



Interventions for employment creation in
micro, small and medium sized enterprises
in low and middle income countries –
A systematic review

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Do we know how to create jobs in small businesses?

Evaluation lessons from a Systematic Review

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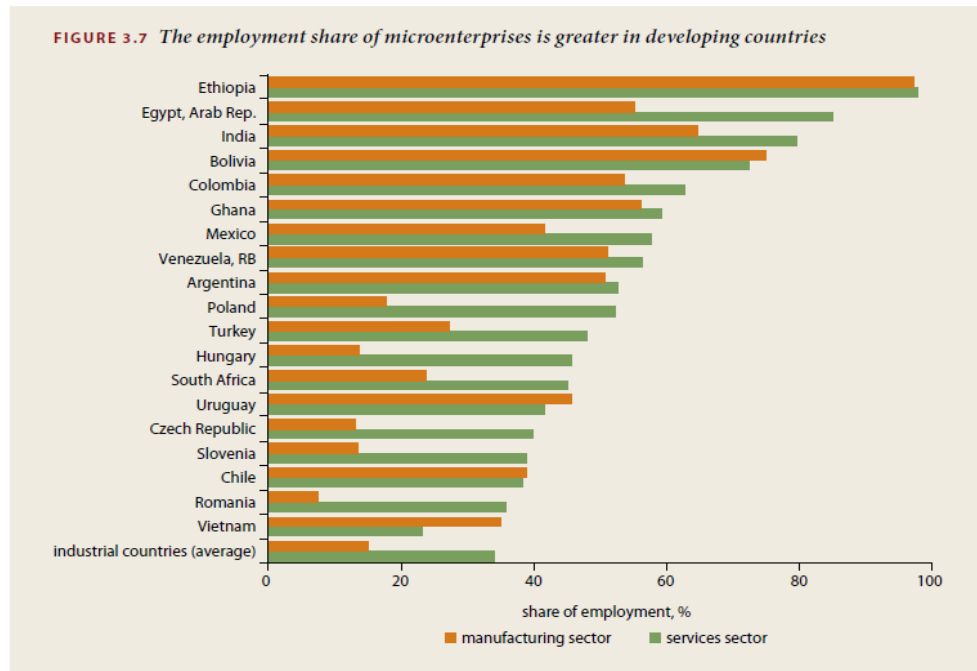
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»» Motivation

- › Employment creation major concern, in both developing and developed countries:

“Looking forward, over the next 15 years an additional 600 million new jobs will be needed to absorb burgeoning working-age populations, mainly in Asia and Sub-Saharan Africa”. (WDR, 2013)



- › In low- and middle-income countries, MSMEs account for most employment
- › But often severely constrained in many ways
- › Governments, donors and other stakeholders have designated substantial resources to MSME promotion, but research on effectiveness in LMICs, especially regarding employment effects, is still limited

»» Systematic reviews

- › A systematic review is a literature review focused on a research question that tries to identify, appraise, select and synthesize all high quality research evidence relevant to that question.
- › Systematic reviews facilitate access to evidence that is valid beyond the context of a single project.

... a way to overcome the problem of limited external validity of experimental (RCT) and quasi-experimental outcome/impact measurements.

»» Inclusion Criteria

Population

Micro, small and/or medium enterprises (MSMEs) measured as firms with less than 250 employees

Context

Low and middle income countries, as classified by the World Bank according to income levels

Outcomes

Employment, i.e.:

- › Number of employees in MSMEs
- › Self-employment
- › New business creation (MSME)

Study type

Rigorous impact evaluations, based on:

- › Randomized controlled trials, or
- › Quasi-experimental designs if they control for non-random placement or self-selection using propensity-score matching, instrumental variables, or difference-in-difference estimation (i.e. a credible counterfactual)

»» Interventions

› Finance

- › Interventions providing capital to MSME: (micro-)credit, conditional and unconditional cash transfers, no study on insurance.

› Training

- › Includes business skills training, business plan development, financial literacy training and to a limited extent technical and vocational skills training if it is intended for the set-up of a new entrepreneurial activity

› Business Development Services (BDS)

- › Includes counseling, supplier development, support for product and process innovation, related training, earmarked credit, conditional tax breaks, environmental audit, and the provision of working premises.

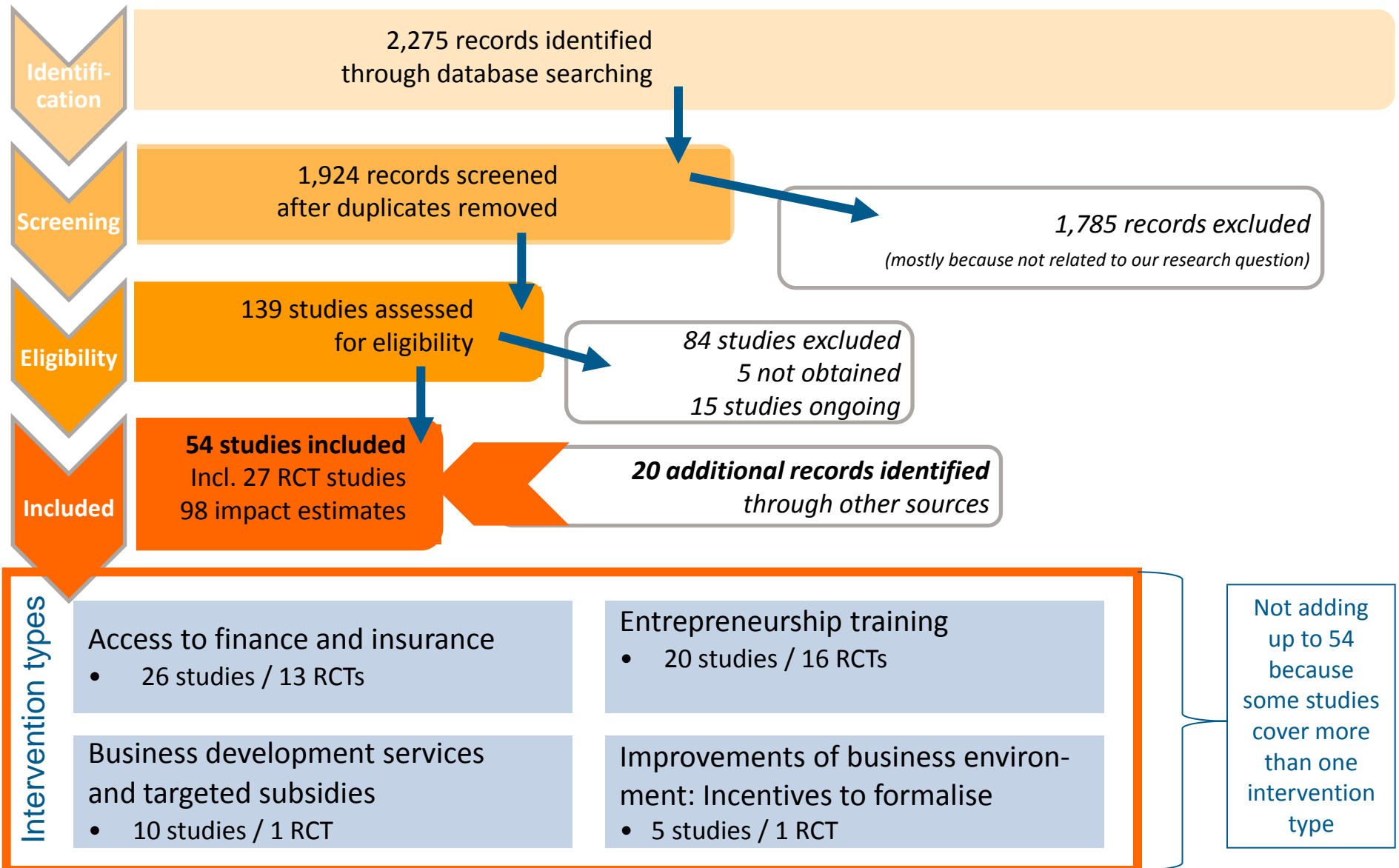
› Private Sector Incentive Schemes

- › Wage subsidies (voucher-based, subsidies etc.)

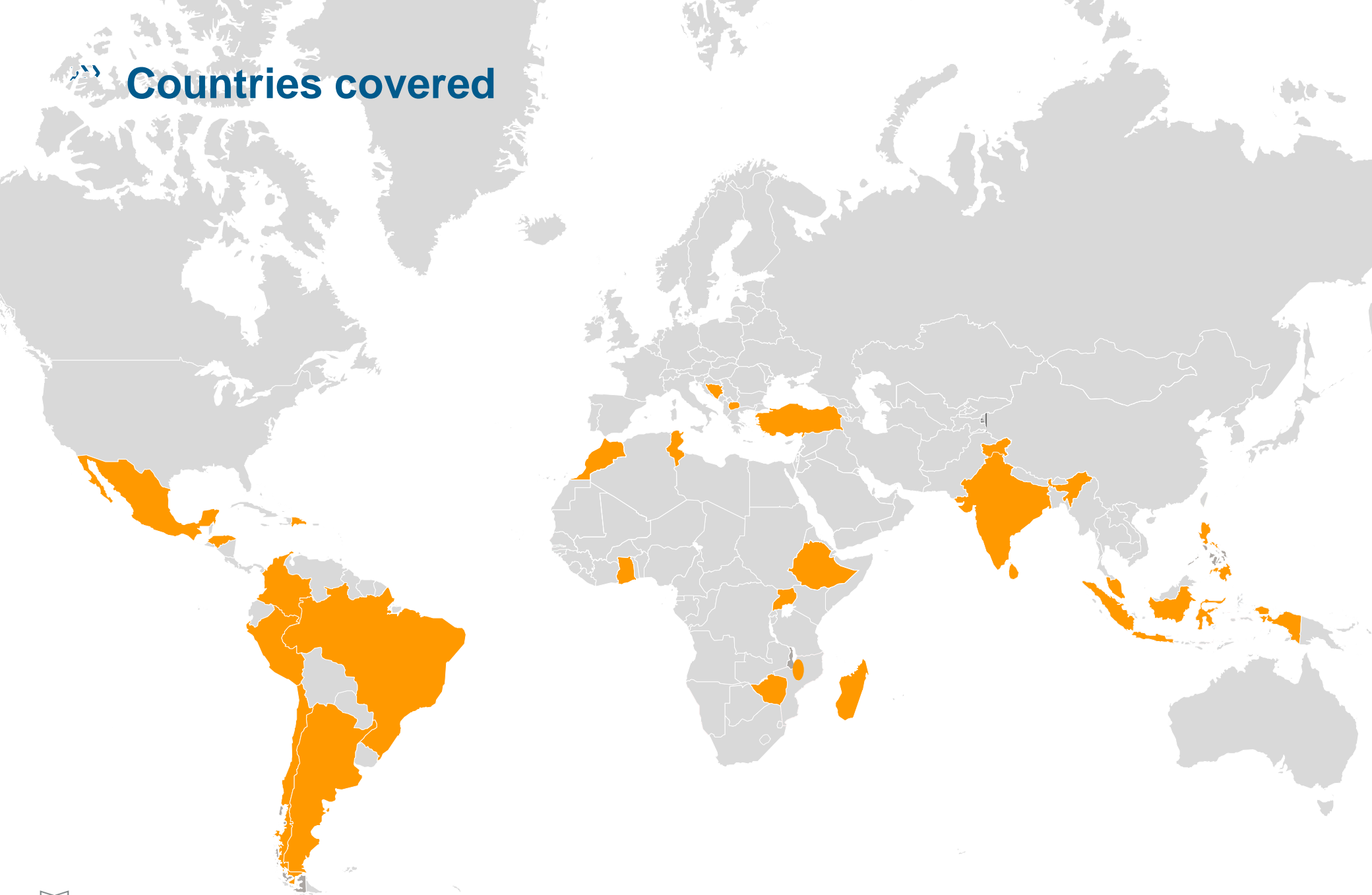
› Business Environment

- › Incentives to formalize

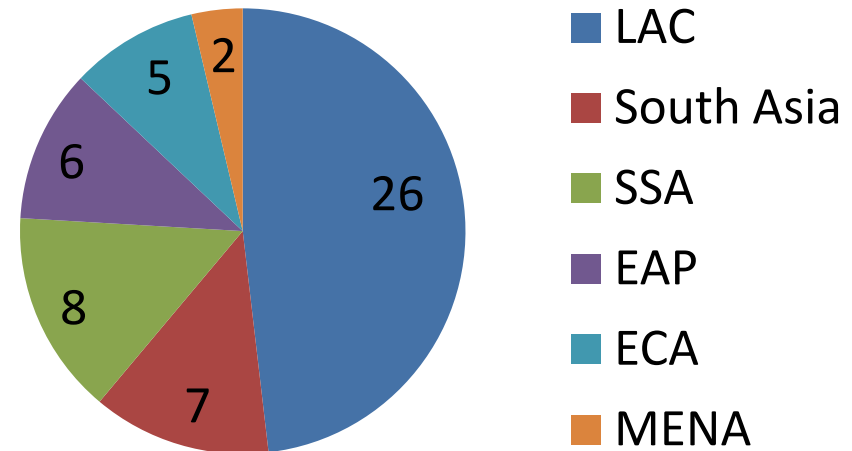
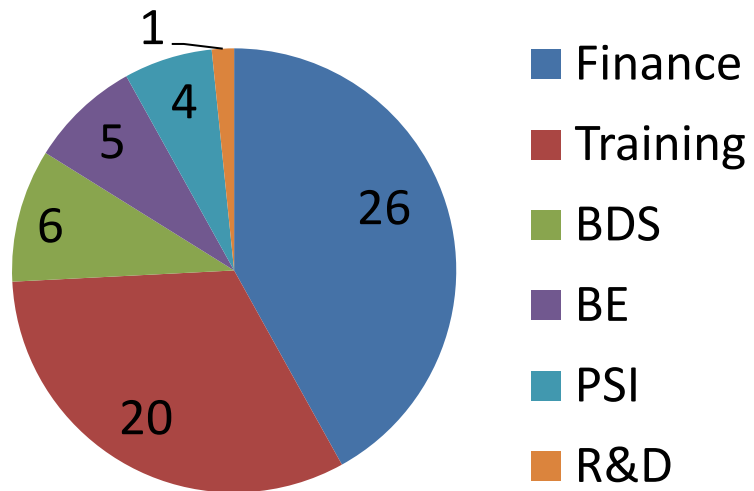
»» Search results



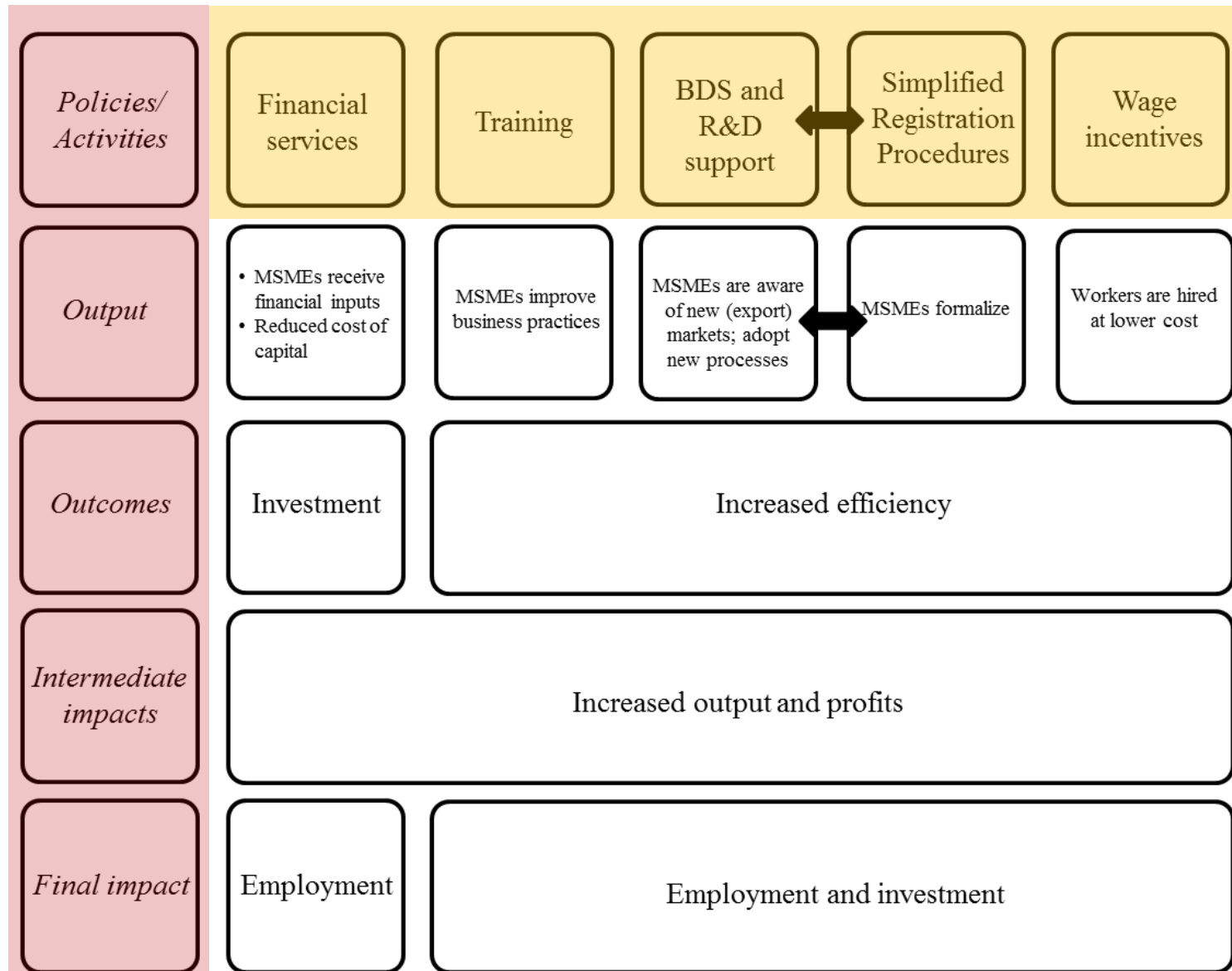
» Countries covered



»» CHARACTERIZATION OF INCLUDED STUDIES



»» Programme Theory (unified framework)



»» Key findings on employment

Access to finance and insurance

26 studies, 45 treatment effects: 16 positive, 2 negative, 27 insignificant

- No large employment effects, particularly not in micro-enterprise
- More business creation than hiring of new workers
- Interventions mostly do not have job creation as major objective (but rather income stabilisation, higher family income).
- Larger effect on working capital (inventories) than on fixed capital.
- Partly investment in labour saving not labour increasing technologies.
- Loans often too small and with too short repayment schedules.
- Employment effects larger if owner is male.

»» Distribution of standardized effect sizes - Finance

| | Count | Share (%) |
|-------------------------------------|-------|-----------|
| Negative effect size (<0) | 13 | 23.2 |
| Small effect size ($>0, <0.2$) | 33 | 58.9 |
| Medium effect size ($>0.2, <0.5$) | 9 | 16.1 |
| Large effect size ($>0.5, <1$) | 1 | 1.8 |
| Total | 56 | 100 |

»» Key findings on employment

Entrepreneur- ship training

20 studies, 28 treatment effects: 11 positive, 17 insignificant

- Most programs produce significant improvements in business skills and behavioural skills, sometimes also higher optimism/motivation.
- In many cases, training seems to enhance the entrepreneurial spirit and forces (potential) entrepreneurs to think more carefully about the business model and its profitability.
- The more tailor-made, but not necessarily the more-complex programs are successful.
- Successful training does not necessarily lead to employment generation: it can even lead to closing down unsuccessful enterprise.
- Training should be substantial (about 1 year, once a week) and specific.
- Tackling finance impediments at the same time, seems to make employment effects more likely.

»» Key findings on employment

Business development services and targeted subsidies

10 studies, 19 treatment effects: 12 positive, 1 negative, 6 insignificant

- Targeted subsidies for hiring a worker or for innovations/R&D are generally quite effective in generating employment.
- Subsidies and services should be demand (not supply) driven: tailor-made and focused.
- Wage incentives are generally very „expensive“.
- E.G. the pure wage subsidy program in Turkey entails costs per job-month created that correspond to roughly 94% of the total cost of employing a minimum wage worker.

»» Key findings on employment

Business environment: Incentives to formalise

5 studies, 6 treatment effects: 5 positive, 1 insignificant (employment effect after formalisation)

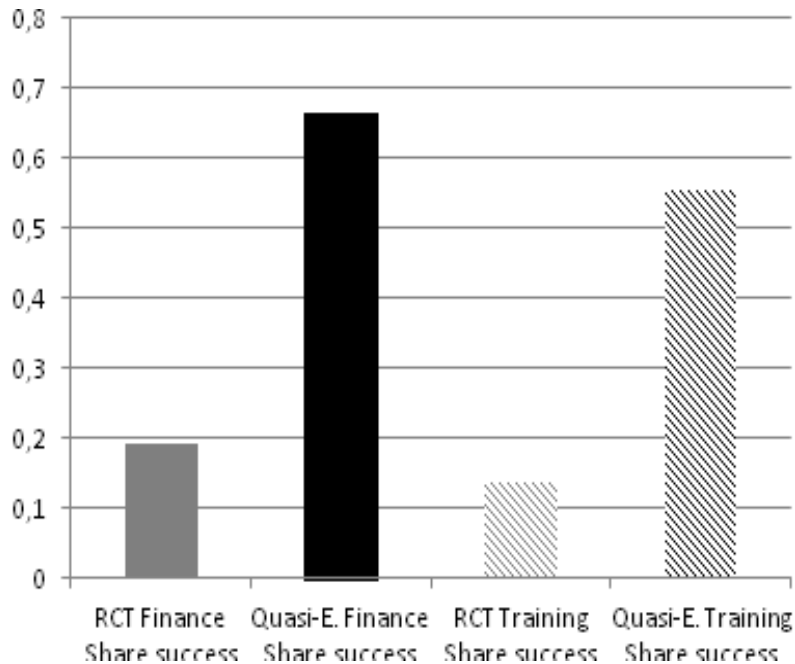
- Only few (larger) and new firms formalise; for microentrepreneurs often formality has more disadvantages than advantages.
- E.g. De Mel et al. (2013a): “Even if the equivalent of one month of the median firm’s profits are offered only around one-fifth of all firms register the business.”

Interestingly, the lack of property rights for the ground they work on is a major deterrent to formalization for many entrepreneurs.

- Formalisation, where it worked, had only modest employment effects.
- Better services that firms gain access to with formalisation offer an incentive to give up informality. They might also contribute to job creation.

»» The method bias

Studies that are based on RCTs show a lower share of significantly positive employment effects than studies that rely on quasi-experimental methods.



- Do quasi-experimental studies over-estimate employment effects due to un-eliminated biases?
- ...or are employment effects small in RCT-measurements because this method is very often applied to rather small programmes in relatively poor areas
- ... and because they often have low „power“ (i.e. too small samples)?

»» Concluding remarks

- › It is a long way from policy inputs to employment impacts.
It is easier to achieve effects on management practices, sales or profits than to create jobs.
- › Targeting is key.
- › It is easier to create new businesses than to foster the growth of existing firms.
- › There is almost a complete lack of evidence on long-term effects and cost-effectiveness.



»» Questions to the audience

- › How can the findings of this review be used to rethink current practice?
- › What are the implications for Sub-Saharan Africa in particular?
- › How important are targeted interventions in comparison to economy-wide policy interventions, such as trade openness, institutional reforms, industrial policies or large scale infrastructure projects?
- › What can implementers and evaluators do to get a grip on long term effects and cost-effectiveness?