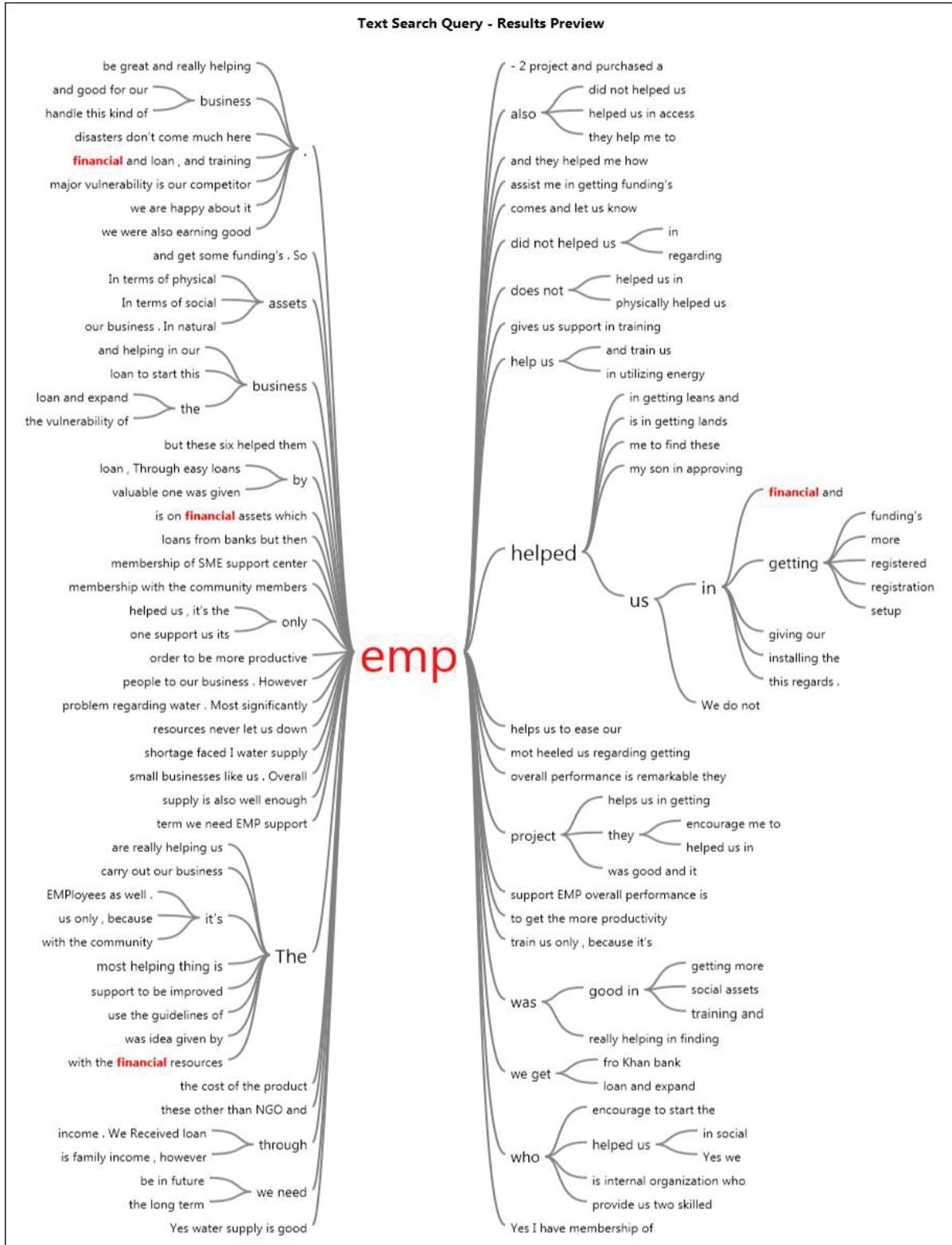
commercial bank but it also assisted small and medium enterprises regarding guarantees which they need to provide to the commercial bank or other lending agencies.

**Figure 5.7: Financial Assets Word Frequency**



Figure 5.8 depicts the Word Tree results obtained from NVivo 10. In this tree, the major words can be linked with their branch words to explore the relationship and linkages between them. Figure 5.8 shows the two major words are 'EMP-2' and 'helped'. We can identify major words in red which shows that these words have a direct relationship between them. We can see that on the top left 'loans' and 'commercial bank' are linked with 'EMP-2' and on the right side the 'support' and 'helped' words shows that they are linked with the left side words. From this we can say that commercial bank is an important dimension which is linked to EMP-2. Commercial banks are considered one of the important factors which are influenced by the EMP-2 to provide finance and loans for businesses. Furthermore, we can see the word 'financial benefit' in the lower left of the diagram related to 'business' and then on right side 'loan' word is related to 'achieve the financial benefits.' Achieving financial benefits are thus one of the important variables successfully driven by the EMP-2.

Figure 5.8: Financial Assets Word Tree Results



## 5.6.2 Human assets

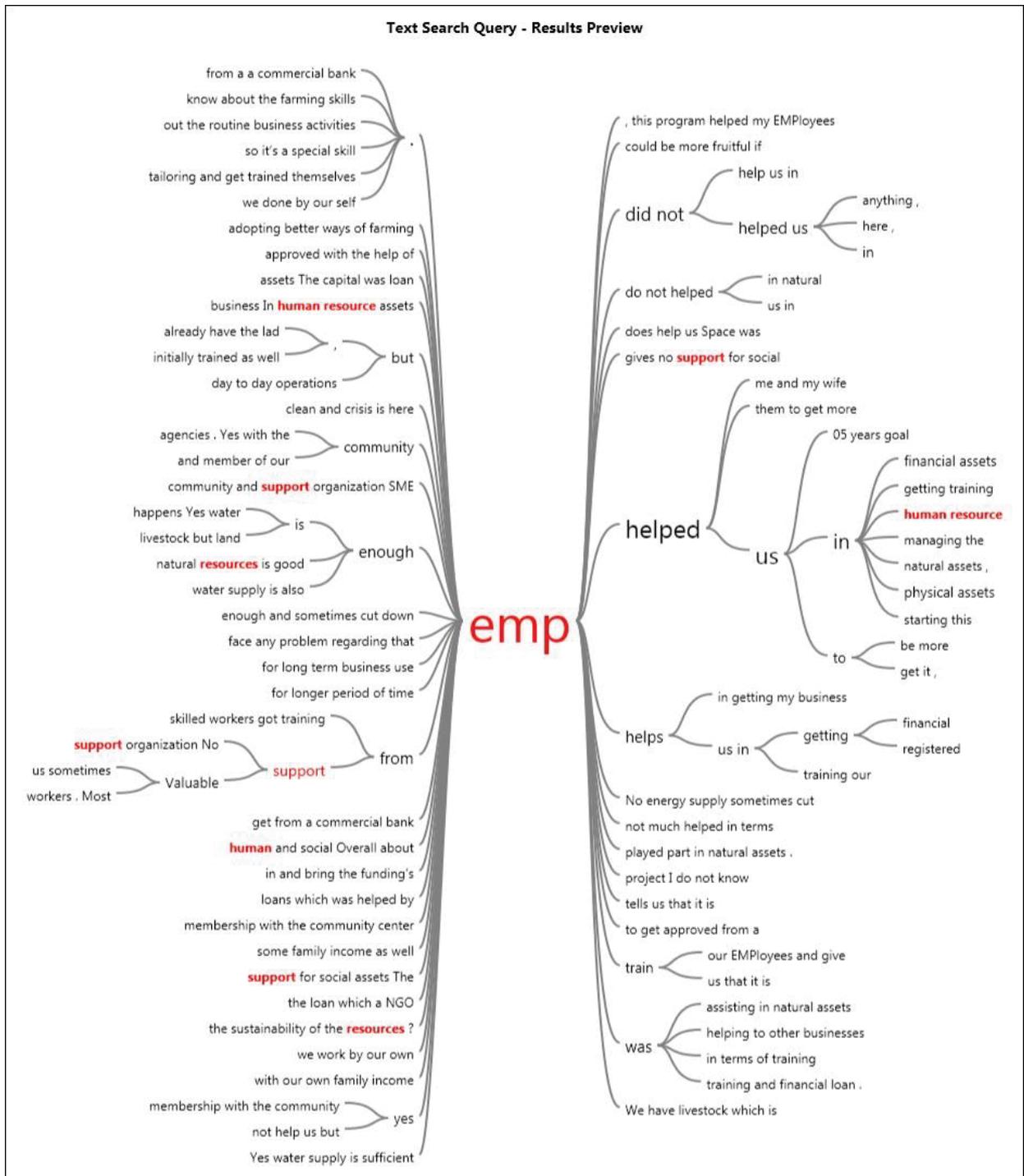
In this section, the research investigated the human assets of the business. Questions were asked in the interviews about the workers employed in the business, special skills of the workers to work on business and training for the workers. Respondents were also asked what significant changes the EMP-2 brought regarding human assets into their businesses.

Figure 5.9 shows the most frequently used words by respondents in relation to human capital were 'Workers' 'Business', 'EMP-2' and 'Training'. This shows that EMP-2 supported the SME owners in terms of providing training support to the workers, and improving their skills. By looking at these results, it is clear that EMP-2 not only provided the skilled training to the workers but it also assisted small and medium enterprises in terms of giving them management training so that they can keep the records of cash flow and manage their day to day business activities. Results also show that EMP-2 provided support in hiring skilled workers for specific businesses. For instance, if a tailoring business is looking for skilled tailors then EMP-2 not only helped the business hiring them but also supported them and trains them for the particular business. It is also clear from the word frequency results that EMP-2 supported the SMEs who are members of some community or SME centers. Moreover, the EMP-2 helped SMEs in providing training for their existing workers. The findings of the interviews show that training provided by EMP-2 have significantly supported in terms of capacity-building and helped with a more efficient running of the business.

**Figure 5.9: Word Frequency: Human Assets**



Figure 5.10: Human Assets Word Tree Results



Further, Figure 5.10 illustrates the Word Tree results obtained from NVivo 10 regarding human resources. In this tree, we can link the major words with their branch words to find out the relationship and linkages between them. Major words in red which indicate words that have a direct relationship. We can see that on the middle left 'special skills', 'human resource', and 'assets' are linked with 'EMP-2' and on the right side the 'support' and 'helped' words shows that they are linked with the left side words. From this we can say that support with special skills in human resources is an important dimension which is linked with EMP-2. Thus suggests that special skills and human resources are important factors which is influenced by the EMP-2 to get training for the businesses. Furthermore, the phrase 'skilled workers' in the lower left is related to 'EMP-2' and then on the right side the word 'support' is related to 'business'. We can interpret this to mean that EMP-2 gives support to the business in getting skilled workers for their businesses.

### 5.6.3 Physical assets

In this section, the research investigated the physical assets of the business. Questions were asked in the interviews about the space to start the business, what equipment is used in the business, energy supply, and water supply. Importantly, questions also focused on significant changes that EMP-2 brought in terms of the physical assets of their businesses.

The results derived from NVivo 10 show firstly, in terms of the word frequency in Figure 5.11 that the most frequently used words by the respondents were 'Land' 'Helped', 'EMP-2' and 'Family Support'. These findings show that EMP-2 supported the SME owners in providing physical assets such as land to the business for the startup.

Figure 5.11: Word Frequency Physical Assets

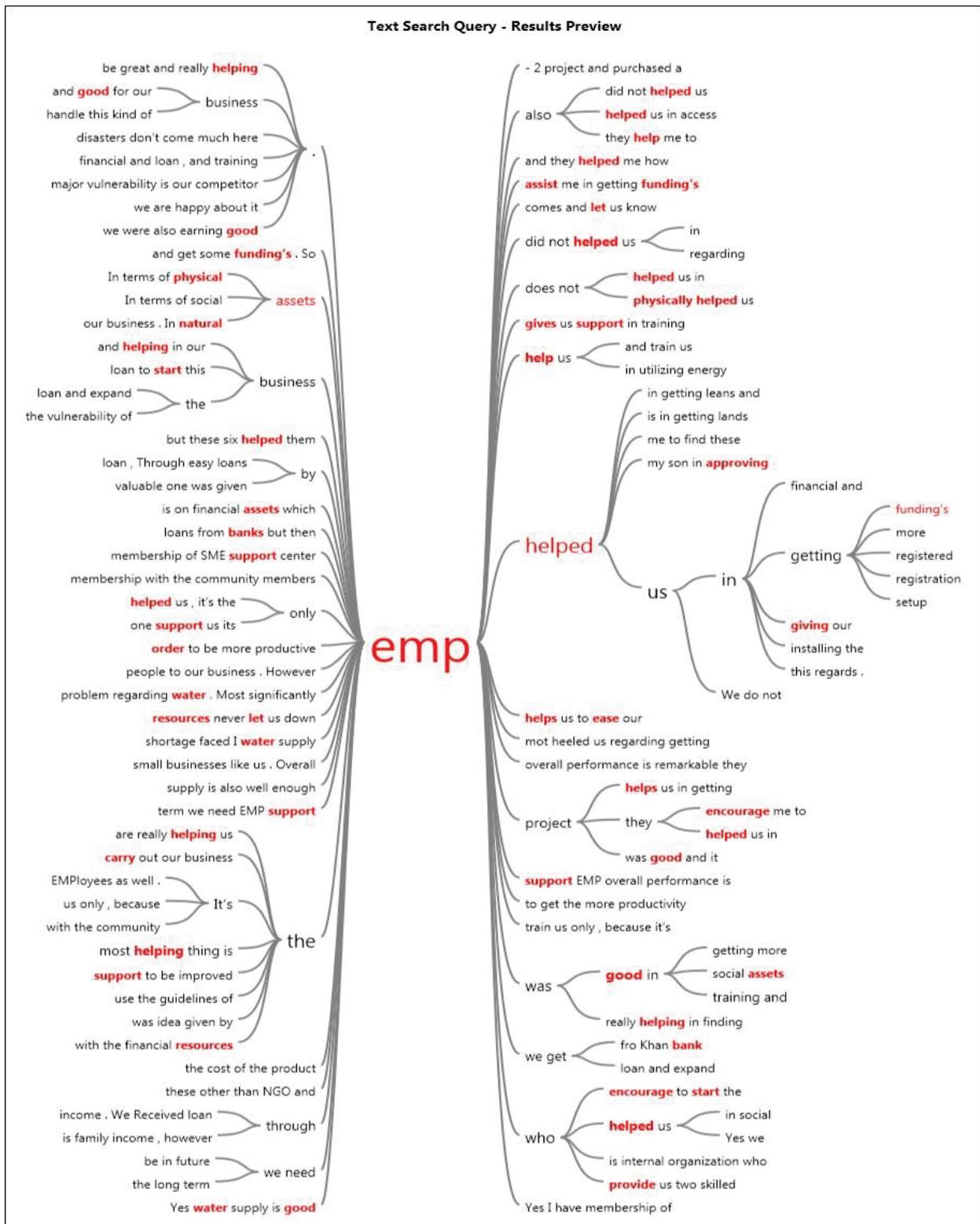


Interview results show that in most cases, the area's water supply and energy supply is sufficient, however, in some areas it is difficult for the micro-entrepreneurs to arrange these physical resources and run their business effectively. It is also clear from the word frequency results that EMP-2 supported those SMEs who are a member of some community or SME centers. Moreover, EMP-2 helped small and medium enterprises in getting water and energy resources. Results also show that family support was crucial during the startup and throughout the life-cycle of the business.

Further, the Word Tree results obtained from NVivo 10 are displayed in Figure 5.12 and show that the two major words are 'EMP-2 and helped'. The word frequency results are important as they emphasize the most frequently occurring concepts and what aspects of the project have been highlighted by the respondents.

As before, major words in red indicate that these words have a direct relationship. On the lower left, 'water resource', 'support', and 'assets' are linked with the 'EMP-2' and are linked on the right to 'helps' and 'physically'. From this, we can say that EMP-2 helped small and medium business in getting water resources and other physical resources in order to run the business smoothly. Furthermore, we can see the word 'family support' in the lower left of the figure is related to 'Business' and then on right side 'startup'. This suggests that 'family support' was an essential part of a startup business. SMEs have used family land or house to start their business, and it is the family which helped the businesses to run smoothly. Family support is an important dimension and it is the family who will get the fruits of the business in future, so all of the family provided support, mostly in the form of physical assets.

Figure 5.12: Physical Assets Word Tree Results



### 5.6.4 Social assets

In this section, the research looked into the social assets of the businesses, and questions were asked in the interviews about how family, friends, NGO and governments help in business, what membership the respondents have, and what networks they follow for their business. The significant changes that EMP-2 has brought in terms of social assets into their businesses were also explained in the responses to the questions.

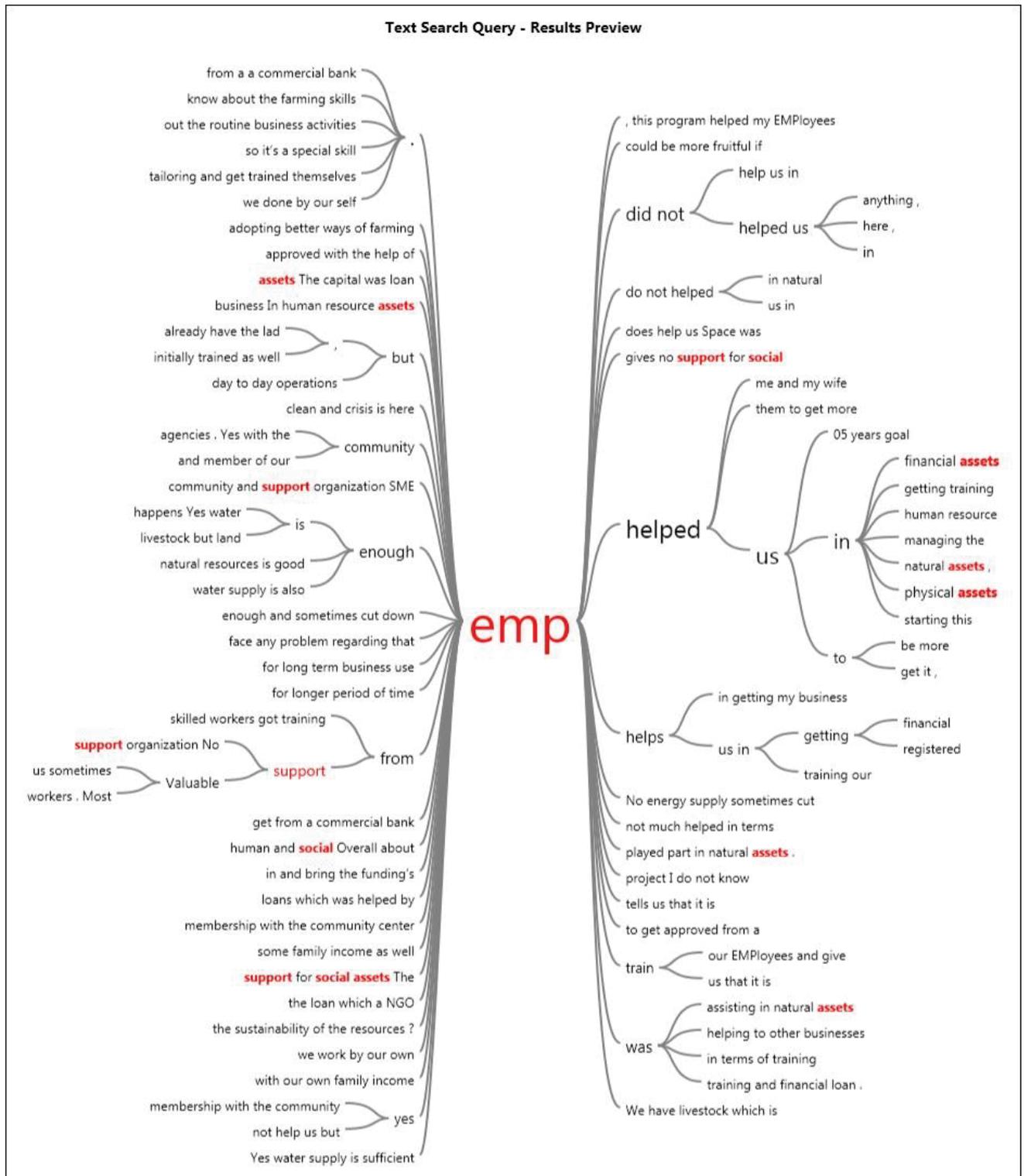
The results derived from NVivo 10, are displayed and discussed below. First, the word frequency in Figure 5.13 shows that the most frequent words used by respondents were ‘Community’ ‘Assist’, ‘Friends’ and ‘Social’. These findings show that for most respondents, EMP-2 supported SME owners in terms of providing social assets such as networking with other relevant businesses. EMP-2 not only provided the support in creating the network but also assisted the businesses in terms of helping them to get registration or membership with their community body.

**Figure 5.13: Word Frequency Social Assets**



Results also show that some NGOs helped the business; however, no support is evident here from the local government. Most respondents stated that government support is not seen in terms of supporting the SMEs within the local community. It is also clear from the word frequency results that EMP-2 supported those SMEs being more socially linked with the local community networks. Moreover, EMP-2 has broadened SMEs interacting with other associates and obtaining guidance about the businesses.

Figure 5.14: Social Assets Word Tree Results



Further, Figure 5.14 depicts the Word Tree results obtained from NVivo 10. This analysis showed that the two major words are once again 'EMP-2' and 'helped'. Looking for major words in red which shows that these words have direct relationship, on the lower left 'social', 'network', and 'assets' are linked with 'EMP-2' and on right side to 'helps' and 'social'. This indicates that EMP-2 helped small and medium business to increase their social resources and other social assets in order to run the business smoothly. Furthermore, 'member' (in lower left) is related to 'EMP-2' and 'community' on the right. The results show a new dimension of 'community membership', which means EMP-2 assisted businesses in getting registered with a community organisation. EMP-2 also assisted some of the SMEs to get registered with an SMEs center. The 'NGO' on left-hand side linked with the word 'business' in the middle and 'Support' on the right-hand side shows that there are some NGO's who have helped local businesses. However, results also show that interviewees saw no significant assistance provided by the local government.

#### **5.6.5 Natural assets**

Here the research emphasized the natural assets of the business, and questions were asked in the interviews about livestock, sustainability, and access to natural resources because of environment changes in the regions, as well as significant changes that EMP-2 has brought in terms of natural assets used for their businesses.

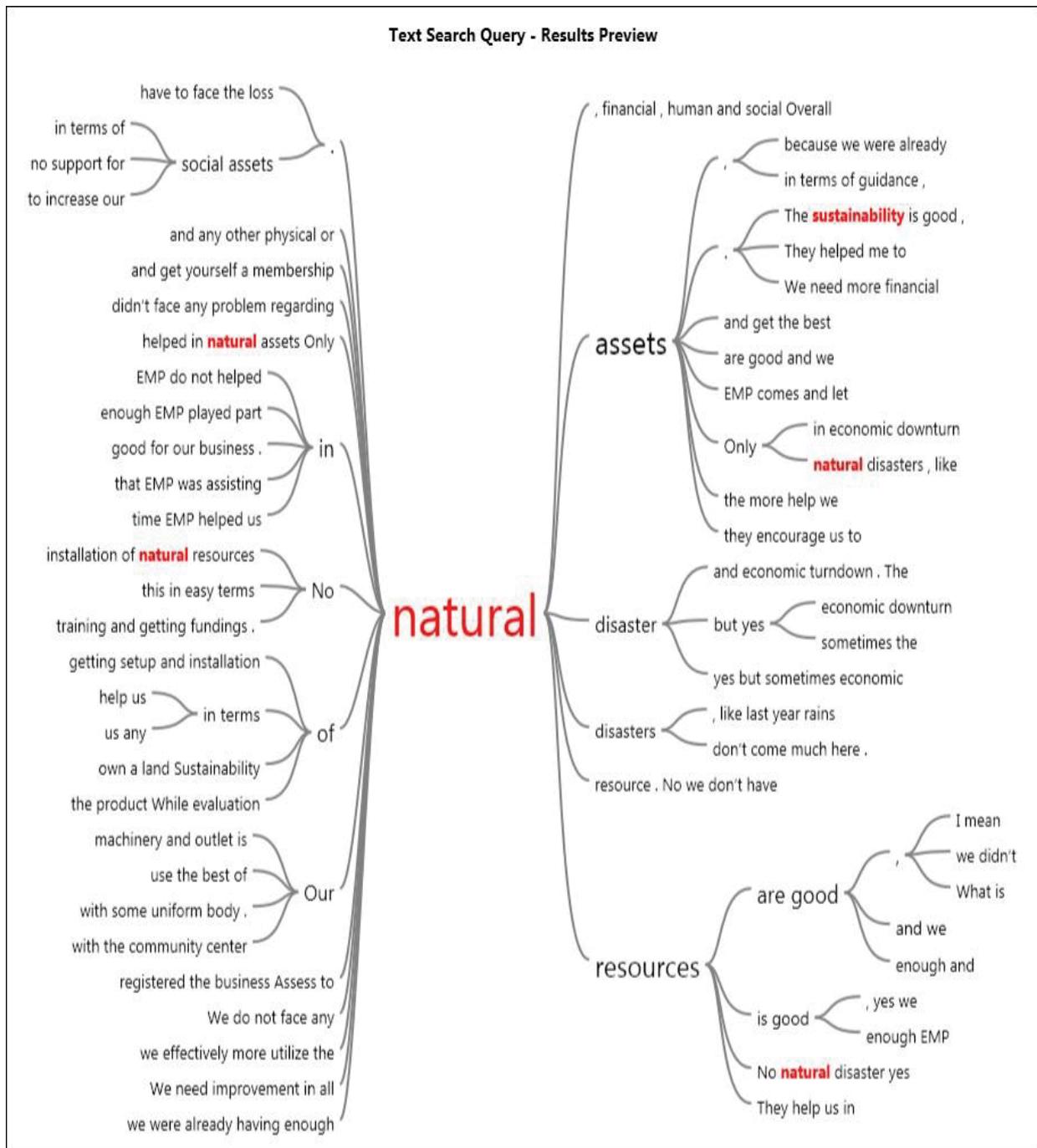
The results derived from NVivo 10 analysis in Figure 5.15 show the most frequently used words by respondents were 'Sustainability', 'No Support', 'EMP-2' and 'Natural'. These words depict the ways in which EMP-2 overlooked ideas regarding natural capital assets. These findings show that the EMP-2 did not provide support to the SME owners in terms of assisting with the management of natural assets such as livestock or land. However, the Figure also reveals that respondents regarded their natural assets as sustainable. The majority of the micro-entrepreneurs interviewed have livestock and land to run their business. Moreover, they are not significantly worried about earthquakes, drought or other natural disasters, as the frequency of the word 'sustainability' shows that they regard their natural assets as sustainable and they do not feel that natural disasters are a threat. Thus they do not need or expect any support from a project like EMP-2 in relation to natural assets.

Figure 5.15: Word Frequency Social Assets



Figure 5.16 shows the word tree with the results obtained from NVivo 10 for natural capital. In this tree we can link the major words with their branch words in a way so as to find the relationship and linkages between them and in this Figure the two major words are ‘Natural’ and ‘Sustainability’. Of the major words in red, ‘no help’, ‘natural’, and ‘assets’ on the left are linked with ‘EMP-2’ and on the right side ‘disaster and ‘not face’. From this we can say that EMP-2 did not help small and medium business to increase their natural resources because most of the businesses’ natural assets are already sustainable and they do not need any support from EMP-2 or any other NGO or project for that. Furthermore, ‘land sustainability’ in the lower left is related to ‘EMP-2’ and on the right side to the ‘resources are good’ phrase. After conducting the interviews, the results showed a new dimension, ‘own natural assets sustainability’, which sums up the position most businesses take.

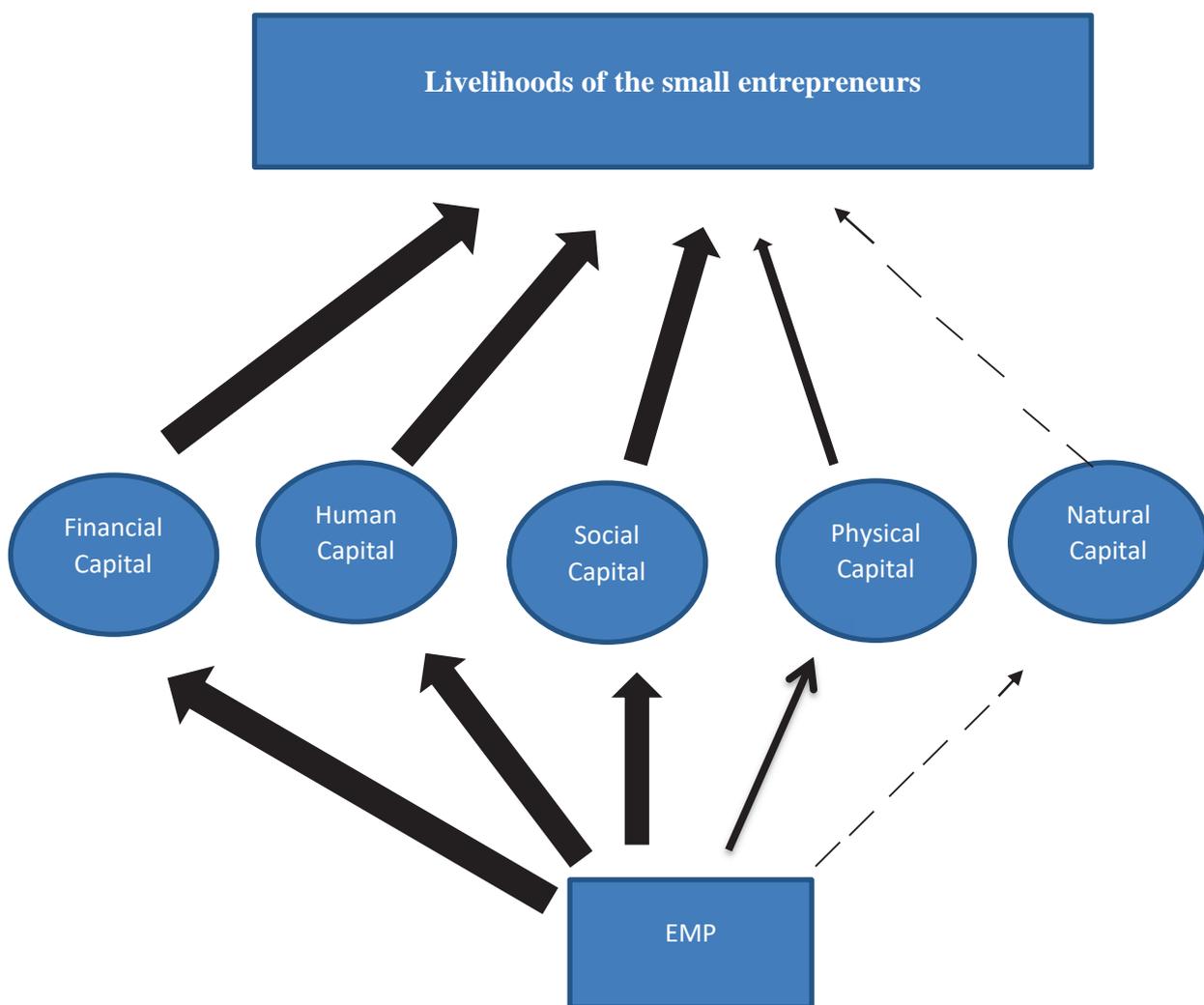
Figure 5.16: Natural Assets Word Tree Results



### 5.7 Summary of findings

Through using the sustainable livelihood framework, the following research model has been developed, as shown in Figure 5.17. Here the strength of the support, and the subsequent impact on livelihoods is shown proportionally in terms of the line thickness.

**Figure 5.17: Qualitative Model ‘The impact of the project on the livelihoods of the small entrepreneurs using Sustainable livelihood framework’**



Results of the interviews show that EMP-2 helped the micro-entrepreneurs in terms of financial capital assets and provided support in regards to enhancing their financial assets, and in terms of human capital

by providing them full support in regards to enhancing their human assets, and helping SME owners and workers to improve their technical and business skills.

The results also show that EMP-2 helped micro-entrepreneurs with improving their physical capital and provided by increasing the efficiency of their existing physical resources, and also helping them in regards to fulfilling the shortage of water and energy supply. Furthermore, findings shows that the EMP-2 project helped micro-entrepreneurs in terms of social capital, although to a lesser extent. This involved assisting them to register their businesses with the local community bodies and creating networks to expand their business sales channels.

Research findings suggest that local financial institutions such as banks and other microfinance organizations focus mainly on high value and risk-free investments. They do not seek to provide loans and funding for micro businesses. These institutions focus on how to get their investment fully secured and risk-free, and only lend money to those businesses which already have running operations and positive financial indicators. By working with small and micro businesses to improve their record keeping, and working with banks to simplify their lending procedures, EMP-2 supported the creation of a new system of microfinance. It underwrote this with a system of loan guarantees to help business owners secure the credit they need, strengthening their financial situation and capital.

EMP-2 has used the cluster development approach to spread its support to the beneficiaries. The cluster development method, one of the main approaches of local industry/business development, encouraged organization of business clusters between micro and small enterprises to aid them to overcome drawbacks triggered by the small size of their business. Business clustering gives cluster associates more access to material, knowledge, the market and existing financial amenities. Networking amid cluster members, information spillover and material discussion also contribute to effective business development and novel business ideas. As per the interviews, EMP-2 brought increased wealth to the lives of participants. The project helped people to get a head start towards their own business, by making things easier for them. For instance, easy loan attaining policies, training and development to the skilled employees, shortlisting and hiring skilled workers, and training them in modern ways to get the maximum output. Also, the project helped micro businesses and SMEs register with local government and local business networks. EMP-2 also helped people in regards to their physical assets and natural assets such as teaching them how they can utilize these physical and natural assets to increase efficiency and ultimately generate more profits from their businesses.

## **5.8 Findings reference to previous studies**

Findings obtained in this research largely support those of previously conducted studies on SMEs and donor support. The research findings show that the EMP-2 provided support in terms of financial capital and this had positive impacts on the livelihoods of the small and business entrepreneurs. This result is consistent with the results of Pingle (2008) and Chew (2011) who found that assistance in financial capital can be helpful for the Small and Medium Enterprises and this ultimately reduces poverty.

EMP-2 was also found to have supported the development of human capital and this improved the livelihoods of the small and business entrepreneurs. This finding is consistent with the findings of Fraser (2011), who noted that skilled workers are a significant factor which can greatly impact the business performance and ultimately helped the small micro-entrepreneurs to increase the efficiency of their business. The research indicated that EMP-2 supported small and micro micro-entrepreneurs by providing training and skills to their employees. Some respondents stated that EMP-2 helped them in finding skilled workers for their business.

Moreover, we have found that EMP-2 provided support in terms of physical capital and this affected the livelihoods of the small and business entrepreneurs. This result fits with the conclusions of Bene (2012) and Pingle (2008) who found that physical capital is strongly linked to the livelihoods of the household of the micro-entrepreneurs. The research indicates that EMP-2 supported micro-entrepreneurs regarding their physical assets such as land and machinery, with guidance that showed micro-entrepreneurs how they can enhance productivity by better utilizing their existing physical assets.

Furthermore, we have found that EMP-2 provided support in terms of social capital and this affects the livelihoods of the small and business entrepreneurs. This result is similar with the result of Kollmair & Gamper (2002) and Bebbington's (1999) work on social capital where these authors highlighted the importance of social assets in terms of business. The findings show that EMP-2 supported small and medium entrepreneurs to improve their networks for wholesale selling and sales distribution, and encouraged them to be a part of their community and SME centers.

## CHAPTER SIX

### CONCLUSION AND RECOMMENDATION

This chapter summarizes the findings of the study and outlines the contribution this research made to the existing body of knowledge in the context of livelihoods of the micro micro-entrepreneurs of Mongolia. The closing part of the study discusses the challenges, recommendations and limitations encountered in undertaking the research, and the need for improvement in methods for future studies.

The study was concerned with identifying and examining the role of EMP-2 on the livelihood of SME owners in Mongolia using a sustainable livelihood framework. The research was carried out in two phases. The first phase consisted of examining the case study of the Enterprise Mongolia Project Phase 2 (EMP-2) and discussed the role of SME support programmes in poverty reduction. The second phase of the research method consisted of conducting in-depth semi-structured interviews with 20 entrepreneurs, 8 in Selenge Aimag, 6 in Khentii Aimag and 6 in Uvurkhangai Aimag respectively. The interviews with these 20 businesspeople comprised a number of key questions and open ended questions. Overall, the results of the study found that EMP-2 helped small and medium enterprise owners in terms of getting easy loans from commercial banks by establishing a guarantee system which helped them to secure funding for their businesses. The project also helped micro-entrepreneurs in regards to giving training to their employees and also offered some management training so that the owners come to know how they can keep more formal records of business transactions. It also helped in hiring skilled workers for their businesses.

Moreover, EMP-2 also helped small micro-entrepreneurs to enhance the capabilities of their physical assets such as land and machinery. For instance, if a business person owns a tailoring business the project assisted him to understand how can he use his machinery more effectively and increase the output. The project also helped micro micro-entrepreneurs in terms of expanding social networks and reaching out to new customers. It further helped people to develop more sales and distribution channels so that they can increase their sales and receive great revenue. The project also assisted micro-entrepreneurs to network through becoming a member of community groups and the SME cluster centers. Finally, while the project provided some of help to small micro-entrepreneurs regarding their natural assets by indicating how they can increase the productivity of their natural assets like livestock and land, this aspect was less critical than the other support outlined above.

Overall, the findings of the study are consistent with previously published research that EMP-2 has had a positive influence on the livelihoods of the Mongolian entrepreneurs (Fraser, 2011). EMP-2 added prosperity in the life of the micro enterprise owners and provided them with the opportunity to enhance their existing capabilities and further expand their businesses. The findings are consistent with the report conducted in 2013 on the performance of EMP-2 report (UNDP, 2013). Results of this study are consistent with the results of Monahan et al. (2011) that small and micro micro-entrepreneurs have a deeper and better understanding of the potential value and advantages of cooperating with others in capacity building activities. Findings are also consistent with the findings of Ekpe (2011) that EMP-2 has significantly aided with development in product design in addition to development of product type. It has also enhanced a cooperative work style, connecting the specialties of specific places and the development of combined enterprise actions.

The findings of the study might also have some practical implications. The small and medium size firms were found to be receiving less attention in getting the support from NGOs and local government as compared to a large firm. Therefore, the small and medium size firm could be expected to increase their contribution to local and regional economies if there is a particular focus given to projects like EMP-2. The implication of this study is that this form of support would be substantive to the small companies to improve their sales and expand their businesses.

The study has contributed to the SME literature in two ways. First, the study provided empirical evidence of the performance of projects like EMP-2 in Mongolia. This study generated a data set from a developing country which extends the understanding of key factors which can influence the livelihood of SME owners in terms of sustainable livelihood framework. Secondly the study looks at the impact of EMP-2 on the livelihood of SME owners in Mongolia and finds that projects like EMP-2 can bring significant change in the livelihoods and can contribute significantly to reducing poverty.

### **6.1 Limitations of the Study**

The study did have some limitations. The research only looked at the implementation of EMP-2 in three Aimags and could be extended and cover more regions where EMP-2 operated so to get broader more generalizable results. However due to time constraints it was very difficult to cover more areas as the researcher had limited resources and time. Due to these constraints the researcher was only able to interview a small number (20) of EMP-2 beneficiaries.

## **6.2 Future Direction & Recommendations**

Future direction for further studies also exists in this area. Future research could analyze the policies being implemented by local government and analyze whether these governmental policies are effective and improving the livelihood of the micro enterprise owners or not. Future research could also assess the existing work of other NGOs and analogous projects in these regions and examine the effectiveness of these. Moreover, an increased sample size and data collection period will add more robustness to produce more generalized and reliable results.

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# APPENDICES



**MASSEY UNIVERSITY**  
ALBANY

24 June 2015

Mongoljin Ganbold  
30B Heatley Avenue  
Hokowhitu  
Palmerston North 4410

Dear Mongoljin

**Re: The role of the Small and Medium Enterprise (SMEs) Support Programmes in poverty reduction: case study of Enterprise Mongolia Project 2 (EMP2) by UNDP Mongolia**

Thank you for your Low Risk Notification which was received on 16 June 2015.

Your project has been recorded on the Low Risk Database which is reported in the Annual Report of the Massey University Human Ethics Committees.

You are reminded that staff researchers and supervisors are fully responsible for ensuring that the information in the low risk notification has met the requirements and guidelines for submission of a low risk notification.

The low risk notification for this project is valid for a maximum of three years.

Please notify me if situations subsequently occur which cause you to reconsider your initial ethical analysis that it is safe to proceed without approval by one of the University's Human Ethics Committees.

Please note that travel undertaken by students must be approved by the supervisor and the relevant Pro Vice-Chancellor and be in accordance with the Policy and Procedures for Course-Related Student Travel Overseas. In addition, the supervisor must advise the University's Insurance Officer.

**A reminder to include the following statement on all public documents:**

*"This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named above are responsible for the ethical conduct of this research.*

*If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher(s), please contact Dr Brian Finch, Director (Research Ethics), telephone 06 356 9099, extn 86015, e-mail humanethics@massey.ac.nz".*

Please note that if a sponsoring organisation, funding authority or a journal in which you wish to publish requires evidence of committee approval (with an approval number), you will have to provide a full application to one of the University's Human Ethics Committees. You should also note that such an approval can only be provided prior to the commencement of the research.

Yours sincerely

Brian T Finch (Dr)  
**Chair, Human Ethics Chairs' Committee and  
Director (Research Ethics)**

Cc Associate Professor Glenn Banks  
School of People, Environment and Planning

Palmerston North

Dr Allannah Ryan  
Head of School of People, Environment and  
Planning  
Palmerston North



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AND SOCIAL SCIENCES  
TE KURA PŪKENGĀ TANGATA

## PARTICIPANT CONSENT FORM

### Судалгаанд оролцохыг зөвшөөрсөн тухай

The role of the Small and Medium Enterprise (SMEs) Support Programmes in poverty reduction: case study of Enterprise Mongolia Project Phase 2 (EMP-2) by UNDP Mongolia

*Жижиг дунд үйлдвэрлэлийг дэмжих хөтөлбөрийн ядуурлыг бууруулах үр нөлөө буюу НҮБХХ-ийн хэрэгжүүлсэн EMP-2 төслийн судалгаа*

I have read the Information Sheet and have had the details of the study explained to me. My questions have been answered to my satisfaction, and I understand that I may ask further questions at any time.  
*Би энэхүү судалгааны талаар танилцуулгыг уншиж танилцаж судалгааны талаар бүрэн дүүрэн мэдээлэл авсан болно. Би өөрийн мэдэх шаардлагатай асуултын хариултыг авсан бөгөөд цаашид хүссэн үедээ нэмэлт мэдээлэл авах эрхтэй болно.*

I agree to the interview being sound recorded. Yes/No  
*Ярилцлагын үеэр дуу хураагуур ашиглахыг зөвшөөрч байна. Тийм/ Үгүй*

I consent to my name or the name of my business organization being used when my comments or opinions are used in this research. Yes/No  
*Энэхүү судалгааны тайланд миний хэлсэн санааг оруулахдаа миний өөрийн болон бизнесийн байгууллагын нэрийг дурдахыг зөвшөөрч байна. Тийм/ Үгүй*

I agree to participate in this study under the conditions set out in the Information Sheet. Yes/No  
*Би энэхүү судалгааны талаар танилцуулга дотор заасан нөхцлийн дагуу оролцохыг зөвшөөрч байна. Тийм/ Үгүй*

I would like a summary report of the findings sent to me on completion of this research. Yes/No  
If yes, please provide your email address below.  
*Судалгааны тайлангийн хураангуйг авахыг хүсч байвал имэйл хаягаа үлдээнэ үү. Тийм/ Үгүй Баярлалаа.*

Signature:

Гарын үсэг:

Date:

.....

.....



**MASSEY UNIVERSITY**  
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AND SOCIAL SCIENCES  
TE KURA PŪKENGĀ TANGATA

## Information Sheet

My name is Mongoljin Ganbold and I am a student of Development Studies at Massey University, New Zealand. I am conducting research on the following topic:

**The role of the Small and Medium Enterprise (SMEs) Support Programmes in poverty reduction: case study of Enterprise Mongolia Project Phase 2 (EMP-2) by UNDP Mongolia**

I would like to invite you to participate in this research by taking part in an interview of approximately 1 hour, in which you will be able to share your experiences of running a business and working with EMP staff.

If you choose to participate in this research, you will have the right to choose which questions you do or do not wish to answer, and you can withdraw from the study at any time. Written and electronically recorded material made during the interview will remain confidential and will only be seen by the researcher, a research assistant and the university supervisors in New Zealand. It will be your decision whether you and your business will be identified or will remain anonymous in my work.

The information collected for this research project may be used for academic articles, reports, conference presentations and teaching purposes, I would be happy to provide a summary report to any participants who request this.

I hope that you will accept this invitation to participate in this research as we really value the input you could bring to the project. If you have any questions about this research project please contact me directly:

Mongoljin Ganbold

30B Heatley avenue, Palmerston North, New Zealand  
Ph +64 22 4068964  
mongoljin90@yahoo.com

*This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher(s) named above are responsible for the ethical conduct of this research. If you have any concerns about the conduct of this research that you wish to raise with someone other than the researchers, please contact Professor Regina Scheyvens, Head of Development Studies, Massey University. Ph +64 6 3505 799 +2509*

Thank You Very Much For Your Time!



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TE KURA PŪKENGĀ TANGATA

## Судалгааны ажлын талаар товч танилцуулга

### ***Жижиг дунд үйлдвэрлэлийг дэмжих хөтөлбөрийн ядуурлыг бууруулах үр нөлөө буюу НҮБХХ-ийн хэрэгжүүлсэн EMP-2 төслийн судалгаа***

Миний бие Г.Монголжин Шинэ Зеланд улсын Массей их сургуульд Олон улсын хөгжил судлалаар суралцаж байгаа бөгөөд дээрх сэдвийн дагуу магистрын судалгааны ажлаа хийж байна. Эрхэм таныг энэхүү судалгаанд оролцохыг урьж байгаа бөгөөд өөрийн бизнес болоод НҮБХХ-ийн төсөлд хамрагдах үеийн туршлагаасаа хуваалцаж 1 цаг ярилцах боломжийг олгоно гэдэгт найдаж байна.

Та энэхүү судалгаанд оролцохоор шийдсэн тохиолдолд та өөрийн хүссэн асуултандаа хариулж, хүсэхгүй байгаа асуултандаа хариулахгүй байх эрхтэй. Мөн аль ч үед судалгаанд оролцохоос татгалзах/ ярилцлагыг дуусгах эрхтэй. Ярилцлагын үед хадгалсан бичгийн болон цахим мэдээллийг чанд нууцлах бөгөөд зөвхөн тухайн судлаач оюутан болон түүнийг хариуцсан Шинэ Зеландын их сургуулийн багш л харах эрхтэй. Судалгааны тайланд тухайн оролцогчийн зөвшөөрөлгүй хувийн болон бизнесийн нэрийг дурдахгүй бөгөөд ямар нэр болон албан тушаалаар дурдагдахаа судалгаанд оролцогч сонгох эрхтэй.

Энэхүү судалгааны ажлын үеэр цуглуулсан мэдээллийг их сургууль эрдэм шинжилгээний тайлан, өгүүлэл, илтгэл болон сургалтын журмаар ашиглах боломжтой. Оролцогчдын зүгээс хүсэлт гаргасан тохиолдолд уг судалгааны тайлангийн хураангуйг илгээх боломжтой.

Энэхүү судалгаанд оролцохыг хүссэн миний урилгыг хүлээн авна гэдэгт итгэж байгаа бөгөөд таны оролцоо энэхүү судалгааны ажилд маш их хувь нэмэр оруулах болно гэдгийг дахин онцолмоор байна. Судалгааны ажлын талаар асуух зүйл байвал доорх хаягаар холбогдоно уу:

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*Энэ төслийг эрсдэлтэй багатай гэж үнэлсний үндсэн дээр Массей их сургуулийн хүний ёс зүйн хороогоор шалгуулах шаардлагагүй гэж үзсэн болно. Дээр нэрлэгдсэн судлаач нь судалгааны ёс зүйн асуудлыг баримтлах хариуцлагыг үүрнэ. Энэхүү судалгааны арга барилын талаар ямарваа нэг санал шүүмжийг илгээхийг хүсвэл Массей их сургуулийн Хөгжил судлалын тэнхимийн дарга профессор Режина Скейвенсд хандана уу. Утас +64 6 3505 799 +2509*

Цаг зав гаргаж судалгаанд оролцсон явдалд гүн талархал илэрхийлье.

## Semi-structured Interviews Questions

Name:

Age:

Location:

Date:

### Introduction and household livelihood

1. Please introduce yourself and your family and business.
  - What is your family size?
  - What is the occupation of your family members?
  - What is your education?
  - Can you tell me about your previous work or business experience?
2. What is your monthly income/ expenditure? What is your income sources (business/ employment/ remittances/ other)?
3. How has it changed since starting your business? Are you happy with your income now? What is the income security?
4. Apart from your business do you do any other work for pay? What are the additional sources of income besides your business?
5. How do you sell your products? (wholesale or retail)
6. Do you have own sales point?
7. Do you need technological innovation in your business? What kind of innovation?

### Business Enterprise

8. Can you tell me about your current business? Which of the following would describe your business?
  - Cooperative
  - Cluster
  - Company
9. What are your main roles and how long it has been running?
10. How will you describe your business in terms of size (Small, Medium, Large)
11. What are the things that have helped with running your business? What were the most significant changes in livelihood since the start of your business?

12. Please tell me about the obstacles you have faced in starting/running your business. What do you find the most challenging? How have you been able to solve these problems?
13. What is your goal in 1 year, 3 years, 5 years?

### **Capital assets**

#### **Financial assets**

14. What is the source of capital for your business?
- Loans
  - Family income
  - Savings
  - Other
15. What is the monthly returns of your business? Are you satisfied with your returns? Have these changed?
16. What was the initial investment and the investment patterns?
17. What were the most significant changes in terms of the financial assets since the implementation of the EMP-2 project?

#### **Human assets**

18. Do you have workers employed in your business? How many staff do you employ?  
How many members are in your cluster or cooperative? Do you have family members employed in your business? Males or females?
19. Do they require any special skills to work with you? Is it difficult to find skilled personnel?
20. What were the most significant changes in terms of the human resources since the implementation of the EMP-2 project?
21. Which type of training did you find the most valuable?

#### **Physical assets**

22. How would you evaluate your access to information about SME support by national and international organizations?
23. Where do you get space to set up the business? Is it sufficient?
- Rent
  - Family land

- Purchased land
- Other

24. What equipment do you use?

25. Do you find any difficulties in accessing transportation and other infrastructure services?

26. Is the energy supply sufficient?

27. How is the water supply?

28. What were the most significant changes in terms of the physical assets since the implementation of the EMP-2 project?

### **Social assets**

29. In which ways have the following assisted in undertaking your business?

- Family
- Friends
- Community members
- SME support centers
- Government agencies
- NGOs
- Other

30. Do you have membership in any community organizations/ SME support organizations?

31. Do you have access to networking with other organizations and businesses that can support in terms of innovation and technological development?

32. What were the most significant changes in terms of the social assets since the implementation of the EMP-2 project?

### **Natural assets**

33. How would you evaluate your access to natural resources (Do you have livestock? How many? Do you have land?)

34. What is the sustainability of the resources?

35. What were the most significant changes in terms of the natural assets since the implementation of the EMP-2 project?

### **Vulnerability**

36. What are the vulnerabilities in operating your business? (natural disaster, economic downturn)

### **Institutional support**

37. What local government, community, policy support do you have access to?
38. What support is needed to be improved?

### **Project intervention**

39. Which of the following development interventions do you find the most valuable support for your business?

- Training and capacity building
- Financial and loan
- Access to market
- Networking with the community
- Other (specify)

40. What assets are needed to improve to help your business that you don't have at the present?  
(natural, financial, physical, human, social)

41. What could have been done by the project to bring more positive outcomes?

42. What is your overall impression and how would you evaluate the project?

### **Cluster specific questions**

43. How did the cluster get started?
44. Why did you join the cluster?
45. Has it helped with your business? How?
46. What are the good things about being in a cluster?
47. What things you don't like about the cluster?
48. What makes this cluster work?