



Interventions for employment creation in  
micro, small and medium sized enterprises  
in low and middle income countries –  
A systematic review

Michael Grimm  
Anna Luisa Paffhausen

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Chair of Development Economics  
University of Passau  
Instit. 29  
94032 Passau, Germany  
Ph.: +49-051-3310  
F.: +49-051-3312  
Email: michael.grimm@uni-passau.de  
www.wiel.uni-passau.de/grimm.html

# Do we know how to create jobs in small businesses?

## Evaluation lessons from a Systematic Review

**Michael Grimm**  
**University of Passau • Erasmus University**  
**Rotterdam • IZA Bonn**

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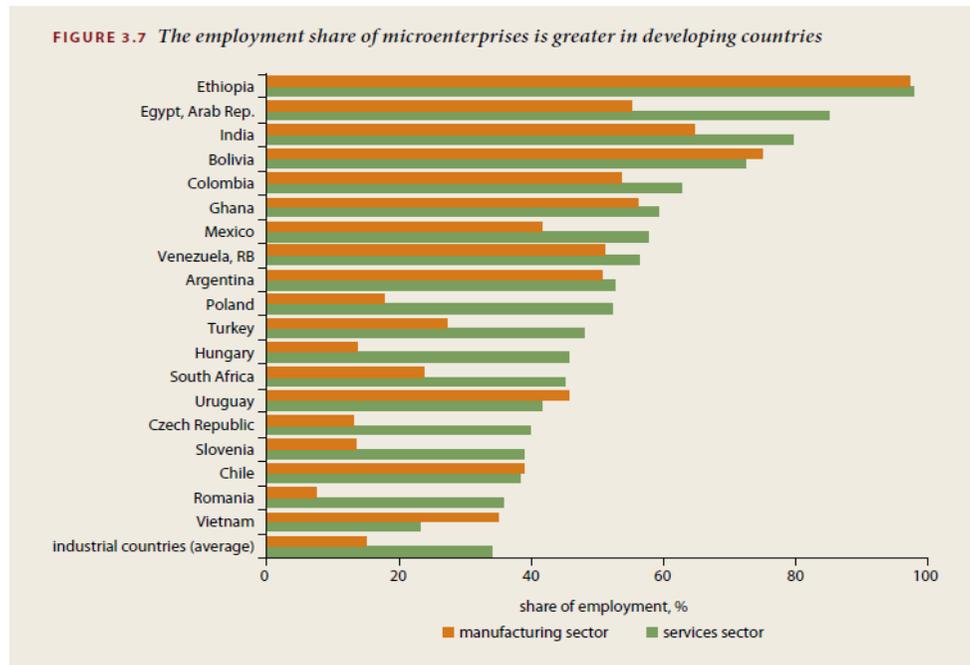
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## »» Motivation

- › Employment creation major concern, in both developing and developed countries:

*“Looking forward, over the next 15 years an additional 600 million new jobs will be needed to absorb burgeoning working-age populations, mainly in Asia and Sub-Saharan Africa”. (WDR, 2013)*



- › In low- and middle-income countries, MSMEs account for most employment
- › But often severely constrained in many ways
- › Governments, donors and other stakeholders have designated substantial resources to MSME promotion, but research on effectiveness in LMICs, especially regarding employment effects, is still limited

## »» Systematic reviews

- › A systematic review is a literature review focused on a research question that tries to identify, appraise, select and synthesize all high quality research evidence relevant to that question.
- › Systematic reviews facilitate access to evidence that is valid beyond the context of a single project.

*... a way to overcome the problem of limited external validity of experimental (RCT) and quasi-experimental outcome/impact measurements.*

# »» Inclusion Criteria

## Population

Micro, small and/or medium enterprises (MSMEs) measured as firms with less than 250 employees

## Context

Low and middle income countries, as classified by the World Bank according to income levels

## Outcomes

Employment, i.e.:

- › Number of employees in MSMEs
- › Self-employment
- › New business creation (MSME)

## Study type

Rigorous impact evaluations, based on:

- › Randomized controlled trials, or
- › Quasi-experimental designs if they control for non-random placement or self-selection using propensity-score matching, instrumental variables, or difference-in-difference estimation (i.e. a credible counterfactual)

# »» Interventions

## › Finance

- › Interventions providing capital to MSME: (micro-)credit, conditional and unconditional cash transfers, no study on insurance.

## › Training

- › Includes business skills training, business plan development, financial literacy training and to a limited extent technical and vocational skills training if it is intended for the set-up of a new entrepreneurial activity

## › Business Development Services (BDS)

- › Includes counseling, supplier development, support for product and process innovation, related training, earmarked credit, conditional tax breaks, environmental audit, and the provision of working premises.

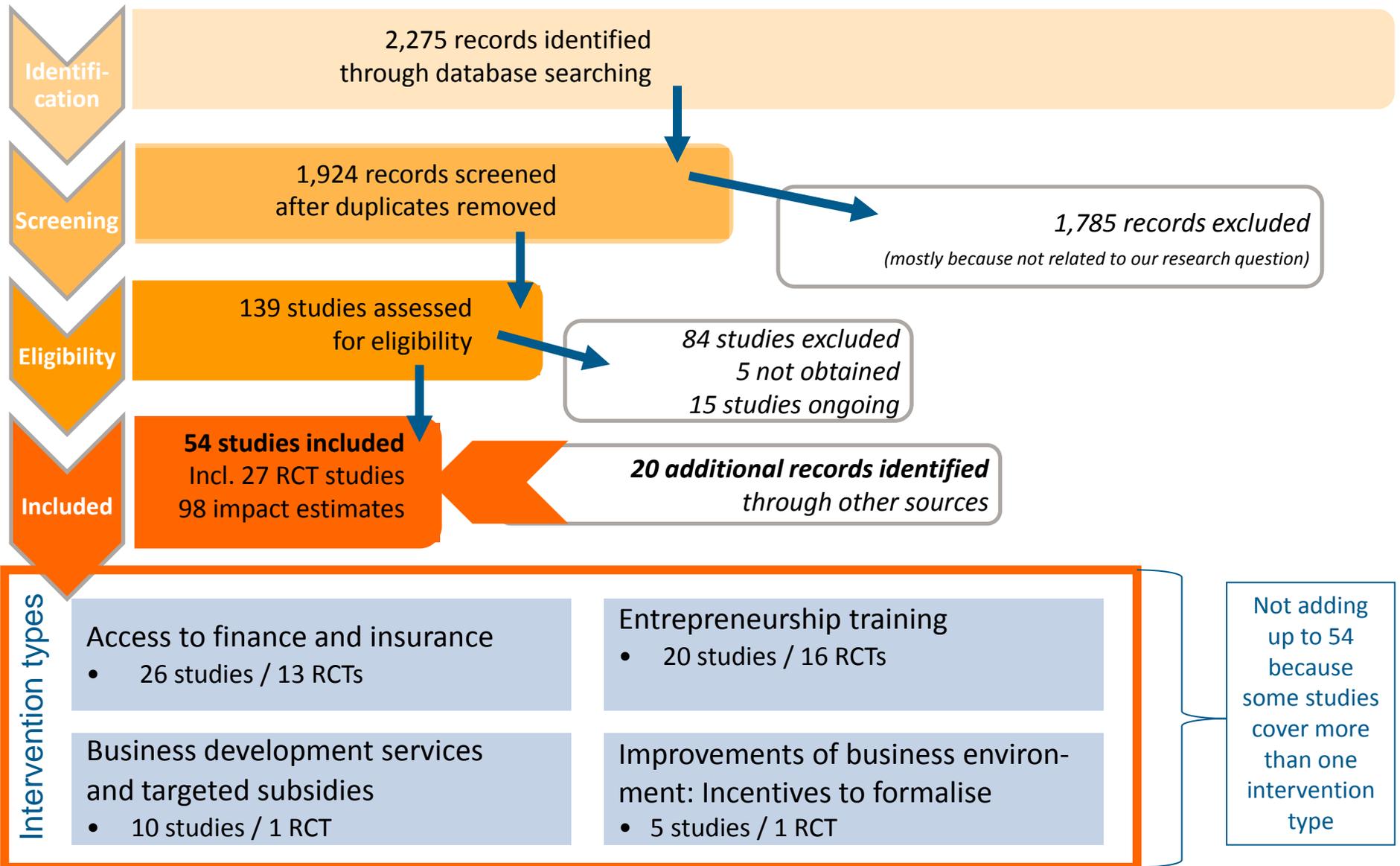
## › Private Sector Incentive Schemes

- › Wage subsidies (voucher-based, subsidies etc.)

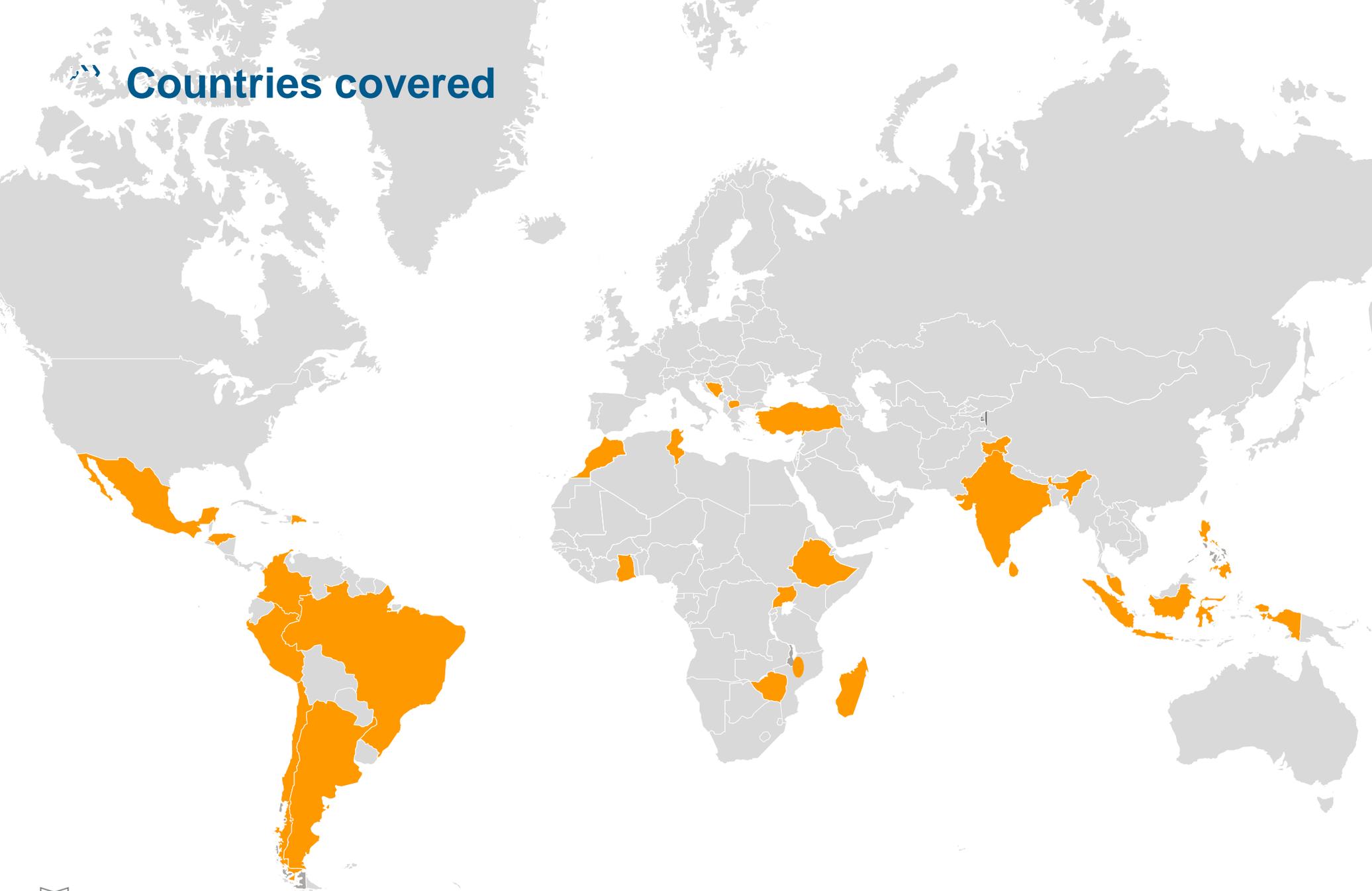
## › Business Environment

- › Incentives to formalize

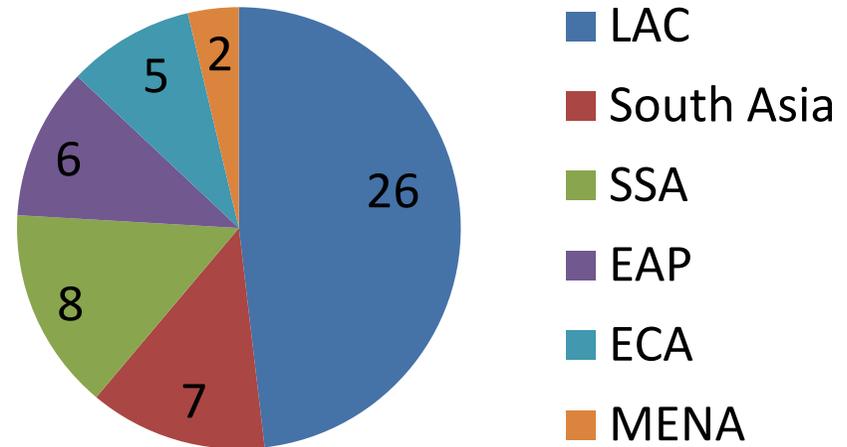
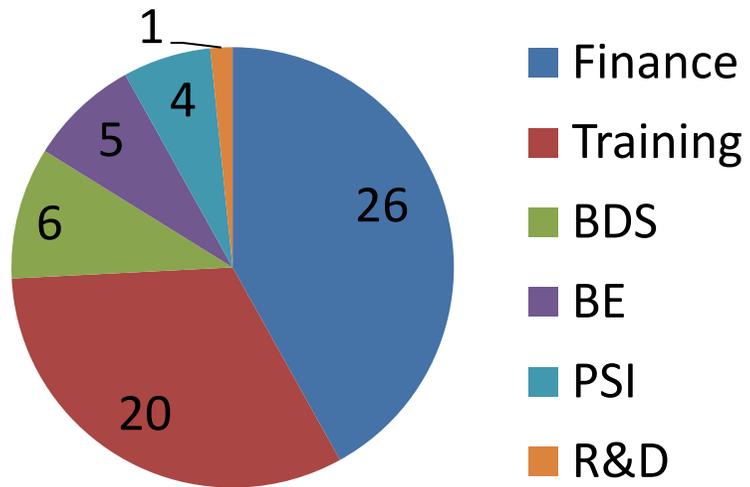
# »» Search results



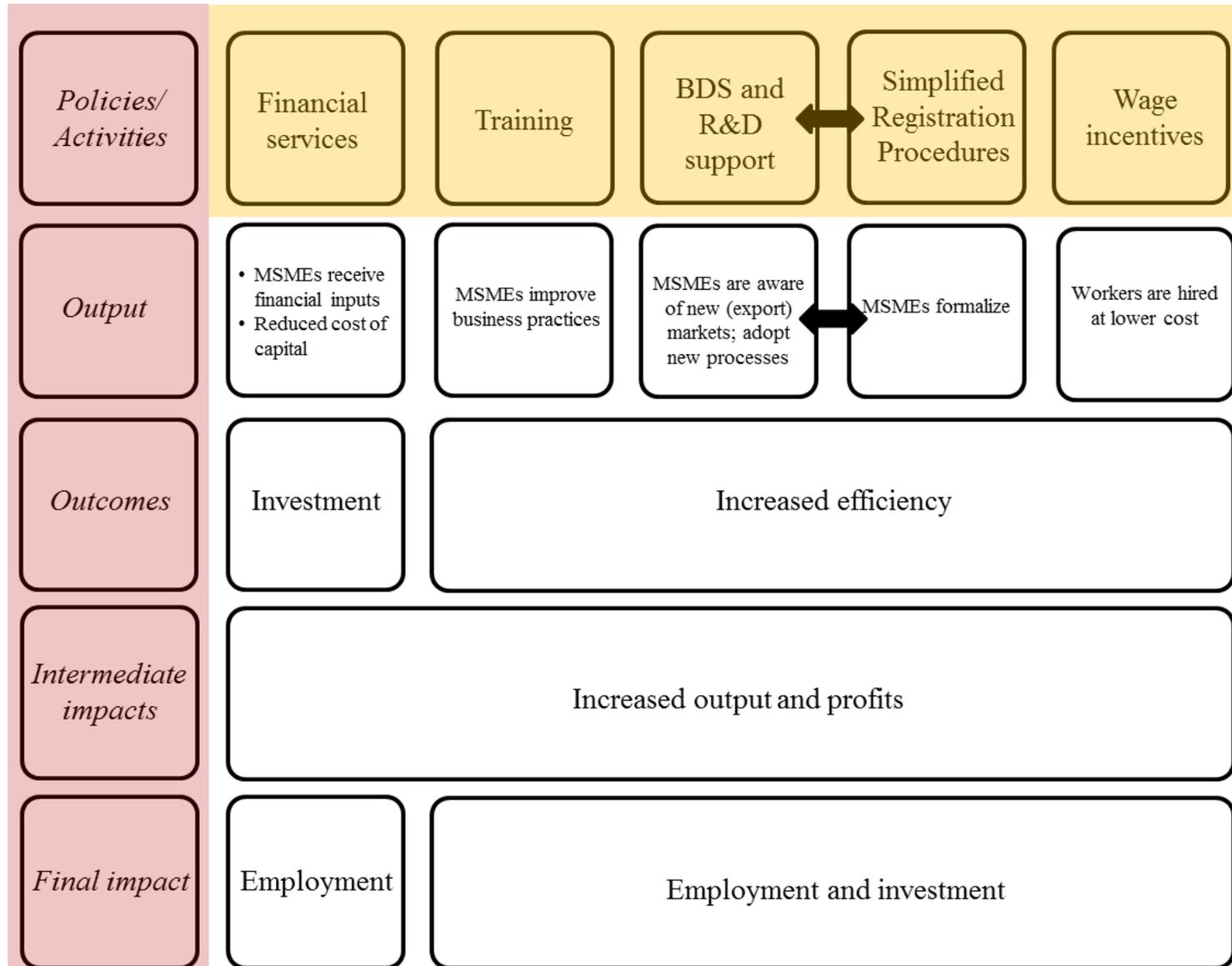
## » Countries covered



## »» CHARACTERIZATION OF INCLUDED STUDIES



# »» Programme Theory (unified framework)



## »» Key findings on employment

### Access to finance and insurance

26 studies, 45 treatment effects: 16 positive, 2 negative, 27 insignificant

- No large employment effects, particularly not in micro-enterprise
- More business creation than hiring of new workers
- Interventions mostly do not have job creation as major objective (but rather income stabilisation, higher family income).
- Larger effect on working capital (inventories) than on fixed capital.
- Partly investment in labour saving not labour increasing technologies.
- Loans often too small and with too short repayment schedules.
- Employment effects larger if owner is male.

## »» Distribution of standardized effect sizes - Finance

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	Count	Share (%)
Negative effect size (<0)	13	23.2
Small effect size (>0, <0.2)	33	58.9
Medium effect size (>0.2, <0.5)	9	16.1
Large effect size (>0.5, <1)	1	1.8
<b>Total</b>	<b>56</b>	<b>100</b>

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## »» Key findings on employment

### Entrepreneur- ship training

20 studies, 28 treatment effects: 11 positive, 17 insignificant

- Most programs produce significant improvements in business skills and behavioural skills, sometimes also higher optimism/motivation.
- In many cases, training seems to enhance the entrepreneurial spirit and forces (potential) entrepreneurs to think more carefully about the business model and its profitability.
- The more tailor-made, but not necessarily the more-complex programs are successful.
- Successful training does not necessarily lead to employment generation: it can even lead to closing down unsuccessful enterprise.
- Training should be substantial (about 1 year, once a week) and specific.
- Tackling finance impediments at the same time, seems to make employment effects more likely.

## »» Key findings on employment

### Business development services and targeted subsidies

10 studies, 19 treatment effects: 12 positive, 1 negative, 6 insignificant

- Targeted subsidies for hiring a worker or for innovations/R&D are generally quite effective in generating employment.
- Subsidies and services should be demand (not supply) driven: tailor-made and focused.
- Wage incentives are generally very „expensive“.
- E.G. the pure wage subsidy program in Turkey entails costs per job-month created that correspond to roughly 94% of the total cost of employing a minimum wage worker.

## »» Key findings on employment

**Business environment: Incentives to formalise**

**5 studies, 6 treatment effects: 5 positive, 1 insignificant (employment effect after formalisation)**

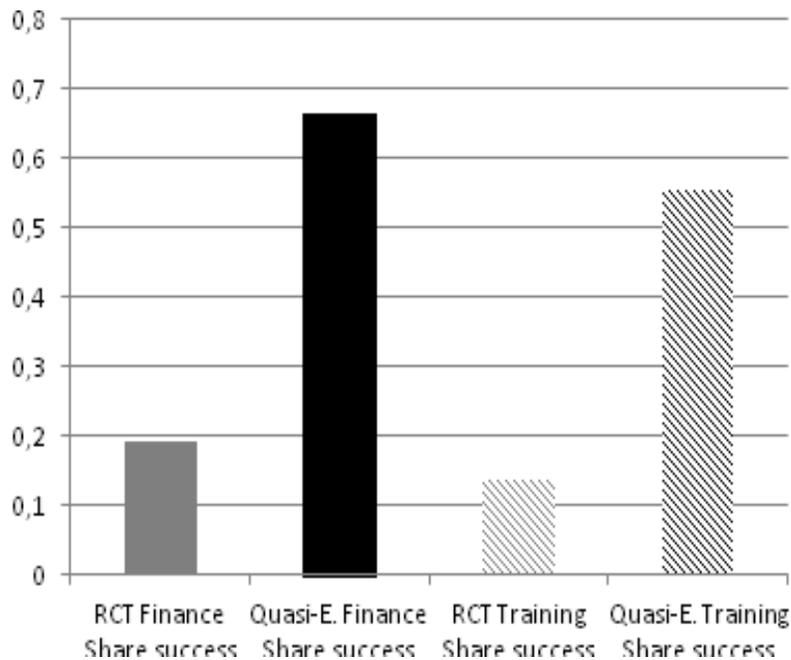
- Only few (larger) and new firms formalise; for microentrepreneurs often formality has more disadvantages than advantages.
- E.g. De Mel et al. (2013a): “Even if the equivalent of one month of the median firm’s profits are offered only around one-fifth of all firms register the business.”

Interestingly, the lack of property rights for the ground they work on is a major deterrent to formalization for many entrepreneurs.

- Formalisation, where it worked, had only modest employment effects.
- Better services that firms gain access to with formalisation offer an incentive to give up informality. They might also contribute to job creation.

## »» The method bias

Studies that are based on RCTs show a lower share of significantly positive employment effects than studies that rely on quasi-experimental methods.



- Do quasi-experimental studies over-estimate employment effects due to un-eliminated biases?
- ...or are employment effects small in RCT-measurements because this method is very often applied to rather small programmes in relatively poor areas
- ... and because they often have low „power“ (i.e. too small samples)?

## »» Concluding remarks

- › It is a long way from policy inputs to employment impacts.  
*It is easier to achieve effects on management practices, sales or profits than to create jobs.*
- › Targeting is key.
- › It is easier to create new businesses than to foster the growth of existing firms.
- › There is almost a complete lack of evidence on long-term effects and cost-effectiveness.



## »» Questions to the audience

- › How can the findings of this review be used to rethink current practice?
- › What are the implications for Sub-Saharan Africa in particular?
- › How important are targeted interventions in comparison to economy-wide policy interventions, such as trade openness, institutional reforms, industrial policies or large scale infrastructure projects?
- › What can implementers and evaluators do to get a grip on long term effects and cost-effectiveness?