Entrepreneurship Programs in Developing Countries: What works?

Yoonyoung Cho and Maddalena Honorati
Economists (HDNSP)
Labor Market Core Course
May 10, 2013
Motivation

• Providing decent jobs are (arguably) the most pressing policy objective to reduce poverty and promote economic growth.

• Opportunities for wage employment are very limited in the developing world.
  – In Africa, about 80 percent of individuals work as self employed.

• Improving productivity of the self employed and providing opportunities for entrepreneurship is critical in developing decent jobs.

• This is particularly relevant in the presence of the current demographic pressure.
  – Youth bulge (Africa, South Asia, Middle East)
Motivation

• Entrepreneurship programs: interventions that promote entrepreneurial activities by addressing the following constraints:
  – Credit constraints -> Microfinance, grants, in-kind transfer
  – Technical constraints -> Skills training
  – Social constraints -> Targeted intervention for disadvantaged groups
  – Business environment -> Simplification of regulation
  – Information constraints -> Microfranchising, counseling and advising, information sharing and networking
Motivation

• Evaluations of these programs often show mixed results
  – Business training for microcredit clients improved business knowledge and practice; but showed little impact on sales, profits, or revenues (e.g., Karlan and Valdivia, 2012).
  – Expansion of microfinance did not lead to new business setup; but had positive impacts on sales and income of existing businesses (e.g., Crepon et al. 2011).
  – The impacts of entrepreneurial skills training tend to depend on curriculum, pedagogical approach, requirement of new business, etc (Drexler et al. 2011; detailed financial training vs. rule of thumb).
  – The effects on particular groups also show mixed results (male> female in De Mel et al. 2008a, 2008b; male<female in Attanasio et al. 2011, Fafchamps et al. 2011)

• Little is known on which type of interventions works better, for which group, in the different country and context settings.
What do we do? A meta analysis

- A meta analysis is a statistical methodology to combine multiple studies
  - Synthesize the impacts of different entrepreneurship programs and examine the effectiveness of different features of interventions
  - Program A: A government delivered training program for youth in Kenya -> large positive impacts on business setup
  - Program B: An NGO delivered financing program for women in Indonesia -> small negligible impacts on profits

-> Draw lessons for effective design and implementation strategies
Identified 37 programs/studies...

- Selection criteria
  - Interventions focused on supporting entrepreneurial activities for potential + current workers
  - Impact evaluations that rigorously estimate a counterfactual (using experimental or quasi-experimental methodologies)
  - Impact evaluations of interventions conducted in developing countries in the past 10 years
  - Manuscripts on public domain (as published or working papers) by end of March, 2012
Main Outcomes of Interest

- **LM activities**
  - Employment (including self employment)
  - Business setup/expansion
  - Hours of work

- **LM income**
  - Earnings
  - Profits
  - Income/assets

- **Business performance**
  - Business expenses/sales
  - Number of employees
  - Stocks/investment

- **Savings/Borrowing Behavior**
  - Indicators of saving account
  - Loan take-up, size

- **Business Practices and Knowledge**
  - Business knowledge
  - Book keeping, recording
  - Separation of individual/business accounts
  - Registration

- **Attitudes and Traits**
  - Risk aversion, confidence, willingness to compete, optimism, time preference
Main dimensions of consideration

• **Intervention type**
  – **Training**: vocational, life skills, business & financial training
  – **Financing**: microfinance, cash and in-kind transfers, access to savings and microinsurance
  – **Comprehensive**: training+financing

• **Groups of interest**
  – Female
  – Youth
  – Social assistance beneficiaries/poor
  – Business owners
  – Microfinance clients

• **Service Delivery Providers**
  – Government
  – Community/local organization or NGOs
  – Universities/researchers
  – Microfinance institutes and banks

• **Country context**
  – Region, income
  – Labor market conditions (agriculture, informality, youth unemployment, female labor force participation)
  – Business environment (costs of starting a business)
Programs used for the meta analysis

- 37 IE studies/1,116 observations
- A large majority comes from South Asia, Africa, and Latin America.
- Two thirds are implemented in low income or lower middle income countries.
Slightly over a half of the studies are based on pilots.
• Training: 41%, Financing: 66%, Counseling: 21%
  – Training without financing: 34%, Financing without training: 59%
  – Combination: 7% (more common in low income setting, recently increasing)
Type of programs (more disaggregated)

Most common...
- Microcredit
- Business Training

By region:
- South Asia: Microcredit
- SSA: Cash transfer, vocational training
- LAC: Counseling

### Bar Chart

- **Training**
  - Vocational training
  - Business training
  - Financial training
  - Inkind transfer
  - Cash transfer
- **Financing**
  - Microcredit
  - Financial product
  - Counseling

% of estimates:

- 0%
- 10%
- 20%
- 30%
- 40%
- 50%
Did the programs work?

Significance of Impacts by Outcome

- LM Activity
- LM Income
- Business Practice
- Business Performance
- Financial Behavior
- Attitudes

- Negative
- Insignificant
- Positive
Which outcomes do entrepreneurship programs affect more?

Once we take into account program, country, and study characteristics:

• Effects on **intermediate outcomes** such as business practice and attitudes are more likely to be positive and significant than on **final outcomes** such as earnings and profits
  → final outcomes may take more time to materialize

• Programs work better in **longer term**
  – Larger and significant effects on outcomes measured in the medium term (18 months after program completion and more) than the short term
What type of programs had larger effects?

- LM Activity
- LM Income
- Business Practice
- Business Performance
- Financial Behavior
- Attitudes

- Training without financing
- Financing without training
- Training+Financing
Which type of intervention is more effective?

Overall:

- **“Comprehensive” programs perform better.** Combining training and financing is more effective to improve LM activities and LM income outcomes, in particular for:
  - Youth
  - The poor, social assistance beneficiaries

- **Training programs** are more effective in improving business knowledge and practice outcomes, in particular for:
  - existing micro entrepreneurs
  - Urban beneficiaries

- **Financing programs** are more effective in improving business performance outcomes
Larger impacts on youth

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<th>Service</th>
<th>Youth</th>
<th>All population</th>
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For which population group do we observe significant effects by different outcomes?

Controlling for intervention, study and country level factors:

• **Youth** are strongly associated with larger and significant impacts on labor market activity outcomes, business performance and saving/borrowing behaviors.

• Existing **entrepreneurs** have significantly positive returns on business knowledge, but do not seem to expand their business

• More **skilled** beneficiaries/entrepreneurs benefit from higher profits/labor income

• **Female** are strongly associated with positive attitude outcomes and with microcredit interventions
Do service providers matter?

Controlling for intervention, study and country level factors:

• Programs implemented by **NGOs and private local organizations** are associated with more positive and significant impacts than programs delivered by multiple providers.

• Programs delivered by **MFIs and banks only** are associated with negative effects.
Interventions have larger effects in lower income countries
Country context

• Programs tend to perform better in lower income countries
• Programs implemented in countries with a large agriculture sector, and low education levels appear to be more successful.
• When the financial costs of starting a business are high, interventions without financial support are not as effective.
What type of training intervention works better?

Restricting the analysis to estimated effects of programs with training components:

- Vocational training programs are more likely to deliver higher impacts.
- General business training alone or combined with counseling services is also associated with significant effects.
- Financial literacy training only is associated with smaller impacts compared to combined training programs.
- Life skills training either combined with business training or with vocational training increases the likelihood of significant and larger impacts.
- Relationship between training duration and probability of success seems to be U-shaped.
What type of **financing** intervention works better?

Restricting the analysis to estimated effects of programs with financing components:

- Transferring cash, in kind or microcredit loan alone are not associated with significant effects and their impacts do not differ.
- Combining grants (either cash or in kind) and training is the most effective combination.
- Private sector delivery strongly associated with program success.
- Financing interventions work better in low income and lower middle income countries than upper middle income countries.
Results

• Improving labor outcomes (earnings/employment) seems more difficult than changing intermediate outcomes (business practice and knowledge).
• Intervention type needs to be tailored to the outcomes of interest and beneficiaries’ type:
  – **Youth** generally benefits the most, particularly from “comprehensive” interventions in improving LM activities.
  – **Business training** increases earnings among youth and those with higher education in part by improving business performance
  – **Business training** also contributes to business setup/expansion of microcredit clients and small enterprise owners
  – **Microcredit** effective for female by improving LM activities and business practice
• The effectiveness of the program tend to vary by the timing of measurement: training effect may fade away while financing effect slowly picks up as time goes by.
• Service providers matter; private sector delivery
  Customized intervention is needed while continuing efforts to address these ‘macro’ factors.
Conclusions

• Improving LM outcomes in developing countries through entrepreneurship programs isn’t easy and requires tailored design.

• Our analysis suggested promising type of interventions for different groups and outcomes of interest.

• However, meta analysis inherits some of the issues/limitations from original studies
  – Program details that are not observed from data but can be relevant - the duration of training vs. the quality of training
  – Cost effectiveness of the programs
  – General equilibrium effects (program effects on broader economy)
  – Additional studies can change the results.

• More IE studies with best features/practice of interventions need to follow.