



# Discussion of Entrepreneurship and Self-Employment Programs

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IZA/World Bank Conference,  
February 20, 2009



# Entrepreneurship and Self-Employment Programs

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- Cash or equipment grants (combined with business training or technical assistance)
- Objectives
  - Self-employment is a way out of unemployment
  - Could potentially provide employment opportunities for others
  - Successful firms foster economic growth



# What is the market failure?

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- Why provide grants?
  - Credit constraints
  - Uncertain returns combined with no insurance – individuals need to learn whether they are good entrepreneurs



# Why subsidize training?

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- No or inadequate private services
  - University degrees in business administration are costly and may be too comprehensive
  - Other options, such as community college accounting classes may or may not exist
- Why do private services not exist?
  - Uncertain or unknown returns
  - Missing information
  - A recent survey in Mexico suggests that few small firms owners know about or have thought about hiring consultants



# Programs in high income countries

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- Caliendo and Künn (2009)
  - Start-up subsidies in Germany
  - Propensity score matching
  - Increase in self-employment, but the size of the effect declines over time
  - Income is also higher
  - Cost-effectiveness: is increase in income greater than the subsidy?



# Programs in high income countries (cont.)

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- Carling and Gustafson (1999)
  - Compare self-employment grants for the unemployed in Sweden to a subsidized employment program
  - Individuals who receive self-employment grants are less likely to become unemployed again
  - Potential self-selection issues
  - People who take up self-employment grants have much longer work experience and are more likely to be university educated than people who take up subsidized employment



# Programs in middle income countries

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- Almeida and Galasso (2008)
  - Equipment grants and technical assistance in Argentina
  - Difference-in-difference strategy
  - Increase in hours worked
  - Income increased only for younger and more educated participants
  - Cost-effectiveness?
    - Government purchases equipment, which adds administrative costs



# In kind vs. cash grants

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- Argentina: government purchases equipment
- Germany & Sweden: cash grants
- Del Mel, McKenzie, and Woodruff (2008) provide both types of grants to microenterprises in Sri Lanka and find no difference in effects
- Cash grants may be preferable since they are less costly to administer





# Why not give credit instead of grants?

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- In Sri Lanka returns are high enough to cover competitive interest rates
- But, positive profits may take a while to materialize
- Need to structure the loan product carefully: Repayment could start after a certain period of time



# Programs in middle income countries (cont.)

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- Rodriguez-Planas (2007)
  - Training and working capital loans in Romania
  - Propensity score matching
  - Increase in likelihood of being employed
  - No increase in earnings on average



# Programs in middle income countries (cont.)

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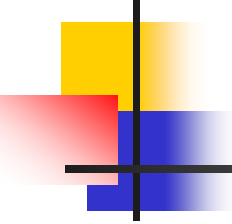
- Klinger and Schündeln (2007)
  - Business plan competition combined with training in Central America
  - Regression discontinuity design
  - Increase in likelihood of starting a business or expanding a business



# Summarizing the effects in high and middle income countries

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- Overall, results suggest and increase in employment/business activity
- Evidence on income effects is mixed
- Income effects appear to vary with education levels and age



# Programs in low income countries ???

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- Promoting self-employment may be less of an issue in low income countries
- Lack of generous unemployment benefits may force people into self-employment

Self-employment as % of non-agricultural employment	
Developed countries	12
Africa	53
Latin America (Chile & Argentina 29)	44
Asia	32



# Programs addressing micro firm viability and sustainability

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- Karlan and Valdivia (2008)
  - Randomized business training of microfinance clients led to improved business knowledge, practices and revenues
  - Effects were larger for those that expressed less interest in training before the program began
  - Potential screening mechanism that could make programs more cost-effective



# Heterogeneous treatment effects and selection into programs

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- Who benefits the most?
  - Evidence from Argentina and Sweden suggests that it may be that most educated individuals
- If the program is targeted to more educated individuals, it may not reach the most needy...
- It could be important to have eligibility rules since people may not self-select optimally (more research is needed)



# From self-employment to employers

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- Del Mel, McKenzie, and Woodruff (2008)
  - Compare characteristics of own account workers to the ones of wage earners and owners of larger firms
  - Rich data set, including measures of entrepreneurial ability (cognitive ability tests, family background characteristics and entrepreneurial attitudes)
  - Based on discriminant analysis 70% of own account workers are more similar to wage workers and 30% are more similar to larger firm owners





# Ongoing studies

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- How to promote firm survival?
- How to promote firm growth (employment)?
- Which sectors are profitable?
- Informal vs. formal sector self-employment



# How to foster business survival and growth?

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- Micro, small, and medium size business consulting/mentorship in Puebla, Mexico (Bruhn, Karlan, Schoar)
  - Randomized experiment where firms receive highly subsidized consulting services for 4 hours per week, for 2 years
  - Consulting started March 2008, first follow-up March 2009



# How to foster business survival and growth? (cont.)

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- Business and crisis management training for young microfinance clients in Bosnia (Bruhn and Zia)
  - Randomized experiment where young entrepreneurs receive either business training or business training + training on how to manage debt during the financial crisis
  - Training scheduled to start in April 2009



# Does business training improve loan use?

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- Gine and Mansuri
  - Randomized experiment offers larger loans combined with business training to microfinance clients in Pakistan
  - Training already took place and loans are disbursed
  - Women who have received the business training are more likely to accept larger loans
  - Keeping track of all costs to focus on cost-efficiency



# Business skills and choosing the right sectors

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- “Generate and start your business” training for women who are not in the labor force in Sri Lanka (Del Mel, McKenzie, and Woodruff)
  - Randomized experiment
  - ILO business training + profitable sectors
  - Capital grants
- “Improve your sector” for low-income women in Sri Lanka



# How to encourage formal sector participation?

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- Bruhn (2008) for Mexico and McKenzie (2008) for Bolivia find little evidence that informal firms want to register
- Del Mel, McKenzie, and Woodruff in Sri Lanka
  - Randomized experiment will help firms with registration procedures
  - Will also pay firms to become formal at varying amounts to estimate demand for formality