

Role of Business Skills and Capital Constraints in Micro Enterprise Development



In brief

- Past research has suggested that business owners face challenges to growth, including a lack of skills, capital constraints and poor self-control.
- This study attempts to evaluate the issues that constrain young entrepreneurs in growing their businesses and attempts to provide some answers as to what can be done to overcome constraints.
- This project will aid the ILO in developing their training programs to be more effective.
- It is not easy for small business owners to save the capital necessary to expand their businesses. This research will investigate how these constraints interact with behavioural and family expectations.
- This evaluation will assist policymakers in the following ways:
 - The business skills training component will provide evidence as to whether business skills can be taught, and if so, what they can do to benefit business owners.
 - The cash grants component will provide evidence as to the role of credit constraints in business growth, and if ending these constraints is good for business expansion.
 - The loan component will provide evidence as to whether enticing a great expansion of MFIs will contribute to business growth, rather than cash grants.
- This project is not yet ready for dissemination.

Policy Motivation for Research

Recent research suggests that small enterprises in developing countries face a number of challenges to growth, including lack of skills, capital constraints and poor self-control. The “Role of Business Skills and Capital Constraints in Micro Enterprise Development” project is a rigorous evaluation of the issues that constrain young entrepreneurs, using a gold standard methodology to understand what constrains businesses from growing, and what can be done to overcome these constraints. The evaluation uses a number of novel approaches to understand what constrains entrepreneurs.

Policy Impact

The ILO, who has developed such training programs in over 40 countries in the last 20 years, is interested to understand the impact of such programs, and if there is a more cost effective approach. This project will help the ILO further develop their trainings to improve effectiveness. These results will also be transmitted to the other organizations that make up the audience of this program in the hope it will help develop their programs further as well.

Audience

“The Government of Uganda has expressed interest in economic development focused on youth employment and entrepreneurial development”

The wider development community, including NGOs and international organizations, will be interested in the results. The Government of Uganda has expressed interest in economic development focused on youth employment and entrepreneurial development. Uganda has a fast-growing population of youths but few options for formal sector employment. The Government of Uganda has targeted youth employment as a development priority to continue its economic success. Evaluation findings will be of particular interests to private organizations investing in entrepreneurship and enterprise development. Microfinance institutions will be attractive to learn on ways for attracting and serving youth as potential clients in a win-win perspective.

Policy Implications

- Business owners face constraints to expansion. It is not easy for small business owners to save the capital necessary to expand their businesses. This research will show how these constraints interact with competing behavioural and family expectations.
- These constraints may be alleviated with the right policy. This project will develop concrete information to understand what is the best way to overcome these constraints, and what it is that organizations can do to help businesses develop.

Implementation

“The results of the loan component of this evaluation will suggest to policy makers if...enticing greater expansion of MFIs will contribute to business growth”

- Action point 1: The results of the business skills training component of this evaluation will suggest to policy makers if business skills can be taught, and if so, what they can do to benefit business owners.
- Action point 2: The results of the cash grants component of this evaluation will suggest to policy makers the role credit constraints play in business growth, and if ending these constraints is good for business expansion.
- Action point 3: The results of the loan component of this evaluation will suggest to policy makers if, rather than simply handing out cash, enticing greater expansion of MFIs will contribute to business growth.

Dissemination

The project is not yet ready to be disseminated. When it is read, we would like to send the results to a number of organizations, including the national government in Uganda, which has demonstrated great interest in the research. Planned engagement strategies involve other activities of the ILO and YEN with young people, youth entrepreneurship practitioners, and researchers country-wide, including workshops and seminars under a Competitive Grant Scheme for Youth Organizations and YEN Fund for Impact Evaluation in Youth Employment.

The study’s communication strategy will rely heavily on existing communication tools of the YEF, which will extensively publicize activities and results in massive means in Uganda, Tanzania, and Kenya.

Communications with local, district/province, and national level audiences in Uganda will be done jointly with the National Curriculum Development Center. The communications will focus on dissemination of results to relevant stakeholders. Communications of results at the global level will be undertaken by the different agencies and institutions involved in the research, namely the ILO, the Youth Employment Network, and the World Bank. Dissemination mechanisms include forums and conferences.

Further Readings

There are three inter-related areas of research that this project fits within. First, the cash grant literature, including work by Suresh de Mel, David McKenzie and Chris Woodruff, has found large effects from cash infusions into male run businesses, but modest to zero effects for women. Second, microfinance research, while still relatively new, has been spearheaded by Dean Karlan, who has worked with MFIs in Latin America and found little welfare effects, though some positive consumption effects. Finally, the research on business skills training has not included a gold standard design and so is not clear. The work of Chris Blattman and this author suggest some impacts from training, but the evidence is still not strong.

About the authors

Nathan Fiala conducts research in Africa and Asia in order to develop answers to fundamental questions about microenterprise development, environmental economics, post-conflict recovery and community governance. His work has been published in the *Quarterly Journal of Economics* and *Ecological Economics*. He is currently a post-doctoral fellow in the Development and Security Department at the German Institute for Economic Research (DIW Berlin). He received his PhD in Economics from the University of California, Irvine in 2009.

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