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Business training plus for female entrepreneurship? Short and medium-term experimental evidence from Peru

Martín Valdivia *

Grupo de Análisis para el Desarrollo (GRADE), Av. Almirante Grau 915, Lima 04, Peru

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ABSTRACT

With millions of women around the developing world thrown into self-employment but with low productivity, increasing the profitability of their businesses is highly relevant for poverty reduction and gender equity. This study evaluates the impacts of a BDS program serving female microentrepreneurs in Lima using an experimental design, that included two treatment groups: One received only general training (GT), albeit more time-intense than previous studies, and delivered by experts, while the other received in addition technical assistance (TA). Results show the existence of room for efficiency gains and growth, as all treated showed increased sales revenues and self-reported adoption of recommended business practices. Those that received only GT showed positive but not significant effects early on, but the two treatment groups showed indistinguishable growth, above 15%, two years after the end of the treatment. Low take up of the training may suggest some space to improve recruitment and delivery of treatments.

1. Introduction

Can we make a microentrepreneur out of a small trader/producer? This question is increasingly important as it becomes more evident that microfinance alone is not enough to consolidate the growth of microbusinesses and take microentrepeneurs out of poverty (Banerjee et al., 2010; Karlan and Zinman, 2010). Microentrepreneurs may be neoclassical, but the financial constraint may not always be the most relevant, with lack of managerial capital likely to be relevant for many to make their business grow (Bruhn et al., 2010), as many start a business after being expelled from many formal jobs, or for perceiving they would be excluded from such job opportunities (Perry et al., 2007). Indeed, de Mel et al. (2009), with the help of a randomized experiment in Sri Lanka, find that many microentrepreneurs earn negative returns to capital, especially women. Furthermore, they find that the group of poor, high-ability, female microentrepreneurs that could benefit from expanded access to credit is rather small. The gender equity connotation of the distribution of entrepreneurial traits is also a major concern as most of the progress in the participation of females in the labor market has occurred through self-employment, and also because female-run microenterprises tend to be smaller, less productive and less profitable, at least in Latin America (Banco Mundial, 2010).

The question is whether we can improve the likelihood of business success by teaching entrepreneurial skills. In principle, more managerial capital may imply increased marginal productivity of labor or physical capital, but it can also improve the quality and quantity of such inputs (Bruhn et al., 2010). However, the goal of helping microentrepreneurs become successful may be complicated if business success is not guaranteed by the mere replication of recognized "best business practices", but rather depends on the microentrepreneur's intuition to identify business opportunities and the timing and perseverance with which she implements her business plan. Although there are many programs around the world implementing business-training modules for microentrepreneurs, they are very heterogeneous in time intensity, content and target groups, and we still know little about their true impact (McKenzie and Woodruff, 2014).[1] Self-selection into these programs has been another factor complicating these studies in the past. Recently, Karlan and Valdivia (2011) and Bruhn and Zia (2011) have presented experimental evidence related to business training programs that focus on transferring to microentrepreneurs business practices that are recognized as leading to success in survival and growth. The first one corresponded to a business training applied to female microfinance

* Tel.: +51 1 2479988; fax: +51 1 2471854.
E-mail address: jvaldivi@grade.org.pe.

[1] Freedom from Hunger (FFH) and the International Labor Organization (ILO) are worldwide leaders in the design and implementation of such training programs. Other important agencies are Promujer in Latin America and BRAC in Bangladesh (see Dunford, 2002).

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clients in Peru while the second one focused on young entrepreneurs in Bosnia and Herzegovina. Both studies are not encouraging about this type of business training. They both find that the training led to many adjustments in business practices consistent with the messages of the training, but weak or no effects on business performance.

Other recent studies have explored the impacts of complementing business training with capital transfers. Giné and Mansuri (2014) find that business training does indeed lead to increased business knowledge and better business practices, but not on business sales or profits, and only for male clients in rural Pakistan, a result similar to the one reported by Berge et al. (2012), for microfinance clients in Tanzania. Women do improve business knowledge but show no adjustments in their business practices and profitability. Giné and Mansuri argue that social norms that restrict women's labor supply and their participation in family business decisions may explain the differentiated outcome by gender. Both studies included a complementary capital transfer, but they do not find any business effects, which can be interpreted as evidence that the beneficiaries were not credit constrained. de Mel, McKenzie and Woodruff (2014), on the other hand, do find that the cash grant makes a difference, although only in the short run as the increased profitability vanished in the second year after the treatment. Despite lack of business effects of the loan lottery, Giné and Mansuri find the intervention to be profitable to the lender as they increased the number of larger loans issued to the beneficiaries without an increase in default rates or officer's workload, a result consistent with the one reported in Karlan and Valdivia (2011), although in that case benefits to the lender came not from larger loans, but from reduced default and increased retention.

These results could be interpreted as evidence that the lack of management skills is not the main constraint faced by microentrepeneurs, but an alternative interpretation is that the lack of effects is evidence that this kind of business training cannot transfer the management skills required to make the targeted microentrepreneurs successful. On one hand, previously analyzed training may not be deep enough or delivered by individuals with enough expertise. On the other hand, besides learning about general best business practices, microentrepreneurs may need some more specific advice about what are the key problems of their businesses or where to start to define the line of a new business, something that is closer to what is called technical assistance. Indeed, improving the management capital available to microbusinesses can be done through technical assistance, that is, through a detailed diagnosis of the strengths and weaknesses of the microbusiness, the identification of required changes/improvements, and the support in the implementation of such changes/improvements.

This study aims to contribute to this debate about whether lack of managerial capital is the main constraint for microbusiness growth in developing countries, and whether transmitting general best practices can be enough to guide our female microentrepreneurs to adjust their practices and innovate for business growth, or it is necessary to complement such training with a more personalized approach in the form of technical assistance. I report here the results of a randomized control trial associated to a business development services (BDS) program applied to female microentrepreneurs in four districts of Metropolitan Lima, Peru. The study design first identified a sample of eligible female microentrepreneurs, and then randomly assigned them to two treatment groups and a control group. Both treatment groups received a general business training (GT) module that was delivered over a 3-month period with three three-hour sessions a week. For one of the treatment groups, the training was complemented with an offer of technical assistance (TA), also over a three-month period, and combining the consultant's visits to the beneficiaries' businesses with group sessions to discuss common problems and alternative business strategies. We analyzed short-term and medium-term effects with the help of two follow up surveys, the first one about 7–10 months after the end of the treatment and the second one about 12–15 months later.

To my knowledge, there is no previous study that analyzes the importance of complementing business training with TA to improve business performance in developing countries with an experimental design. Bruhn et al. (2010) do report positive short run and long run results of an intervention that subsidizes management consultancy services for SMEs in Puebla, Mexico. They find consultancy services to improve productivity 1–4 months after the end of the intervention (12–16 months from the beginning) and increases employment and payroll up to three years after the end of the intervention. The processes most affected by the intervention were those related to formal accounts and marketing efforts, although the authors hypothesize that heterogeneity across firms might explain the lack of other significant effects of individual business practices. That study, however, differs from the one reported here on the nature of treatment and the beneficiaries, as their intervention did not include a training component and it is not exclusively targeted to microfirms but includes small and medium firms as beneficiaries.

Although the statistical power of our analysis was affected by low take up and retention of either treatment, the trends reported here are still rather clear. Our main findings, based on intention-to-treat (ITT) estimates, first indicate that all those that were offered either treatment experimented increased business sales by more than 15% (0.11 SD) in normal and bad months, about two years after the end of the training. Such sales effects were initially present only for the fully treated, and remained stable by the second follow up survey. The GT-only treated group, on the other hand, showed a positive sales effect early on, around 10%, but was not statistically significant. By the second follow up, this point estimate rose to the levels similar to those shown by the fully treated, and became statistically significant, especially the larger firms at baseline. The sales revenue effects came along with the adoption of some of the business practices recommended during the training, especially in the case of the fully treated, but also for the larger firms that were GT-only treated. Overall, we interpret these results as evidence that management capital is a binding constraint for business growth for our sample of microfirms in Lima and that efficiency gains can be achieved by providing these female entrepreneurs with the right support to their managerial capital, which includes long, intensive training delivered by specialized professionals. The other important lesson is that we need to be patient with these complex interventions, to allow them the time they need for its full impacts to materialize.

This article is organized in seven sections including this introduction. Section 2 describes the two interventions and discusses the expected effects. Section 3 explains the experimental design and its implementation, and briefly describes the statistical methods used to establish causal effects of the training on a wide variety of outcomes. Section 4 uses the baseline survey to describe the sample of the study in terms of key variables such as socio-economic characteristics of the women and their businesses, access to credit, previous experience on business training, use of family time, among others. We also explore other characteristics of the microentrepreneurs such as their attitudes towards risk, leadership abilities and disposition to work in groups. Next, Section 5 presents the level of compliance associated to the intention to treat, based on the women's participation in the training activities. Section 6 presents the results on key business practices and results and Section 7 closes with a discussion of results and policy implications.

2. The intervention and the expected effects

The intervention under study was supported by the World Bank and UNIFEM as part of a joint effort to promote the economic empowerment of women in developing countries. In the Peruvian case, we worked with a consortium formed by three organizations with vast experience on the provision of business training for adults for the development of the training materials and the