

“Fostering Entrepreneurship for Inclusive Growth and Poverty Reduction”

International Policy Forum - Santa Cruz, Bolivia, May 7, 2014

Conclusions and recommendations from discussion panels

THE ISSUE

Many antipoverty programs and strategies are designed based on the assumption that lack of capital and skills determines occupational choice, and that, therefore, transferring capital or skills will enable the poor to enter into more productive occupations and lead to sustainable improvements of their livelihoods. Acute importance is also attributed to the role of entrepreneurship, not only in a country's overall socioeconomic development but also, increasingly, as a means to empower the poor and eradicate extreme poverty in developing countries. This is mainly due to global acknowledgement of the success and impact of markets, microfinance programs and institutions.

Whilst most national development and/or poverty reduction strategies now include the objective of increasing entrepreneurship amongst the poor, there is substantial heterogeneity in the types and aims of those interventions (policies or programs) designed and implemented to achieve these objectives.

The last few years have seen rapid growth in the amount of research and number of evaluations of these programs/interventions in developing countries, but most analyses focus on specific aspects/dimensions or types of interventions, and thus tend to provide a “disaggregated” view on the matter. Defining what subset of interventions is best for what kind of individuals and firms, and in what contexts, has been more elusive, as well as what kind of impacts to expect depending on firm size. Another important dimension is how to connect these entrepreneurship interventions with more general job skills interventions, considering that many of the current entrepreneurs were excluded from the formal labor markets.



THE EVENT

On May 7 2014, a special Policy Forum was organized by the **Partnership for Economic Policy (PEP, www.pep-net.org)**, in the context of its 2014 Annual Conference - held in Santa Cruz de la Sierra, Bolivia - in collaboration with the Bolivia-based Institute for Advanced Development Studies (INESAD) and with the support of the Multilateral Investment Fund (MIF) of the IDB Group, IDRC, DFID, CAF and other sponsors.

The event brought together more than 120 participants from different regions of the world – including practitioners, researchers, academics, private sector, policymakers and non-state actors – **to reflect and share experiences on best practices, knowledge gaps and policy options to leverage entrepreneurship for inclusive growth and poverty reduction.**

The conference started with a keynote presentation, which provided an overview of the lessons, challenges and opportunities for fostering entrepreneurship for poverty reduction, and set the scene for the dialogue. This was followed by a series of special plenary sessions, moderated by a facilitator, involving a selected group of experts and panelists from various institutions (including PEP, the World Bank, MIF, UN Foundation, CAF, AfDB, ASEAN, UNIDO, IPA-SME Initiative, YBI and others) to discuss key questions and suggested policy options. The discussion was enriched through comments and questions from participants¹.



CONCLUSIONS & RECOMMENDATIONS

This brief summarizes the key issues discussed and the recommendations proposed by a panel of experts and participants on entrepreneurship during this policy forum.

- 1) Entrepreneurship is variously used to describe different economic agents, facing different motivations. Most firms in the developing world are micro-enterprises, and most micro-enterprises are unipersonal firms, or firms who only employ family members. The decision to run a micro-enterprise, in turn, is driven by different motivations. **Some micro-enterprises are motivated by the desire to start and grow a firm (dynamic entrepreneurs), while others are motivated by the need to generate income to support the family (necessity entrepreneurs).** For this latter group, entrepreneurship may not represent the preferred occupational choice, but rather the best means of generating income, in the face of labor markets that do not reward their skill sets.
- 2) **The different needs and motivations among entrepreneurs require properly targeted entrepreneurship programs.** Training and mentoring programs designed for small, low-growth firms are unattractive for dynamic entrepreneurs, and vice-versa. The evidence available suggests that programs that indiscriminately address the needs of very different types of entrepreneurs are ineffective. The indiscriminate inclusion of heterogeneous firms with limited growth potential in dynamic entrepreneurship programs may attenuate a program's ability to impact firm performance. However, programs that reach low-growing micro-enterprises represent a good opportunity to reach poor beneficiaries and potentially pursue social inclusion objectives. Proper screening mechanisms are important to match programs with the populations that can most benefit from them.
- 3) **The accumulated evidence on managerial skills tells us programs must be sufficiently long in duration and intensity to impact firm outcomes,** yet short or flexible enough to avoid issues of take-up and drop-out. The supply of entrepreneurship programs is over-represented

¹ For more information on the conference program and speakers, refer to the following webpage: <http://www.pep-net.org/events/pep-general-meetings/conference-2014/2014forumrecommendations>

by short entrepreneurship programs. These programs are often successful at producing changes in entrepreneur behavior, yet these changes have infrequently resulted in enhanced business performance, at least in the short-run. Longer and more intense programs have had more success at impacting business outcomes. But these longer programs can also lead to lower program take-up and high drop-out, particularly for women beneficiaries. **Experimentation with innovative training delivery mechanisms is needed to adjust to behavioral (commitment) and time constraints of heterogeneous entrepreneurs.**

- 4) **The available body of high-quality evidence on entrepreneurship programs is relatively sparse, fragmented and distributed across different academic disciplines.** The availability of RCT and other methods to identify causal inference between programs and desired outcomes is still limited. Furthermore, interventions are heterogeneous and are implemented in widely different implementation and policy contexts. **This has significantly limited our learning and our ability to identify more effective entrepreneurship programs and policy design.**
- 5) The lack of conclusive insights and the relatively weak positive evidence on training has led policy-makers and practitioners to experiment with different types of entrepreneurship programs. Recent programs, many coupled with rigorous studies, introduce alternative or complementary mechanisms to improve managerial skills, such as advisory services, mentoring, and coaching. Programs are also innovating with different types of curricula, skills provided, and with different delivery mechanisms, including those that rely on peer and network effects to increase a program's reach. **These more sophisticated programs have the potential to expand the entrepreneurial policy toolkit.**
- 6) **Enhanced access to financial services for SMEs has also shown to complement entrepreneurial training.** Although evidence on the impacts of financial services—particularly microfinance—has been mounting over time, only recently has evidence emerged on the complementarity of financial services and business skills interventions. Recent meta-evaluations have also highlighted the importance of this complementarity. This evidence is, however, stronger for male-run SMEs.
- 7) One potential explanation for the higher effectiveness of SME financial services for male clients may reside in gender-specific bargaining that occurs within households. Female entrepreneurs, particularly among the poor, may have weak bargaining leverage within the household, and therefore may be less capable of preserving the business use of financing, in the face of competing family demands. **Therefore, cash/credit interventions that target female entrepreneurs should consider household bargaining processes that may unequally affect women.** Some evidence shows that the negative impacts of bargaining may be mitigated by offering poor women entrepreneurs in-kind support, which is less easily expropriated than cash.
- 8) **Combining pro-entrepreneurship interventions with employability interventions may be useful in addressing the needs of the necessity-motivated self-employed entrepreneurs.** Labor market imperfections (imperfect information and mobility) often exclude low-skilled, inexperienced, poor individuals from formal employment, leading them to become self-employed. This may be particularly true for women and youth. In these circumstances, the combination of both employability and entrepreneurial intervention may be an efficient way of

reaching a larger number of entrepreneurs, by offering them the flexibility to self-select into each activity. Policies that relax labor market rigidities (e.g. access to information and mobility of labor) can also be a way of improving the efficient self-selection of entrepreneurs into programs which can benefit them.

- 9) Despite the increased volume of applied and academic work promoting effective entrepreneurship, the lack of knowledge sharing has been a limiting factor for better programs and policies. The number of programs offering different types of entrepreneurial support has increased over the decade, as have resources dedicated to studying them. However, the level of information sharing and learning is inadequate across practitioners, academics, and development agencies. **Instruments that promote timely information and data sharing among all relevant stakeholders should be developed to maximize learning from future efforts.** Likewise, more effort should be placed in fostering instances for sharing experiences, particularly those that have the potential to span across countries, regions as well as academic disciplines.
- 10) The state's role in determining strong institutions, rule of law, and rules of the game is important for remedying labor market failures and improving the effectiveness of entrepreneurship programs and policy. However, the specific channels through which these macro factors condition the effectiveness of entrepreneurship and SME policy remain poorly studied. **This is a fertile area for exploiting variation in cross-country governance and institutional characteristics and linking to entrepreneurship and SME policy.**

