

Rapid Response Brief



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Around the world, governments and NGOs implement programs to support micro, small and medium enterprises (MSMEs) in the interest of expanding employment. Some programs provide direct support through access to finance, matching grants, or technical assistance and trainings. Others provide indirect support through tax simplifications or streamlined business registration processes. This brief brings together evidence from two systematic reviews by the International Initiative for Impact Evaluation 3ie (2016) and Grimm and colleagues (2015) of over 50 studies, each of which assesses the impact of MSME support programs on employment in low- and middle-income countries. While both reviews include some interventions targeting firms of up to 250 employees, the 3ie review focuses mostly on matching grants to firms, while Grimm and colleagues focus mostly on access to finance (especially micro-finance).

What are the most effective programs to support micro, small and medium enterprises in creating employment?

Key Findings

- In low- and middle-income countries, supportive interventions aimed at MSMEs have positive impacts on employment generation, on average. However, effects have been very modest.
- Interventions appear to expand employment in small and medium enterprises (5–250 employees.) However, this is not the case for micro-enterprises (fewer than 5 employees.)
- Data limitations make it difficult to say much about the effectiveness of specific types of interventions. However, the reviews contain sufficient data to assess two types of support interventions: matching grants and micro-finance.
- Matching grants may be effective in creating employment, but the evidence is mostly inconclusive.
- Microfinance interventions may not be effective at creating employment, particularly among micro-enterprises, some evidence suggests. However, there may be external factors contributing to their ineffectiveness.
- There is insufficient information on the costs of MSME support programs to assess the cost-effectiveness of any type of intervention at present.

Key Recommendations

- To expand employment through MSMEs, target firms that have five or more employees.
- Design programs around expectations of only modest job growth.
- More research is needed given the currently limited evidence on the effectiveness of MSME support programs in expanding employment.

Background

MSMEs make up more than 99 percent of businesses and provide over 62 percent of employment in the Philippines, according to the Department of Trade and Industry. Many MSMEs have been hit hard by the COVID-19 pandemic. A UN Philippines survey found nearly 80 percent reported a reduction in their monthly income due to the pandemic, and 25 percent had already laid off employees as of June 2020.

The government of the Philippines is assisting some of these businesses through Small Business Corporation (SBCorp) loans, among other interventions. Access to finance is one of several interventions used globally to support MSMEs. While there are multiple reasons to support MSMEs – including poverty reduction, income smoothing and women’s empowerment – this brief focuses exclusively on whether these programs create employment.

Details of interventions

The programs covered in the reviews fall into five categories:

- **Access to finance**, including micro-finance, credit lines and other loans, so that firms can invest in productive assets, expansion and the hiring of new employees.
- **Matching grants**, including reimbursing firms for costs of trainings, marketing or trade fairs, all of which should help firms increase productivity, expand and hire new employees.
- **Technical assistance and trainings**, including business, management and employee skills training. Some programs aim to increase the productivity of firms so they will grow and hire. Others aim to increase the skill set of the workforce so firms can hire new employees with needed skills.
- **Interventions to promote formalization**, including tax simplification, inspections or registration guidance. These indirect support programs are based around the belief that formal firms are more likely to have access to credit, if needed.
- **Others**, including programs offering support for local production systems, business development, innovation, export production or wage subsidies. The number of studies on each of these interventions was quite small in both reviews.

The 3ie review focuses mostly on matching grants, and the Grimm et al. review focuses mostly on access to finance. Due to the emphasis on micro-firms in the Grimm et al. review, a subset of beneficiaries may have been *unemployed individuals* and not *existing firms*. However, the data needed to differentiate is not available, so all findings are treated as applicable to MSMEs.

In both reviews, most studies were conducted in Latin America and the Caribbean, and the authors express concerns about the applicability of the findings to other contexts. Only 20 percent of studies were conducted in the Asia-Pacific region. The fact that the studies evaluate different types of interventions, targeting firms of very different sizes (1–250 employees) implemented across different countries, means it is not possible to generalize findings about specific types of interventions.

Most studies focused on youth unemployment, where youth is defined as 15 to 35 years old.

Findings

In low- and middle-income countries, **supportive interventions aimed at MSMEs positively impact employment generation**, on average. However, both reviews found the **effects have been very modest**.

Interventions appear to **expand employment in small and medium enterprises** (5–250 employees) **more than micro-enterprises** (fewer than 5 employees.) While both reviews found **that interventions targeting micro-enterprises were the least likely to expand employment**, findings were less conclusive for small and medium firms. The Grimm et al. review found the strongest evidence of impact for firms between 5 and 19 employees, whereas the 3ie review suggested that the larger the firm, the larger the effects of the program on employment.

The 3ie review found that **matching grants may be effective in creating employment**. However, the finding was only significant when outliers are dropped (see graph).

The Grimm et al. review found **microfinance interventions were less effective** at creating employment than trainings or business development services. They were **particularly ineffective at promoting employment among micro-enterprises**. There are important caveats to this finding: (1) Many microfinance interventions aimed at micro-firms were not trying to expand employment, instead focusing on income smoothing or women's empowerment; (2) many took place in low-income countries, so the economic environment may contribute to the lack of effectiveness; and (3) many were evaluated using a research methodology that is consistently less likely to find positive effects than other methodologies.

There is **insufficient information on the costs of support programs to assess the cost-effectiveness of any type of intervention** at present.

Employment Creation Estimates (3ie Review)



Recommendations

If the primary objective is expanding employment through existing MSMEs, **target firms that have more five or more employees.** Design programs around expectations of only modest job growth. Consider offering matching grants.

Conduct more research or impact evaluations to contribute to currently limited evidence on the effectiveness of employee expansion programs for MSMEs.

When interpreting these findings, remember that **the research question focuses exclusively on whether interventions expand employment**, not whether they contribute to poverty reduction or income smoothing.

Evidence quality, strengths and limitations

The evidence for this brief comes from two systematic reviews, both of which focus on the impact MSME support programs on employment in low- and middle-income countries. The first is 3ie's systematic review of 40 studies; the second is Grimm et al.'s systematic review of 53 studies. All studies were published between 1999 and 2014.

Although the reviews included numerous studies, the majority of these focused on 'matching grants' and 'access to finance' interventions in the 3ie and Grimm et al. reviews, respectively. Only a small number of studies were included for all other types of interventions; the number is even smaller when findings are further disaggregated based on the size of the targeted firms, as Grimm and colleagues do in their review.

In the 3ie review, the findings on employment are only significant when outliers are dropped from their sample. The 3ie review also notes a high risk of bias in 65 percent of its included studies, and states that studies with higher risk of bias were *more likely* to find positive effects than those with little risk of bias. The positive impact of MSME support programs on employment are *not significant* when the authors control for bias. Similarly, the Grimm et al. study noted that randomized control trials (which often have lower risk of bias) found fewer positive effects.

All of this taken together suggests the findings from these studies should be interpreted with extreme caution, and additional research is needed on this topic.

About the Philippines Evidence Program

3ie's country evidence program in the Philippines is a tripartite partnership between the National Economic and Development Authority (NEDA), the country's independent economic development and planning agency as mandated by the Philippine constitution; the Department of Foreign Affairs and Trade of the Government of Australia; and 3ie. This decade-long partnership started in 2014, and it aims to build interest in and capacity for evidence-informed decision-making in the Philippines. Priority sectors are identified by the government, with 3ie providing technical oversight on evaluations assessing major governmental reforms and service delivery programs.

This rapid response brief is primarily based on the following systematic reviews

Grimm, M, Paffhausen, AL, 2015. Do interventions targeted at micro-enterprises and small and medium-sized firms create jobs? A systematic review of the evidence for low and middle-income countries. *Labour Economics*, 32, pp.67–85.

Piza, C, Cravo, T, Taylor, L, Gonzalez, L, Musse, I, Furtado, I, Sierra, A and Abdelnour, S, 2016. *Business support for small and medium enterprises in low- and middle-income countries: a systematic review*, 3ie Systematic Review 25. London: International Initiative for Impact Evaluation (3ie).

More information about the 3ie review is available here: <https://www.3ieimpact.org/evidence-hub/publications/systematic-reviews/business-support-small-and-medium-enterprises-low-and>



The International Initiative for Impact Evaluation (3ie) promotes evidence-informed, equitable, inclusive and sustainable development. We support the generation and effective use of high-quality evidence to inform decision-making and improve the lives of people living in poverty in low- and middle-income countries. We provide guidance and support to produce, synthesise and quality assure evidence of what works, for whom, how, why and at what cost.

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