

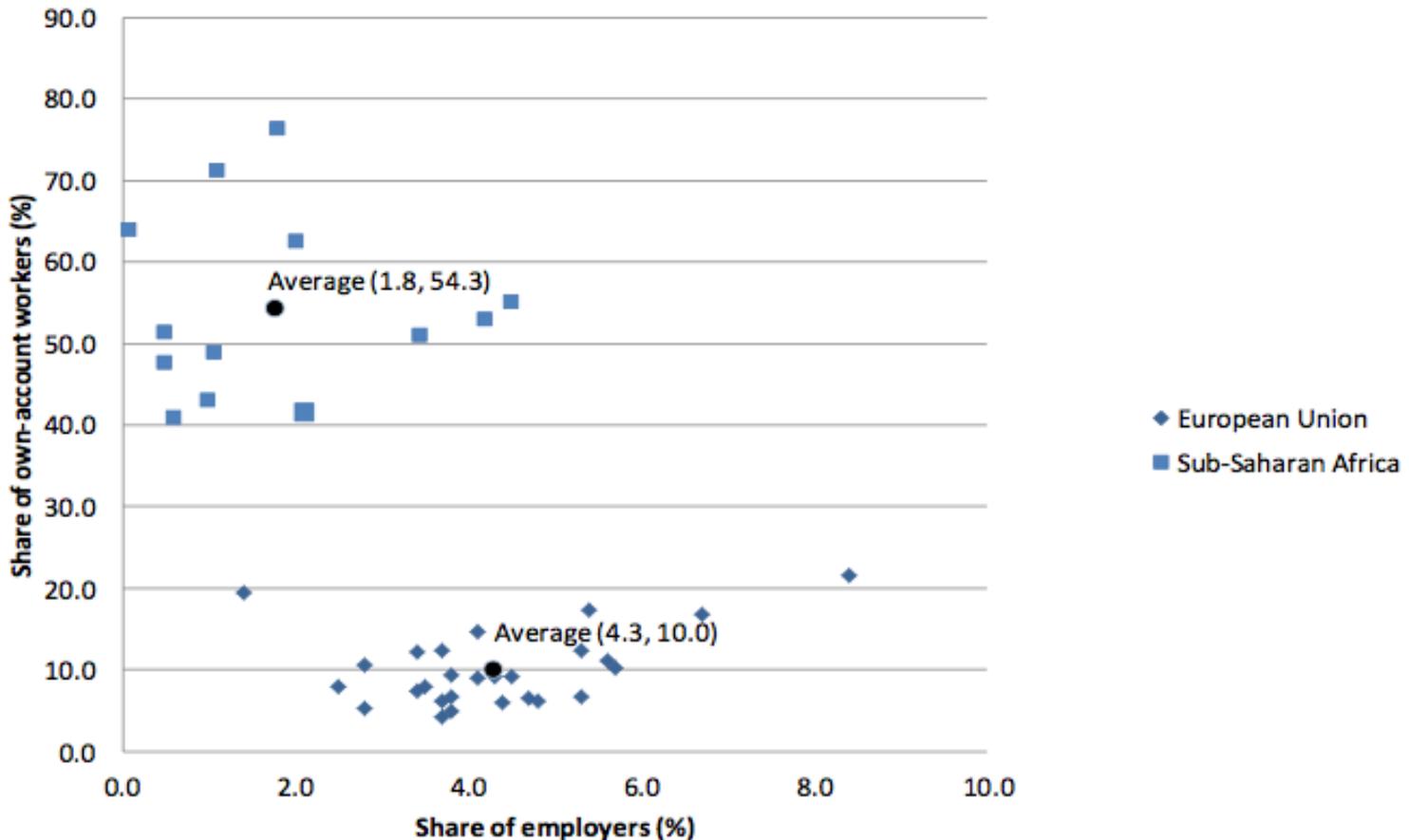
Making the Leap from Self- Employed to Employer?

What matters – capital, labor, or
training?

David McKenzie, *World Bank*
(with Suresh de Mel and Chris
Woodruff)

In developing countries there are lots of self-employed, but few of them hire workers

Figure 3b. Share of employers and own-account workers in total employment, available European Union and low-income and lower-middle-income sub-Saharan African countries, latest years



What does it take to make the jump from self-employed to employer?

- Work with subsistence firms has found last impacts of access to capital on profits (de Mel et al, 2012; Field et al. 2012), but no impact on employment creation.
- Existing literature on business training struggled to find employment effects
- **But: there are so many self-employed, if we can get even a fraction to become employers, may have major impact on job creation.**

What constrains firm owners from hiring and growing?

- Think about constraints to using inputs A, K and L in production function:
 - **A**: owners may lack ability to grow business to next level; or to hire and manage workers effectively.
 - **K**: firms may be credit-constrained, not able to purchase the capital needed to make extra worker productive.
 - **L**: new workers may require a period of on-the-job training to become productive, with social, subsistence or legal constraints preventing firms paying low or negative wage in interim; search frictions may make it costly to identify and hire new worker.

What do we do?

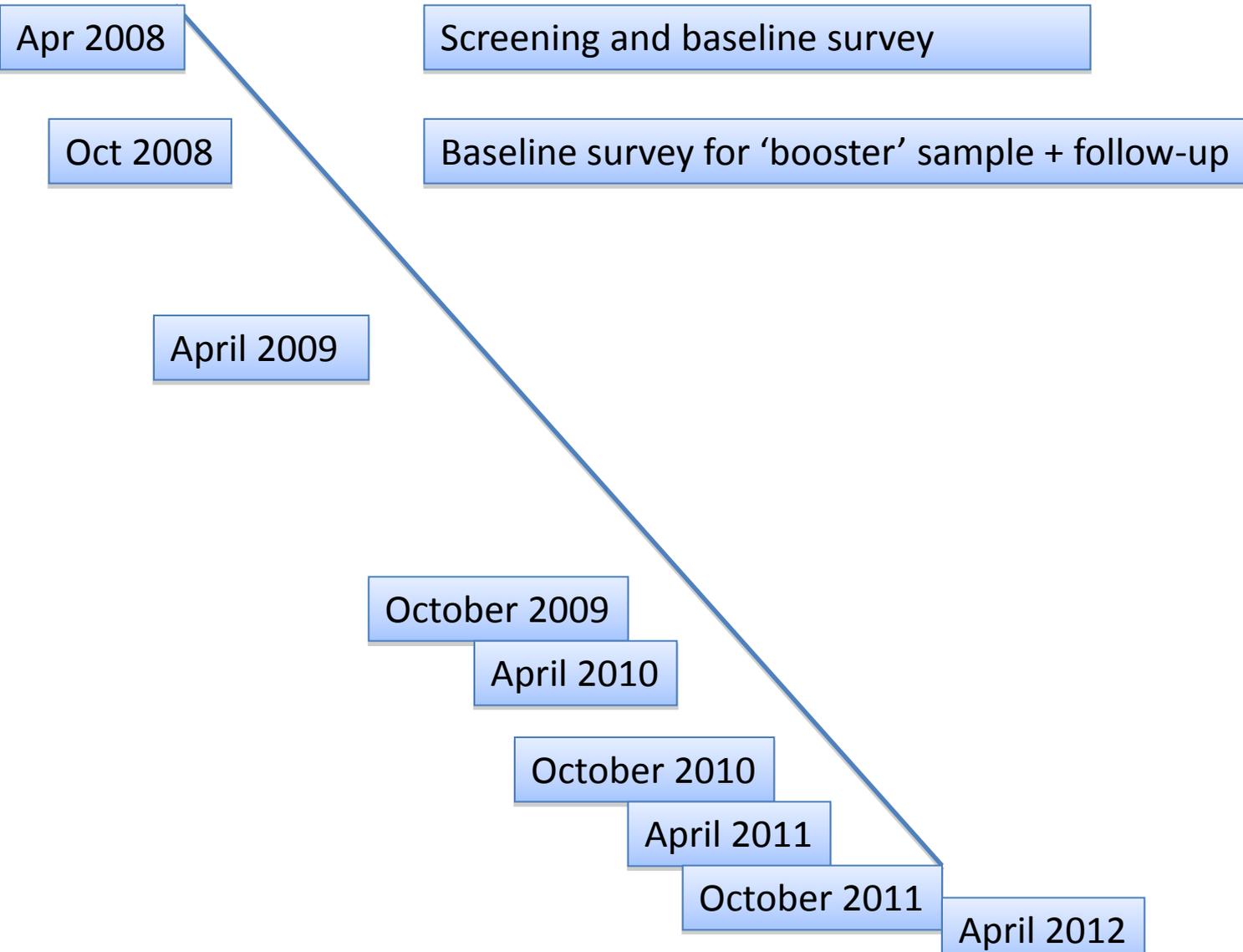
- We offer selected firms 0, 1 or 2 of the following:
 - Matched savings program (50-100% match rates, 'locked' for 9 months)
 - Training (ILO "Improve Your Business")
 - Incentives to hire new worker (4000 LKR/month, ~50% of unskilled wage)
- Baseline surveys in April/Oct 2008 – then interventions, and twice-yearly surveys through April 2012.
 - => long-term tracking of progress and constraints to becoming an employer.

Putting together a Sample

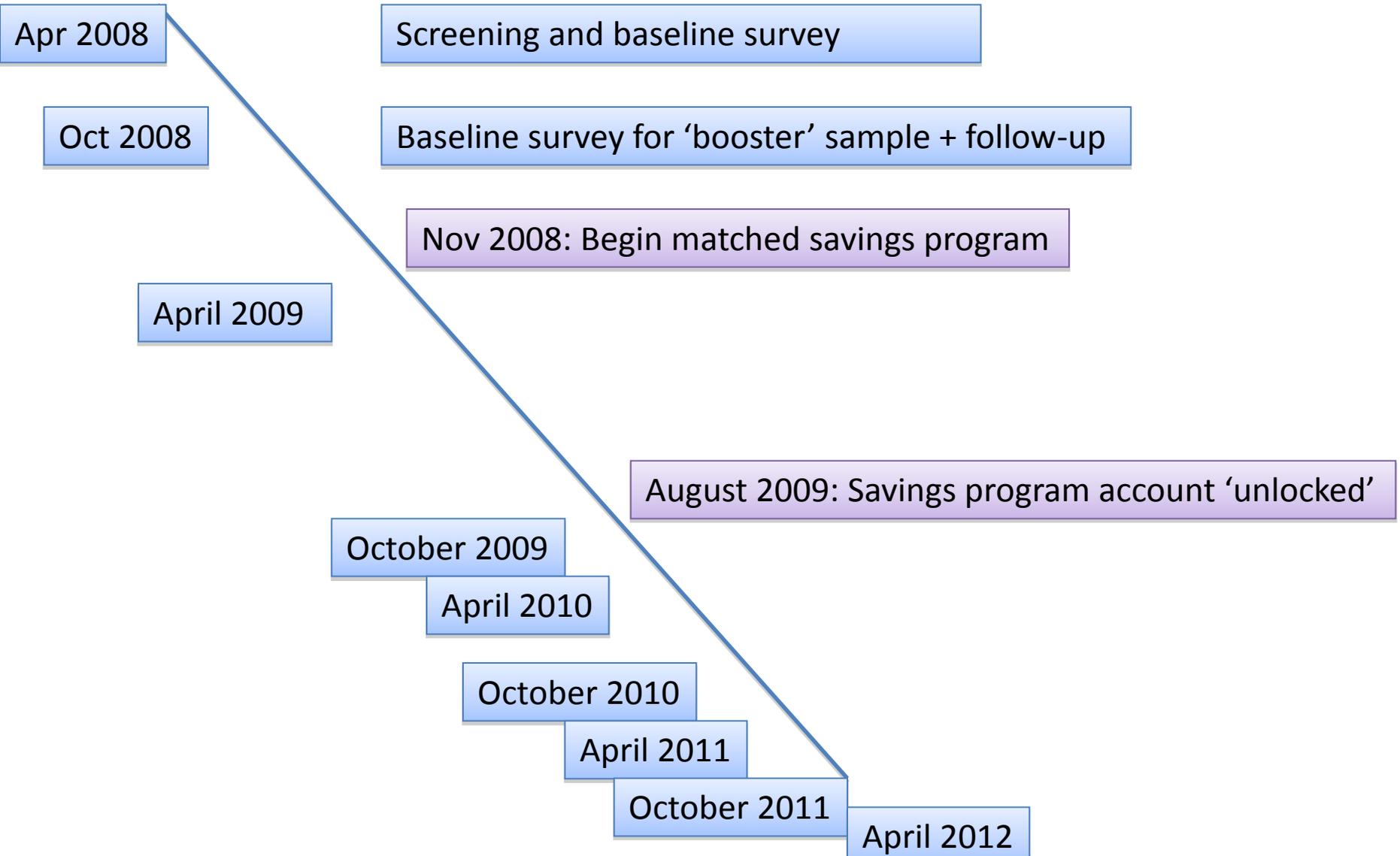
- Sample of 1535 Sri Lankan microenterprise owners
 - Male
 - Urban areas (Colombo, Kandy, Galle)
 - Selected through door-to-door screening exercise of households in randomly selected GNs (census tracts)
 - aged 20 to 45
 - with 2 or fewer employees (87% non-employers)
- Note: random sample of firms with these characteristics
 - not restricted to MFI clients, or only subsistence firms
 - Advantage is allows us to learn about full range of small firms.
 - But downside is that heterogeneity amongst firms reduces power



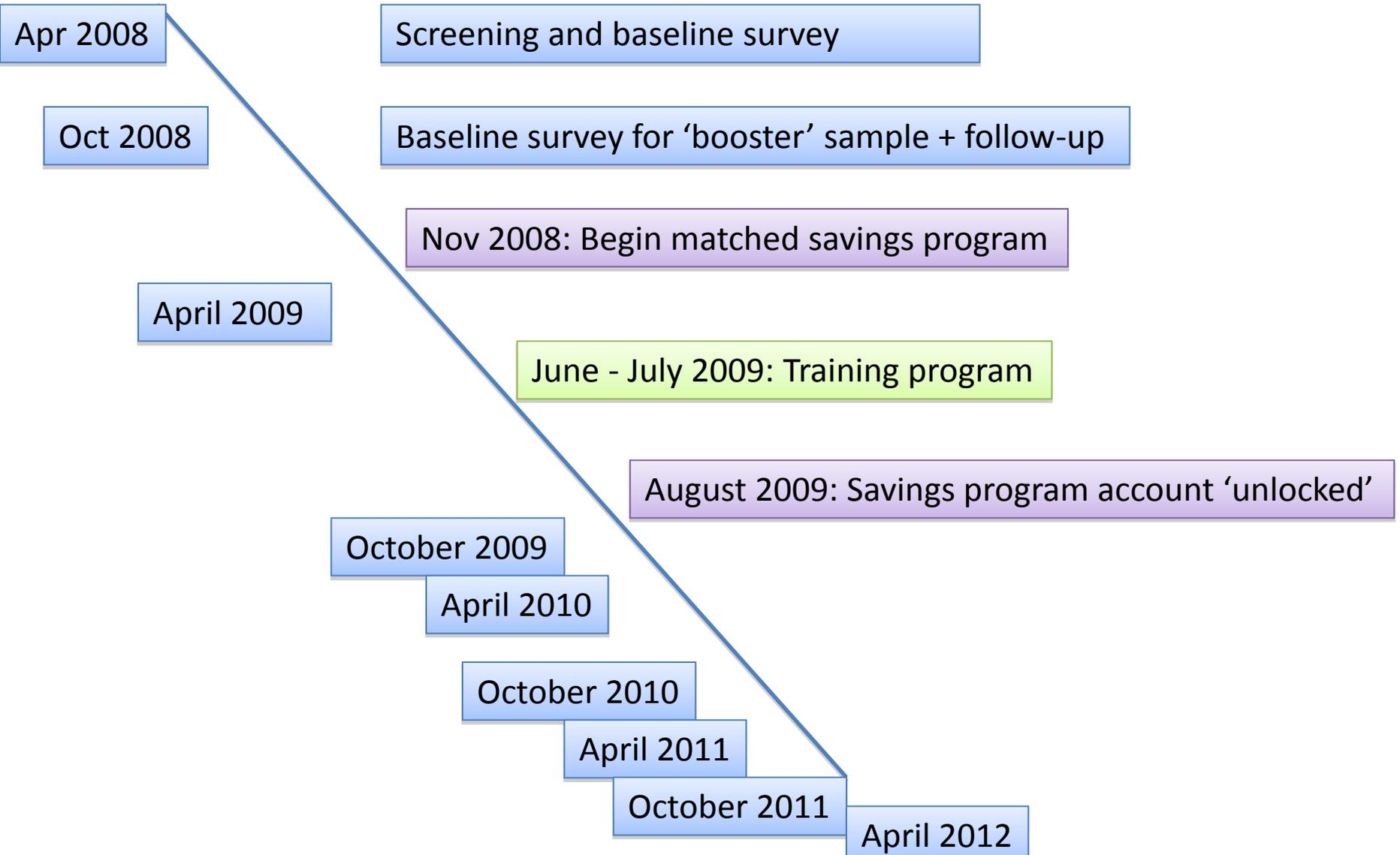
Timeline of project



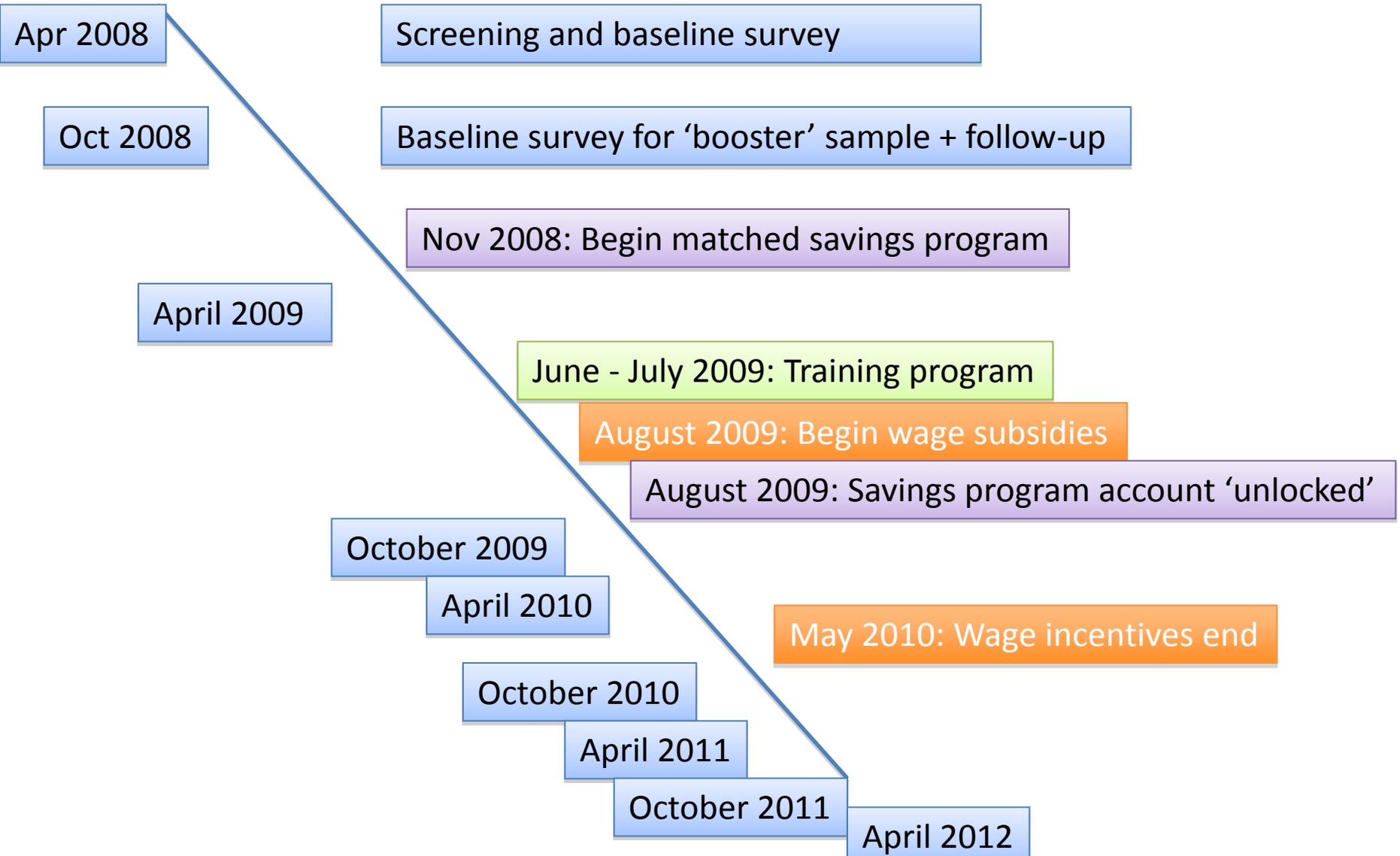
Timeline of project



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Take-up: Proportion of those offered

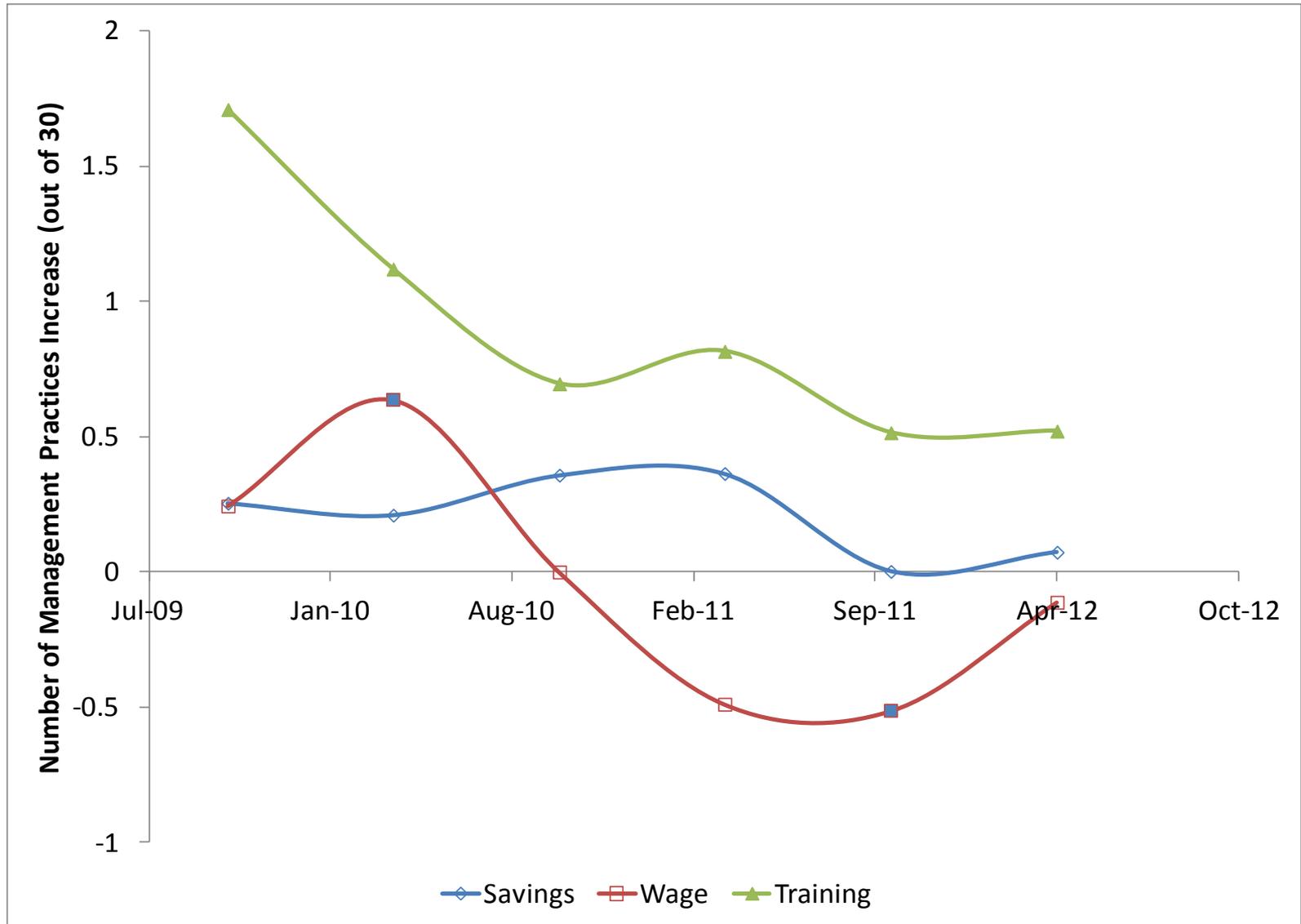
	Number Offered	% Participating
Savings	559	81.4% (455)
Training	589	57.9% (341) ⁽¹⁾
Employment	845	29.2% (247)

(1) Based on the percentage completing the training course. 368 (62.5%) began the training course.

Impacts on Input Use

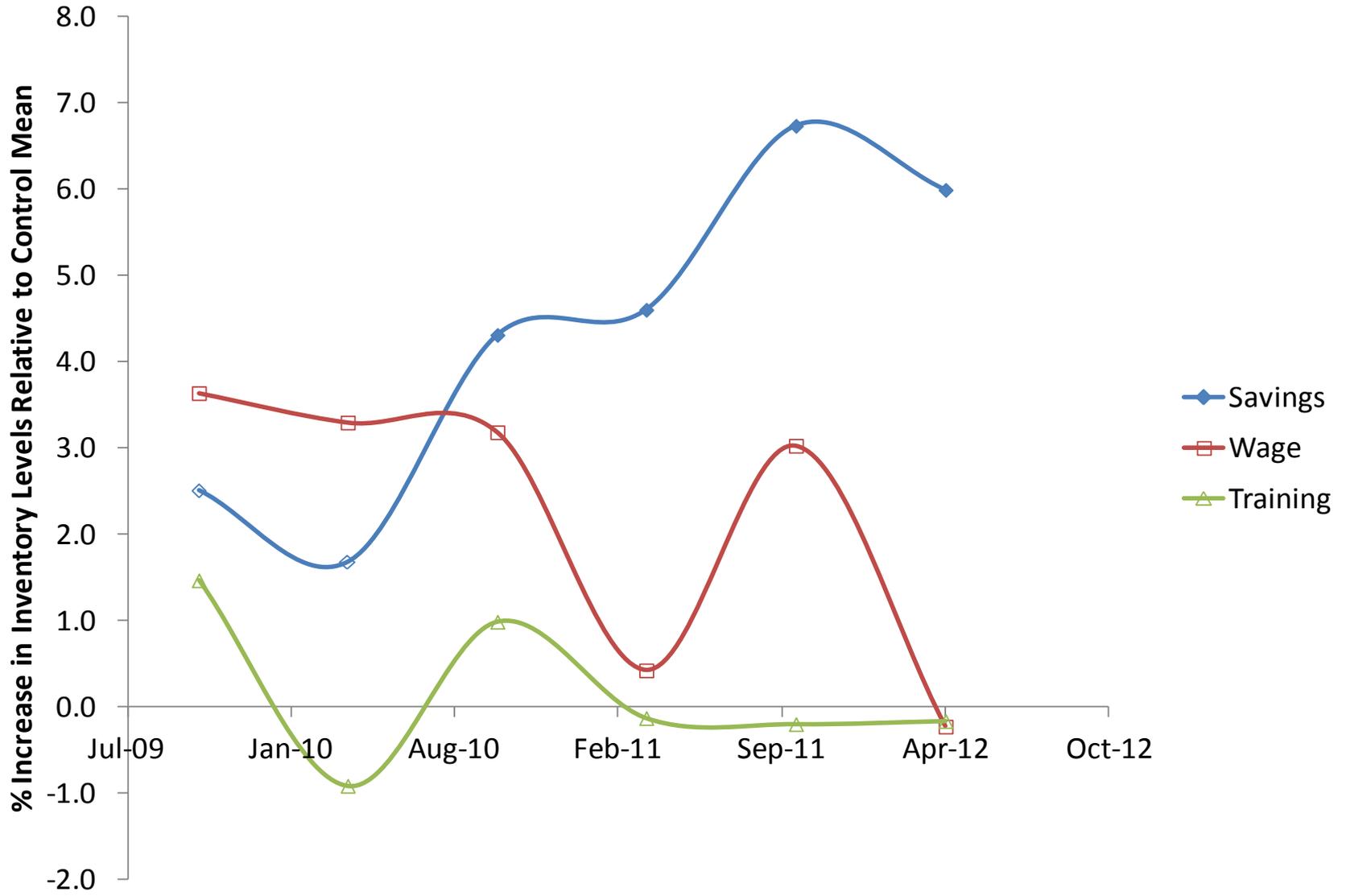
- Look at impacts on
 - Management practices (expect impact from training)
 - Capital stock (expect impact from savings)
 - Labor usage (expect impact from wage subsidy)

Impact on Management Practices



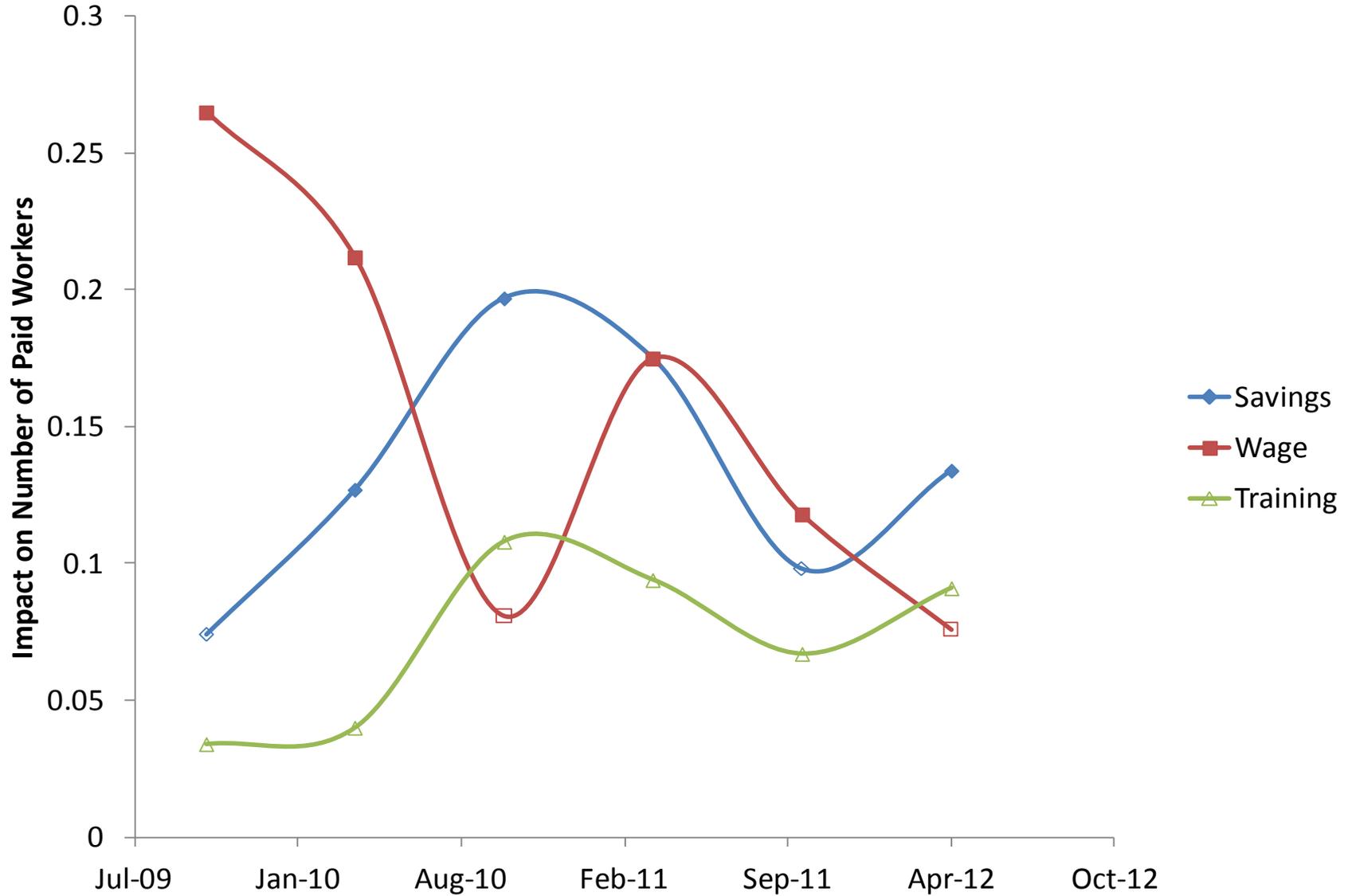
Solid Markers indicate statistically significant point estimate

Impact on Capital Stock



Solid Markers indicate statistically significant point estimate

Impact on Number of Paid Workers

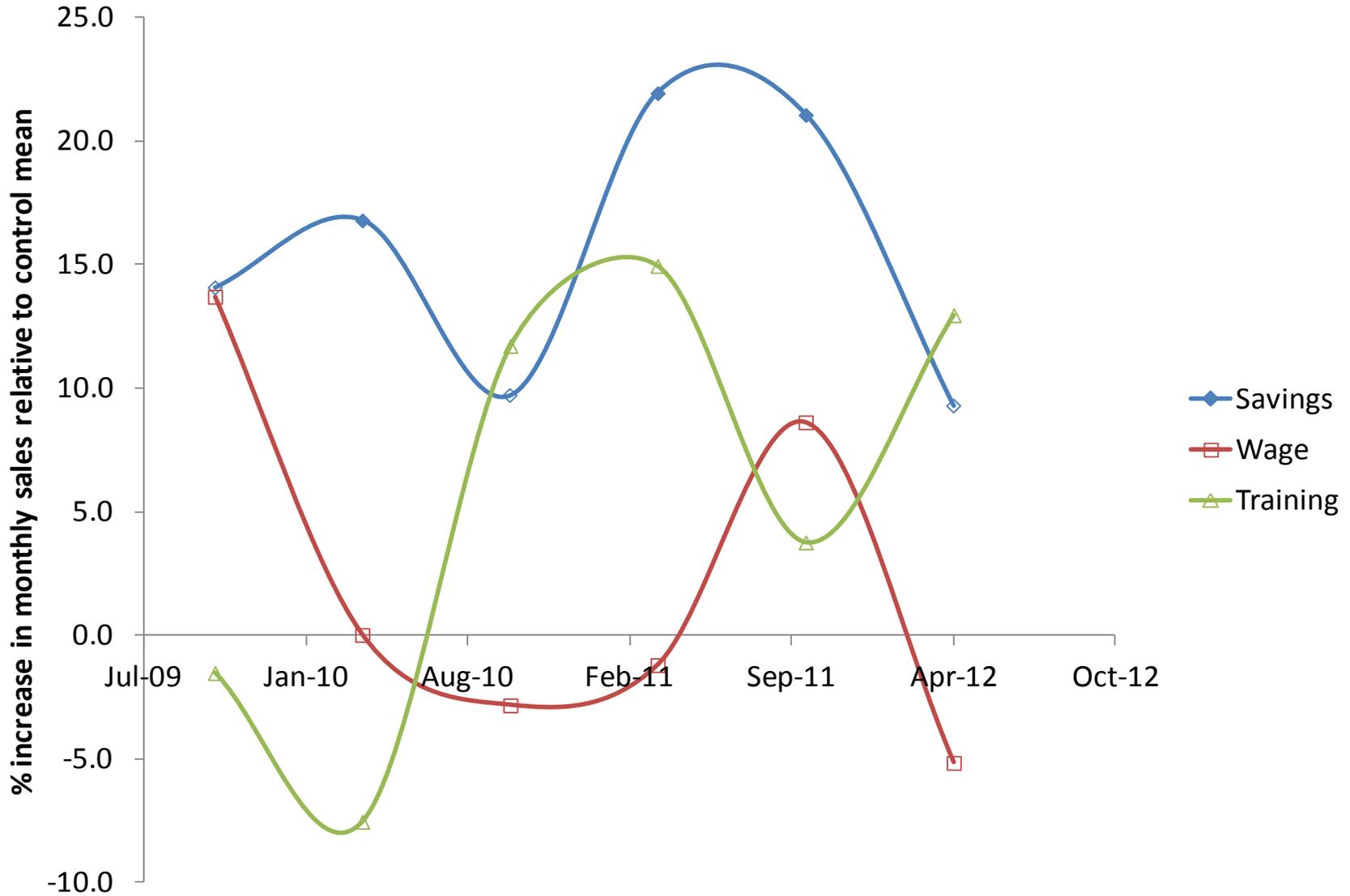


Solid Markers indicate statistically significant point estimate

From inputs to outputs?

- Does this added use of inputs lead firms to sell more, increase profits, and owner's to increase household income?

Impact on Monthly Sales (% increase)



Solid Markers indicate statistically significant point estimate

Summary of output impacts

- With more capital they sell more
- But aren't significantly more profitable
- And don't earn significantly more household income

Do interactions help?

- Theoretical reasons to think there may be complementarities
 - E.g. training may be of no use if you don't have capital to use
 - Hiring another worker may be more profitable if you have the training on how to grow the business and create enough extra work for them
 - Hiring another worker may require complementary capital (e.g. tailor might need another sewing machine)
- But we find no significant positive interactions between treatments (most are negative and insig.)

Conclusions/Discussion

- Most consistent effects come from a savings program which allows owners to build capital in their enterprises.
 - Why different from our earlier work which found no employment impact from capital?
 - Previous work focused on firms with capital stock below \$1000 – subsistence firms – no upper cap here, getting some firms slightly closer to cusp of making the jump?
 - Role of the macro environment? Sri Lanka growing fast.
- Wage incentives lead to higher employment, but not higher profits
- Training not having large effects

Take-aways

- *Impacts take time to materialize, and the period at which you measure makes a difference.*
- *Generating new jobs in microenterprises is hard, but capital and labor subsidies seem to work better than skills training.*