ENTREPRENEURSHIP AND JOBS

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LARGE SELF-EMPLOYMENT: A COMMON FEATURE

Own-account workers represent between a fifth and a third of employment in developing economies

Employment by income level

In OECD countries, lower but still significant: between 5 to 25 percent

Source: Filmer and Fox (2014) - estimates based on GHS 2010 - and authors’ calculation based on the GHS dataset (2013/14) dataset.
The country: low unemployment rate, large share of wage employment, 40 percent of employed population in self-employment.

You are working for the Ministry of Employment.

The Minister: “We need to create more and better jobs in our country. The share of self-employment is large: I think the way to go is to support this sector.”
GOOD OR BAD SUGGESTION?

Let’s take 2 min to discuss in small groups
OBJECTIVES OF THE COURSE

• Better define entrepreneurship
• The right questions: Target group? Objective?
• Examples of interventions
• Tips
SELF-EMPLOYMENT:

Occupation to wait for better opportunities in wage employment?

OR

A stepping stone for entrepreneurship?
WHAT DO ECONOMISTS SAY?

**TOKSMAN**

Self-employed are waiting for better opportunities in formal sector.

The army of own account workers is marginalized and buying time until an opportunity for wage work arises: “Informal activities [arise from] the failure of the economic system to create enough productive employment”.

Entrepreneurs by necessity.

**DE SOTO**

Self-employed are constrained entrepreneurs.

Self-employed could well run larger enterprises but they face more constraints: “[The own- account workers] are in the informal sector because they have no choice. They have no access to credit. They cannot get their business application approved. Or they are just prohibited from opening such a business. They have nowhere else to go”.

Entrepreneurs by choice but entrepreneurs constrained.
WHY CARE?

**TOKSMAN**

Entrepreneurs by necessity

The priority should be on creating formal jobs.

**DE SOTO**

Entrepreneurs by choice

The priority should be on leveraging the barriers for these entrepreneurs.

Minister, supporting self-employed will not lead to any job creation. We should rather help firms directly.

Minister, you are totally right. Let’s give grants to all self-employed.
EXAMPLE FROM SRI LANKA

Researchers administered a screening survey in selected enumeration areas with a high incidence of self-employed to constitute a representative sample of micro-enterprises.

- A **small-sized grant** (equivalent to USD100-USD200) to randomly selected entrepreneurs. Return to capital of 4.6% - 5.3% per month. *De Mel et al. (2008)*

- A **business training** (ILO Start-and-Improve Your Business program) for female entrepreneurs. Changes in business practices but no effect on business profits, sales, and capital stock. *De Mel et al. (2014)*

- **A business training + grant** (130 $). Large and significant short-run improvements in business performance but gains dissipated after two years of training. *De Mel et al. (2014)*

- **Wage subsidies.** No lasting impact on employment, profitability or sales. *De Mel et al. (2016)*
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*Source: Surveys in Sri Lanka (De Mel, McKenzie and Woodruff)*
EXAMPLE FROM NIGERIA: THE YOUWIN! PROGRAM

50,000$ grant to entrepreneurs (new and existing).
THE ANSWER: A BIT OF BOTH...

Theory of two “species” of entrepreneurs that coexist (Schoar, 2010 and De Mel et al., 2010).

In Sri Lanka about a third of own-account workers are similar to SME owners while 70 percent are similar to wage workers.

<table>
<thead>
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<th>Table 2.8 Species classification analysis</th>
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<td>Variable set used in classification</td>
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<td>Ability measures only (1)</td>
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<td>Family background only (2)</td>
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<td>Entrepreneurial attitudes only (3)</td>
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<td>All variables combined</td>
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*Source: De Mel et al. (2010)*
Microenterprises/Self-employed are more likely to transition into wage earning and unemployment than to employers

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<th>Status in 2005</th>
<th>Status in 2011</th>
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<tr>
<td></td>
<td>Enterprise with hired labor</td>
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<td>Enterprise with hired labor</td>
<td>492</td>
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<tr>
<td>Enterprise without hired labor</td>
<td>545</td>
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<tr>
<td>No enterprise</td>
<td>726</td>
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<td>Total</td>
<td>1,763</td>
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Source: Sharma (2018)
TYPES OF SELF-EMPLOYED AND JOBS

- **START-UPS**: 2.5 million net new jobs per year and about 3.5 million jobs.

**MICRO-ENTREPRISES**
- Rarely create jobs but increase in earnings for own-account workers.

**INCOME GENERATING ACTIVITIES**
The Minister: “We need to create more and better jobs in our country. The share of self-employment is large: I think the way to go is to support this sector.”

Minister, you have a valid point. Depending on your objective and your budget, we can probably design a program that fits different types of entrepreneurs.
TYPES OF SELF-EMPLOYED AND JOBS

- START-UPS
- MICRO-ENTREPRISES
- INCOME GENERATING ACTIVITIES

Job creation vs Entrepreneurial mindset
Let’s take 5 min to discuss in small groups:
OBJECTIVE
PROFILE OF BENEFICIARY
POSSIBLE INTERVENTIONS
POSSIBLE INTERVENTIONS
Let’s hear from the IGA groups
INCOME GENERATING ACTIVITIES

Entrepreneurship, one of many other options

**Objective:** Lever people out of poverty and Increase their revenues

**Target group:** Likely to be vulnerable households, less educated, gender (female), family background, entrepreneurial characteristics, location, other determinants linked to the local economy

**What we can do:**
- Safety net programs
- Graduation programs
- Productive inclusion programs (usually includes some modules on entrepreneurship)
- Entrepreneurship programs

**Details on entrepreneurship program:**
- Beneficiaries likely to face many constraints: skills, mindset, finance, access to market
- **Interventions probably need to address all of the above.**
ENTREPRENEURSHIP FOR IGA

YOUTH OPPORTUNITIES PROGRAM in Uganda

Young adults to form groups and prepare proposals for how they would use a grant to train in and start independent trades: successful applicants received a one-time unsupervised grants worth $7,500 ($382 per member - average annual income).

Impacts after 4 years – compared to control group:
- + 57 % capital stocks
- + 38 % earnings
- + 17 % more hours of work
- More “firm-like” – 40-50 % more likely to keep records, register their business
- No impact on employment
A transition: 40 percent of firms die in their first 5 years of operation

Source: McKenzie and Pauffhausen (2019)
Let’s hear from the Microenterprise groups
**Objective:** Create sustained jobs and a stepping stone to small firms

**Target group:** Mix of uneducated and educated, driven for entrepreneurship, family background (friends/family entrepreneurs)

**Details on entrepreneurship program:**
- Analyze the constraints

- Business knowledge
- Entrepreneurial mindset
- Business practices
- External factors that limit access to finance
- External factors that limit access to labor

- Reduction of costs
- Access to finance
- Increase of sales
- Development of new products/services

- Productivity gain
- Employment growth
- Business survival
The intensity of the training program matters: intensive courses in South Africa

Here 100 hours in one topic compared to 48 hours in Calderon et al. (2012) and De Mel et al. (2012)

Source: Anderson-McDonald et al. (2014)
FRICHTIONS ON LABOR MARKET

Search costs hinder small firms’ ability to hire workers - Ghana

Program randomly placed unemployed youth people as apprentices in small firms (reducing search costs) and provided a novel worker screening technology to firms (matching better firms with apprentices).

Impacts:
- Retention
- Gains in terms of revenues and profits for firms
- Higher gains for firms treated with high cognitive ability apprentices.

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Number of Firms: 1014, 1014, 1014, 1014, 842, 916
Total Observations: 1758, 1758, 1758, 1758, 842, 916
Mean of Dep Variable: 5.61, 5.61, 5.61, 5.61, 5.74, 5.49
R squared: 0.30, 0.39, 0.39, 0.32, 0.41, 0.39
First Stage F Stat: 17.86, 6.41, 9.66
Lottery FE: NO, YES, YES, YES, YES, YES
District FE: YES, NO, NO, NO, NO, NO

Source: Hardy and McCasland (2015)
**Objective:** Create sustained jobs and a stepping stone to small firms

**Target group:** Mix of uneducated and educated, Driven for entrepreneurship, Family background (friends/family entrepreneurs)

**Details on entrepreneurship program:**
- Analyze the constraints
- Push for ideas/business plans that are linked to expansion (new product, new service, expansion of activities with a new production line, new region, export market)
MICROENTERPRISES

Objective: Create sustained jobs and a stepping stone to small firms

Target group: Mix of uneducated and educated, Driven for entrepreneurship, Family background (friends/family entrepreneurs)

Details on entrepreneurship program:
- Analyze the constraints
- Push for ideas/business plans that are linked to expansion (new product, new service, expansion of activities with a new production line, new region, export market)
- Important ideation phase for new entrepreneurs
Let’s hear from the Startups groups
STARTUPS

Objective: Discover unicorns and Promote job creation at large scale

Target group: Likely to be educated, Graduates, Driven for entrepreneurship, Family background (friends/family entrepreneurs), Groups of people, Not their first business

Options to support startups (not mutually exclusive):

• Promote the creation of venture capital & equity funds
  See projects in Morocco (Financing Innovative Startups and SMEs) or Tunisia
• Support incubators and accelerators (See South Africa Jobs Fund or direct call for proposal to develop an incubator, hub, accelerator program, etc)
YCOMBINATOR (YC)

TOP YC COMPANIES THAT ARE HIRING
JOBS FUND

JOBS FUND – South Africa

Objective: The objective of the Jobs Fund is to co-finance projects by public, private and non-governmental organizations that will significantly contribute to job creation. This involves the use of public money to catalyze innovation and investment on behalf of a range of economic stakeholders in activities that contribute directly to enhanced employment creation in South Africa.

As of now: 150 projects for about 100,000 jobs

Principles:

✓ Selection of projects based on the number of potential jobs being created
✓ Grants being disbursed conditional upon jobs being created
✓ A specialized governmental agency hosted by the Treasury
STARTUPS

Objective: Discover unicorns, Innovation and Promote job creation at large scale

Target group: Likely to be educated, Graduates, Driven for entrepreneurship, Family background (friends/family entrepreneurs), Groups of people, Not their first business

Options to support startups (not exclusive):

- Promote the creation of venture capital & equity (See projects in Morocco (Financing Innovation)
- Support incubators and accelerators (See Some incubator, hub, accelerator program, etc)
- Unemployment benefits (France, Germany)
MAKING THE CUTS
WHO’S WHAT?

Crystal ball, yes
What else?
Ideas?
BUSINESS PLAN COMPETITIONS

**Tunisia**
Government Reform in 2009 introducing “entrepreneurial thesis” for 3rd year university graduates; WBG TA for design, advise, randomized impact evaluation and 2 qualitative evaluations. WBG contributions $0.612 mio.

**South Sudan**
South Sudan Trust Fund: Business Plan competition

**Somalia**
Somalia Trust Fund: Business Plan competition in Hargeisa and other regions ($23.1 mio); existing businesses

**Regional Development Marketplace in West Africa 2006: Innovation in Entrepreneurship**
Senegal, Benin, Burkina Faso, Mali, Niger: two stage competition with regional competition in Bamako

**Benin**
Competitiveness and Integrated Growth Opportunity Project ($25 mio): $6 mio contract with Technoserve signed to implement BPC, under implementation;

**Cote d’Ivoire**
State and Peace Building Fund ($2.5 mio), Education project Business Edge, total $3 mio: completed; Youth entrepreneurship competition;

**Nigeria**
Growth and Employment Project (GEMS) ($160 mio); parallel financing with DFID including three rounds of “You Win” business plan competitions; Bank project is financing fully the 3rd round ($62 mio).

**Gabon**
$4.2m RA implemented jointly by WB and IFC teams; business plan competition is planned.
The evidence is mixed:

- Fafchamps and Woodruff indicate that a thorough questionnaire on the firm and entrepreneur is more predictive than a jury (training program)

- Business plan scores in Nigeria do not explain subsequent firm growth or business survival (YouWin program: training and grant)

- Judges score does correlated highly with number of investment readiness outcomes over subsequent 6 months for Investment readiness in Balkans (training for pitching followed by possible equity investment)
WHAT’S WRONG WITH THIS METHOD?

- Difficult to assess whether an idea is a good idea or a bad one: even for professionals like Venture capitalists or Private equity managers
- A ‘good’ entrepreneur adjusts his idea along the way
- Very expensive method (especially if combined with jurys)

Kerr et al., 2014
WHAT CAN WE DO?

Which image best represents how people in your community behave?

[Images of individuals and houses]

PSYCHOMETRIC TESTING

Could use visuals and be administered to various types of entrepreneurs.

Figure 2 - Attention and Default

[Graph showing relative risk of default]
TYPES OF SELF-EMPLOYED AND JOBS

- **START-UPS**
  - Private sector led: VC, incubators, accelerators, etc

- **MICRO-ENTREPRISES**
  - Selection process (business plan competition, online registration, training programs)
  - Psychometric testing
  - References

- **INCOME GENERATING ACTIVITIES**
  - No selection on high-growth criteria: vulnerability, poverty line, etc

Entrepreneurial mindset vs. Job creation
TYPES OF SELF-EMPLOYED AND JOBS

Job creation

START-UPS

MICRO-ENTREPRISES

Moving the frontier?

Entrepreneurial mindset

INCOME GENERATING ACTIVITIES
MOVING THE FRONTIER?

THE PERSONAL INITIATIVE TRAINING

Self-starting: be different, do not mimic others, and think creatively

Future thinking: be able to identify new trends, technological changes but also future barriers to growth

Overcoming barriers: be persistent when problems happen, learn from mistakes

Togo, Uganda, Ethiopia, Ghana, Mexico

https://pi-training.org/

Quantile Treatment Effects on Monthly Profits

Source: Campos et al. (2017)
ENTREPRENEURSHIP AND JOBS

▪ SELF-EMPLOYMENT SECTOR NOT A HOMOGENEOUS SECTOR
  ▪ We can categorize three types of entrepreneurs: income-generating, micro-enterprises and startups
  ▪ Each category delivers one objective: increase in revenues (while waiting for better opportunities in wage employment), job creation, innovative and massive job creation

▪ THE RIGHT INTERVENTION TO THE RIGHT CATEGORY
  ▪ Income-generating activities: various possible interventions
  ▪ Micro-enterprises: could lead to job creation but programs need to address the bidding constraint
  ▪ Startups: incubators, unemployment benefits, etc

▪ IMPORTANCE OF SCREENING
THANK YOU

Contact: jbuba@worldbank.org
General studies on Jobs and Private sector development:

Studies looking at women:
Hallward-Driemeier et al. 2013. Women’s Legal Rights over 50 Years Progress, Stagnation or Regression?
Africa Gender Innovation Lab. 2019. Profiting from Parity. Unlocking the Potential of Women’s Businesses in Africa
COST PER JOBS

- Programs targeting mainly SME
- Programs targeting mainly microenterprises
- Programs targeting transition to self-employment