

## Training Entrepreneurs

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### Senior Editors:

David McKenzie

| Christopher Woodruff |

### Co-Editors:

Kjetil Bjorvatn  
Miriam Bruhn  
Jing Cai

| Juanita Gonzalez-Uribe  
Simon Quinn  
Tetsushi Sonobe |

Martin Valdivia

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Please contact us at [engage@voxdev.org](mailto:engage@voxdev.org) if you have any questions or feedback.

# Abstract

Aid agencies and governments spend more than a billion US\$ on entrepreneurship training annually. What have we learned about the effectiveness of training? We review research on entrepreneurship training. Classroom-based training remains the most popular method of training owners and managers of small firms. A meta-analysis shows that the standard training model has modestly positive effects, on average, though the effects imply reasonably high returns on investments in training, given low costs per participant. Innovation on this basic training model has increased in recent years, particularly with regard to content. Both personal initiative and rule-of-thumb training show promise for subsistence-level enterprises. Individual consulting has shown significant positive effects for larger enterprises, but the model is expensive and markets for consulting do not appear to work well. Selection is important, particularly in matching the type of training with the type of enterprise. There are several seemingly promising approaches to training where definitive evidence is lacking. For example, Kaizen approaches and Incubators and accelerators both appear to have positive effects, though the evidence is limited and, in the case of accelerators, it is unclear as yet whether the effects come primarily from selection or from the content of the programmes themselves.

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# Summary

Aid agencies and governments spend more than a billion US\$ on entrepreneurship training annually. What have we learned about the effectiveness of training? We review the current understanding of enterprise training. Firms and entrepreneurs are not all the same, and many programmes are targeted to specific types of businesses. Our review is modular, designed so that readers interested in one particular topic do not need to read the entire review. We summarise the state of knowledge in each section as follows:

Traditional entrepreneurship training has modest but (across studies) significant effects on improving business practices and business outcomes for microenterprises. There is a lot of heterogeneity in both samples and results, so there is less guidance on which groups benefit most from traditional training.

Personal initiative and heuristic training can work well for subsistence entrepreneurs, although the quality of the trainers appears to matter a lot. It seems doubtful that medium-sized business owners lack drive and initiative.

Kaizen offers promise for smaller manufacturing firms above the subsistence level, although there are still fewer studies of this approach, and it has not been benchmarked against other training programmes.

Consulting appears to work, leading to improvements for both medium/large firms, and also for smaller firms with an average of 14 workers. However, consulting is expensive, and it is less clear how to scale such programmes. A group-based consulting approach offers potential.

Evidence on the effectiveness of incubators and accelerators in developing countries is still scarce, and it is unclear how much the training component matters, and which other non-monetary services have meaningful impacts.

Mentoring of subsistence firms does not appear to offer additional value beyond the cheaper in-person traditional training. Mentoring may work better as a substitute for training, particularly with more advanced firms looking to innovate, but evidence is limited. Matching firms with well-performing peers also offers promising results, although the impacts depend on the type of peer and only certain information will diffuse this way.

There is a need for further experimentation with alternative delivery methods, particularly online training, while television edutainment and SMS messages have not shown detectable impacts.

This review will be updated as new information becomes available. Our hope is that by facilitating a dialogue between governments, practitioners and researchers, the reviews will generate new research that helps fill knowledge gaps.

## I Introduction: The benefits of training and consulting

There is a wide range of business and management practices that most firms would benefit from adopting. In the case of small firms, these include separating household and business accounts, keeping basic records, monitoring inventory, offering discounts and promotions to attract customers, and budgeting and planning. As firms grow, it is also desirable to have human resource practices that reward good employees and improve or remove less productive employees; processes for quality control and basic lean manufacturing; and practices to set and communicate production targets and monitor performance towards these targets. Systematic measurement of these types of practices across a range of countries and firm types documents that firms using better management practices are more productive and grow faster (Bloom and van Reenen 2010; McKenzie and Woodruff 2017).

Despite the potential benefits, many firms fail to adopt better business and management practices. Business training and consulting programmes are a popular approach to improving business practices. McKenzie (2020) notes that, although numbers are fragmentary and incomplete, at least US\$1 billion is spent annually training at least 4-to-5 million potential and existing entrepreneurs in developing countries. This raises the questions of whether this money is well spent, and whether the efficacy of these training programmes can be improved.

A review of early randomised evaluations of entrepreneurship training programmes found the evidence for their effectiveness to be underwhelming (McKenzie and Woodruff 2013). Most of these evaluations found that training leads to some improvement in business practices, failed to find statistically significant effects on business profits or sales. While this was interpreted by some as showing that business training does not work, many of these studies used relatively small samples and therefore lacked the statistical power necessary to rule out sizable positive (or negative) impacts of training. Additional evaluations and a wave of experimentation with new approaches to training stimulated by this first review have produced a somewhat more positive picture. McKenzie (2020) uses a more formal meta-analysis and finds that traditional training programmes have a modest but significant effect on profits and sales of firms assigned to receive training. Given the costs of typical programmes, in many cases, firms earn enough within two years to recoup the full cost of training. We might still worry that the effects McKenzie finds are an upper bound on the effects of training programmes usually implemented as policy. Researchers often select the best providers and are careful to make sure that the intervention is implemented carefully, implying that small-scale experiments may not replicate in larger rollouts (Berge et al. 2012, Vivalt 2019). Moreover, with few exceptions (e.g. McKenzie and Puerto 2020), the returns estimated from evaluations are almost always private rather than social returns, as the experiments are not designed to measure spillovers to non-sample firms. Nevertheless, the finding of positive private returns would be a first step to understanding which types of training programmes might provide positive social investments.

How should training be done to ensure it is effective and scalable? There is enormous heterogeneity in the types of entrepreneurs and firms, and different approaches are likely to be needed for different firm types. At one end, many microfinance organisations and governments interested in poverty alleviation aim to help poor people set up firms that can provide them with a basic livelihood, or help subsistence firm owners earn slightly more in their businesses. Next, there is a range of established small existing businesses that want to increase profits. A separate category are high-growth start-ups aiming to grow rapidly and potentially attract outside funding. Finally, there are small and medium enterprises that governments aim to help to improve productivity and increase employment. The right approach to building entrepreneurial skills is likely to differ across these different types of firms; even for a given firm type, there is considerable heterogeneity in the length and content of training programmes.

This Lit aims to summarise the growing evidence base for these different approaches. For each approach, it discusses what a typical programme aims to do, describes a prototypical study using this approach, and then aims to summarise what we know about the effectiveness of such an approach to entrepreneurial training, and where gaps remain. As a living document, we hope that over time these gaps will be filled as newer studies are completed and the evidence-base grows.

## II Teaching skills in microenterprises

The vast majority of firms in developing countries are microenterprises, with the modal firm consisting of a self-employed individual with no paid workers. These microenterprises are an important source of income for many poor households. The most prevalent forms of business training aim to help potential entrepreneurs start firms, and to help those already running these firms earn more income. Traditional training programmes aim to do this by teaching a package comprising of an assortment of business practices. A second approach attempts to simplify training by teaching a few heuristics and rule-of-thumb. Alternatively, rather than attempting to teach firm owners how to carry out specific practices, it may be more effective to change their aspirations and mind-set. Personal initiative training has shown some promise in improving performance through creating a more proactive mind-set. Finally, training programmes may offer a mixture of skill-based and attitude-based content, as well as tailored content for targeted groups such as women and youth.

### IIA Traditional small-business training

Classroom-based training in basic business practices is the most common approach to training small-scale entrepreneurs. The ILO's Start and Improve Your Business programme, Freedom From Hunger's programmes for microfinance clients, and the IFC's Business Edge programmes are amongst the best known and most widely implemented classroom-based training programmes. Although there is a wide variety of classroom business training programmes and approaches, a typical programme involves a trainer teaching a group of 15-to-40 participants over a period of 3-to-12 days. Courses for potential entrepreneurs looking to start a business focus on topics like generating a business idea, developing a business plan, permits, costing, pricing, and budgeting. Courses for owners of existing firms looking to grow, cover record-keeping and accounting, marketing, human resources and hiring workers, stock control and inventory management, planning, and operations management.

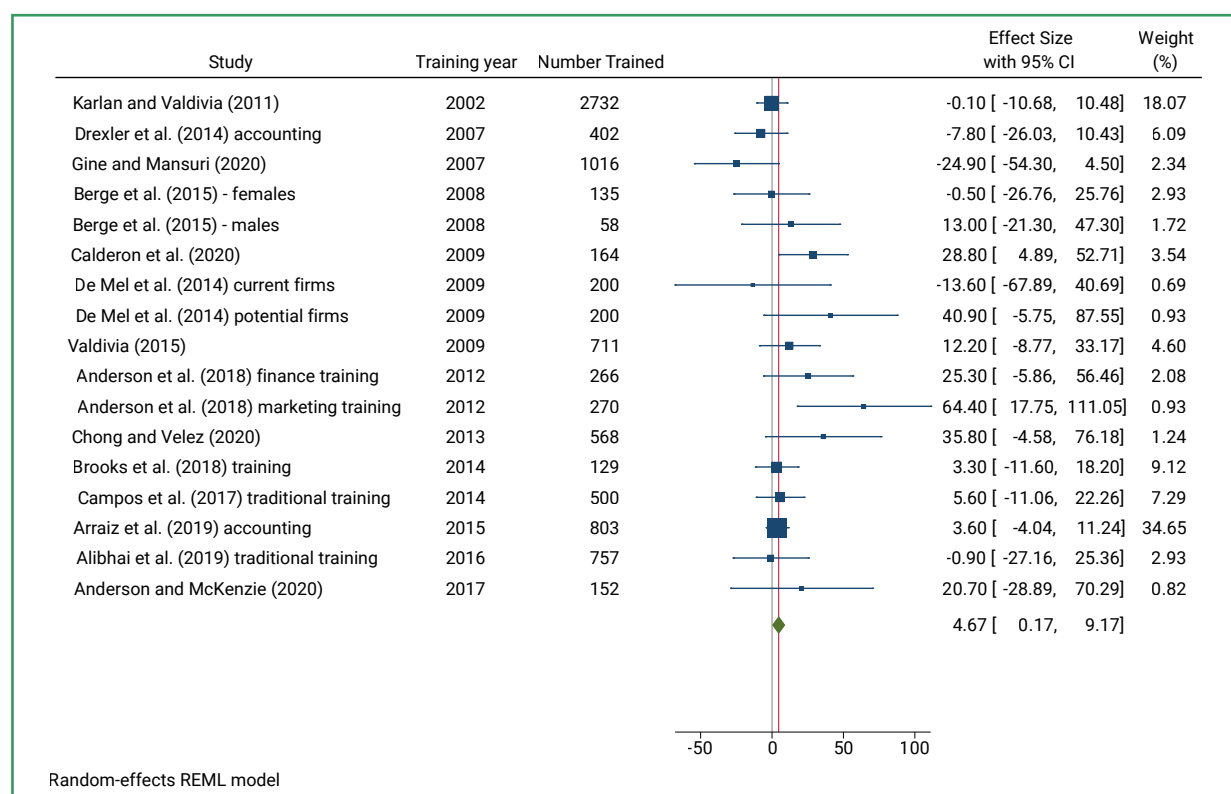
Most of these training programmes reach scale by training a set of master trainers, who in turn train a network of trainers in different countries. The course materials are typically translated and adapted to local contexts. While courses are typically traditional teacher-led, classroom-based training, many also incorporate active learning. Participants take part in exercises or games to gain an understanding of key concepts, and complete assignments between training sessions that apply the content to their own businesses. Van Lieshout and Mehtha (2017) report costs for offering a 5-7 day SIYB course in 18 different countries. The costs range from US\$400 to US\$12,242 for a class of 20, with an average cost of US\$3,537, or US\$177 per participant. In many countries, and most randomised experiments, training is offered to firms for free or for a token cost – van Lieshout and Mehtha (2017) report a median contribution by participants of 10% of the cost. This large variability in costs reflects differences in whether instructors are specialist trainers or NGO staff, whether venues need to be hired or classes can be held in schools or halls without charge, in transport costs for getting instructors to remote areas, and in the scale of training offered.

As the most prevalent form of business training, traditional classroom training has been subject to the largest number of evaluations. The first such randomised experiment was undertaken by Karlan and Valdivia (2011), who evaluated the impact of training offered to clients of a microfinance institution in Peru. A large sample of over 4,500 borrowers were randomly allocated at the village bank level to a control

group, or to a treatment group that received up to 22 weekly training sessions of 30-60 minutes each. The results are also typical of much of the early literature: the authors find significant improvements in some measures of business practices and business knowledge, but no significant impact on business revenue (and they do not measure business profits).

Many of the subsequent studies have also tested variants of traditional training. Figures 1 and 2 summarise the effects on sales and profits, respectively, from these different studies. When considered separately, we see that the confidence intervals of the impact of training in many of these studies are large and include zero. McKenzie (2020) estimates a random effects meta-analysis, and finds that the training has a significant positive average effect on both profits and sales, with an estimated 4.7% improvement in sales and 10.1% improvement in profits. He argues that improvements of this magnitude are in line with what is reasonable to expect given what we know about the returns to other forms of education and the return to capital, but that most studies do not have sufficient statistical power to detect effects of these magnitudes. Note that for a firm earning US\$100 a month, a 10% increase in profits would therefore enable the typical cost of US\$177 of a training course to be recouped within 18 months.

**Figure 1** Estimates of the impact of business training on firm sales

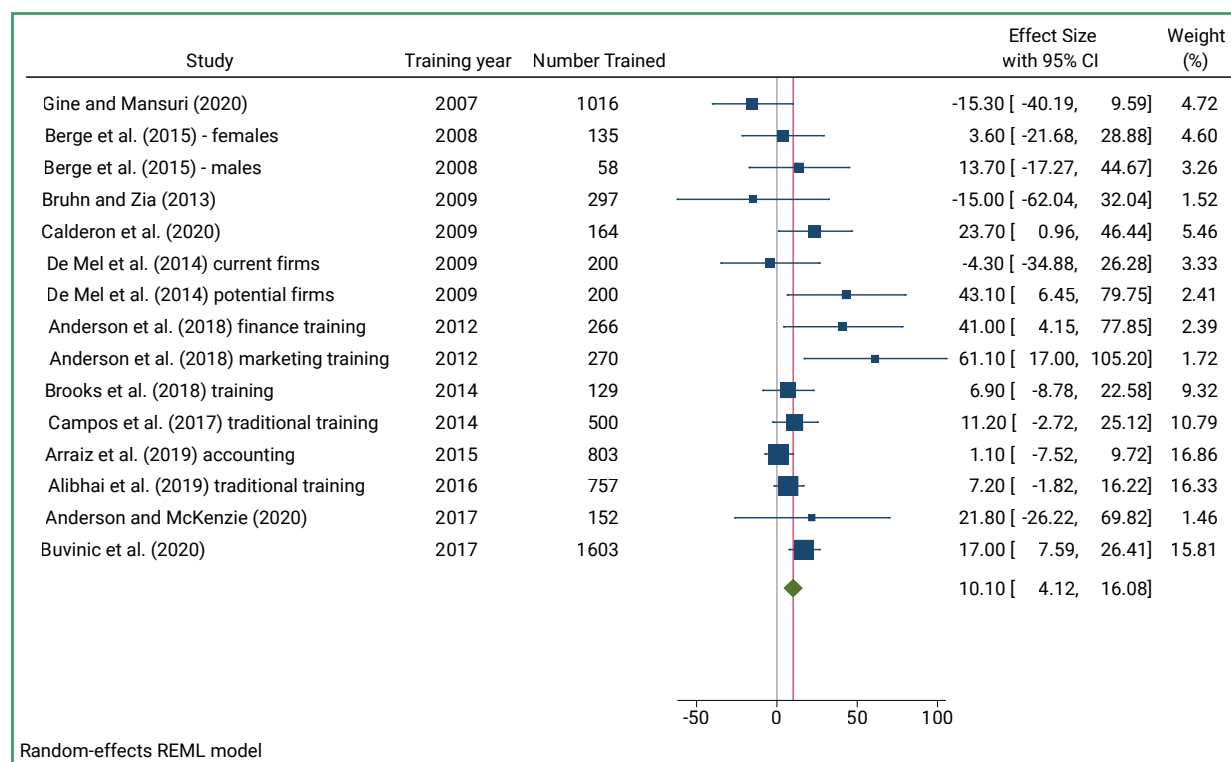


Source: McKenzie (2020)

Why doesn't traditional training have a larger effect? McKenzie and Woodruff (2013, 2017) show that the modest effects on sales and profits are reflected in the fact that enterprise owners implement very few additional best practices after participating in training sessions. A typical SIYB training programme may attempt to teach owners 20 or 30 business practices; however, on average, participants end up improving only one or two of these practices. In part, this reflects the short nature of the courses, but it may also reflect the quality of the training programme and the selection of participants for the course. Training programmes that are more intensive and those with screening that results in more selective entry into the programme, have shown both larger effects on business practices (e.g. Anderson et al. 2018) and larger effects of the training on enterprise performance. Further work is needed to both measure the quality of training delivery, and to test different approaches to improving the effectiveness of this delivery



**Figure 2** Estimates of the impact of business training on firm profits



Source: McKenzie (2020)

## IIB Heuristics and rule-of-thumb

Standard training programmes teach a broad range of practices in a short period of time. They may provide more information than subsistence enterprises can or care to absorb. An alternative is to provide simpler training that focuses on heuristic guidelines or rule-of-thumb. For example, rather than trying to teach detailed accounting practices and how to calculate firm profits, rule-of-thumb training focuses on keeping household and business finances by giving a physical rule to keep money in two separate drawers, and only transfer money from one to the other with an explicit “IOU” note between the business and the household.

Drexler et al. (2014) evaluate such a training programme in an experiment with 1,193 microenterprises in the Dominican Republic. They find that the heuristic training worked better than more standard accounting training for lower-educated firm owners; although were unable to reject equality of impacts of the two types of training for the full sample (mean effect +4.9%, 95% C.I.: -14.6, +24.4). Statistical power is reduced because sales data are missing for almost half the sample. Somewhat stronger evidence comes from Arráiz et al. (2019), who evaluated a 4-hour rule-of-thumb training for finance amongst 2,408 microenterprises in Ecuador, comparing it with an accounting and finance training programme. Follow-up a year later shows that the heuristic-based approach increased daily profits by 8.1% (95% C.I.: +0.7, +16.0), and daily sales by a similar amount. The rule-of-thumb training was particularly effective for women and those with lower cognitive scores. However, Cole et al. (2019) find limited impacts of sending rule-of-thumb voice messages to small firms in India and the Philippines

**Table 1** Impacts of rule-of-thumb training

Study	Country	Training Year	Sample Size	N Training	Follow-up length	Point estimate	95% C.I.
<i>Impact on Sales</i>							
Drexler et al. (2014)	Dominican Republic	2007	1,193	404	12 months	4.9	(-14.6, 24.4)
Arraiz et al. (2019)	Ecuador	2015	2,408	801	12 months	7.4	(1.0,14.1)
Cole et al. (2019)	Philippines	2016	2,096	1,066	3 months	-6.8	(-17.3, 3.6)
Cole et al. (2019)	India	2016	3,849	1,924	3 months	6.1	(-1.7,14.0)
<i>Impact on Profits</i>							
Drexler et al. (2014)	Dominican Republic	2007	1,193	404	12 months	n.a.	n.a.
Arraiz et al. (2019)	Ecuador	2015	2,408	801	12 months	8.1	(0.7, 16.0)
Cole et al. (2019)	Philippines	2016	2,096	1,066	3 months	-4.1	(-13.5,5.3)
Cole et al. (2019)	India	2016	3,849	1,924	3 months	-0.2	(-6.8,6.4)

The idea of providing simplified rules that business owners can use offers an appeal for helping the smallest businesses and least-educated entrepreneurs to run their subsistence enterprises slightly better. However, it is unclear from existing studies whether these approaches have long-lasting effects, or whether firms stop using heuristics over time (existing studies only follow firms for a year at most). Moreover, till date, there are limited examples of the types of rule-of-thumb that can be used, largely limited to financing, and it is less clear whether there are relevant heuristics for marketing, stock control, and other important areas of the business.

## IIC Teaching an entrepreneurial mind-set

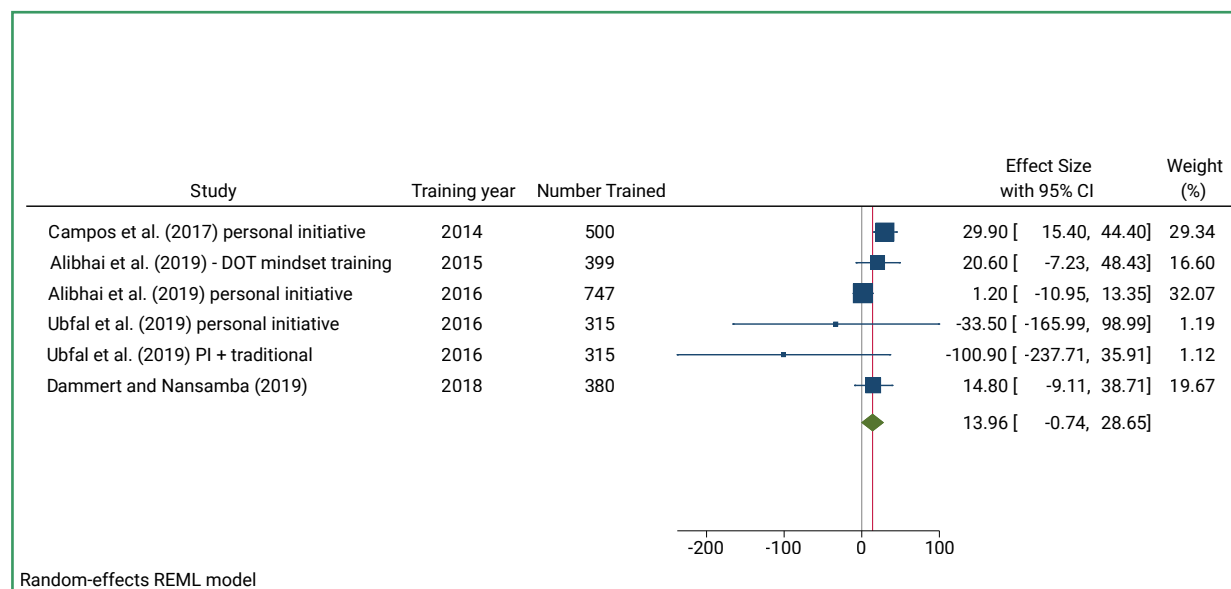
Classroom training programmes typically focus on improving technical business skills in record-keeping, marketing, etc. An alternative approach instead targets attitudes, particularly mind-set and aspirations. Borrowing heavily from psychology, personal initiative training programmes have been the subject of several evaluations in recent years, showing some promise. Personal initiative training aims to develop a proactive entrepreneurial mind-set, encouraging owners to search continuously for new opportunities, learn from errors, and think of ways to differentiate their business from others. For example, a training exercise involves entrepreneurs thinking through their previous business day, and asking what they can do so that tomorrow is an improvement over yesterday.

Campos et al. (2017) carried out an experiment with 1,500 microenterprise owners in Togo, testing the impact of personal initiative training compared to both a control group, and to a group that received the Business Edge programme, a traditional small business training approach. Both groups received 36 hours of classroom training, followed by a trainer visiting each business for one three-hour visit per month for each of the next four months. Personal initiative training is found to improve business profits by 30% over the next two and a half years, which is significantly higher than the 11% increase from traditional training. The result is that the US\$750 cost-per-participant of training is recouped with increased profits in less than one year.

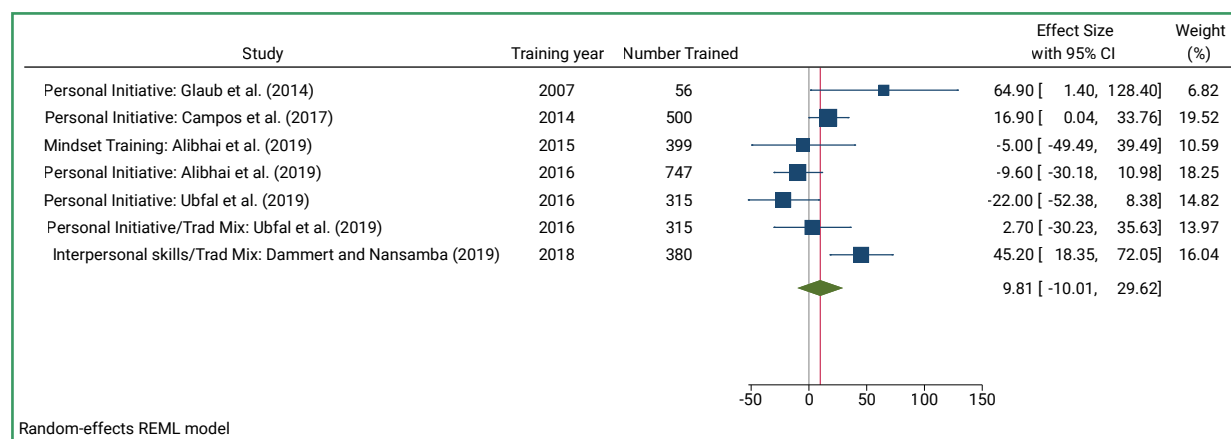


Personal initiative training has been tested in several other countries, including an initial pilot by Glaub et al. (2014) in Uganda, and in studies by Alibhai et al. (2019) in Ethiopia and Ubfal et al. (2019) in Jamaica. There have also been tests of other psychology-influenced training curricula, including interpersonal skills (Dammert and Nansamba 2019) and another form of mind-set training (Alibhai et al. 2019). Figures 3 and 4 summarise the results, and provide a meta-analysis of this emerging set of studies. The average impacts on profits and sales are 14% and 10% improvements respectively, but we see considerable heterogeneity in the impacts across different studies.

**Figure 3** Estimates of the impact of psychological training on firm profits



**Figure 4** Estimates of the impact of psychological training on firm sales



While there is a lot of interest from different organisations in trying these psychological approaches, there are still many open questions about how to best implement this form of training. Efforts to follow up on the Campos et al. (2017) Togo study found less promising results in Ethiopia and Jamaica. One potential explanation lies in the quality of the trainers and intensity of treatment being lower. A second issue that needs further research is the role of follow-up one-on-one visits after training, which were used in Togo. Some programmes attempt to combine modules on both traditional training topics with modules on personal initiative, and it is unclear whether attempting to do both approaches complements or weakens the emphasis on mind-set in personal initiative training. Finally, it is unclear what the upper limit on firm

size or baseline entrepreneurial attitudes should be for participants in these programmes – such training may be less effective for entrepreneurs who already have strong aspirations and who are proactive to begin with.

## IID Training for women and youth specifically

All three of the approaches discussed above are designed to apply to a wide variety of microenterprises. However, specific groups of entrepreneurs may face additional constraints, or need additional tailored content.

### **Programmes for female entrepreneurs**

Training programmes designed specifically for female entrepreneurs may aim to also help them overcome additional gender barriers to firm growth, by helping them enter into different sectors, or by teaching them how to better manage segregating household and business tasks, overcoming stereotypes, and working with other women. An example of such a programme is the ILO's Gender and Enterprise Together (GET Ahead) programme, which combines standard topics like recordkeeping, separating business and household finances, costing and pricing, etc., with topics on gender. This programme has been evaluated in two randomised experiments in Vietnam (Bulte et al., 2016) and Kenya (McKenzie and Puerto, 2020). While the programme improved business practices in both cases, the Kenya study found significant improvements in profits and sales after three years (Table 2). Using a market-level randomisation, McKenzie and Puerto (2020) show that this growth does not appear to have just come from taking away sales from untrained women, but rather, the trained women introduced new products and total market sales grew...

**Table 2** Impacts of female-specific training

Study	Country	Training Year	Sample Size	N Training	Follow-up length	Point estimate	95% C.I.
<i>Impact on Sales</i>							
Bulte et al. (2016)	Vietnam	2012	4,041	670	1 year	-108.7	(-318.8, 101.4)
McKenzie and Puerto (2020)	Kenya	2013	3,537	1,172	3 years	18	(6.1, 29.9)
<i>Impact on Profits</i>							
Bulte et al. (2016)	Vietnam	2012	4,041	670	1 year	128.1	(-18.4, 274.7)
McKenzie and Puerto (2020)	Kenya	2013	3,537	1,172	3 years	15.4	(3.4, 27.3)

However, it is unclear how much the extra gender content helped, compared to just the traditional business skills being taught. McKenzie and Puerto (2020) report that they do not see significant impacts on gender attitudes, self-efficacy, or working together with other women, and associated qualitative work does not find women reporting the gender component as especially useful. It would be useful in future work to compare the effects of a programme like GET Ahead to a standard business training programme like SIYB.

### **Programmes for youth**

Youth are another common target group for business training programmes. There are at least three variants of youth business training programmes offered. The first consists of training for out-of-school youth, with the goal of getting them to start businesses or expand existing businesses. In a number of cases, this training is coupled with other forms of assistance such as small grants, making it hard to assess the impact of training alone. A second case consists of entrepreneurship education taught in secondary schools, such as the Educate! programme. These programmes typically consist of a combination of soft skills training

and business concepts. A challenge in measuring the impact of these programmes is that the impacts may not be seen for several years, until youth have finished school. Finally, entrepreneurship programmes may be offered in universities. An example is an experiment in Tunisia which taught entrepreneurial skills during the last year of university. While the study found positive impacts on starting new firms after one year, these effects disappeared over a four-year horizon (Alaref et al. 2020).

Comparing and synthesising impacts from youth business training programmes is difficult for several reasons. The goal of these programmes is often employment, and so one of the main impacts is on whether youth start a firm. But it is not always clear that self-employment is the most desirable employment option. In the longer-run, youth may also be better investing in schooling rather than starting a business, so that examining employment over the longer-term is important. Second, because the control group often starts very few firms, measuring the impacts on profitability or sales is difficult because control group means can be low. Looking at total income from all income-earning activities, including wage work, is likely to be a better measure for comparability.

### III Medium- and large-scale enterprises and high-growth start-ups

Training programmes aimed at microenterprises yield, on average, modest increases in profits and sales. However, there is no evidence that training unlocks rapid and sustained growth of microenterprises. Training appears to be a means of increasing incomes of microenterprises, but not of generating the sort of growth that will propel the aggregate economy. What is the evidence that training and consulting is effective when applied to larger-scale enterprises? The existing evidence for larger firms is much more limited, at least in part because larger firms are fewer in number and training programmes need to be more intense and therefore more expensive. We divide the review into evidence on sector-based programmes designed around the Kaizen model, business consulting, and programmes like incubators and accelerators designed for high-growth start-ups.

#### IIIA Kaizen

An alternative form of training focuses on production and quality management. There are several randomised evaluations of programmes based on the Japanese-inspired concept of lean production, or *kaizen* (continuous improvement), delivered to firms organised in industry clusters. This includes visual control examining workflow and bottlenecks, and habit-forming techniques such as 5S, which induce workers to reduce waste, ensure safety first, maintain machinery and equipment, keep the workspace clean and uncluttered, and find remaining problems and suggest solutions. The first experiment to test this approach is Mano et al. (2012), who added a module on this approach to two modules based on the ILO's standard programme (SIYB). Working with 167 small metalwork firms in Ghana, they find that training increases one-year survival by 8 to 9 percentage points, but effects on profits and sales are imprecisely measured (Table 3).

The *kaizen* approach has also been evaluated with experiments amongst 316 steel construction and knitwear firms in Vietnam (Higuchi et al. 2015), and 113 garment firms in Tanzania (Higuchi et al. 2019). In both cases, the researchers split the samples into four groups, comparing classroom training only with training on-site, or a combination of the two. The number of firms getting any particular training combination is small – approximately 30 in the Tanzania example. Neither study estimates impacts on profits, but they both show that firms adopt more management practices, and that value-added improves after some time. A longer-term follow-up of the Vietnam sample by Higuchi et al. (2017) finds firms assigned to training were 17 percentage points more likely to still be in business five years after training. The Tanzania study also finds large increases in sales – 90% higher after three years for the group getting both classroom and on-site training (95% C.I.: +33, +148).

While these results suggest potential in this *kaizen* approach, studies on much larger sample sizes are needed to feel more confident in the effectiveness. Moreover, it would be good to benchmark *kaizen* against a standard training programme, to measure how much additional benefit the *kaizen* content provides.

**Table 3** Impacts of *kaizen*

Study	Country	Training Year	Sample Size	N Training	Follow-up length	Point estimate	95% C.I.
<i>Impact on Sales</i>							
Mano et al. (2012)	Ghana	2007	167	60	1 year	37.3	(-50.4,125)
Higuchi et al. (2019)	Tanzania	2010	113	26	3 years	90.2	(33, 148)
<i>Impact on Profits</i>							
Mano et al. (2012)	Ghana	2007	167	60	1 year	24.9	(-66,115)

### IIIB Consulting

Classroom-based training is seldom used with small and medium enterprises (except for programmes that aim to train their workers). Business consulting offers a more customised, intensive, and individually tailored approach. A typical consulting intervention begins with a diagnostic that evaluates existing management practices across a range of functional areas such as production, logistics, human resources, and finance, and identifies a set of priority areas for improvement. A consultant or team of consultants then works directly with management and workers of the firm to implement improvements in the firm in a sustained and intensive interaction that can often last for six months or more. Governments supporting the use of consultants often are most interested in the impacts of these programmes on the productivity of firms and on employment, rather than just sales and profitability.

The cost of consulting programmes can vary dramatically depending on the number and type of consultants used, and their intensity. A single local consultant working one-on-one with a small firm for 88 hours costs US\$ 4,000 in Nigeria (Anderson and McKenzie 2020) and US\$ 12,000 for 200 hours in Mexico (Bruhn et al. 2018). In contrast, a team of local consultants cost US\$ 30,000 per firm for 500 hours of consulting in Colombia (Iacovone et al. 2020) and a team of international consultants had a market price of up to US\$ 250,000 per firm for 780 hours of working with large firms in India (Bloom et al. 2013). While these numbers are much larger than the cost of training smaller firms, since the firms receiving consulting are much larger and profitable to begin with, a 5% or 10% improvement in profits may still be enough for consulting to pay for itself.

#### **Large firm consulting**

A proof of concept that intensive individual consulting can deliver improvements in large firms was shown in an experiment by Bloom et al. (2013) with large textile factories in Mumbai, India. These firms had an average of 270 employees, US\$ 7.5 million in sales, and often had more than one plant. A sample of 17 firms (with 28 plants) was split into a treatment group of 11 and a control group of 6. The control firms received a one-month diagnostic, which was deemed necessary both to retain their interest and to ensure the quality and comparability of the information reported. The treated firms received an additional four months of consulting services aimed at improving management practices. Using high-frequency data on output and quality defects, Bloom et al. show that the intensive consulting intervention significantly increases output per worker and TFP, and significantly reduces inventory levels and the quality defect rate. The intervention also led to improvements in management practices. They estimate that the changes

resulted in an increase in profits of US\$ 325,000 per year per firm, implying that the cost of the consulting, which they estimate as US\$ 250,000, is recouped in less than a year. Why did managers not adopt the practices on their own? There are both proximate and deeper answers to this question. Using data that the consultants obtained from managers, Bloom et al. show that the proximate reasons are either that the managers were unaware of the practice (most often for “uncommon” practices), or that they did not think that adopting the practices would be profitable (most often for “common” practices).

Scaling up such an approach is difficult given the expense. Iacovone et al. (2020) test whether consulting can be effective when delivered at a cheaper cost, in an experiment with 159 auto-parts firms in Colombia. They test an individual consulting intervention that is similar to the Indian case, but using local consultants and costing US\$ 30,000; and a group-based approach that has a consultant work with groups of 3-8 firms, at a cost of US\$ 10,000 per firm. They find that the group-based approach leads to the same improvement in measured management practices as the more expensive individual option, and that it results in increases in employment (6-15 workers), sales (28-33%), and profitability (5-26%) over the subsequent three years. Labour productivity increases by 11-14 percentage points, although this impact is not statistically significant.

### **Consulting for small firms**

While the above experiments took place in firms with many workers and several departments, consulting can also potentially offer benefits to smaller firms. A very common form of government support occurs through matching grant programmes, where the government subsidises firms to use consulting services, but requires firms to pay a fraction of the cost. Campos et al. (2014) note that more than US\$ 1.2 billion has been spent on World Bank matching grant projects; however, they have been difficult to evaluate.

Bruhn et al. (2018) conduct an experiment with 432 micro, small- and medium-sized firms taking part in a matching grant programme in Puebla, Mexico, with firms paying 10-30% (depending on size) of the US\$ 12,000 cost of consulting. Their firms are much smaller than those in the Bloom et al. study, with around 70% classified as “micro” and 22% “small”, and an average of 14 full-time employees. Treated firms received weekly four-hour sessions over a period of one year. The researchers find generally positive but somewhat fragile impacts on profitability and return on assets at the end of the year of consulting. More impressive results come from national Social Security system (IMSS) data for as long as five years after treatment. The IMSS data show that treated firms grew faster than control firms after the programme, leading to 57% higher employment after five years, or 5.7 extra employees per treated firm. However, the IMSS records are available for just over half (57%) of their sample, and are aggregated to total employment for the treatment and control groups. We therefore cannot tell whether the growth comes from a few firms or is spread more widely across the sample. This makes the cost-effectiveness somewhat difficult to assess.

### **Markets for consulting services**

Although Bloom et al. show that the returns to very intensive management consulting are reasonably high, the market for these services has been slow to develop. Firms appear reluctant to commit to paying for the training (Maffioli et al. 2020). Why? Academics often debate the “external validity” of empirical results, i.e. the extent to which lessons from one specific study are applicable to other contexts. Many of us would be optimistic that the lessons from Mumbai have implications in other countries and industries. But is it unreasonable for the owner of a scrap metal factory in Kenya (for example) to ask whether there is evidence that high-cost consulting would be profitable for him? It is reasonable to ask whether and how the generation of knowledge will ultimately lead to firms engaging consultants more.

An alternative approach is to ask under what circumstances we observe the endogenous development of local markets for consulting services. That is, what are the conditions – competitive pressure, export opportunities, etc. – that induce firms to struggle to improve efficiency, and how do they accomplish that? Secondly, policymakers may try to make it easier for firms to use the market for consultants. This could involve providing information and certification to help overcome informational constraints, as well as providing some partial subsidies as in the case of matching grants.

Alternatively, we might ask whether there are models that break learning into smaller steps that might be adopted incrementally. The feasibility of the incremental approach depends on whether the lessons are effective when implemented one at a time, or whether multiple changes need to be implemented simultaneously to be effective. For example, does the effect of advertising depend on whether a retailer also implements practices for monitoring stock levels, so that products are available to meet any increase in demand generated by the advertising? If the changes that firms need to make are complementary to one another, then they will need to be learned and implemented all at once to be effective. In this event, an incremental approach may simply lead firms to conclude that each individual change learned from the training, mentor, or consultant, has no effect.

### **IIIC Incubators and accelerators for high growth start-ups**

High-growth potential start-ups are of particular interest to many policymakers, because of their potential for innovation and rapid growth (Haltiwanger et al. 2017), and because of their relative scarcity in developing countries (Eslava et al. 2018). Most of these firms are young and have few workers, but they differ from micro and small firms in terms of the types of entrepreneurs running these firms, and in the technologies and industries. Entrepreneurs starting these types of firms are often highly educated and highly motivated. The result is that these entrepreneurs are less likely to need training on basic business skills or on cultivating an entrepreneurial mind-set, but instead need more specialised assistance with their business model, and with positioning their firm to receive outside financing from investors. The most common intensive approach is to support firms through business accelerators and incubators. Accelerators often offer firms some seed capital, workspace and other “non-monetary services” (such as mentoring and opportunities to network), in addition to training. These programmes typically work with small cohorts of 10 or 20 firms at a time, and last three to six months on average, although participants often remain connected through alumni networks.

A typical accelerator programme starts with a rigorous selection of entrepreneurs into a cohort that receives training and mentoring from successful business owners either from within the country or remotely. Many accelerator programmes provide links to angel finance or provide grants to enterprises completing the training. The combination of selection and the provision of a bundle of services makes the effect of accelerators particularly difficult to measure. There are a limited number of studies that use a credible comparison sample.

The most credible evaluations of accelerators to date use characteristics of the selection processes in these programmes as a source of exogenous variation in participation. The first such exercise is by Gonzalez-Uribe and Leatherbee (2017), who use a regression discontinuity design (RDD) to explore the effects of StartUp Chile, an accelerator that offers participants cash, workspace, and the possibility of being selected into the “entrepreneurship school” where additional non-monetary services are provided. With 1000 ventures selected to participate in the programme from amongst 6000 applicants, the marginally selected applicants are reasonably similar to the marginally rejected applicants. All applicants also receive a quantitative score, which can be used as a control for differences in enterprise potential.

Gonzalez-Uribe and Leatherbee show that ventures selected to participate in the Startup Chile programme (compared to those not selected) are more likely to: raise subsequent finance, survive, and have a web presence. However, the analysis shows that these effects are entirely driven by selection of higher-quality ventures into the programme. The basic accelerator programme – the office space and capital grant – has no additional effect on these outcomes.



There has been much less analysis of the specific components of accelerator programmes. One first attempt was made by Gonzalez-Urbe and Leatherbee, who assessed the impact of an “entrepreneurship school” that is offered to 20% of Startup Chile participants. The school is additional to the basic programme, providing monthly meetings with programme staff, peers, and industry experts; opportunities for networking; and advertisement on the programme’s web page. Exploiting the discontinuity in acceptance into the additional programme, they find that the schooling, bundled with cash and other basic services, significantly improves the performance of ventures, even after controlling for selection effects. Within five years, entrepreneurs receiving the additional training see a 21% (0.29 standard deviation) increase in the probability of securing additional financing, triple the amount of capital raised (from \$37K to \$112K; a 0.30-standard-deviation increase), and double the number of employees (from 0.9 employees to 1.8, a 0.34 standard deviation increase).

While the evidence in Gonzalez-Urbe and Leatherbee (2017) shows that the non-monetary services provided by accelerators can affect performance when bundled with cash grants, it raises the question of whether non-monetary services on their own can have meaningful impacts. Gonzalez-Urbe and Reyes (2020) tackle this question in the context of ValleE, a business accelerator in Colombia, that instead of providing cash to participants, offers standardised business training, customised business advice, and visibility. For identification, they exploit variance in the generosity of the randomly assigned panellists charged with selecting enterprises into the programme. A key advantage of the setting is the administrative revenue data from the Colombian business registry two years before application and three years after.

Gonzalez-Urbe and Reyes show that the provision of non-monetary services on their own, significantly increases average annual revenue by 166% relative to rejected applicants. The average effect masks substantial heterogeneity: whereas firms with the highest growth potential at application exhibit remarkable growth, there is no evidence that the programme increases growth for the participants with the lowest potential. This result is consistent with the emphasis of these programmes on rigorous selection processes.

More work is needed to further unpack the components of accelerator programmes to identify the non-monetary services that have the highest impact and are most cost-effective and scalable. The evidence on this topic remains informal, but points towards the importance of services different from standard business training. For example, participants in the Colombian programme believed that mentoring and networking were the most valuable aspects of the accelerator, and that the standard business training provided was of little value (Gonzalez-Urbe and Reyes, p. 3).

Cusolito et al. (2020) conducted a five-country randomised experiment in Croatia, Kosovo, Macedonia, Montenegro, and Serbia, to test the effectiveness of an investment-readiness programme with 346 firms. The components of the program are similar to the more common accelerator programs. The firms included in the Cusolito et al. program had an average of 6 employees, and were in high-tech innovative industries such as cloud computing and app development. The treatment group received help developing their financial plans, product pitch, market strategy, and willingness to take equity financing, along with master classes, mentoring, and other assistance. Both groups then competed in a pitch competition, and were tracked for two years to measure impacts on receiving outside investments. Treated firms scored higher on their pitch. The programme’s effects were strongest for firms that were smaller and less likely to otherwise get external financing: the programme had a statistically significant 15 percentage point increase in the likelihood of getting external financing for firms below the median size.

## IV Alternative approaches to training

Business training programmes typically aim to deliver a fixed curriculum of content to a group of firms, usually in a classroom setting. This has advantages for scalability, but may limit how adaptive the content is to specific needs of individual businesses, and to changes occurring in the economy. Mentoring and peer

interaction approaches have been developed to attempt to better share customised knowledge amongst firms. A second issue is that delivering training to groups in classrooms is still costly, and may not be convenient for many entrepreneurs to attend. Moreover, the COVID-19 pandemic has meant that gathering groups of firm owners together, physically in one room, is not possible in many countries. Alternative delivery mechanisms for teaching training content are therefore receiving increasing attention.

## IVA Peer interactions and mentoring

Having firm owners learn from one another offers the promise of providing a way for sharing of locally relevant better business and management practices, and may also offer other benefits for firms in terms of establishing new business relationships. This can involve the use of formal mentors, as well as programmes that match firms with other peers to facilitate interactions. Berelowitz et al. (2020) offers practical advice for implementing mentoring, although the evidence base underlying these recommendations is still limited.

In practice, mentors paired with individual firms to give customised advice and feedback can operate like a form of individualised consulting. Brooks et al. (2018), for example, conducted an experiment with 372 female-owned microenterprises in Kenya. In addition to a control group, a first treatment group is randomly allocated to receive classroom training, while a second treatment group is assigned to mentors. The mentors were selected from the more profitable business owners amongst their sample, and paid a nominal payment of US\$ 10. The mentor-mentee pairs were required / encouraged to meet weekly at the mentor's place of business four times over a month, though many pairs continued to meet for more than a year beyond the official treatment period. The study found a substantial short-term effect of mentoring, with profits of treated enterprises increasing by 20%, whereas the classroom training shows no significant effect. The effects, however, disappear about a year after the treatment begins. The mentor treatment appears to be effective while the mentor-mentee relationship is most active and disappears as the incentives provided to the mentors are removed. McKenzie and Puerto (2020) fail to find any positive effects of mentoring in a sample of female microenterprise owners who also received the ILO GET Ahead business training programme. They had more successful business women meet over a five-month period both in small groups and one-on-one with participants after the in-class training. They estimate that the mentoring cost US\$ 553 per firm mentored, and find that it did not lead to any additional improvements relative to the training alone.

Mentors may be more effective for more advanced firms looking to innovate or expand into new markets, where their local knowledge network may not be able to provide sufficient expertise. An example is provided by Anderson et al. (2020), who conduct an experiment with 930 small business owners in Uganda. The treatment group was linked to mentors around the world via biweekly Skype meetings for up to six months. The mentors were typically management professionals in advanced markets, who tailored the activities towards the specific context and challenges facing each firm. They find that firms assigned this remote mentor did not improve overall business practices, but were more likely to "pivot" their marketing strategy, for example, by shifting the production of sale of one product line to another. As a result, sales increased by 28% over two years.

### **Peer Interactions**

Firms may also be able to improve their business and management practices through learning from each other. Cai and Szeidl (2018) illustrate the promise of such an approach by conducting an experiment with 2,820 firm owners in China. The firms are all SMEs, with an average of 36 employees, established within three years of the beginning of the experiment in 2013. 1,500 firm owners were randomly selected for treatment, which involved meeting monthly for 10 months with nine other firm owners. The groups were of four types: i) small size, same sector; ii) large size, same sector; iii) mixed size, same sector; and iv) mixed size, mixed sector. The relatively large sample size and segmentation allows for a nuanced analysis of peer effects. Cai and Szeidl found that sales of treatment firms increased by 8-10% relative to the control firms, with comparable increases in material inputs, employment, and assets. Why did

the interactions lead to an increase in firm growth? Cai and Szeidl show evidence on several channels. First, there is evidence that firms shared information on trading partners, with the number of referrals to trading partners and the number of direct relationships between firms in the group both significantly higher with treatment. Second, at the end of the year, they showed that firms in the treatment group had significantly better management practice scores than those in the control group. Indeed, the improvement in management practices generated by the peer-interactions is comparable to that generated by the US\$ 250,000 consulting intervention carried out in India, discussed above. Third, firms randomised into groups with higher-quality peers (measured by baseline firm size) showed larger increases in sales, profits, and management practices than those randomised into groups with weaker peers. Cai and Szeidl carried out an additional experiment by providing selected members of each group information about either an individual savings product or a business grant programme. The results of this additional experiment provide important lessons for scaling up the experiment. Specifically, information on the savings product flows through all of the groups and all of the group members. But information on the grants flows only when the members are not direct competitors.

The quality of peers is likely to matter a lot for these interventions. Chatterji et al. (2019) carried out a bootcamp with 100 high-growth technology start-ups in India, where firms were randomised into pairs. They find that entrepreneurs who received advice from peers with a formal approach to managing people – instituting regular meetings, setting goals consistently, and providing frequent feedback to employees – grew 28% larger and were 10 percentage points less likely to fail than those who got advice from peers with an informal approach to managing people in the two years after the intervention.

Peer interactions therefore seem most effective when firms get matched with similar, but slightly better peers who are not close competitors. This raises a concern for the general effectiveness of such programmes, since by definition, every firm matched to a firm that is better managed also has a counterpart firm that is matched with a firm that is worse managed. Moreover, peer learning may not happen automatically, and training may be needed to help firms learn how to better communicate with one another. Dimitriadis and Koning (2020) conducted an experiment in Togo, in which entrepreneurs were given a 2-hour communication training to help them better interact with peers, finding that this led to more information being exchanged and short-term performance gains.

### ***Learning from other firms without peer interactions***

There are a lot of organisational logistics involved in deciding which firms should be linked to one another, and getting them to meet and exchange information. An alternative is to try to help firms learn from their peers without having to physically interact. Dalton et al. (2020) provide one approach, where they conducted qualitative interviews with local firms in Jakarta to understand which business practices are being used, misconceptions about different practices, and implementation norms. They then used this to put together a handbook of best practices, and a documentary in which successful peers explain how they have adopted practices and their growth trajectory. This was coupled with two half-hour visits from a trained enumerator to help in implementing the practices, with the result being that both business practices and firm profits improved over the next 18 months. A second, and even more basic, approach to helping firms learn from peers is to allow them to benchmark themselves against how others are doing. Seither (2019) finds that merely providing firms in Mozambique with data on how their sales compare to other firms in the same sector, leads low-performing firm owners to work more hours, and increase profits and sales over the next year.

## **IVB Alternative delivery methods**

A range of technologies offer the potential to help business owners improve their business practices without having to go to in-person training. However, there is relatively little evidence on the effectiveness of these methods, and the available evidence suggests that the impacts of some forms of remote training have been quite limited.

### ***Entrepreneurial edutainment***

Television shows such as Dragons Den, Shark Tank, and The Profit illustrate how the process of pitching a new product or improving a struggling business can be entertaining to millions. Can watching such shows also teach entrepreneurial skills or inspire entrepreneurial attitudes? Two “edutainment” shows for entrepreneurship have recently been evaluated: Ruka Juu (“Jump Up”) in Tanzania (Bjorvatn et al. 2020) and El Mashroua (“The Project”) in Egypt (Barsoum et al. 2018). Both were reality show competitions, with weekly episodes over a span of 11-13 weeks, that followed the journeys of young entrepreneurs as they undertook challenges teaching and testing entrepreneurial skills. Key business concepts such as market assessments, planning, advertising, record-keeping, etc., were emphasised in each episode.

Randomised encouragement designs, in which a treatment group gets invited and reminded to watch the show, and a control group gets invited to watch something else or does not receive a reminder, have been used to measure the impacts. Bjorvatn et al. (2020) used this approach with a sample of 2,132 secondary school students, and Barsoum et al. (2018) with a sample of 5,924 Egyptian youth. The findings indicate that these edutainment shows do seem to make viewers slightly more interested in entrepreneurship, and seeing women succeed makes viewers think it is a little easier for women to go into self-employment than they had originally thought. However, neither study finds any impact on business knowledge, or on people taking actions towards starting businesses. However, it may be that these shows have effects on a minority of viewers that cannot be measured in standard impact evaluations. For example, if only 0.25% of the 4 million Egyptian viewers start a business as a result of watching, that would still amount to 10,000 new businesses created, but would need an experiment with almost 250,000 individuals to detect an impact.

### ***SMS messages and voice messages***

SMS messages have been used to send reminders and nudges to get people to save. They could potentially be used to disseminate simple business practices and business information, as well as to offer feedback based on automated rules. Two trials have shown limited impacts of this approach. Cole et al. (2019) tested sending weekly voice messages with rule-of-thumb in the Philippines and India, finding modest improvements in business practices but no significant changes in business performance. Acimovic et al. (2020) worked with mobile money agents in Tanzania, and experimented with sending daily personalised recommendations on inventory levels, finding no impact. Like television, SMS can be a very cheap way of helping firms, and so the magnitude of changes needed for this approach to satisfy cost-benefit calculations may be much smaller than existing studies can detect.

### ***Online training***

Both edutainment and SMS are limited in the amount of detail they can provide compared to standard classroom training. In contrast, developing fully online training modules offers the possibility of covering at least as much content, having firm owners do interactive exercises, and teaching a wide range of business skills and mind-sets. COVID-19 has made such approaches particularly attractive given restrictions on in-person gathering. Two key limitations are that: i) poorer microenterprise owners may struggle with both technological literacy and with having sufficient internet connectivity; and ii) many online programmes have high drop-out rates, making it unclear whether firm owners will work their way through online-only programmes in their entirety. There are no evaluations, till date, that show the effectiveness of online training, nor ones that benchmark it against in-person training.

## V Conclusions

There is now a growing evidence base that does provide guidance on the effectiveness of different ways of training entrepreneurs. This Lit summarises what we know till date, and highlights areas where much more work is needed. What has the most promise?

**Traditional entrepreneurship training** has modest but (across studies) significant effects on improving business practices and business outcomes for microenterprises. There is a lot of heterogeneity in both samples and results, so there is less guidance on which groups benefit most from traditional training.

**Personal initiative and heuristic training** can work well for subsistence entrepreneurs, although the quality of the trainers appears to matter a lot. It seems doubtful that medium-sized business owners lack drive and initiative.

**Kaizen** offers promise for smaller manufacturing firms above the subsistence level, although there are still fewer studies of this approach, and it has not been benchmarked against other training programmes.

**Consulting** appears to work, leading to improvements for both medium/large firms, and also for smaller firms with an average of 14 workers. However, consulting is expensive, and it is less clear how to scale such programmes. A group-based consulting approach offers potential.

Evidence on the effectiveness of **incubators and accelerators** in developing countries is still scarce, and it is unclear how much the training component matters, and which other non-monetary services have meaningful impacts.

**Mentoring of subsistence firms** does not appear to offer additional value beyond the cheaper in-person traditional training. Mentoring may work better as a substitute for training, particularly with more advanced firms looking to innovate, but evidence is limited. **Matching firms with well-performing peers** also offers promising results, although the impacts depend on the type of peer and only certain information will diffuse this way.

There is a need for further experimentation with **alternative delivery methods**, particularly online training, while television edutainment and SMS messages have not shown detectable impacts.

### **Five things we have learned:**

- Entrepreneurship can be taught.
- Better business practices matter for all sizes of enterprises.
- Training can at least modestly improve business practices for microenterprises.
- More intense consulting improves performance of larger firms and their subsequent growth.
- Innovating the content and delivery methods for training is important.

### **Five important knowledge gaps:**

- What are the longer-term effects of training?
- How do we improve the cost-effectiveness of training, for example, by better matching entrepreneurs to the appropriate type of training, or using online interactions?
- What are the factors that limit the adoption of proven beneficial business practices by entrepreneurs and managers?
- How do we make markets for training and consulting work better?
- How do we design and evaluate incubator and accelerator programmes?

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