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Entrepreneurship programs in developing countries: A meta regression analysis ☆

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HIGHLIGHTS

- We provide a review of entrepreneurship programs in developing countries.
- Entrepreneurship programs have promising impacts for youth and on business practice.
- Providing a package of training and financing works better for labor activities.
- Financing support compared to other interventions appears more effective for women.
- Business training helps business owners adopt good practice.

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ABSTRACT

This paper provides a review on the effectiveness of various entrepreneurship programs in developing countries. We adopt a meta regression analysis using 37 impact evaluation studies that were in the public domain by March 2012, and draw out several lessons on the design of the programs. We observe a wide variation in program effectiveness across different interventions depending on outcomes, types of beneficiaries, and country context. Overall, entrepreneurship programs have a positive and large impact for youth and on business knowledge and practice, but no immediate translation into business setup and expansion or increased income. At a disaggregate level by outcome groups, providing a package of training and financing is more effective for labor activities. Additionally, financing support appears more effective for women and business training for existing entrepreneurs than other interventions to improve business performance.

1. Introduction

Fostering entrepreneurship is widely perceived to be a critical policy agenda to expand employment and earning opportunities and to reduce poverty. Sound macroeconomic conditions and business environment including infrastructure, regulation, and legal environment have typically been emphasized to increase entrepreneurial activities and create jobs. While these remain relevant, in developing countries, increasing attention is being paid to the role of labor policies that aim to reduce constraints and enhance productivity among the self employed and small scale entrepreneurs.[1] This is particularly pressing in developing countries where wage and salary employment is limited and the majority of jobs are created and operated in self employment (Ayyagari et al.,

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[1] Note that the terms "self employed" and "entrepreneurs" are used interchangeably. Also, small scale entrepreneurship is used instead of microenterprise or subsistence business.

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2011; Gindling and Newhouse, 2012; Haltiwanger et al., 2010). The demographic pressure, including youth bulge in many countries in Africa and South Asia, adds urgency to creating more jobs and provides a justification of entrepreneurship promotion to absorb the large inflow of workers.

In recognition of the importance of self employment in job creation, interventions to promote entrepreneurial activities (hereafter "entrepreneurship programs") are increasingly being implemented around the developing world. Such entrepreneurship programs largely vary by objectives, target groups, and implementation arrangements, and often combine different types of interventions depending on the constraints to entrepreneurial activities that each program aims to address. Based on the evidence that some entrepreneurial traits and skills are strongly related to business setup and success[2] and that access to finance is a dominating constraint to entrepreneurship, programs have provided individuals with the opportunities for training, counseling, and access to finance. Frequently used interventions include technical (vocational), business (managerial), and financial skills training, financing support such as microcredit loans and grants, and counseling ranging from mentoring and advisory services to post-program consulting.[3] Outcomes of interest range from labor market performance such as employment, business creation, earnings, and profits and business performance to supply side changes such as improved skills, business knowledge and practice, attitudes, and more active financial behavior (borrowing, saving). Target groups are also very diverse with different groups facing different barriers to entrepreneurship and self employment (women, youth, social assistance beneficiaries, etc.). Some programs target potential entrepreneurs (the unemployed, school drop-outs, or graduating individuals); others target existing microentrepreneurs or microfinance clients to increase their productivity. Programs can be further modified according to the context of the policy environment, reflecting cultural factors (fear of failure or beliefs on gender roles), infrastructure (water and electricity), and legal and regulatory conditions (high entry barrier due to administrative hassles), among others.[4]

Evidence on the effectiveness of entrepreneurship promotion programs is still scarce, and findings from existing impact evaluations are widely heterogeneous. Early evaluations from Latin America's *Jovenes* programs targeted to vulnerable youth, though not conventional entrepreneurship programs, suggested that vocational and life skills training combined with an internship in private firms could be potentially useful for self employment promotion as well (Attanasio et al., 2011; Card et al., 2011). More recent impact evaluations of programs to promote self employment and business development targeted at vulnerable individuals in Malawi, Sierra Leone, and Uganda, for instance, found generally positive effects on psychosocial wellbeing but mixed results in labor market outcomes (Cho et al., 2012; Casey et al., 2011; Blattman et al., 2012; respectively). The complexity increases as the training programs combine other financial and advisory support.[5] And even the seemingly similar programs have heterogeneous results in different places (business training programs; in Peru, Karlan and Valdivia, 2011; in Tanzania, Berge et al., 2011; in Bosnia and Herzegovina, Bruhn and Zia, 2011). Likewise, the effects of financing through microcredit or grants vary widely across studies. A series of studies in Sri Lanka suggest that the returns to capital were large and grants significantly improved labor market (business) outcomes (De Mel et al., 2008a,2008c, 2012). However, evaluations on the effects of expanding access to credit in various countries suggest that access to credit did not automatically improve entrepreneurial activities.[6]

In this article, we exploit the heterogeneity of design and implementation features to shed light on the effectiveness of the programs. We examine the impacts of different entrepreneurship programs and disentangle the effects of design factors from those of context and study characteristics using a meta regression analysis. A meta analysis is a statistical procedure of combining the estimated impacts of multiple studies in order to draw more insights and greater explanatory power in probing differential program effects.[7] Since a meta analysis examines the extent to which different program and study characteristics affect estimated results, it is particularly useful to integrate the findings from various studies on a similar topic.

An important contribution of this paper lies in the coverage of programs and meta analysis methodology. Although many entrepreneurship programs are being implemented and evaluated in developing countries, to our knowledge, few attempts have been made to review the impacts of such interventions in order to synthesize emerging lessons. David Roodman's open blog reviews existing microfinance and saving programs, McKenzie and Woodruff (2013) provide a qualitative review on business training programs, and Karlan et al. (2012) document the results of microenterprise development programs.

Our paper, by cross-examining the effectiveness of diverse entrepreneurship programs rigorously impact evaluated, and by disentangling the contribution of various factors in explaining success, provides a comprehensive quantitative review and draws lessons. It also contributes to the external validity of certain approaches in entrepreneurship programs, which is difficult to assess within a single study. In this sense, this paper is in line with recent studies such as Card et al. (2010) and Kluve (2010), which examine the effectiveness of various active labor market programs in developed countries based on meta analysis. However, unlike Card et al. (2010) and Kluve (2010) which focused only on positive significance of effects, we construct the effect size for each observation based on the coefficients, standard errors, and sample size reported in each study. This allows us to discuss program success without confounding it with statistical power from sample size and obtain more robust measures to assess the effectiveness of the programs, which we will discuss below in more detail.

We find that the impacts of differential combinations of interventions vary depending on the outcomes of interest and target groups as well as the specific context. Overall, entrepreneurship programs have a positive and large impact for youth and on business knowledge and practice, but no immediate translation into business setup and expansion or increased income. At a disaggregate level by outcome groups, providing a package of training and financing is more effective for labor activities. Additionally, financing support appears more effective for women and business training for existing entrepreneurs than other interventions to improve business performance. Our findings suggest that involving the private sector in program delivery can enhance the effectiveness.

The next section of the article describes the procedure for constructing data and discusses the main features of the entrepreneurship programs in our sample studies. Section 3 presents a standardization and estimation strategy using meta regressions and discusses methodology. Section 4 then discusses the main findings of the meta analysis. Finally, Section 5 concludes the study.

[2] For example, Ciavarella et al. (2004) using data from the United States find a strong relationship between some attributes of personality (measured by the Big Five: conscientiousness, emotional stability, openness, agreeableness, and extroversion) and business survival. Crant (1996) also points to personality as a predictor of entrepreneurial intentions.

[3] In addition, microfranchising, value chain inclusion, small business networks, support for technology transfer, business incubation, and many others are being implemented.

[4] Microfinance programs, for instance, often target female entrepreneurs in order to address issues related to a cultural factor while relieving credit constraints.

[5] Combined packages are provided particularly for vulnerable population such as social assistance beneficiaries. See Almeida and Galasso (2009); Carneiro et al. (2009); and Macours et al. (2012).

[6] In Mongolia, Attanasio et al. (2012); in Bosnia and Herzegovina, Augsburg et al. (2012); in India, Banerjee et al. (2009); in South Africa, Karlan and Zinman (2010); in Morocco, Crepon et al. (2011); and in Philippines, Karlan and Zinman (2011).

[7] See Stanley (2001) for discussion on the methodology of meta analysis in synthesizing multiple studies. There has been useful synthetic research that employed this meta analysis method in the field of labor market analysis. For example, Jarrell and Stanley (1990) and Stanley and Jarrell (1998) examined the magnitude of wage gaps between union–nonunion and male–female workers, respectively, using multiple studies that estimated the gap.