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The Lessons from DECFP Impact Evaluations

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Our latest note examines the extent to which lack of financial capital and lack of managerial capital inhibit the growth of small firms in rural Pakistan.

Barriers to Entrepreneurship in Rural Pakistan

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Self-employment accounts for as much as 70 percent of employment in developing countries, especially among low income households. The majority of self-employed individuals, however, operate enterprises that are typically small, without paid employees, and often poorly run.

Donors, financial institutions and governments devote considerable resources trying to improve their efficiency but programs are met with differing degree of success. These programs typically target two main barriers: finance and managerial capital.

Access to credit is critical for business creation and survival, and lack of credit can reinforce poverty if the production technology is non-convex, featuring a region with returns that quickly taper off at low levels of investment and another region with higher returns at levels of investment above some threshold. Removing borrowing constraints could then allow liquidity-constrained individuals to access the more productive technology, increasing their income and reducing the level of poverty.

An alternative view suggests that business skills, or managerial capital more generally, are missing in poor countries.

The Intervention

This project reports on a field experiment that takes both barriers seriously by offering rural clients from the National Rural Support Program, the largest partner organization of the Pakistan Poverty Alleviation Fund, an eight day business training course and access to a loan lottery where eligible clients can borrow up to 7 times the average loan size.

We randomly offered the training to half of 747 groups of borrowers from 5 different branches in three districts. Training sessions focused on business planning, marketing and financial management. After training sessions, the lottery was introduced: loan requests were subject to the usual screening and amounts approved above the usual cycle limit were forwarded to headquarters, where the results of the lottery were maintained. Lottery winners could borrow the approved amount, while those who lost the lottery could borrow up to their maximum loan size, which depended on the number of loans they had previously repaid successfully. The offers of training and larger loans were implemented with a 2x2 design, assigning clients to one of four groups: (i) offered business training (BT) and assigned to be a lottery winner (LW), (ii) BT but no LW, (iii) no BT but LW and (iv) no BT nor LW. By virtue of the design, we can thus test whether BT and LW had reinforcing effects.

Results

We find that offering business training leads to:

- An increase in household expenditures of about 6% or 46 USD per year
- An increase of 0.07 of a standard deviation in the business knowledge index
- An increase of half of a business practice out of four studied.

Do you have a project you want evaluated? DECRG-FP researchers are always looking for opportunities to work with colleagues in the Bank and IFC. If you would like to ask our experts for advice or to collaborate on an evaluation, contact us care of the Impact editor, David McKenzie (dmckenzie@worldbank.org)

- But no significant increases in sales or profits

In addition, the increase in household expenditures is concentrated among self-employed households who can put the training into practice. Business training also enhances group cohesion and improves the general outlook on life.

These effects are mainly concentrated among male clients, however. Among men, business training also leads to a 6% reduction in business failure. Unlike men, women increase business knowledge but show no improvements in any other outcomes. As it turns out, some 40 percent of female entrepreneurs report that their (male) spouses are responsible for all of the business decisions, and, indeed women involved in business spend less time in managerial decisions than their male counterparts. This suggests low decision-making power among women business owners.

We also find little evidence of a technology-based poverty trap insofar as lottery winners showed no significant improvements in household welfare from the extra credit received, suggesting perhaps that the limit on the current loan size already meets the demands of most borrowers.

Finally, business training improved financial decision-making and labor allocation. In particular, among men offered business training, those with low entrepreneurial ability were less likely to borrow during the lottery and devoted less time to the business. This suggests that attending business training helped individuals realize how (un)successful they really were as entrepreneurs, consistent with the practice of many programs around the world that use training as a screening device to later provide additional services, such as credit or mentoring.

Policy Implications

Despite the limited welfare impact of the larger loans, these were profitable to the lender because we find neither an increase in default nor in the workload of credit officers handling them.

In addition, the business training program does not increase disbursement or repayment significantly and thus it is not cost-effective from the perspective of microfinance institution despite increasing household expenditures for (male) clients by more than the cost of training. This may help explain why few lenders offer such business training programs voluntarily (see McKenzie and Woodruff, 2014 for a review).

For further reading see: Giné, X., & Mansuri, G. (2014) "Money or ideas? A field experiment on constraints to entrepreneurship in rural Pakistan" World Bank Policy Research Working Paper No. 6959
McKenzie, D and C. Woodruff (2014) "What are we learning from business training evaluations around the developing world?", *World Bank Research Observer*, 29(1): 48-82
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