
Development Interventions to Support MSME cooperatives in lower-middle income countries

A Systematic Review

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Introduction

Global Affairs Canada (GAC) has identified the promotion of micro-, small and medium-sized enterprises (MSMEs) as a priority in its Vietnam portfolio with several ongoing MSME focused interventions. These interventions seek to increase economic opportunities and improve social welfare, including for marginalized groups such as women and ethnic minorities, by assisting in the creation of an enabling business environment, training human capital, and easing access to credit. These priorities line up with the World Bank Enterprise Survey of Vietnam (2015), which cited access to finance and education of the workforce as major constraints to economic growth. The following report analyzes impact evaluations and studies to determine which treatments have been most effective at promoting MSME development.

The report begins with a methodology section outlining the selection process for studies to be reviewed. From the seven studies chosen, as well as a synthesis of two existing systematic reviews, the outcomes of interventions are summarized. Seven treatment methods are broadly divided into finance and entrepreneurship training. Studies looked for evidence to support seven outcomes related to MSMEs, in addition to four social welfare outcomes. Results are highly heterogenous, but indicate that the most impactful treatments combine finance with training. Furthermore, special attention is given to studies carried out in transition economies. After an analysis on the summary of results, findings are then applied to the Vietnam context with consideration to GAC's Vietnam portfolio. The final section proposes recommendations for designing future GAC interventions.

Methodology

A total of seven impact evaluations were analyzed in addition to two systematic reviews. These sources were chosen from a total of 650 records from interdisciplinary databases such as Econlit and PAIS. From our general search, we were able to create a long list of 29 papers on the basis of their title and abstract. With the application of our inclusion and exclusion criteria, we were able to finalize a list of nine papers.

Inclusion and exclusion criteria

We limit our search to only include evaluations in lower-middle income countries and countries with transition economies. These are identified by the World Bank's statistics on each country's Gross National Income and are classified as follows; low income (USD 1025 or less per year), low middle income (USD 1026-4035 per year) and upper middle income (USD 4036-12,475 per year). We include transition economies as well as they demonstrate similar characteristics to the low income context. These classifications help to include evaluations that are relevant to Vietnam's current economic standing and provide the framework for the studies external validity. Furthermore, we use the World Bank's regional definition to classify enterprises based on their numbers of employees. They begin with micro enterprises having 1-9 employees, small enterprises having 10-49 employees, and medium sized firms having 50-249 employees.

Furthermore, we used two methods of data collection for our analysis. Studies who made a comparison to the counterfactual, by using treatment and control groups, were examined in addition to studies conducted ex post that use propensity scores or the difference in difference model to analyze the data. In regards to the time period used, studies published between 2006 and 2016 were examined. This time period was chosen due to the fact 2006 is the first year of the Eighth Five-Year Plan announced by the government of Vietnam.

Keywords: Economic assistance, international relief, foreign development, economic aid, employment creation, international aid, assistance program, SME, MSME, enterprise and microfinance

Selection of Studies

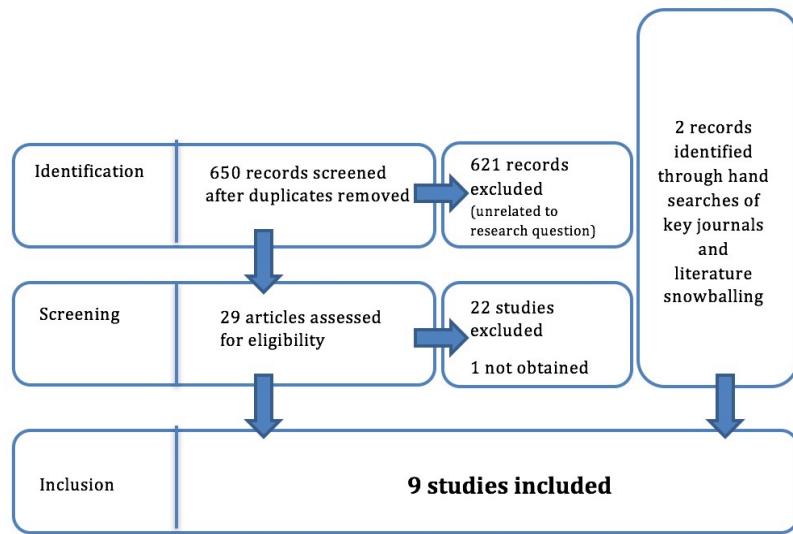


Table 1 - A summary of the nine studies included in this review

Paper	Study Design	Setting	Intervention type(s)
Aivazian and Santor (2008)	Propensity score matching, difference in differences	Sri Lanka	Subsidized credit to MSME's
Augsburg <i>et al.</i> (2012)	Randomized controlled trial	Bosnia and Herzegovina (transition economy)	Subsidized individual-liability credit
Bah <i>et al.</i> (2011)	Propensity score matching, difference in differences	Macedonia (transition economy)	Training with finance
Banerjee <i>et al.</i> (2015)	Randomized controlled trial	Hyderabad, India	Group Liability microcredit
Berge <i>et al.</i> (2012)	Randomized field experiments, intention to treat estimators	Tanzania (transition economy)	Training, grants
Cancino <i>et al.</i> (2015)	Propensity score matching, difference in differences	Chile	Training with grant
Cho and Honorati (2014)	Meta-regression analysis	Low and middle income countries	Multiple

Paper	Study Design	Setting	Intervention type(s)
Grimm and Paffhausen (2015)	Meta-regression analysis	Low and middle income countries	Multiple
Kondo <i>et al.</i> (2008)	Propensity score matching, difference in differences	Rural Philippines	Subsidized group-liability credit

Table 2 - Findings on impacts of financial and training interventions on various outcomes

Paper	Evidence of Impact	Intermediate outcomes	MSME performance	Social Welfare
Aivazion and Santor (2008)		+ MSME investment	No effect on MSME profitability	
Augsburg <i>et al.</i> (2012)	+ Self-employment	- Consumption	No effect on MSME profitability, sales	- Education
Bah <i>et al.</i> (2011)	+ Employment			
Banerjee <i>et al.</i> (2015)	+ Hours worked	+ MSME investment, - consumption	No effect on MSME profitability, sales, + MSME creation	No effect on poverty
Berge <i>et al.</i> (2012)		+ MSME investment (grant) + Business practice, knowledge (training)	+ MSME profitability (training)	No effect on female empowerment
Cancino <i>et al.</i> (2015)	+ Employment	No effect on long term investment	No effect on MSME profitability	
Kondo <i>et al.</i> (2008)	+ Employment for existing MSMEs	+ Savings	+ MSME creation	No effect on education, health and poverty

Findings

A) Description of the Evidence Base

Evidence on MSME interventions can broadly be divided into studies and impact evaluations on the effects of finance interventions, training interventions, and approaches combining training and finance. Additionally, governance reform interventions have attempted to improve business environments to promote MSME growth. The latter category is extremely context-specific and, working at the macro level, is not suited to impact evaluations attempting to scientifically determine causality through large-N analysis.

Financial interventions that were analyzed used three strategies. These include; 2 papers on group-lending microcredit, 1 paper on individual-liability microcredit and 1 paper on subsidized credit to SMEs. We have found seven possible outcomes with the introduction of financial interventions in our papers as the dependent variables of the studies. The outcomes of interest of these interventions were: employment (3); MSME profitability/productivity (3); investment and savings (3); education (3); firm creation (2); firm growth (1) and poverty (1). There seems to be most evidence on the effects on employment, however, these results do not provide positive results on employment creation. It should be noted that results found with strong conclusions take place in highly specific contexts and may not hold external validity to the context of Vietnam.

In contrast to the literature on pure financial interventions, the evidence for the effectiveness of training programs to improve the performance of MSMEs, though still heterogeneous is stronger. The following will summarize results from studies on various entrepreneurship training programs. One study evaluated separate treatments of entrepreneurship training and grants to micro-entrepreneurs; one study evaluated an intervention providing grants with entrepreneurship training to MSMEs; one study evaluated an intervention of finance with entrepreneurship training to MSMEs. The outcomes of interest of these interventions were: employment creation (2); MSME profitability/productivity (2); MSME investment (2); business practices (1); and business knowledge (1). Additionally, one study evaluated female empowerment as an outcome. The intervention methods are shown in Table 1, and outcomes in Table 2.

The findings of existing systematic reviews will also be synthesized to better determine the effectiveness of different intervention strategies. While certain strategies have been found to be more or less effective regardless of context, it should be noted that the benefits of entrepreneurship training programs are highly context-dependent, and additional weight should be given to interventions carried out in contexts similar to Vietnam—that is lower middle-income transition economies.

Most program objectives for financial interventions were focused on the impacts of credit programs offering finance for micro-, small and medium-sized enterprises. These interventions seek to improve access to funding in the support of MSMEs. The studies analyzed the economic effects of micro financing in the short and long run cycles. Findings

were then used to determine if the interventions were able to target the programs intended goals.

The overarching goals for the interventions were to either reduce poverty and/or create employment. These two themes were central in each study as the main objectives of the finance interventions. The studies also included a variety of minor themes such as the improvement of economic efficiency, effects on savings and consumption and enhancing incomes in the areas identified with the lowest average incomes. Through their findings in these areas, the authors used their results to evaluate the impacts of finance interventions on these various dependent variables.

The category of interventions that will be grouped as training programs are actually a very diverse ensemble of intervention types. Cho and Honorati divide non-finance interventions into technical and vocational training, business and managerial training, financial skills training, and counselling.¹ Technical and vocational training interventions are often targeted at youth and have as their primary objective the learning of specific skills for the purpose of gaining employment rather than creating an enterprise. Business and managerial training covers general business practice, marketing and customer relations. Financial skills training is grouped with long term enterprise growth strategies. Lastly, counselling describes the most personalized and extended interventions providing evolving advice either to individuals seeking employment or to owners and managers of MSMEs. The objectives of these interventions include a mix of labour market income and profits, labour market activities, business performance, business practices, financial behaviour, and entrepreneurial attitude.²

For certain training interventions, MSME related objectives were secondary to poverty alleviation, employment generation, female empowerment, and other social welfare objectives. This review will focus on training interventions' effects on MSME indicators, though such indicators may have not been the primary focus of every intervention. These indicators include MSME productivity, business knowledge, and investment behaviour of firms. Additional social welfare outcomes will be briefly discussed.

i) *Finance Interventions*

The studies used a variety of qualitative and quantitative data collection methods to evaluate the outcomes of the finance interventions. Beginning with a study conducted by Augsburg et al., in Bosnia and Herzegovina, that used randomized control trial (RCTs) to examine the role of microcredit on poverty reduction through micro-sized businesses. The intervention provided loans to marginalized individuals that based on the regular screening process, would not receive regular loans due to a lack of collateral.³ This differs from the more standardized method used of evaluating the credit history of the loan applicant. A total of 1,198 marginal loan applicants were accepted and interviewed for the baseline survey to

¹ Yoonyoung Cho and Maddalena Honorati, "Entrepreneurship programs in developing countries," 112.

² Ibid.

³ Augsburg et al., "Microfinance at the margin: experimental evidence from Bosnia and Herzegovina," 5.

be conducted. Then by using the randomization process, fifty percent of applicants were used as the treatment group who received the loan and the other fifty percent comprised the control group who did not receive the loan.⁴ When conducting the follow up interviews, the attrition rate was relatively high at 17%. This, however, was adjusted by offering a phone card with a value of ten euros by a senior interviewer which adjusted the rate to 10%.⁵ It is also significant to indicate that this intervention was run during an economic downturn in Bosnia and Herzegovina, which may have had an effect on the results.⁶

Banerjee et al. conducted a randomized evaluation in Hyderabad, India for a lending microcredit program through the microfinance institution Spandana. This intervention randomly selected 52 out of 104 poor neighbourhoods in Hyderabad where an average of 65 surveys were conducted in each neighbourhood.⁷ A total of 6850 households were surveyed and classified under micro-sized firms. However, it is significant to acknowledge that during the intervention period, other microfinance institutions had begun operations in the same areas. The study does identify that 47% of the treatment areas were more likely to receive a loan as compared to the controlled group.⁸ This, however, does impede on the validity of the baseline survey which the intervention does address. As this is indicated, the intervention did not complete a follow up survey for the baseline participants.⁹ The attrition rate was relatively low as the re-contact rate was 90% two years after the initial survey. It is also important to acknowledge that this intervention was run during a period of high economic growth in the region.¹⁰

A study conducted by Kondo et al. evaluated the impact of the Rural Microenterprise Finance Project (RMFP) in the Philippines. The study was not able to use a baseline, rather it compared the existing area/clients as the treatment group to the expansion area of the project as the control group. The survey used was conducted ex post and was evaluated through the difference-in-difference method.¹¹ A sample of 2,200 households were surveyed and the attrition bias was addressed and controlled for by including in the treatment group number of randomly selected households who had dropped out of the program.¹² This program was directed towards women as 95% of the recipients were female and operated micro-sized firms.

⁴ Ibid.

⁵ Ibid., 8.

⁶ Ibid., 25.

⁷ Banerjee et al., "The miracle of microfinance? Evidence from a randomized Evaluation," 23.

⁸ Ibid., 24.

⁹ Ibid., 33.

¹⁰ Ibid., 25.

¹¹ Kondo et al., "Impact of Microfinance on Rural Households in the Philippines," 52.

¹² Ibid., 52.

The study published by Aivazian and Santor, conducted in Sri Lanka, was used to examine the investment behaviour of a sample of MSMEs with credit constraints. The evaluation analyzed the impacts a series of four microcredit programs, created by the World Bank, distributed through the National Development Board. Firms would apply for these loans on the basis of a debt-to-equity ratio of 75:25, where the firms would contribute 25% to the cost of the project.¹³ This implied that firms with strong balance sheets and good business plans were more likely to receive funding due to the screening process of the banks.¹⁴ A total of 304 firms were included in the survey with half of the sample receiving loans as the treatment group, and the other half to be used as the control group who did not receive the loans.

ii) *Entrepreneurship Training Interventions*

A study published by Berge et al in 2012 evaluated an intervention in Tanzania that provided both training and financial assistance towards microenterprise development. This study was particularly methodologically strong given that it carried out a baseline survey as well as both short term (one year) and long term (three year) follow-up surveys for treatment and control groups.¹⁵ Business training and financial training were both randomly allocated, thus this study comes closest to those that we found in achieved the RCT gold standard for intervention evaluations. Additionally, the value of each business grant given was equal to the cost of the training programs administered per recipient allowing a comparison of cost efficiency between the two intervention strategies.¹⁶ Of the baseline sample, 242 clients were allocated business grants and 319 clients were given business training.¹⁷ The training focused on entrepreneurship, customer service, management, and marketing, and thus should be categorized as business and managerial training following the Cho and Honorati framework.¹⁸

Bah et al. evaluated a USAID led intervention providing business and technical training, and financial assistance to entrepreneurs of existing MSMEs in Macedonia. The USAID programs provided training, seminars, demonstrations and consulting to improve business and technical knowledge among entrepreneurs.¹⁹ Using propensity score matching to create a control group ex post, the study looked at 58 MSMEs that received assistance, of

¹³ Aivazian V. A and Santor E "Financial constraints and investment," 477.

¹⁴ Ibid., 478.

¹⁵ Berge et al., "Human and financial capital for microenterprise development," 12-13.

¹⁶ Ibid., 2.

¹⁷ Ibid., 12.

¹⁸ Ibid., 11.

¹⁹ El-hadj Bah et al., "With a little help from our friends" 206.

which 55 received training.²⁰ 77.6% of the enterprises were small, with less than ten employees while the majority of the remaining enterprises had less than 50 employees.²¹

Cancino et al. carried out an evaluation on a government run business development intervention in Chile, a high income country but with high inequality and marginalized populations. The Seed Capital Program (SCP) provided cash grants conditional on receiving training, and the evaluation using propensity score matching and difference-in-difference attempted to answer the degree to which such an approach would have a greater impact than finance-only interventions.²² Through the SCP, consultants provided entrepreneurs of formal sector microenterprises with customized training and technical assistance, putting the intervention into the counselling category following the Cho and Honorati framework.²³ This approach combining finance with business training, and knowledge has been referred to in the literature as “smart capital.”

Two existing systematic reviews are included to strengthen causal inferences. Grimm and Paffhausen reviewed 53 studies of interventions targeting micro-entrepreneurs and MSMEs in low and middle income countries. A total of 9% of the studies are from East Asia and the Pacific while the majority of studies are from Latin America. Cho and Honorati used a meta-regression analysis of data from 37 impact evaluations to determine the mean strength of effects of different intervention strategies and on various target populations.²⁴ Similar to Grimm and Paffhausen, a number of studies analyzed by Cho and Honorati were conducted in Latin America, while 16% came from East Asia and the Pacific.

B) Impacts of Finance Interventions on Employment

Although employment creation was a key objective in the majority of the financial interventions examined, the evaluations did not present any significant evidence supporting changes to employment. Augsberg et al. found that while unemployment was not affected, self employment increased. The study found that loan recipients are 6% points more likely to receive income from self employment.²⁵ This, however, is limited in its findings as it does not address employment as a whole, rather a small increase in self employment. Kondo et al. found an increase in employment expansion in micro-enterprises. Treatment groups, who had already established businesses, had 17% more employees than the control group. This demonstrates an increase in employment expansion for already existing firms, however does not contribute to creating new employment for new enterprises.²⁶ The only study that found

²⁰ Ibid., 209.

²¹ Ibid., 2011.

²² Christian Cancino et al., “The impact of government support programs for the development of business in Chile,” 1740.

²³ Ibid.

²⁴ Cho and Honorati, “Entrepreneurship programs in developing countries,” 112.

²⁵ Augsburg et al., “Microfinance at the margin: experimental evidence from Bosnia and Herzegovina,” 11.

²⁶ Kondo et al., “Impact of Microfinance on Rural Households in the Philippines,” 62.

an increase in labor supply was Banerjee et al. who found an increase in the average of hours worked. The evaluation found that there was an increase of 3.18 hours in the labor supply of the treatment group.²⁷ This however, was entirely restricted to businesses owned by individual households evaluated. As these findings are limited, they do not provide causal evidence to support the claim that microfinance helps to create employment on a large scale. This statement is reinforced by the systematic review conducted by Grimm and Paffhausen who examined 26 interventions that evaluated the impacts of microfinance on employment. Of these 26 evaluations, not one found that employment was significantly impacted by microfinance interventions.²⁸

C) Impacts of Training Interventions on Employment

In the Bah et al. study of technical and financial assistance to MSMEs in Macedonia, widely different results were observed for firms that self-reported lack of skilled managers as a serious barrier compared to those that did not. Firms that reported a lack of skilled managers increased total employment by 47.1% after three years.²⁹ Those that did not report a lack of skilled managers as a serious barrier did not see any significant employment growth. This was much higher employment growth than similar studies such as one in Romania by Brown et al. that only found a 4 percentage point difference between treatment and control groups (10% employment growth compared to 6%).³⁰

The evaluation of the “smart capital” government intervention in Chile found that the intervention had a positive and significant effect on the number of workers hired in the treatment group, but a less significant impact on sales and profitability.³¹ This finding contrasts with the literature that finds most training interventions to have a more significant effect on sales than employment. The authors point to the very small size of the participating enterprises, mainly microenterprises of less than five employees, and hypothesize that interventions with the objective of productivity growth should be targeted at small and medium-sized enterprises.³² However, the studies analyzed by Grimm and Paffhausen tended to show more significant employment creation for training programs targeting small and medium-sized enterprises, as opposed to microenterprises, suggesting the Chile program was an outlier.³³

²⁷ Banerjee et al., “The miracle of microfinance? Evidence from a randomized Evaluation,” 45.

²⁸ Grimm and Paffhausen, “A systematic review of the evidence for low and middle income countries,” 72.

²⁹ Bah et al., “The effect of USAID assistance on SME growth in a transition economy,” 216.

³⁰ Ibid., 219.

³¹ Cancino et al., “Development of business in Chile,” 1747.

³² Ibid., 1749.

³³ Grimm and Paffhausen, “A systematic review of the evidence for low and middle income countries,” 74.

D) Impacts of Finance Interventions on Business Profits/Productivity

Banerjee et al. found that there was no significant increase in business profits as their treatment group received an increase of only Rs. 354 per month. This is not a significant amount to make the assumption that the treatment group's profits increased due to the loans. This study did find that businesses already in the 95th percentile did have a significant increase in profits in comparison to any small to medium sized firm. However, this study took place during a period of high economic growth therefore this increase is not directly based from the causal relationship from the loans. The findings from the intervention in Sri Lanka demonstrate similar results of the intervention having no direct effect on business profits. Although equipment growth per worker in the treatment group was higher in comparison to the control group, which supports the programs intent to increase investment in equipment, overall real wages fell during the intervention period. The results showed that although there was increase in average nominal wages, this was due to inflation.³⁴ Therefore, there was an increase in productivity due to the upgrades in equipment, yet this increase in productivity did not result in overall business profits. This finding was also present in Augsberg et al.'s evaluation in Bosnia and Herzegovina. Though access to microcredit helped to increase ownership of inventory, firms did not see any increase in business profits.³⁵

E) Impacts of Training Interventions on Business Profits/Productivity

Similar to many studies on pure finance interventions, Berge et al. did not find significant effects of the business grant on any variables for MSME performance, despite increased short term investment.³⁶ Firms receiving entrepreneurship training did see an increase in profitability. This could be explained by the fact that entrepreneurs receiving training made profitable decisions to change sectors (moving from manufacturing to the commercial sector) whereas those who received only the grant remained in unprofitable sectors.³⁷ This transition effect was again only statistically significant for males.

The findings of Berge et al. corroborate other evidence suggesting that pure finance interventions rely on a false assumption that entrepreneurs are managing enterprises optimally with growth only inhibited by credit constraints.³⁸ Instead, entrepreneurship and management training is needed to improve MSME outcomes, especially for new entrepreneurs.

F) Impacts of Finance Interventions on Investment

As discussed previously under business productivity, an increase in investment was found in Aivazian and Santor's study which found that equipment growth per worker

³⁴ Aivazian V. A and Santor E, "Financial constraints and investment," 489.

³⁵ Augsburg et al., "Microfinance at the margin: experimental evidence from Bosnia and Herzegovina," 12.

³⁶ Berge et al., "Human and financial capital for microenterprise development," 19.

³⁷ Ibid., 20.

³⁸ Brooke Krause et al., "Fuelling financial literacy" 234.

increased in their treatment groups in comparison to the control group. An increase in equipment growth was one of the study's key findings and is the only valid demonstration of how the program relaxed some of the financial constraints faced by the treatment group through access to investment capital.³⁹ Changes in investment were further examined when evaluating if access to microfinance increased economic efficiency. Their evaluation found that the program did not increase economic efficiency which may be due to firm's over-investment. They discuss how relaxed access to finance gave the impression that the loan was only available for a short period, compelling micro-entrepreneurs to take advantage of the limited opportunity.⁴⁰ Funds were directed mainly to capital investments rather than labour or other means of increasing efficiency.⁴¹ As mentioned in savings and consumption, this is in contrast to Banerjee et al.'s findings which found an increase in investment in durable goods which have higher perceived returns.⁴²

G) Impacts of Training Interventions on Investment

Berge et al. found that business grants increased MSME investment in the short run of 22% by males and 12% by females over the control group.⁴³ Investment in this study was measured by absolute number of entrepreneurs reporting investment, not gross value of investment. Cancino et al. looked at long run ability to raise capital in firms assisted by SCP. They found no statistical support for their hypothesis that treated firms could generate more investment in the long run.⁴⁴

H) Impacts of Finance Interventions on Savings and Consumption

In regards to savings and consumption, several studies found evidence that microcredit financing had an effect on this dependent variable. Kondo et al.'s evaluation found that the treatment group was found to maintain their savings in comparison to the control group by as much as 23%.⁴⁵ In contrast, the Augsburg et al study found the marginal clients who already owned a firm prior to the loan, tended to reduce their savings. Using ordinary least squares as the data source, savings were reduced by loan recipients, which may have been a result of the author's argument that clients believe profitable investments are only attainable when the loan is combined with private savings.⁴⁶ This is consistent with the studies' assumption that investments are lumpy as a minimum amount of capital is

³⁹ Aivazian V. A and Santor E, "Financial constraints and investment" 491.

⁴⁰ Ibid., 497.

⁴¹ Ibid.

⁴² Banerjee et al., "The miracle of microfinance? Evidence from a randomized Evaluation," 48.

⁴³ Berge et al., "Human and financial capital for microenterprise development," 17.

⁴⁴ Cancino et al., "Development of business in Chile," 1749.

⁴⁵ Kondo et al., "Impact of Microfinance on Rural Households in the Philippines," 62.

⁴⁶ Augsburg et al., "Microfinance at the margin: experimental evidence from Bosnia and Herzegovina," 18.

needed in order to start a business.⁴⁷ Consumption was also affected by microcredit as individuals were observed to reduce their consumption, especially of ‘temptation goods’ such as alcohol and cigarettes.⁴⁸ This is consistent with Banerjee et al. as their study also found that treatment households reduced their intake of temptation goods and increased their consumption of durable goods.⁴⁹

I) Impacts of Finance Interventions on Education

Augsburg et al. found that there was a significant impact of the intervention on children aged 16-19 based on different levels of education. Children of loan recipients who had no higher than primary education worked 29 hours more on average as compared to the control group.⁵⁰ The study also found that children in the same age group of marginal clients were 9% less likely to attend school after their parents had received microcredit.⁵¹ This demonstrates the opportunity costs the children in this age bracket faced as there were lower perceived returns to schooling. This finding is contradicted the Banerjee et. al study as it did not find any significant changes to the labor supply of teenagers due to the microcredit program.⁵² The study’s index was close to 0 which indicates that there was no causal relationship between the loans on education. Kondo et al. findings also demonstrated that there were no significant impacts on schooling for youth of households who received microfinance.⁵³

J) Impacts of Finance Interventions on MSME Creation

Business creation was limited in growth with the introduction of microfinancing. Businesses creation/expansion only seemed to take place when individuals were highly educated or the firm was already a profitable business. Augsberg et al. found that marginal loan recipients were 6% more likely to own a business, which was undertaken by highly educated individuals.⁵⁴ The Banerjee et al. intervention demonstrated an increase in the number of businesses, from 32 per 100 households at the baseline, to 50 per 100 households for the first follow up survey and 56 per 100 households for the second follow up survey.⁵⁵ This however is not solely based on new business creation, but more that treatment households were more likely to open multiple businesses.⁵⁶

⁴⁷ Ibid., 9.

⁴⁸ Ibid., 14.

⁴⁹ Banerjee et al., “The miracle of microfinance? Evidence from a randomized Evaluation,” 48.

⁵⁰ Augsburg et al., “Microfinance at the margin: experimental evidence from Bosnia and Herzegovina,” 18.

⁵¹ Ibid.

⁵² Banerjee et al., “The miracle of microfinance? Evidence from a randomized Evaluation,” 50.

⁵³ Kondo et al. “Impact of Microfinance on Rural Households in the Philippines,” 65.

⁵⁴ Augsburg et al. “Microfinance at the margin: experimental evidence from Bosnia and Herzegovina” 11

⁵⁵ Banerjee et al. “The miracle of microfinance? Evidence from a randomized Evaluation” 30

⁵⁶ Ibid., 18.

K) Impacts of Training Interventions on Business Practices and Business Knowledge

Berge et al. found positive effects of entrepreneurship training on both business practices and business knowledge.⁵⁷ Business grants did not improve either outcome. Improved business practices included an uptake in customer relation initiatives, and greater activity in employee relations, marketing, and record keeping. In business knowledge tests conducted one year and three years following the intervention, both women and men scored equally better than control groups.

L) Impacts of Finance Interventions on Poverty

Similar to the results on employment, the evaluations do not obtain evidence that support any reduction of poverty in lower income countries, even though it was a priority objective. Kondo et al. findings suggest that there was a negative impact on poorer households due to the intervention as their findings showed that only households in the top quartile benefited from the program.⁵⁸ They argue that the program did not have an effect on the intended recipients on the possibility that the average size of the loans given to the recipients were not large enough, or the clients who are in need of loans were concentrated in the poorer households.⁵⁹ This demonstrates how there is a lack of evidence to support finance interventions as a means to reduce poverty.

M) Impacts of Training Interventions on Female Empowerment

The Berge et al. study of training and financial assistance to micro-entrepreneurs in Tanzania found striking differences between outcomes for male and female participants. Like other studies, impacts of the intervention were found to be more significant for males. For male entrepreneurs, after receiving business and managerial training MSME sales increased by 25-30% compared to the control group whereas for females there was no statistically significant increase.⁶⁰ As mentioned under impacts of training interventions on business practices and business knowledge, males and females scored equally well on business knowledge tests. This suggests that the better performance of male entrepreneurs was not the result of a difference between genders in the effectiveness of the training program but was due to greater societal barriers for women.⁶¹

Potential binding constraints on economic activity for women include greater domestic responsibilities and less power over household spending decisions. Other studies have

⁵⁷ Berge et al., "Human and financial capital for microenterprise development," 4, 20.

⁵⁸ Kondo et al. "Impact of Microfinance on Rural Households in the Philippines" 66

⁵⁹ Ibid.

⁶⁰ Berge et al., "Human and financial capital for microenterprise development," 17.

⁶¹ Ibid., 16.

highlighted legal inequalities such as weaker property rights for women.⁶² Berge et al. also found evidence of a crowding-out effect for the incomes of husbands of female entrepreneurs. Female entrepreneurs may stop receiving financial support from their husbands as soon as they have their own income, and their husband may even stop working altogether and rely on the woman's income without assuming domestic responsibilities, acting as a disincentive for entrepreneurship.⁶³

N) Aggregated Findings

Turning to the findings from existing systematic reviews, aggregations of the effects measured by previous evaluations confirm that training interventions or training with finance interventions have been more effective than pure finance interventions. Grimm and Paffhausen found that 70% of access to finance interventions for microenterprises in low and middle income countries had no statistically significant effect.⁶⁴ There were better results for medium-sized firms, with half of studies finding significant positive effects in various outcomes. Twenty studies from their review evaluated entrepreneurship training programs, with the majority being targeted to microenterprises. As with access to finance, training programs fared better with small as opposed to microenterprises. 37% of treatment effects on microenterprises were statistically significant and positive whereas 80% of treatment effects on small enterprises were significant and positive—though only five studies were in this category.⁶⁵ Investment training, equivalent to financial skills training in the Cho and Honorati framework, was shown to be the least effective. Interestingly, some studies found that training programs had a significant and negative effect on employment, suggesting that entrepreneurs receiving training may fire workers in an attempt to improve efficiency.

The combined effects of interventions analyzed by Cho and Honorati confirmed that grants combined with training had larger impacts than either microcredit combined with training or microcredit only.⁶⁶ Of training programs, technical and vocational, and business and managerial training had more significant positive effects than financial training. The review found the same negative effect on employment for training only programs as Grimm and Paffhausen, but found that training combined with grants increased employment by 18.4%.⁶⁷ These employment and business performance effects were strongest for youth and the highly educated.⁶⁸

In interpreting these results, a careful distinction must be made between outcomes observed by impact evaluations at the enterprise level, and macroeconomic outcomes. It may

⁶² Grimm and Paffhausen, "A systematic review of the evidence for low and middle income countries," 73.

⁶³ Berge et al., "Human and financial capital for microenterprise development," 24.

⁶⁴ Grimm and Paffhausen, "A systematic review of the evidence for low and middle income countries," 73.

⁶⁵ Ibid., 74.

⁶⁶ Cho and Honorati, "Entrepreneurship programs in developing countries," 121.

⁶⁷ Ibid., 122.

⁶⁸ Ibid., 123.

be that a crowding out effect eliminates labour market outcomes at the macroeconomic level as better performing firms pull workers away from other firms. This theory is bolstered by a World Bank-sponsored review of programs designed to integrate youth into the labour market that found weak evidence of job creation at the macroeconomic level.⁶⁹

⁶⁹ Betcherman et al., "Global Inventory of Interventions to Support Young Workers Synthesis Report," 50.

Conclusion

a) Summary of Findings

Pure finance, in the form of credit to entrepreneurs through individual-liability or group-liability loans, subsidized credit directly to MSMEs, or grants to micro-entrepreneurs, was found to have weak evidence of positive employment creation outcomes. The strongest positive employment outcome was seen in established MSMEs and for only small to medium sized firms. Evidence of finance promoting MSME creation was only significant for interventions targeting youth and the educated. MSME profits increased only for the already profitable top percentiles while micro sized firms did not show any indication of growth in their earnings. This was the case despite increases in short term investments following loans into durable good with perceived high returns. Pure finance interventions were not found to have significant positive impacts on social welfare outcomes, including investment in health and education and female empowerment.

More promising results were found for interventions providing various forms of entrepreneurship training and combining training with finance or business grants. Of various types of training, the literature points to vocational and technical training, and business and managerial training as having the largest impact on outcomes including employment creation and MSME profitability and productivity. Interventions combining entrepreneurial training with grants were most effective towards employment creation and various MSME performance outcomes. The importance of complementing entrepreneurship training with finance or grants was emphasized by evidence showing a negative correlation between training only treatments and employment outcomes.

Finally, as with finance interventions, training interventions targeted at youth and the educated had the most significant positive impacts. Overall, small and medium-sized enterprises benefited more from MSME development interventions than micro-enterprises. The benefits of targeting key populations and MSMEs that have already demonstrated an ability to grow, points to the importance of finding proxies for a critical unobservable characteristic: opportunity-driven as opposed to necessity-driven entrepreneurship. Lastly, MSME interventions have not been demonstrated to significantly improve female empowerment or other social welfare variables such as health and education. Though MSME development interventions should not be oversold as a panacea, if properly designed to target the right firms they should yield employment and economic growth for Vietnam.

b) Applicability of Findings to Vietnam

MSMEs in Vietnam may face specific challenges stemming from the country's history —both its colonial history characterized by extractive economic institutions, and from its communist period during which economic institutions were not designed to protect private property or spur private sector entrepreneurship. Since the 1986 initiation of the Doi Moi economic reforms, Vietnam has been a transition economy. For transition economies, the literature is divided as to whether the main constraint for MSME growth is access to credit or

unclear property rights.⁷⁰ Problems with weak property rights were particularly severe in the early years of privatization when institutional change lagged behind legal change. As institutions protecting private property have been strengthened over time, unclear property rights have become less of a binding constraint. Such issues point to the need for governance-related interventions to create enabling business environments for MSMEs, such as GAC's Economic Management Competitiveness Credit (D000084-001) program.

The literature also points to a lack of skilled managers in transition economies as opposed to established market economies, which is to be expected considering these countries have only had roughly three decades to build up private sector management capacity.⁷¹ Overall, interventions to promote MSMEs have been less successful in developing and transition economy contexts—in particular interventions which use finance only without addressing business knowledge deficits. Augsberg et al. found limited success for a finance only intervention in Bosnia and Herzegovina, a transition economy. Thus for Vietnam, it is especially important that interventions include an entrepreneurship training component.

As Vietnam has a young population, as is typical of developing countries, employment creation should be a primary objective for MSME interventions. The Bah et al. study in Macedonia found the best employment outcomes through business and technical training to entrepreneurs of existing MSMEs combined with financial assistance. These effects were strongest for firms that self-identified a lack of skilled management as a barrier to growth. Macedonia is a transition economy with a higher income per capita than Vietnam. The country has experienced extremely high unemployment since the end of communism in the early 1990s, with unemployment rates peaking at 40% and still in the 20-30% range.⁷² As structural unemployment is much higher in Macedonia than Vietnam, the surplus labour allows for larger impacts from employment creation programs. Vietnam's overall unemployment is very low due to weak social security leading to subsistence and informal employment, however the rate of youth unemployment is significantly higher and rising.⁷³

Findings from Berge et al. comparing entrepreneurship training to business grants in Tanzania are largely applicable to Vietnam. Tanzania is also a transition economy having initiated reforms away from a command economy in 1986, coinciding with Doi Moi.⁷⁴ However, Tanzania's reforms have been less successful in spurring economic growth and the country remains low income, with a much higher rate of informal sector employment than Vietnam.⁷⁵

⁷⁰ Bah et al., "The effect of USAID assistance on SME growth in a transition economy," 206.

⁷¹ Ibid., 207.

⁷² Ibid., 205.

⁷³ "Unemployment, youth total (% of total labor force ages 15-24)," The World Bank, 2016.

⁷⁴ Roger Nord et al., Tanzania: The Story of an African Transition. 8.

⁷⁵ "Informality," The World Bank, 2016.

The aggregated findings of Cho and Honorati, and Grimm and Paffhausen have high external validity insofar as similar outcomes were observed across diverse contexts. Aggregated findings suggest that interventions to promote SME development in Vietnam will have low impact on social welfare outcomes, such as female empowerment. Specifically, the Kondo et al. study of microfinance in rural Philippines found weak evidence of microfinance as a poverty alleviation strategy in a South-East Asian context, while Berge et al. found no evidence of either business grants or entrepreneurship training on female empowerment outcomes in Tanzania. These findings suggest ongoing GAC projects such as Small and Medium Enterprise Development in Tra Vinh Province (A034758-001) that cites “gender responsive small and medium enterprise development” as an expected outcome; and Small and Medium-Sized Enterprise (SME) Development in Soc Trang Province (A032782-001) that cites “improved small and medium enterprise (SME) competitiveness in an established favorable business environment for men, women and ethnic minority-owned SMEs in selected sectors” as an expected outcome may need to look beyond finance and entrepreneurship training to improve social welfare and female empowerment objectives.

c) Recommendations

Based on our analysis, donors who invest in MSME interventions using a combination of finance and training programs have a greater capacity to obtain their program objectives. Our findings show that these interventions have the most positive impacts for employment and MSME performance. Whereas finance only interventions have not shown to improve MSME productivity and performance indicators, training only interventions may have adverse effects for employment. Based on these findings, we recommend that interventions targeting MSMEs use both finance and training in order to ensure the intended goals of the projects are met. This combination gives entrepreneurs the resources to grow MSMEs and the skills and knowledge to improve business practices.

Furthermore, many finance interventions and entrepreneurship training programs have failed to target the proper recipients. Programs should select opportunity-driven as opposed to necessity driven entrepreneurs. This may be most beneficial for MSME creation as our findings demonstrated that educated individuals and youth were shown to obtain the most positive results for generating employment through MSME creation. For interventions targeting existing MSMEs, more benefits to performance and employment were seen in enterprises that had already grown beyond the subsistence micro size. Thus youth, education level, and firm size may be proxies for opportunity-driven entrepreneurship. Designing programs that target those best suited to operate and grow MSMEs will allow aid resources to be most effective in promoting economic growth in the context of Vietnam.

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