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Skills Training for Entrepreneurs in Developing Countries

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For most of the developing world, microenterprises are a key source of income and employment creation. For many countries the informal sector, where most of the small enterprises exist, represents over 80% of employment (ILO 2012). These businesses often have a difficult time growing. There are a number of reasons that have been put forward by policy makers and researchers for this lack of growth, including missing the necessary skills to manage a growing business.

International NGOs and governments are interested in training programs. The ILO and World Bank have invested heavily in trainings, calling greater access to skills training a game changer. However, the results of recent impact evaluations suggest there is reason to be skeptical of training programs. There is a growing evidence that these programs do not contribute to enterprise growth. Researchers now argue that such trainings, when delivered alone, are not effective. The debate over the right way to approach unemployment and business creation is just starting.

Why training programs?

A recent World Bank report noted that, "as many as 11 million young Africans [are] expected to join the labor market every year for the next decade". Unfortunately, there are very few formal sector jobs, meaning that they will need to rely on agriculture, informal jobs and self-employment.

International NGOs and governments are increasingly interested in finding ways to help young people make their own jobs rather than search for employment options that are either limited or may not exist. Skills training is a commonly employed approach.

There are a number of different training programs conducted with microenterprise owners around the world, although most have a common design. Most programs are materials-based and developed for emerging entrepreneurs with young businesses. The programs seek to help develop formal business plans that can serve as a blue print for the entrepreneurs not just in the business, but also in accessing finance.

The programs typically contain similar components:

- How to draft a marketing strategy,
- how to plan staffing needs,
- how to price goods and services,
- how to decide on the legal form of their business,
- how to determine which licenses and permits are needed,
- how to assess the environmental impact of their planned business, and
- how to forecast their finances.

One of the most popular training materials, called Start and Improve Your Business (SIYB), was developed by the ILO. This training program reached 4.5 million people in 100 countries from 2003 to 2010 (Lieshout 2012). There are also many other similar programs, developed by the World Bank, governments, and local NGOs that target specific needs. Thus, there is strongly held hope in much of the development community that these trainings will transform businesses and improve the lives of people who would otherwise be unemployed.

Recent research on training programs

There is reason to believe business owners are missing a number of skills and, consequently, leaving profits on the table. In a very well cited example, Bloom et al. (2013) test the effects of management services given to large Indian textile firms. They find very large effects on firm outcomes, including productivity and profit. Calderon et al. (2013) also find large profit effects from an intensive training program in Mexico. The training lasted for several weeks and required business owners to be away from their business for some time.

Yet, recent studies conducted by development economists came to less optimistic conclusions. Unfortunately, the majority of studies on micro and small business trainings do not find any effects on business size, profits or sales. A large number of recent high quality impact evaluations using randomized control trial (RCT) methods (see Box 1 below) find positive impacts of business skills trainings on only knowledge and attitudes (Cho, Karlan 2011 and Berge et al. 2012). The SIYB trainings cited before have also been evaluated using RCTs, with similar (lack of) results for profits and business growth. Mano et al. (2012) looked at the effect of giving training to 53 business owners. In keeping with other training results, they found business survival rates increased, as did the incidence of good business practices such as keeping budgets, but no consistent effects on business profit. De Mel et al. (2008) also use the SIYB training on female business training and cash grants in Sri Lanka. They found no lasting effect on profits for those already in business; although they did find effects for people who did not yet have a business.

The value of trainings for existing microenterprises does not look promising. Recently though, there has been an increasing acceptance that trainings alone do not work, but that pairing the trainings with other interventions might work to expand businesses. One recent study where SIYB trainings were paired with microfinance found big business profit effects for men (Fiala 2014). This suggests that trainings may be of value to people when paired with access to the capital they need in order to make good use of the skills they learned.

The way forward is for organizations and researchers to work more closely, so that the outcomes of research affect programs. A greater dialogue will mean that programs that do not produce results are replaced with better, more productive, training programs. This means not just more dialogue, but also a willingness from organizations to learn about their programs. While it may be hard to hear that trainings are not producing results, it is worse to waste resources. Likewise, researchers need to work harder to ensure practitioners can understand and benefit from existing research.

Box: Randomized control trials

When estimating the effects of an intervention, such as trainings, researchers must overcome a problem commonly referred to as selection bias. It is not random who applies for a microloan and to whom an NGO lends. Most likely it will be the most ambitious and entrepreneurial individuals who request microloans. At the same time, NGOs will be most willing to lend to such individuals in order to avoid excessive default. A naïve study would measure differences in profits between those who received a loan and those who did not, perhaps finding a large difference. However, since those receiving a loan may be more successful regardless, this result may overstate the true effect of the loan. What we really want is to know how well an individual business does relative to an alternative scenario (the counterfactual) in which it did not received a loan. A randomized control trial establishes a counterfactual scenario. It identifies individuals who are interested in receiving a loan and then randomly chooses who receives one and who does not. In this case, all individuals have on average similar characteristics (such as talent and motivation) and the decision on who receives a loan is not related to these. Those not receiving the loan (the control group) serve as an estimate of how those receiving the loans (the treatment group) would have fared without the program.

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