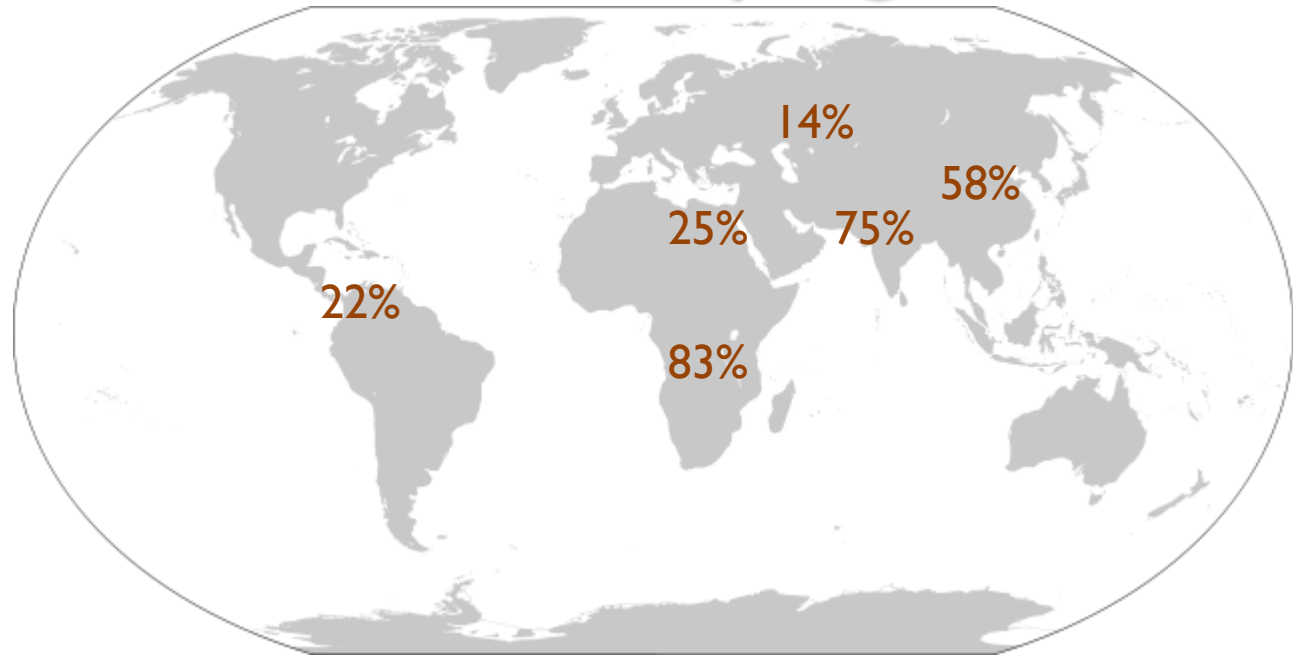


Entrepreneurship and Self-Employment in the Developing World

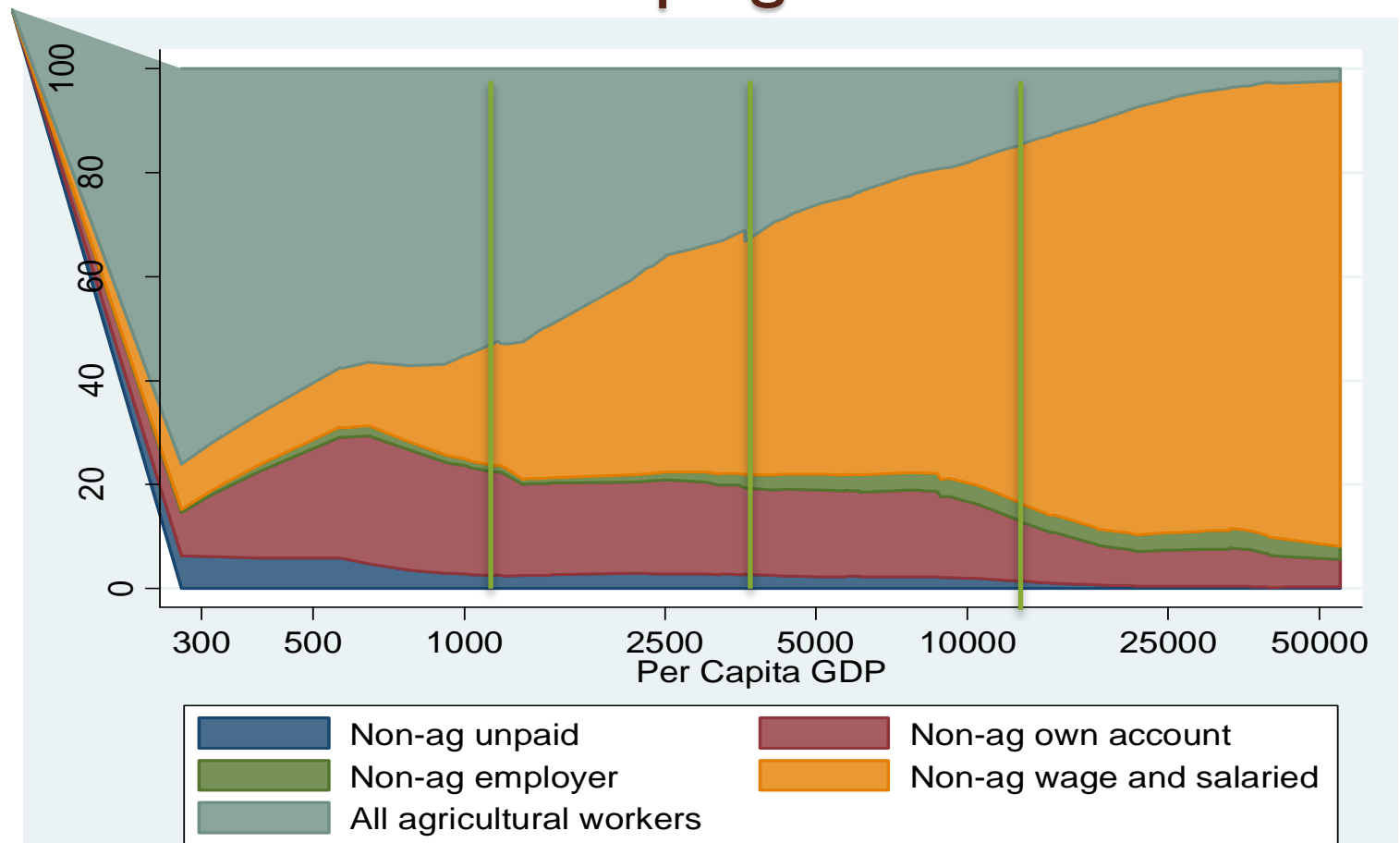


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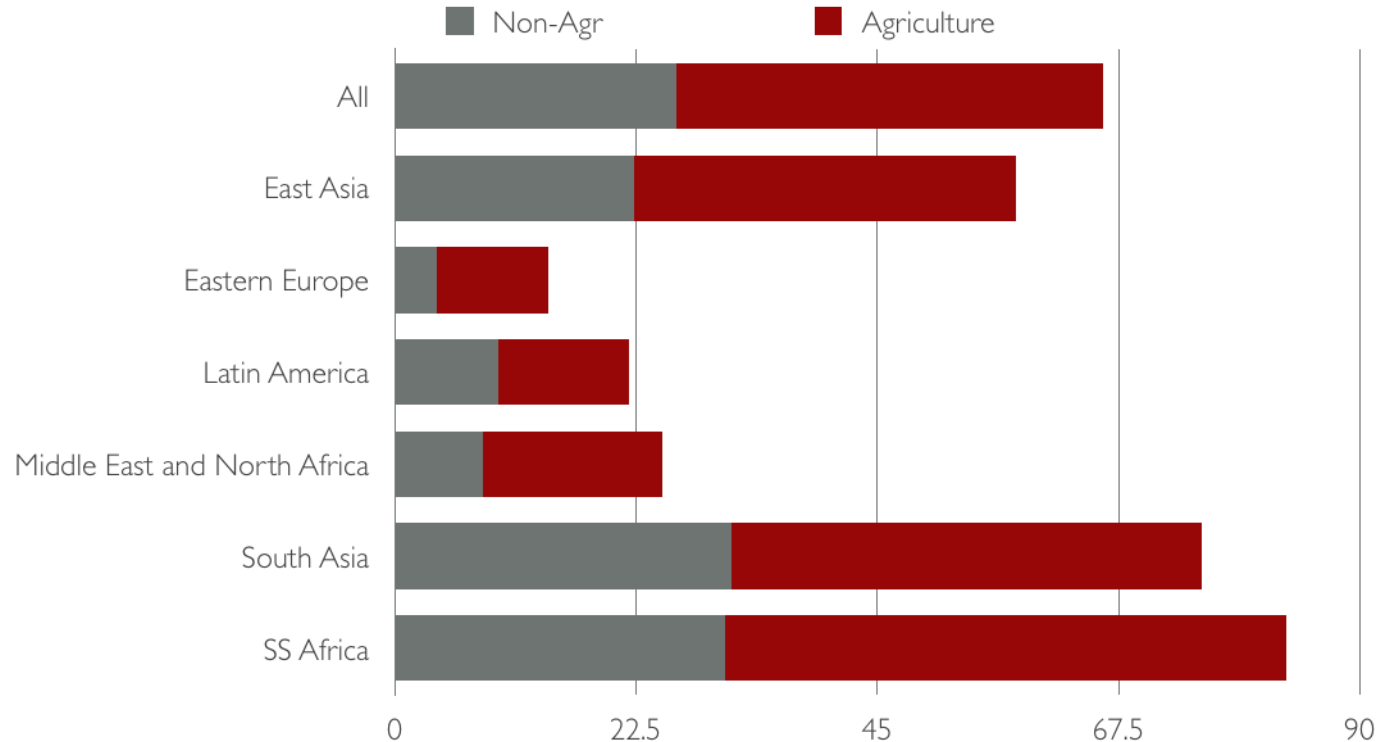
May 7-8, 2014 – Istanbul, Turkey

The primary source of income for households is work.
Self-employment is the main form of work in developing countries.



Source: Gindling and Newhouse (2012)

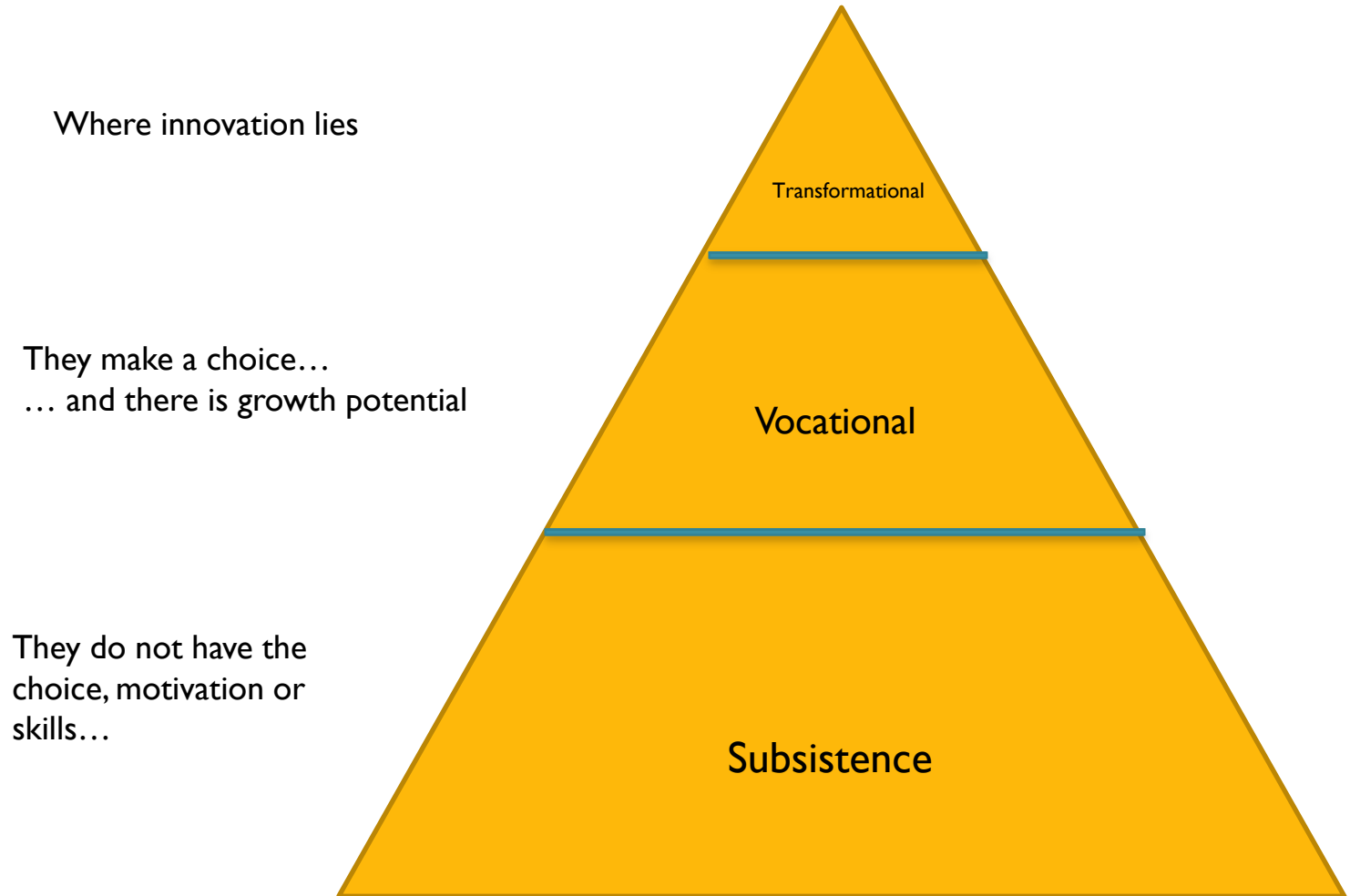
But poverty rates are high among the self employed.



The policy imperative:

Raise household income for the self employed until enough productive wage jobs become available.

Who are these self-employed?



The shares vary
as do the needs and appropriate interventions

What helps entrepreneurs earn more in the developing-world?

Results from a 6-country* study

- *Cognitive Skills?*
 - Literacy and numeracy: **No effect on earnings**
 - Problem-solving and technical (computer) skills: **Earn more**
- *Personality traits?*
 - Hostility: **Earn less**
- *Behaviors?*
 - Perseverance and careful decision making: **Earn more**
- *Education?*
 - Training: **No effect on earnings**
 - Apprenticeships: **Earn more**
 - Working during school: **Earn less**
- *Access to finance?*
 - More household assets: **Earn more**

* Margolis et. al. (2013) for Bolivia, Colombia, Laos, Sri Lanka, Vietnam, Yunnan (China).

Can we cost-effectively identify which type of entrepreneur you are?

- A well designed survey has been shown* to effectively substitute for expert panels and business plan competitions
 - Survey can be administered broadly at relatively low cost
 - Lower-ability entrepreneurs are less likely to participate in a business plan competition (less effective tool)
 - Attitudes, previous experience with bank lending, management practices need to be measured in survey
 - Measured ability does not help distinguish high growth-potential entrepreneurs
- The survey and the experts did equally well at correctly identifying whose enterprise would grow, but neither was particularly impressive
- The ILO “Improve Your Business”-based training program did not improve outcomes

* Fafchamps and Woodruff (2012)

Why don't entrepreneurs, especially transformational and vocational ones, do better?

Individual constraints

- Aptitude
 - Personality
 - Non-cognitive skills
 - Aspiration
- Skills
 - Basic skills
 - Technical skills
 - Business skills
 - Financial literacy
- Social capital
 - Networks, associations
 - Attitudes and norms

Environmental constraints

- Financial services
 - Availability of banking service
 - Access to credits/loan
 - Financial management tools (e.g., debit/credit card)
- Local business environment
 - Regulatory and legal environment
 - Government capacity (corruption)
 - Infrastructure
- Access to markets
 - Inputs/outputs/products
- Cultural factors
 - Gender
 - Social class/status

Do existing entrepreneurship programs improve outcomes?

A study of 37 rigorously evaluated programs* shows mixed results

- Overall
 - Positive and large impact for youth
 - Impact on business knowledge and practice
 - No impact on income or business start-up and expansion
- Targeting to improve specific outcomes?
 - Labor earnings outcomes (household income or assets, profits, consumption)
 - *Training only* works for the educated and urban populations
 - *Training and access to finance packages* help the poor, programs targeting women have failed
 - Labor market outcomes (employment, starting or expanding a business, etc.):
 - *Training and access to finance packages* are best, especially for youth and the poor
 - Business performance (sales, employees, investment):
 - *Access to finance* most effective for women
 - *Training only* works best for existing entrepreneurs

* Cho and Honorati (2013).

So what do we know, what can / should be done?

- Low-end entrepreneurship concerns too many people to ignore
- Many of them are poor, so they need help
- We have some ideas about what can help
- We are starting to develop tools to identify who needs the help

Although the programs that have been implemented so far have not been consistently successful,

We have ideas on what we should be trying to improve for whom, and how to do better.