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**Timeline**

2011-2014

**Sample Size**

219 small and medium enterprises

**Research Implemented by IPA**

No

# The Impact of Exporting: Evidence from a Randomized Experiment in Egypt

## Key Finding Summary

Egyptian carpet makers who were offered the opportunity to export reported profits that were 15-25 percent higher than firms not offered export contracts. Exporting firms also displayed gradual improvements in output quality, indicating that through exporting firms, small business owners can learn new skills and techniques and become more productive.

## Abstract

Small and medium enterprises (SMEs) are often important parts of developing country economies, but many programs designed to spur their growth have been unsuccessful. In Egypt, researchers offered small-scale rug manufacturers the opportunity to export to high-income countries. They found that SMEs offered export opportunities increased both their profits and product quality relative to firms in a comparison group.

## Policy Issue

In developing countries, small and medium enterprises (SMEs) often employ a substantial portion of the population <sup>1</sup> and many of these firms participate in government-sponsored trade-facilitation programs <sup>2</sup>. These initiatives are based on the assumption that increased export opportunities will spur SME growth and productivity. Currently, however, there is a lack of rigorous evidence evaluating if and how access to export markets impacts SMEs. Answers to these questions could assist governments and donor organizations in tailoring specific policies and programs to improve local economies.

## Context of the Evaluation

Researchers conducted a randomized evaluation in Fowa, a peri-urban Egyptian town with a population of 65,000. Fowa is known for its “carpet cluster” of hundreds of small textile firms. These firms usually consisted of a single owner who operates out of a rented space or his home and typically employed one to four individuals using hand looms. Average per capita income in the region was US\$3,600 (PPP-adjusted) at the time of the study, less than half of Egypt’s US\$6,500 national average. Researchers focused their evaluation on SMEs with fewer than five employees, the majority of which had not knowingly exported in the past.

To reach these SMEs, researchers partnered with Aid to Artisan (ATA), a U.S.-based non-profit organization that finds promising small-scale developing-country producers and fosters trade relationships between them and high-income OECD markets.

## Details of the Intervention

In partnership with ATA, researchers conducted a randomized evaluation to test the effect of providing access to export opportunities to rug-producing SMEs in Fowa.

At baseline, researchers surveyed 219 SMEs on their production techniques, product quality levels, owner characteristics, and household indicators. Of these 219 firms, researchers randomly selected 74 to serve as the treatment group. ATA offered these SMEs the opportunity to produce orders for delivery to U.S. and European retailers. Although the first order was randomly assigned, subsequent orders were left up to a local industry intermediary and the buyers, who could order more if they so desired. The remaining 145 SMEs served as the comparison group and were not offered access to export opportunities.

For all SMEs, researchers carried out periodic surveys to evaluate changes in profits, productivity and weaver incomes over several years. To observe any quality improvements, a master artisan also visited the workshops and ranked their carpets on 11 characteristics. Researchers also recorded customer and intermediary feedback and, at the end of the study, set up a “quality lab” in a rented workshop where they invited participating weavers to weave a rug using standard materials and a common loom, which were then anonymously rated by rug-making experts.

## Results and Policy Lessons

**Profits and productivity:** Among SMEs offered the opportunity to export, operating profits increased 16 to 26 percent relative to comparison group firms. The higher-quality rugs demanded by foreign retailers were more expensive and time-intensive to make, but the resulting increased purchase price was more than enough to offset costlier production. This increase in profits, thus, came in tandem with increases in quality, as well as declines in output per hour.

**Learning by exporting:** Evidence from this evaluation suggests that the quality upgrades

may have been a result of “learning by exporting.” When the first orders arrived, productivity declined, but then rose steadily as production continued. In the researchers’ “quality lab,” the rug quality produced by treatment group SMEs was higher across every dimension measured. Additionally, communication logbooks confirmed that most improvements took place along dimensions discussed between buyers and sellers, suggesting that feedback was an important improvement channel.

The profit, quality, and productivity increases in this study are generally much larger than corresponding results from microcredit access or business training programs. This suggests that increasing market access may be relatively more important to SME growth in developing countries.

## Sources

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