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# Investment in Microenterprises for Scaling up Business Growth: Evidence from Social Business Project

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## Abstract

Promoting entrepreneurship among the youth and women is an emerging global trend for inclusive sustainable development. This study aims to unlock the potential of social business investments in microenterprises for turning unemployment into entrepreneurship and scaling up business growth. According to Prof Yunus, “social business is selfless business to solve social problems” based on seven principles. The study has selected 264 enterprises of Nobin Udyokta (NU) meaning new entrepreneurs under Nobin Udyokta Project (NUP) of Grameen Telecom Trust (GTT). NUs and GTT have co-investments under equity participation for at least one or more than 1 year. NUs are basically emerging micro entrepreneurs, who are often disproportionately burdened with multi-dimensions of poverty and lack of working capital, which inhibits business growth. Findings of regression analysis show that social business fund can significantly influence the growth of NU enterprises and increased investment can also create more employments. Therefore, this study is having value to the promoter, advocates, investors in social enterprises, and policy makers seeking strategy for reducing poverty and unemployment through entrepreneurship for sustainable development leaving no one behind.

**Keywords:** youth entrepreneurship, sustainable development, social business, Nobin Udyokta (NU), Grameen Telecom Trust (GTT)

## 1. Introduction

Micro, small, and medium enterprise (MSME) growth is considered as an engine for generating employment, enhancing more inclusive growth and sustainable economic development. Therefore, a growing attention has been observed by the governments and developmental partners worldwide for facilitating the growth of such MSME. “Poor people are like bonsai trees. They could have grown into giant trees if they had been supported by the right environment for growth” [1]. For sustainable development, it is imperative that microenterprises’

needs for business development services (BDSs) should be sufficiently addressed, e.g., larger and timely credit, training, information, technology, marketing, and consultancy. But, access to finance remains the major constraint for the microenterprise development in Bangladesh. For several decades, microfinance institutions, government agencies, and commercial banks are providing inclusive financial services. Yet, high interest rate, small size of the loan, and weekly or monthly repayment system put debates over the impacts of such loan. Against such backdrop, social business fund along with various technical assistance provided by various Grameen Companies through Nobin Udyokta Program not only provides an opportunity for second-generation microcredit borrowers to grow their business more sustainably but also helps to attain the goal of sustainable development goals (SDGs). This new forms of equity financing for the poor entrepreneurs will not only promote inclusive and sustainable economic growth but also provide opportunity for full and productive employment and decent work for all (SDG:8) which will ultimately end poverty in all its forms everywhere (SDG:1). These aims will be achieved, if the businesses of the Nobin Udyokta grow sustainably. Therefore, the present study has attempted to investigate whether the invested capital has contributed to the firms' growth by increasing total assets as well as number of employment. The research will finally be expected to answer the following research questions:

1. Does access to social business fund enhance growth of the microenterprises?
2. Is there any significant relationship between enterprise growth and employment generation?

### **1.1. Nobin Udyokta Program (NUP)**

Nobin Udyokta Program (NUP) is an innovative social business program for turning unemployment into entrepreneurship. Father of Microcredit and Social Business, Nobel Laureate Professor Muhammad Yunus introduced this program since 2014. Based on seven social business principles determined by Professor Mohammad Yunus, four Grameen Companies [Grameen Telecom Trust (GTT); Grameen Trust (GT); Grameen Kalyan (GK); and Grameen Shakti Samajik Byabosha Ltd. (GSSB)] participated in financing NU program. Potential Nobin Udyoktas are usually children of Grameen Bank borrowers whose age limit is 18–35 years, although women entrepreneurs are relaxed from this age bar. The role of Grameen companies is like venture capitalist firm. They identify potential entrepreneurs, incubate, and provide necessary supports for the promotion of their new ventures. Nobin Udyokta programs are the joint investment of the new entrepreneurs and Grameen Company. Innovative feature of this social business investment is that no profit will be taken by the venture capitalist firm, except the processing cost of the funds which in turn helps the business growth and creates more opportunities for more NUs. Inspired by the slogan “We Are Not Job-Seekers, We Are Job-Givers” (Prof Yunus), the NUP is designed for creating a world without poverty using social business as a tool.

### **1.2. Grameen Telecom Trust (GTT)**

Grameen Telecom Trust (GTT) began its journey in 2010, which is the flagship company to implement and facilitate the germination of social business in Bangladesh. In 2006, with an insight of building an equitable and sustainable world, Professor Muhammad Yunus pioneered

alternative of conventional business named social business focusing on three goals: zero poverty, zero unemployment, and zero carbon emission utilizing youth, technology, and good governance. GTT strives to transform societies through engaging in social business focusing to make a poverty-free world. Besides NUP and Joint Ventures investments in Grameen Danone Foods Ltd., Grameen Health Care Services Ltd., Grameen Distribution Ltd., Grameen Fabrics and Fashion Ltd., and Softy Sanitary Napkins, GTT has pioneered Social Business Learning and Innovation Fund (SBLIF) to innovate, incubate, and translate new ideas into action. Once new ideas are proven through pilot implementation to address a social cause in a sustainable manner, prototype seeds are ready for planting through replication and scaling up. GTT is already operating 10 SBLIF initiatives to address diverse social problems. Under SBLIF, GTT has initiated NUP program support through “Grameen Poshra” to facilitate market access of products of Nobin Udyokta’s rural artisans, through value chain development, digital marketing, and micro franchise outlets. Furthermore, investment recoupment from the profit generated from the SBLIF initiatives has commenced which is being accumulated for creating a fund for building a Social Business Village. GTT has also Social Business Learning Centre for advocacy, training, and inspiring to undertake social business to leave a signature behind through touching lives, making positive changes for a sustainable world.

## **2. Review of literature**

### **2.1. Entrepreneurship development and employment generation through Nobin Udyokta Program**

The economy of Bangladesh is emerging with enormous entrepreneurial potentials, as one-third of her population belongs to the ages between 18 and 35 years. Every year nearly 2 million people are entering into the labor force, while only 1 million get employed in domestic and overseas job markets (source: Bangladesh Bank), leaving rest half unemployed. Without entrepreneurial effort from the youths, it is really a big challenge to create new employment opportunities for them. Moreover, one of the most pressing challenges of new entrepreneurs in their early stages of venture is having access to the friendly capital to materialize their innovative ideas or to bring high growth prospects into their innovative venture. Therefore, with adequate flow of venture capital investment fund in the economy, entrepreneurship process can be boosting up. Therefore, Professor Mohammad Yunus initiated Nobin Udyokta program, which aims to support the enterprise of the Grameen Bank’s borrowers’ children who wants to pursue his or her endeavor as entrepreneur. A lack of management skills is quite a universal constraint among rural, micro, or informal entrepreneurs. Nobin Udyokta Program not only helps entrepreneurs to expand his or her business and runs it better but also helps to manage the business properly in the areas of marketing and accounting and to expand their operations. Therefore, following the path of Grameen Telecom Trust, several other Grameen companies, namely, Grameen Shakti Samajik Byabosha Limited, Grameen Kalyan, and Grameen Trust, have also joined in the program to accelerate the impact of this NU program and created a social business fund and NU division with dedicated staff to operationalize the program.

Up to May 31, 2016, statistical overview of the NU program and employment generation is given in **Table 1**.

**2.2. Access to finance and entrepreneurship development**

Most business development services do not target the micro- and small-scale enterprises most often run by rural/disadvantaged entrepreneur. Findings of the recent interview of Eva Majurin of ILO identified that SMEs face almost similar difficulties in all countries—these include access to finance, skills, access to power, and registration procedure. The report also mentioned that Bangladesh does not have an entrepreneurship development strategy, and the ILO is working with the government and the private sector to develop one [2]. Professor Mohammad Yunus, through his relentless effort to develop entrepreneurship from the bottom of the pyramid, has initiated NU program among the second generation of the Grameen’s borrower. Although social business fund is not similar with microcredit, the impact on growth on microenterprises could be similar or more robust than the microcredit because social business fund has overcome the problems of mandatory weekly or monthly repayment system of microcredit. Most of the previous literature has found relationship between access to finance and enterprise growth as a proxy of entrepreneurship development [3–7]. The Grameen Companies providing fund for the Nobin Udyokta Program are playing the role like venture capitalist firm. Samila and Sorenson [8] emphasized on venture capital as one of the important instruments for entrepreneurship development. Using a panel of US metropolitan areas from 1993 to 2002, they find that an increase in the local supply of

Name of NU investing company	Grameen Telecom Trust	Grameen Shakti Samajik Byabosha Limited	Grameen Trust	Grameen Kalyan
No of NU	2187	1812	1256	403
Classification of NU				
Male	2148	1727	1232	303
Female	39	85	24	29
NU firms in operation	1833	1604	1069	332
Average business size	4,35,425	3,35,949	1,34,243	1,62,832
Total investment (BDT)	199,546,370	608,739,864	144,435,000	
Equity contribution breakdown				
Company	32%	39%	33%	43%
NU	68%	61%	67%	57%
Wage-based new employment creation	1862	Not available	1080	498

Source: “Nobin” a quarterly publication by Grameen Telecom Trust.

**Table 1.** Statistical overview of the NU program (May 31, 2016).



venture capital (VC) positively affects (i) the number of firm starts, (ii) employment, and (iii) aggregate income. Focusing on the advantage of venture capital, they mentioned two basic benefits. (1) Likelihood of potential entrepreneurs to initiate new start-ups will be increased once the supply of venture capital increases. (2) Venture capital firm increases the likelihood of transferring tacit knowledge to their own employees and beneficiaries through demonstration effects. Soerenson and Audia [9] also found similar outcomes of venture capital through demonstration and training effects. Jain and Kini [10] also found that firms financed by venture capital grew faster in sales and in employment. As the evidence from firm-level studies generally suggests that venture capitalists produce value through their pre- and post-investment roles (i.e., through the selection and advising of portfolio companies). The literature on wealth and entrepreneurship suggests that insufficient financial resources may prevent many from starting their own businesses. Without capital infusions, many capital-constrained entrepreneurs would find it impossible to develop their businesses [8]. Besides firms' growth, employment, and income generation, access to fund or venture capital may engender entrepreneurship through spinoffs.

### 3. Hypothesis development and conceptual framework

Literature review shows evidence of the relationship between entrepreneurship development and access to finance or venture capital. Social business fund being a new form of financial instrument for inclusive entrepreneurial growth, the present study also is an attempt to analyze and address the above mentioned research question and objectives. Thus, the study develops the following hypotheses and conceptual framework (**Figure 1**):

Hypothesis 1: There is a significant relationship between access to social business fund and growth of microenterprises.

Hypothesis 2: There is significant relationship between firms' growth and employment generation.

The study will also include two more general assumptions that general education and experience in business operation increase analytical ability to assume opportunities and pursue innovative ideas. Therefore, the following hypotheses have also been developed.

Hypothesis 3: General education has significant relation with enterprise growth.

Hypothesis 4: Business experience has significant relation with enterprise growth.

Since investing company (venture capitalist) is taking care of their business through mentoring, training, and systematic monitoring, the influence of education and experience was assumed to be less significant. Preliminary analysis (using regression model) did not find any significant impact on education and business experience, therefore, these two hypotheses (3 and 4) have been dropped from the model, and the revised model includes only two independent variables as follows: social business fund as investment.

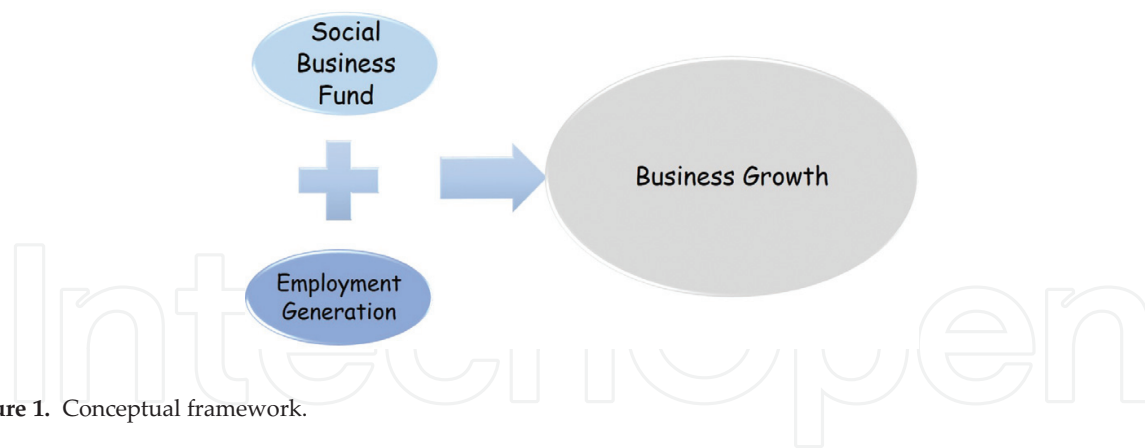


Figure 1. Conceptual framework.

#### 4. Methodology of the study

This study has taken data from 264 respondents who have taken fund from Grameen Telecom Trust for minimum of 1 year. So that changes due to using social business fund can be observed and measured in quantitative terms. Among 264 respondents, 61 have been selected from Gaibandha, 65 from Jessore, 82 from Rangpur, and 53 from Thakurgaon. Information on the amount of investment, asset growth of Nobin Udyokta's firm, education, and experience of the Nobin Udyokta has been collected from the annual closing report of Grameen Telecom Trust. Regression model has been adopted to see the relationship among the firms' growth, investment in NU, and employment generation. STATA 12 version statistical software has been used to analyze the data.

Based on the result of Hausman specification test, ordinary least square method was confirmed for determining relationship between firm's growth and investment and employment. Ordinary least square (OLS) model applied in this study is given below:

$$\ln Y = a + \beta_1 \ln X_1 + \beta_2 \ln X_2 + e \dots \quad (1)$$

where  $Y$  is the growth of the firm (total asset of the firm has been taken as a proxy of the firm's growth);  $X_1$  is the investment in terms of amount of social business fund allocated to NU;  $X_2$  is the employment generation (1 = increase in employment, 0 = no change in employment);  $\beta$  is the coefficient;  $\ln$  is the natural log;  $a$  is the intercept; and  $e$  is the error term.

#### 5. Findings of the study

This study analyzed the impact of Grameen Telecom Trust investment on Nobin Udyokta (NU) in order to scale up their microenterprises. The study observed growth impact of 264 firms, which have taken social business fund from Grameen Telecom Trust and utilized them for supporting their ventures for at least 1 year and more. In **Table 2**, overall description of the variable is provided. Although robust growth cannot be measured within 1 year of investment, prospects of investment could be inspiring for scaling up the NU's small enterprises.

Variable	Obs	Mean	Std. dev.	Min	Max
Investment	264	127422.4	82976.65	30,008	840,006
Education	255	9.639216	2.512025	0	16
Experience	255	6.972549	3.929901	1	20
Total asset	264	483,949	449592.9	81,667	4,841,984
Employment change	264	0.318182	0.4666551	0	1

**Table 2.** Descriptive statistics.

Regression analysis shows that the dependent variable “growth” of the firm is significantly related with investment, which represents that for each unit of invested fund, 79% growth will be achieved by the NU firm (**Table 3**). This is supported by our model as the model is significant at 99% confidence interval (p value is <0.001) and hypothesis 1 is accepted. Growth of the firm is also expected to increase (by 12%) due to increase in employment, which is also supported through our model as the p value is less than 0.05. The result of  $R^2$  suggests that 56% of the variance in firms’ growth can be accounted for by the variables in the regression model. Normality test, Breusch-Pagan test for heteroskedasticity, and multicollinearity test were also conducted, and all were in line with the theory.

Although robust growth has not been achieved, yet as the program duration is very short, only 1 year,  $R^2$  is not strong enough. But positive regression coefficients might help us to expect that if social business funds are generated to the capital-constrained entrepreneur, the more economic activities will create more employment opportunities, and firm’s growth will continue to be scaling up. Samila and Sorenson [8] based on their research findings also suggested to increase the local supply of venture capital, as they appear to increase both employment and aggregate income in the region. Belke et al. [11] in cross-country panel data analysis also find evidence of employment growth with improved labor-market performance in the presence of venture capital.

Since the prime objectives of NU program are not to create job seekers rather create job givers, the increased investment in new entrepreneurs’ (NU) firm will not only help to reduce unemployment from the rural community but also help their business to grow sustainably. Rural or informal economy is very often rife with long hours, little pay, job insecurity, limited-to-no

Predictor/independent variable	Dependent variable: firms’ growth			
	Coefficient	Standard error	t Value	Sig
ln social business fund	0.792059	0.0464856	17.04	0.000
ln employment	0.12023	0.0537561	2.24	0.026
Constant	3.663851	0.535842	6.84	0.000

$R^2 = 0.563$ ; adjusted  $R^2 = 0.5597$ ; Prob > F = 0.000; number of observation = 264; F (2, 261) = 168.23.

**Table 3.** Predictors of firms’ growth.



benefits, and difficult working conditions [12, 13]. Majority of the Nobin Udyokta operates their business in rural/informal economy, which is mostly characterized by the issue of unemployment, employment inequity, and wage discrimination. Chen et al. [12] posit that building poor or micro entrepreneurs' economic security is fundamental to poverty reduction and that efforts need to focus on the creation of decent work for the youth in the rural economy involving adequate income, employment rights, opportunities for advancement, and social protection. Social business fund could be such an instrument for poverty reduction and rural development as well. Sanders [14] argued that in response to widespread global economic hardship, poverty-reduction measures are abundant with public work programs and microfinance being the most established; therefore, social enterprise, as a newer poverty-reduction model, is gaining growing attention.

## 6. Conclusion

Sustainable micro entrepreneurship development is a function of adequate access to financial services, various support services, information related with business and management knowledge and skills, efficient market mechanism, etc. Most of the above mentioned instruments are very often an illusion to micro entrepreneurs, especially those that operate in rural/informal economy. Since social business focuses on inclusive business or believes in development from the bottom of the pyramid and addresses issues compatible with sustainable development goals (SDGs), this study could be a milestone for such social enterprises who want to have investment in social purposes. The present study finds a significant positive relationship with investment in micro enterprises and growth of the firm. Growth in physical assets and working capital is an engine for new entrepreneurs' firms. Generating more employment is a promise by the new entrepreneurs, which will further help their enterprise to be scaled up. Thus, more investment is expected from the social enterprises, government partners, and developmental and philanthropic organizations along with sound entrepreneurship development policies and strategies to fight against poverty and unemployment. The initiative of Grameen Telecom Trust (GTT) could be a role model for other stakeholders for achieving an equitable and sustainable development goal.

## 7. Future research

This is the first empirical initiative to measure the impact of Nobin Udyokta Program, although the program is in an infant stage to see the adequate impact. But now the scope is broadening as the program is moving very fast to keep pace with the demand and emerges as a popular and alternative tool of financial access. Moreover, the research includes only the contribution of Grameen Telecom Trust (GTT). Contribution from other Grameen companies can also be included in future research to see the wider impact. Only financial intervention by Grameen companies is considered for this study. The impact of other technical interventions and the extent of innovation can also be addressed through future researches. According to Prof Yunus, "A dollar in charity has one life; a dollar in social business can be invested over and

over again.” In the future, journey of social business program, lessons learned from direct and indirect impact, and researches can establish the power of social business as an alternative tool for sustainable development goals.

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