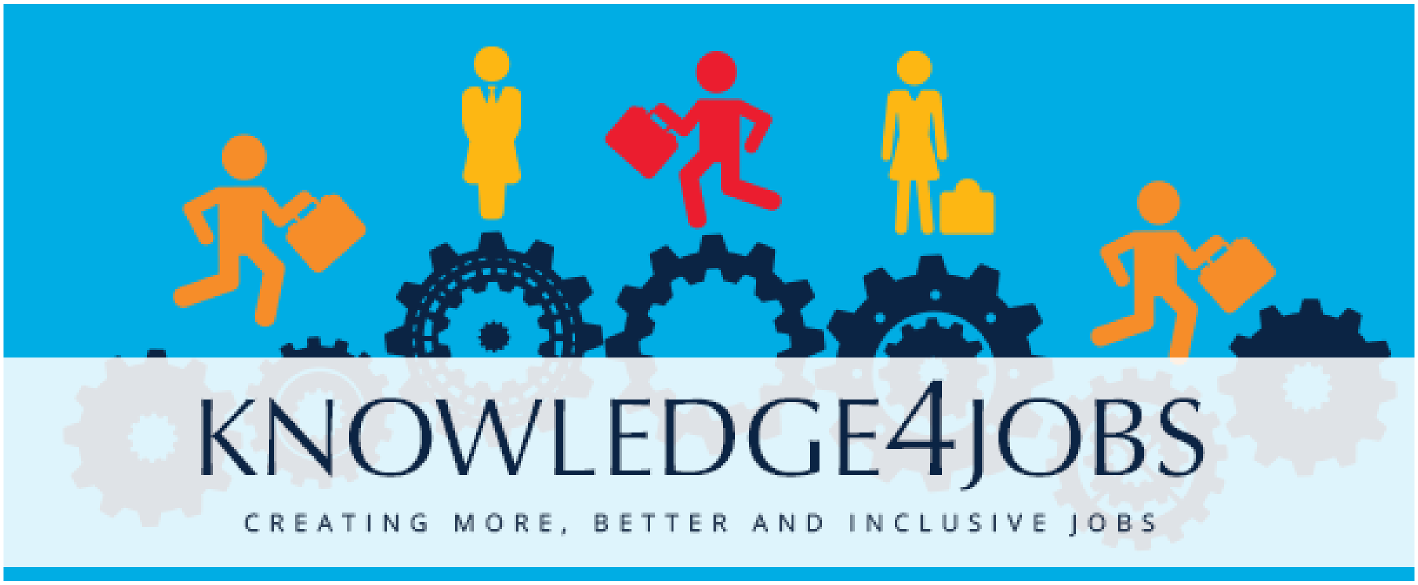
February 2024

JOBS

Labor & Skills Global Solutions Group



INTERVENTIONS TO IMPROVE ENTREPRENEURSHIP IN LMICS

More than half of the global workforce is composed of self-employed individuals, prompting extensive efforts from policymakers and development institutions to bolster support for this segment of the labor force. Notably, over US$1 billion is spent annually on training both potential and existing microentrepreneurs (McKenzie et al. 2023). Yet, many of these business owners grapple with persistent challenges, experiencing low productivity, low profits, and low earnings, especially those who become business owners out of necessity to sustain their households. Addressing these challenges prompts crucial questions, such as: How can the design of entrepreneur support programs be optimized to enhance their impacts? Can these impacts be realized for all types of microentrepreneurs, including women and subsistence entrepreneurs? And how can entrepreneurs acquire the skills to run a successful business and tap into new markets or high return sectors? To explore these issues, we present evidence from various studies on interventions used to support microentrepreneurs in lower-middle-income countries (LMICs).

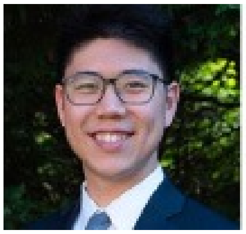
Interventions providing market access, access to finance, or business training have proven effective in certain contexts, but effects can vary greatly. Providing firms access to new markets can be a way to improve firm performance. Some examples include improving firms' ability to sell to foreign markets or multinational corporations, improving both physical and digital infrastructure, and eliminating information barriers. However, while these interventions can be promising for larger firms, there is limited evidence available regarding the impacts of market access on growth for microenterprises. At the same time, a series of randomized evaluations indicate that cash grants, microfinance, and business training programs can positively affect firm outcomes (such as profits and growth), though the impacts are not consistently transformative on average (J-PAL, 2023;

Haushofer & Shapiro, 2016; Blattman et al. 2019). The variation in intervention impacts may stem from design and implementation differences. For instance, while traditional microfinance has had limited impacts on entrepreneurship, the more promising approaches have involved making changes to the financial product, such as allowing more flexibility and grace periods in paying back loans (Bardoni & Theys, 2023), as well as leveraging asset-based micro equity approaches (Bari et al. 2024). Soft skills-focused training programs have also shown higher impacts than traditional classroom-based business trainings typically focused on hard skills (McKenzie et al., 2023). A study evaluating a mindset-oriented training in Ethiopia provides another example of how design variation can impact outcomes. The study found that instructors with business operating experience were more effective at changing the mindsets of entrepreneurs than those with no prior experience (Alibhai et al., 2023). Entrepreneur capacity may also influence outcomes. For instance, a J-PAL study in Hyderabad, India found that only entrepreneurs with prior experience of running a business achieved higher profits (Banerjee et al., 2019). Targeting this subset of entrepreneurs with higher growth capacity appears promising for increasing the impact of entrepreneur support programs, as suggested by various randomized evaluations (J-PAL, 2023).

Policymakers face a trade-off between allocating resources to high potential entrepreneurs, risking exclusion, versus promoting inclusivity, and risking inefficient resource allocation. On the one hand, policymakers can choose to allocate resources to support entrepreneurs with high capacity. But this approach can threaten to leave behind subsistence entrepreneurs, or even disadvantage them. On the other hand, policy makers can prioritize inclusivity by broadening their support to all types of entrepreneurs. However, doing so could imply an inefficient allocation of resources at the market level, holding back potentially impactful firms. Ultimately, policymakers need to be clear about the problem they are trying to solve in order to identify the best methods for its resolution. They can also leverage a variety of instruments for different purposes (Mckenzie, 2018).

Policymakers should consider the context and implementation of entrepreneur support programs. Relying on the results of one randomized evaluation cannot serve as a comprehensive model to inform programming in different cultural or social contexts. Optimizing the effectiveness of support programs requires context-specific considerations. For example, cultural and social norms may reduce the effectiveness of cash grants or microfinance for women entrepreneurs in specific regions, even if successful elsewhere, as women in some regions may share funds with other household members (Bernhardt et al., 2019). In such cases, ensuring digital disbursement of capital into accounts privately held by women could guarantee that resources are directed toward their businesses (Riley, 2022). In other cases, the quality of the implementing partner or trainers can make a meaningful difference in a program's impacts (McKenzie et al., 2023).

In conclusion, while progress has been made in understanding the impact of entrepreneur support programs, there is a clear need for further research. To develop a few areas that were touched upon in this blog, we still need to better understand: What are the best options to identify high-potential entrepreneurs in a predictive and scalable manner? How can microfinance and business training programs be further tailored to meet the needs of microentrepreneurs? What alternative training programs work best for unlocking better business performance, and why? What are some of the key local constraints preventing microentrepreneurs from unlocking demand and growth? Some of these are areas of focus in the World Bank and the Jobs and Opportunities Initiative (JOI) at J-PAL, which is currently supporting studies at the frontier of entrepreneurship and job creation research. These open questions provide a potential direction for new research that could better enable policymakers to support microentrepreneurs in LMICs.



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FEATURED STUDIES IN THIS DIGEST

Training Entrepreneurs

McKenzie et al. | Report
September 2023

The paper examines the current state of enterprise training, revealing that policymakers often prioritize job creation, however, training programs for microenterprises typically only enhance the employment prospects of the entrepreneurs themselves, without generating new jobs for others. In contrast, more costly consulting programs for larger firms have shown positive impacts on employment, although the results may take time to materialize.

Microcredit: Impacts and Promising Innovations

J-PAL | Policy Insight | May 2023

A review of seven randomized evaluations on microcredit expansions in low- and middle-income countries between 2003 and 2009 revealed that the traditional microcredit model did not result in high-return investments or transformative outcomes for the average borrower. Despite modest demand for traditional microcredit products targeting women, investments often increased without a corresponding rise in average enterprise profits.

Resisting Social Pressure in the Household Using Mobile Money: Experimental Evidence on Microenterprise Investment in Uganda

Emma Riley | Journal Article | April 2022

Investigating whether the expansion of digital financial services presents a novel approach to alleviate intra-household sharing constraints on the advancement of female-led enterprises in developing countries. The results indicate that women who obtained their microfinance loan

Identifying and Spurring High-Growth Entrepreneurship: Experimental Evidence from a Business Plan Competition

David McKenzie | Journal Article | August 2017

The study uses a national business plan competition in Nigeria, involving the random assignment of US$34 million in grants (approximately US$50,000 per winner), to show that winning leads to greater firm entry, more survival, higher profits and sales, and higher through a mobile money account had 11% increase in business capital and a 15% rise in business profits, in contrast to the control group that received their loans in cash.

employment. Grants enable firms to purchase more capital and hire more labor, with no changes in business networks, mentors, self-efficacy, or uses of other sources of finance.

OTHER ESSENTIAL READINGS ON THE TOPIC

One-Time Transfers of Cash or Capital Have Long-Lasting Effects on Microenterprises in Sri Lanka

De Mel et al. | Journal Article | February 2012

The findings highlight a gender disparity in the impact of one-time cash or capital transfers on businesses in Sri Lanka. Specifically, male-owned businesses experienced increased likelihood of survival and higher profits five years after receiving the transfers. On the contrary, female-owned businesses did not show significant effects from the transfers. Male-owned firms were more likely to use the transfers for business growth, while female-owned firms tended to "cash-out" and divert funds to household uses.

Full Esteem Ahead Mindset-Oriented Business Training in Ethiopia

Alibhai et al. | Working Paper | June 2019

The study conducted two randomized controlled trials to evaluate the effect of mindset-oriented business trainings on the performance of women-owned micro and small enterprises in Ethiopia. The study concludes that psychological skills are important for women's business success, and these skills can indeed be transferred using training, assuming a shared identity match between trainer and student. Service delivery appears to be critical for inculcating these important skills.

Can Microfinance Unlock a Poverty Trap for Some Entrepreneurs?

Banerjee et al. | Working Paper | October 2019

The paper shows that, in Hyderabad, India, business owners already operating a business before gaining access to microfinance report persistent benefits, with 35% increase in assets and double the revenues compared to counterparts without prior experience. This underscores the significance of entrepreneurial ability, particularly for talented yet low-wealth entrepreneurs, where short-term credit access can serve as a means to escape the poverty trap.

The Long Term Impacts of Grants on Poverty: 9-Year Evidence from Uganda's Youth Opportunities Program

Blattman et al. | Journal Article | April 2019

The results indicate that although start-up grants initially boosted earnings and consumption for the treatment group, the impact plateaued over time. The control group eventually increased their incomes through both business and casual labor, leading to convergence between the two groups in terms of employment, earnings, and consumption. While grants had enduring effects on assets, skilled work, and potentially child health, they had limited influence on mortality, fertility, health, or education.

RECENT PAPERS ON THE BROADER JOBS' AGENDA

How Entrepreneurs Influence their Employees' Job Satisfaction: The Double-Edged Sword of Proactive Personality

Stephan et al. | Journal Article | Forthcoming

The findings indicate that proactive entrepreneurs can have a negative impact on their employees' well-being, particularly by increasing employee job demands. Given the significant societal costs associated with stress and low well-being, this has implications for social policy, emphasizing the importance of protecting employees from work stress in an entrepreneurial society.

The Impact of Pilot Free Trade Zones on Entrepreneurship: Evidence from a Quasi-Natural Experiment in China

Zhaohua et al. | Journal Article | Forthcoming

Exploiting China's pilot free trade zones (FTZs) as an exogenous shock of institutional quality improvement, the study finds that cities with FTZs are associated with higher entrepreneurship. This positive impact is attributed to the FTZs' role in fostering entrepreneurship through the facilitation of enhanced openness, upgrading foreign investment and trade, and expediting financial development.

Fintech as a Mechanism for Entrepreneurship Ecosystem Development in Emerging Economies

Isaac Okoth Randa | Journal Article | January 2024

The paper investigates how digital finance can alleviate traditional bottlenecks within financial services that currently impact entrepreneurship and innovation across economies. The results indicate that fintech can contribute to the development of the entrepreneurship ecosystem through various channels. These include providing diverse access to capital, facilitating seamless digital financial access, offering data-driven financial insights, enhancing global connectivity and commercial facilitation, and supporting regulatory-backed financial education and collaborative innovation.

Relevant Skills for Employment and Entrepreneurship in the Agri-Food Sector

Bodescu et al. | Journal Article | January 2024

The objective of this study was to identify the essential skills for employees and entrepreneurs in the agri-food sector. Among higher education graduates in the agri-food sector, the most crucial skills were identified as communication, learning, and social skills. On the other hand, the skills that were less valued included cultural, linguistic, and mathematical skills. When it came to establishing and managing entrepreneurial ventures, communication, economic skills, and learning skills were the most valuable.

CONTRIBUTORS

This newsletter is a joint product of the Jobs Group and the Labor & Skills Global Solutions Group of Social Protection & Jobs Global Practice. Contributions were made by Michael Hou, David McKenzie and Kevwe Pela. For more information kindly contact Kevwe Pela (kpela@worldbank.org).

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