YOONYOUNG CHO
World Bank, USA, and IZA, Germany

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Evidence-based policy making

Entrepreneurship for the poor in developing countries

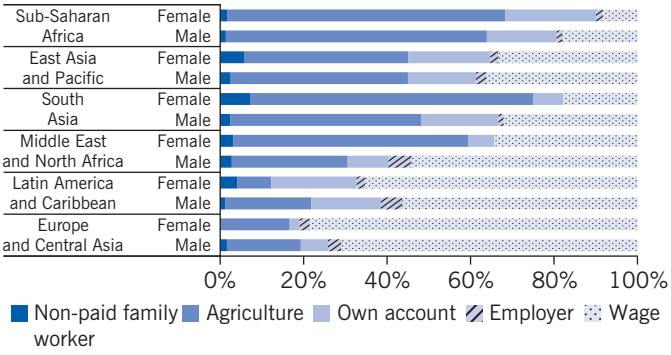
Well-designed entrepreneurship programs show promise for improving earnings and livelihoods of poor workers

Keywords: small-scale entrepreneurship, self-employment, livelihoods

ELEVATOR PITCH

Can entrepreneurship programs be successful labor market policies for the poor? A large share of workers in developing countries are self-employed in low-paying work or engage in low-return entrepreneurial activities that keep these workers in poverty. Entrepreneurship programs provide business training and access to finance, advisory, and networking services with the aim of boosting workers' earnings and reducing poverty. Programs vary in design, which can affect their impact on outcomes. Recent studies have identified some promising approaches that are yielding positive results, such as combining training and financial support.

Many workers in developing countries are self-employed or in entrepreneurial activities



Source: Calculations based on [1].

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KEY FINDINGS

Pros

- Combining training and financing seems more effective than standalone programs in promoting labor market activities among poor self-employed workers.
- Business training can facilitate business setup and improve business knowledge and practices.
- Providing support customized to the needs of participants and including follow-up services improve program effectiveness.
- Entrepreneurship programs for youth tend to yield better results.
- Involving the private sector in the delivery of programs is associated with better results.

Cons

- Entrepreneurship programs for the poor often show impacts that are small and not statistically significant, and the programs' longer-term sustainability is unclear.
- Improved business practice or knowledge does not automatically lead to business growth or job creation.
- Little information is available on the cost of intervention, making comparing programs difficult.
- There are many approaches to entrepreneurship programs whose effectiveness has not yet been analyzed.

AUTHOR'S MAIN MESSAGE

Some features of small-scale entrepreneurship programs are associated with successful program impacts. Among them are accommodating the design to the needs of the target group and involving the private sector and social enterprises in organizing program interventions. A comprehensive approach combining skills training with access to finance is more effective in helping small-scale entrepreneurs succeed in the labor market than either service alone. Business training can help small-scale entrepreneurs set up businesses and improve business practices, while customized support and follow-up services can improve overall program effectiveness.

MOTIVATION

Wage and salary employment is very limited in most developing countries. A majority of the workforce in developing countries is self-employed, usually in low-paying work that keeps them in poverty. Thus, fostering entrepreneurship is widely perceived to be critical for expanding employment and earning opportunities and for reducing poverty. Interventions to promote entrepreneurial activities, particularly for small-scale businesses, are increasingly being implemented in developing countries. Such small-scale entrepreneurship programs vary in their objectives, target groups, and implementation arrangements, and they often include multiple types of interventions reflecting the specific constraints to entrepreneurial activities that each program aims to address [2].

Evidence on the effectiveness of small-scale entrepreneurship programs is still thin, and the findings of impact evaluations differ widely [2]. However, meta-analyses synthesizing the results of rigorously evaluated entrepreneurship programs and a review of an inventory of entrepreneurship programs and microenterprise development have identified some promising design and implementation features associated with program success.

DISCUSSION OF PROS AND CONS

Characteristics of self-employed workers in developing countries

Self-employed workers constitute a large share of workers in developing countries. The lower a country's income per capita, the higher its labor market share of self-employed workers, particularly farmers and own-account workers, referred to here as small-scale entrepreneurs. In sub-Saharan Africa and South Asia, more than three-quarters of workers are farmers or non-agricultural self-employed workers; the average for all developing countries is about 50% [1]. Small-scale entrepreneurs tend to be older and less educated than wage employees, with more volatile labor market activities and a greater likelihood of exiting the labor market rather than moving to other forms of employment. Consequently, the chances of living in poverty are higher for small-scale entrepreneurs than for wage employees. Indeed, close to 70% of self-employed workers worldwide live in poor households and strive to make a living with their labor-market activities [1].

Scope of small-scale entrepreneurship programs

Small-scale entrepreneurship programs aim to promote entrepreneurial activities and more productive businesses. The programs tend to address constraints facing individual workers, such as missing skills, social capital, and access to credit. The goal of the programs is to improve workers' livelihoods through self-established businesses more than it is to foster innovative enterprises to drive economic growth. The programs seek to affect several common outcomes of interest [2]:

- labor market activities such as business start-up and expansion and increased self-employment;
- labor market income and profits;

- business practices and knowledge that can affect business performance, such as record-keeping, registration, and separation of individual and business accounts;
- business performance, often captured by revenues and the scope of such business activities as sales, number of employed workers, and size of inventories;
- financial behavior, such as acquisition of business loans, saving accounts, and insurance plans that could affect the resource allocation of businesses;
- attitudes toward risk, confidence and optimism, and time preference that may be related to entrepreneurial traits [2].

Small-scale entrepreneurs and entrepreneurship programs

Some definitions of "entrepreneurs" limit them to people who organize or operate a business or businesses that involve risk-taking and innovation. The literature using this definition emphasizes the role of innovation among entrepreneurs as an engine of growth, and some studies consider only innovative business people as entrepreneurs. This view distinguishes entrepreneurs from replicative workers who set up small businesses that are similar to other small businesses and remain small.

A broader definition of "entrepreneurs" includes multiple types of businesspeople but recognizes differences within the group. For instance, "transformational entrepreneurs" (high-growth, innovative, and expansive entrepreneurs who likely have entrepreneurial traits) are differentiated from "subsistence entrepreneurs" (self-employed out of necessity and often lacking skills and entrepreneurial traits) (Schoar, 2010).

When standard employment status categories are used to objectively classify workers in the labor market, entrepreneurs likely overlap with non-wage workers (the self-employed), which include farmers, non-paid family workers, own-account workers, and employers.

The broader definition treats entrepreneurs interchangeably with self-employed workers. Small-scale entrepreneurs include agricultural and own-account workers without paid employees in their self-employed activities.

Small-scale entrepreneurship programs, which focus on individual workers, are slightly different from microenterprise development, which focuses more on organizations. Programs to improve the regulatory environment and infrastructure for businesses, for instance, can be part of microenterprise development, but are not covered by the definition of small-scale entrepreneurship programs.

Source: Schoar, A. "The divide between subsistence and transformational entrepreneurship." In: Lerner, J., and A. Schoar (eds). *International Differences in Entrepreneurship*. Chicago: University of Chicago Press, 2010; pp. 57–81.

Identifying the target group

Small-scale entrepreneurship programs help would-be entrepreneurs set up a business and existing entrepreneurs improve their performance. As do other social programs, small-scale entrepreneurship programs can be directed at specific demographic groups, such as youth and women, or social category, such as social assistance beneficiaries and microcredit clients. In addition, information on employment status

and region (such as farmer and urban informal worker) can also be used for targeting, to take into account the differences in businesses and forms of employment across urban and rural areas.

When a target group is identified—such as self-employed women, out-of-school youth, social assistance beneficiaries, and microcredit clients—profile studies are needed to understand their skills, capabilities, and constraints. Some combination of surveys, tests, qualitative interviews, and assessments can be used to better understand potential participants [3]. Recently, programs have increasingly used tests to objectively measure cognitive skills (such as the Raven test and the Digit-span test), non-cognitive skills (such as the entrepreneur self-test), and basic skills (numeracy and literacy tests). Previously conducted assessments of the business environment (such as the Finscope survey) or interviews with local businesses can complement the profiling work to better understand the business environment facing potential participants [4]. In addition, demand for the small-scale entrepreneurship program and a willingness to participate in it might also be assessed, to gauge whether low take-up of program support among the poor is likely to be an issue, as has been found across many different assistance programs in developing countries.

Selection of activities for support

Entrepreneurship programs generally require that potential participants apply for the program and describe their business idea and plan. Some programs select participants based on the viability of their business proposal or on the type of activities planned. Others use the business proposal to assess the competence of applicants and identify their needs. Still others use the business proposal for both purposes. However, this kind of approach may not be appropriate when the majority of potential participants are unskilled, vulnerable workers who do not see their work as entrepreneurial activities or themselves as business people. Further, many of them may not have identified a specific business idea let alone written a business plan.

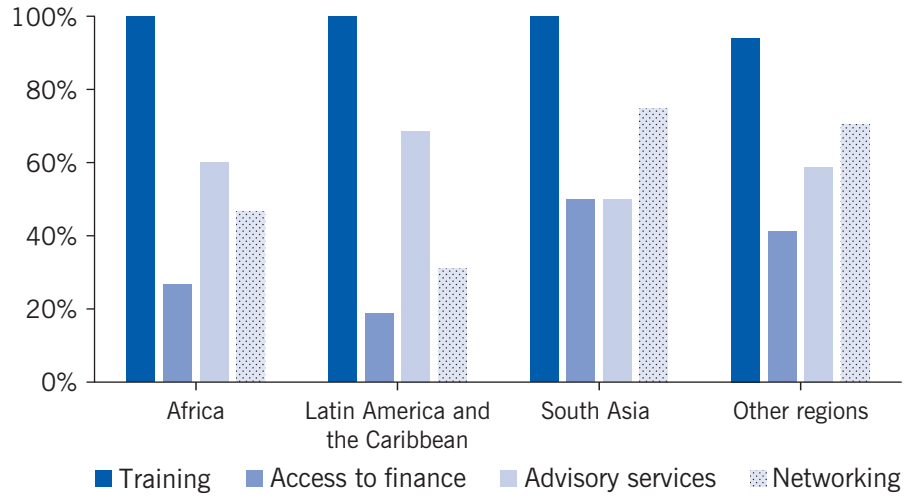
A less common model is a collective approach in which ideas are identified by the program organizers, often social enterprises, non-governmental organizations, or private-sector entities [4]. In this model, program organizers identify business opportunities based on pre-program market analysis such as sector mapping and demand surveys. The program formulates business plans based on the availability of natural resources, infrastructure, and human capital and on the condition of the regulatory environment. The program then recruits individual workers or groups such as cooperatives or associations to participate in the pre-identified business areas. Participants are expected to develop or continue their business within the parameters set by the program while benefiting from the program organizers' collective knowledge and know-how, connections to local value chains and markets, and synergy from economies of scale. Micro-franchising and value chain integration models provide examples of this approach.

Technical components

Programs typically include one or more of four technical components: training, finance, advisory services, and networking. Almost all programs include some sort

of training (Figure 1). Access to finance and networking services are more common in South Asia than in other developing country regions, reflecting widespread experience with microfinance and networking support, such as self-help groups. Advisory services are more frequently included in the programs in the Latin America and Caribbean region.

Figure 1. The shares of technical components in small-scale entrepreneurship programs vary by developing country region



Source: Author's calculation based on a 2014 database of existing small-scale entrepreneurship programs (dating from 2000 onward) discussed in Cho, Y., D. Robalino, and S. Watson. *Supporting Self-Employment and Small-Scale Entrepreneurship*. World Bank Policy Note No. 92629, 2014 [4].

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Training

Training covers a range of skills including technical, vocational, business, managerial, and financial skills as well as literacy and numeracy and life skills. Training components vary in duration, intensity, and delivery arrangements depending on training type and objectives. A general principle in providing training services is to ensure that participants acquire prerequisite skills (basic literacy and numeracy, business awareness, and financial literacy) before moving up to higher level skills (technical, vocational, business, managerial, and financial skills). Gaps in literacy and numeracy among participants are typically a primary barrier to acquiring other skills. Unless these gaps are addressed first, training in advanced areas will not yield the desired impacts.

Few entrepreneurship programs have included training in prerequisite skills as a part of their core services, yet improving literacy and numeracy could be one of the most important ways of helping low-skilled self-employed workers [4]. In addition, current programming tends to neglect building business awareness, which can help farmers, informal workers, and the other vulnerable self-employed workers adopt a business mindset and view their activities in a business framework. In contrast, vocational and technical skills training in a particular trade, or business training, is frequently included as part of small-scale entrepreneurship programs, particularly for youth [5].

Financing

Limited access to credit is often one of the most binding constraints to entrepreneurship. Many small-scale entrepreneurship programs provide financial support to ensure that participants have the working capital and equipment they need to get started in business. Among the financial instruments used in these programs, microfinance is by far the most common, but consumer loans, cash grants, saving accounts, micro-insurance, in-kind transfer of equipment and tools, and workshops with basic business infrastructure (electricity, water, basic equipment) are also used to help entrepreneurs manage their resources. A general trend is that policy attention to financial services shifts over time from loans to a more general agenda of financial inclusion—making financial services accessible to disadvantaged or low-income people—and from microfinance to exposure to diverse financial products for managing risks.

Advisory services

Unlike training programs, which are generally offered at a set time, for a set duration, and on a specific topic, advisory services are usually offered on a continuous basis with more customized content, at least during the first stages of a small-scale entrepreneurship program. The advisors can be experts, peers, or mentors in various business areas. Their roles range from answering specific business-related questions and guiding participants in making strategic decisions to facilitating access to other resources for support. Many programs, particularly in rural areas among agricultural workers and self-help groups, rely on lead farmers and group representatives. They receive extensive training on new techniques, products, quality measures, or business skills, which they can then share with other farmers and members of the self-help group. Other programs work with international and local professionals and social entrepreneurs to provide advisory services. Several mentoring programs, particularly for youth, have demonstrated modest effects on socio-emotional skills development, but this model has not been widely applied in entrepreneurship programs. The right type of advisory services in each case will likely depend on business needs and the characteristics of participants.

Networking

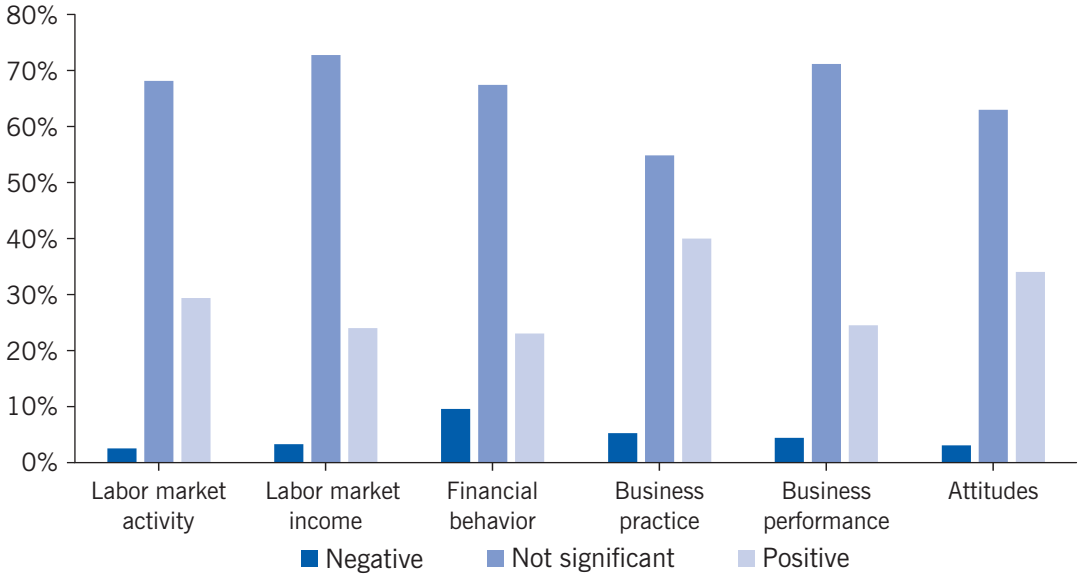
Networking builds up social capital, which is important for gaining entry to markets and operating a business. Networking is particularly useful for connecting to other businesses at a similar stage of development and in similar areas of production (horizontal linkages) and to other businesses along the value chain (vertical linkages). Horizontal linkages can be promoted through activities in associations, cooperatives, and other forms of cooperation between both complementary and competing businesses. For instance, a self-employed electrician can form a cooperative with other electricians in the area to pursue a larger contract with a construction business while continuing the small business. Alternatively or in addition, the electrician can cooperate with carpenters, plumbers, and other tradespeople to collectively provide restoration or remodeling services. In both cases, participants can take advantage of economies of scale, group sharing of responsibility, and strengthened bargaining powers in business. Vertical linkages can facilitate participants' close collaboration with firms engaged in complementary activities in a different stage of the production

process or even their transition into one of those activities. Promotion of horizontal linkages is relatively common in small-scale entrepreneurship programs, while vertical linkages are not as common.

What do we know about the impacts?

Only a few small-scale entrepreneurship programs have had a built-in monitoring and evaluation component, and even fewer have been subject to scientifically rigorous impact evaluations. Among the studies that have rigorously evaluated the impacts of small-scale entrepreneurship programs, the results are mixed. For instance, the likelihood that a program will have a positive impact varies widely according to the outcome of interest (Figure 2).

Figure 2. The likelihood that a small-scale entrepreneurship program will have a positive impact varies by outcome, 2012



Note: "Not significant" refers to the proportion of estimates that are statistically not significant at the 10% level.

Source: Calculations based on Cho, Y., and M. Honorati. "Entrepreneurship programs in developing countries: A meta-regression approach." *Labour Economics* 28 (2014): 110–130 [2].

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Recent evaluations suggest that business knowledge and practices, such as record-keeping, registration, and separation of individual and business accounts, are easier to change than many other outcomes. Thus, interventions such as business training work relatively well for existing entrepreneurs. However, these programs tend to have good outputs but weak outcomes [6]. That is, improved business knowledge and practices (outputs) do not necessarily translate into business growth or higher profits (outcomes).

What seems to be important in yielding better outcomes from business support programs is to incorporate appropriate pedagogical approaches and supplementary services for the poor and vulnerable. For instance, a study suggests that business

training based on "rule of thumb" practices rather than more sophisticated methods may be more effective, especially for the most vulnerable and poor self-employed workers who have limited skills [7]. Also, following up classroom training with technical assistance services tailored to individual needs and business context can strengthen impacts [5].

Compared with changing business knowledge and practice, it is more difficult to change labor market outcomes, including employment levels, hours worked, and earnings. Moreover, promoting business expansion is more challenging than promoting business start-up [8]. In general, small-scale entrepreneurship programs that combine training with financing or counseling tend to have better labor market outcomes, particularly among youth. Examples of programs that combine skills training with financial support for the most vulnerable populations include a program in Nicaragua that combined training with grants for social safety net beneficiaries [9] and the graduation model used by the Consultative Group to Assist the Poor (CGAP). The CGAP graduation model is a global effort to create pathways to help the poorest people out of extreme poverty by sequencing safety nets, livelihood training, and access to finance. These examples suggest that training alone or financing alone may not be sufficient to address complex constraints faced by small-scale entrepreneurs in developing countries [2].

Overall, these interventions tend to have the strongest impact for youth and the weakest impact for women. Women often face more severe constraints in acquiring skills and running a business, and their husbands, fathers, or other male relatives tend to retain control over finances even if women are business owners or the recipients of microcredit, as in Ghana, Malawi, and Sri Lanka [3], [10], [11]. These results suggest that programs need to be better tailored to address the specific constraints facing self-employed women. An example of a successful program is the Adolescent Girls Initiative in Liberia. This initiative, specifically targeted to young women, provided training in the locality where the women resided (to accommodate their mobility constraints) and included free childcare (addressing their family responsibilities). These design elements may help explain the program's success.

Delivery arrangements also can affect program impacts. Involving the private sector in program delivery is associated with improved impacts [2]. Programs are sometimes run by social enterprises, which use the methods and disciplines of business and the power of the marketplace to advance social, environmental, and human justice goals. Indeed, social enterprises and non-governmental organizations are increasingly playing a major role in designing and delivering small-scale entrepreneurship programs.

LIMITATIONS AND GAPS

This paper has described the main features of current small-scale entrepreneurship programs and highlighted some design elements that appear promising for improving the livelihoods of vulnerable workers. The fact that similar programs yield different results in different locations may suggest that implementation arrangements and quality also need to be considered. However, detailed descriptions of these dimensions are often lacking in project documents or evaluation studies. As a result, there may be differences in implementation quality across programs, not considered in this paper, that account for the difference in outcomes and impacts. In line with this possibility,

the scant information on the costs of each program makes comparisons of program effectiveness difficult. Thus, further research is needed to add evidence on best practices in the design and implementation of effective small-scale entrepreneurship programs.

SUMMARY AND POLICY ADVICE

Small-scale entrepreneurs who struggle to make a living are common in developing countries, and as a result small-scale entrepreneurship programs will continue to be an important policy tool. The main policy objective of such programs is to improve the livelihoods of vulnerable entrepreneurs by teaching them relevant skills and helping them access the financing needed to improve their earning opportunities. The fundamental question concerns which interventions and combinations of programs are most effective in enabling the poor to start up and expand their business. Combining training and financing seems to be more effective in promoting labor market activities than providing only training or only financing. Providing business training can help small-scale entrepreneurs set up businesses and improve business practices, while providing customized support and follow-up services seems to improve the effectiveness of such programs.

Moreover, when designing a new program, policymakers need to consider how to identify target participants, which businesses and activities to support, what core interventions to include, and what types of institutions will provide service delivery. Using an existing social assistance program for targeting and identifying the poor and facilitating their transition to entrepreneurship can be a good starting point. Profiling and understanding the skills and constraints facing potential participants are critical. Knowledge of the profiles of participants and their aspirations can guide the selection of program components, which can include a combination of fundamental skills (basic numeracy or literacy), core occupational skills, soft skills, and business and financial skills. Implementation arrangements, likely involving training providers and financial institutions, should be established once the design is determined. Finally, policymakers should also ensure that the programs incorporate a robust monitoring and evaluation system, so that the impacts can be properly assessed.

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Competing interests

The IZA World of Labor project is committed to the *IZA Guiding Principles of Research Integrity*. The author declares to have observed these principles. The analysis and conclusions expressed in this article are those of the author and not necessarily those of the World Bank.

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