



Do interventions targeted at micro-entrepreneurs and small and medium-sized firms create jobs? A systematic review of the evidence for low and middle income countries

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HIGHLIGHTS

- The employment effects of entrepreneurship interventions have so far been very small.
- It is easier to enhance self-employment than to expand employment in existing firms.
- Finance alone is less effective than training or business development services.
- RCTs find systematically smaller employment effects than quasi-experimental studies.
- There is very little evidence on long term effects and cost effectiveness.

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ABSTRACT

Worldwide, 600 million jobs are needed over the next 15 years to keep employment rates at their current level. Because most employment in low and middle income countries is in micro-, small and medium-sized enterprises, governments, non-governmental organizations and donors spend on targeted programs and broader policies to enhance employment creation in these firms. But despite these efforts, not much is known about which of these interventions are really effective. This systematic review synthesizes the existing evidence on the employment impact of these programs. The results show that the effects have so far been very modest. Even if many interventions were relatively successful in boosting self-employment, expanding employment in already existing firms is generally more difficult but eventually easier in somewhat larger firms compared to very small firms. This finding is also true in relative terms, but it is probably not fully independent from the contexts in which firms of different sizes have been observed. The effects of finance interventions have on average been weaker than the effects of entrepreneurship training or business development services. Our study also reveals that about a third of the interventions covered by this review are not primarily designed to create employment but rather strive for income stabilization and poverty reduction. A further striking finding is that the study design matters for the impacts found; randomized controlled trials find systematically smaller effects than quasi-experimental studies. A significant shortcoming of the literature is that almost nothing is known about long term effects and cost-effectiveness and many studies fail to provide a detailed analysis of why certain effects occurred or did not occur – making it hard to extrapolate lessons.

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1. Introduction

Creating new jobs, and in particular ‘good jobs,’ i.e. jobs in high-productivity sectors and offering decent working conditions, is one of

the major challenges most low and middle income countries face. According to the 2013 World Development Report on jobs, 600 million jobs are needed worldwide over the next 15 years to keep employment rates at their current level (World Bank, 2012). Governments, non-governmental organizations and donors spend large amounts of money for targeted programs and broader policies to enhance employment creation and the creation of new firms. Because most employment in low and middle income countries is in micro-, small and medium-sized enterprises (MSMEs) (see e.g. Ayyagari et al., 2011), these firms are often targeted by such interventions.

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This systematic review synthesizes the existing evidence on the employment impacts of these interventions and extracts the main lessons. We focus on the following five policy areas: (i) access to finance, (ii) entrepreneurship training, (iii) business development services, (iv) wage subsidies, and (v) improvements to the business environment (e.g. registration procedures). There are many other interventions and policies that may have employment effects such as improvements in energy supply, road construction or trade and exchange rate policies, but given that such policies are typically not targeted it is hard to establish causal evidence.

Our work builds on a few earlier reviews which however have not focused specifically on employment creation in MSMEs or they considered only a sub-set of the policies we focus on. McKenzie and Woodruff (2014) review the quality and findings from business training and entrepreneurship evaluations. They focus in particular on statistical power, measurement issues and attrition. Across the reviewed studies, they find only modest impacts on survivorship but stronger impacts on business creation. Bruhn and McKenzie (2013) review the rigorous evidence on entry regulation and formalization of micro-enterprises. They conclude that formalizing firms is generally difficult and the effects of formalization on firms are in most cases very modest if not insignificant. McKenzie (2010) reviews a small set of finance evaluations (all pre-2009) and concludes that many existing micro-finance programs fail to achieve their targets. Tripney et al. (2013) conducted a systematic review of post-basic technical and vocational education and training (TVET) interventions to improve employability and employment of TVET graduates in low and middle Income Countries (LMICS). While the authors are concerned with the same outcome as this systematic review, they do not explicitly focus on employment creation in MSMEs. Betchermann (forthcoming) provides a more narrative review of studies that explore the effects of labor market regulations on employment and other outcomes. Finally, other authors focused on youth employment, but again, do not consider MSMEs specifically (Betcherman et al., 2007; Puerto, 2007).

A meta-analysis on entrepreneurship programs in developing countries conducted by Cho and Honorati (2014) is so far the most relevant synthesis of evidence with respect to the purpose of this review. Cho and Honorati (2014) focus on various business outcomes and find that finance and training interventions to promote MSME development are more effective in changing intermediate outcomes like business knowledge and practice than in increasing a general set of labor market outcomes. For the latter, the combination of training and finance proves to be the most effective, though this depends also on the type of beneficiary that is being targeted. This review will substantially add to the work done by Cho and Honorati (2014) first, by updating and broadening the evidence base considerably, while taking into account also policy areas other than finance and training, and second, by choosing a strong focus on employment and business creation. Because of this difference in scope and the advancement in time, we cover 39 evaluation studies that have not been covered by Cho and Honorati (2014). Hence, the major originality of our review is the focus on the ‘job creation’ outcome. Considering a wide range of programs will give insight to which instruments under which conditions contribute the most effectively to this goal.

Our review shows that overall the impacts on employment are very modest. Although many interventions successfully affect intermediate outcomes such as management skills only very few interventions enhance job creation. The picture is a bit more optimistic if the focus is just on the set-up of micro-firms. The evaluated business training and business development programs show on average better results than the access to finance programs. Comparing successes and failures suggests that ‘intense treatments’ combined with the appropriate targeting are needed to have an impact. Interestingly, we also find that interventions evaluated with Randomized Controlled Trials (RCTs) show substantially less often significantly

positive results than interventions evaluated with quasi-experimental designs. While this has certainly to do with the context and type of intervention RCTs have been used for, it may also imply that many quasi-experimental designs cannot fully get rid of selection effects. In addition, as we show, the very small sample sizes and hence the low power of many RCTs are responsible for their inability to detect significant effects if these are small.

The remainder of this review is organized as follows. In Section 2 we lay out our inclusion criteria and the search strategy. In Section 3 we propose a theory of change which will guide our analysis along the causal chain, linking program inputs and employment outcomes. In Sections 4 and 5 we present our search results and a narrative synthesis of the evidence. The results from a meta-regression analysis are presented and discussed in Section 6. In Section 7 we conclude.

2. Inclusion criteria and search strategy

2.1. Inclusion criteria

We include studies that explicitly focus on MSMEs in the formal as well as informal sector. We limit the analysis to urban as well as rural non-farm employment and firms, i.e. farms and employment on farms are not considered. Although there is no common definition to identify MSMEs, neither by researchers nor by statistical offices, we use an employment criterion and set the threshold at 250 employees. We define micro-enterprises as firms with less than five workers. Small firms are firms with 5 to 19 workers and medium-sized firms are firms with 20 or more, but less than 250 workers. We limit our review to firms in low and middle income countries. We use the thresholds of the World Bank and consider countries as developing countries if they show a gross national income (GNI) below USD 12,476 per capita, calculated using the World Bank Atlas method. Specifically, the following income groups provided by the World Bank classification are included: low income (USD 1025 or less per person and year), lower middle income (USD 1026–4035), and upper middle income (USD 4036–12,475).

Regarding the outcome, we include studies if they measure the creation of jobs specifically for MSMEs. That is, we included any evaluation study that provides evidence for MSMEs separately from large firms. Whether the policy under study also affects large firms does not matter. We define employment creation as the emergence of new jobs in existing MSMEs (whether privately or publicly owned) and as jobs that arise through the creation of new MSMEs. The latter also includes self-employment. Whenever a certain intervention creates some and destroys other jobs simultaneously, we explicitly consider – if the data allows – both gross and net employment generation. We consider any form of employment under acceptable working conditions, conditional on the specific context studied. This includes paid employment, as well as paid and unpaid family employment.² Studies are not included if they focus exclusively on hours worked, labor intensity, wages or labor supply without considering employment per se. Interventions that target the youth or the labor force directly are only considered if they aim at the creation of new MSMEs or self-employment. Based on an initial screening we decided to classify all studies into five intervention categories: access to finance, entrepreneurship training, research and development, business development services, and private sector incentive schemes. In addition to these specific programmatic interventions, we also decided to include studies that analyze the impact of more general conditions, generally referred to as the business environment, on MSMEs.

² The latter usually implicitly paid.

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