STUDY SUMMARY

The Return to Capital for Small Retailers in Kenya

Throughout the developing world, the family owned business is the most common form of enterprise. Though these types of businesses are prevalent, there is tremendous heterogeneity in the success of such firms. For instance, in the retail sector, some firms hold large inventories and earn significant profits, while others hold minimal stocks and provide little more than subsistence income for their owners. Given the importance of small enterprises in poor countries, it is important to understand why some firms are more successful than others and to identify potential ways to address the constraints that keep some firms from becoming more profitable. This project takes advantage of the characteristics of the retail industry to explicitly estimate the rate of return to a marginal increase in inventory for a set of small retail firms in rural Kenya. The empirical strategy is based on the fact that retailers should set inventories such that the marginal benefit from holding the last unit (the expected profit) is exactly equal to its marginal cost (the opportunity cost of holding capital). We estimate the marginal rate of return in 2 ways. First, we measure sales lost due to insufficient inventories. Second, we use an administrative dataset to observe whether firms buy enough inventory to qualify for quantity discounts.

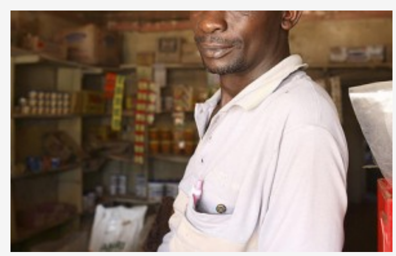
Policy Issue

Evaluation Context

Details of the Intervention

Results and Policy Lessons

Preliminary results suggest that returns to inventory capital in the Kenyan retail sector are likely far greater than returns to investment in developed country equity markets and suggest that these returns likely differ significantly across firms. Implementation of other surveys and interventions is ongoing.



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COUNTRY
Kenya

PARTNER

PROGRAM AREA
Small and Medium Enterprises

TOPICS
Access to Finance, Microenterprise

TIMELINE
Not available

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