The Impact of Role Models and Technical Assistance on Microfirms in Chile

Researchers:

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Sector(s): Finance

Location: Santiago Metropolitan Region, Chile

Sample: 66 courses with 1,712 individuals, 53 courses with 1,347 individuals

Target group: Entrepreneurs Small and medium enterprises

Outcome of interest: Earnings and income

Intervention type: Business skills training Coaching and mentoring

AEA RCT registration number: AEARCTR-0000522

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Partner organization(s): Simón de Cirene

While microfirms can play an important role in the labor markets of developing countries, they tend to have low productivity and difficulty growing. In partnership with Simón de Cirene, a Chilean non-profit organization, researchers evaluated the impact of providing role models and personalized assistance through various delivery methods on the business outcomes of micro-entrepreneurs. One year after the program ended, household income increased for individuals assigned to receive a role model or personalized assistance. The two interventions benefited different micro-entrepreneurs: the role model visit benefited less experienced entrepreneurs, while the personalized assistance benefited more experienced entrepreneurs. Additionally, role models were more cost-effective than technical assistance in improving business participation and income.

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Microfirms, often defined as firms with fewer than nine employees[1] , can play an important role in the labor markets of developing countries. However, microfirms tend to experience low growth and productivity and rarely hire employees outside of family members. Such firms may be constrained by a lack of access to credit or business knowledge. However, previous research has found limited impacts of offering access to credit or providing training on business knowledge on improving micofirm growth or productivity.

Microfirms may face other barriers to growth as well, such as firm owners lacking dedication or experiencing difficulty applying relevant knowledge to their businesses. Such challenges may be addressed by introducing role models or providing personalized consulting services. Learning from role models, or other successful microfirm owners, may increase microfirm owners' motivation and initiative, allow them to reassess their likelihood of growing a successful business, and facilitate learning about skills and traits needed for success. Personalized assistance could increase the value of training but could also be prohibitively costly depending on where and how it is delivered. Can exposure to role models and personalized assistance improve microfirm growth

and productivity in a cost-effective way?

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In Chile, more than 70 percent of the workforce is in the formal sector, compared to 45 percent in Latin America overall. Despite this highly formalized labor market, 20 percent of workers in Chile in 2006 were self-employed or business owners. Many reported these endeavors as temporary or irregular forms of employment. Self-employed workers also tended to be less educated, older, and female.

Simón de Cirene is a Chilean non-profit aimed at improving the welfare of micro-entrepreneurs through financial and managerial training. Simón de Cirene offers training courses for informal micro-entrepreneurs, individuals who have a micro-business or are interested in opening one, in the lowest two income quartiles. The training courses consist of around 16 sessions with a maximum of 26 individuals per class and are offered in the regions of Valparaiso, Los Lagos, and Santiago. The trainings are free for participants, as Simón de Cirene covers all associated costs, including transportation.

On average, over 90 percent of participants in this evaluation were women, half had high school diplomas, and about 30 percent had a technical or university education. Additionally, on average over 80 percent of participants were self-employed and had sales of US$451-US$471 in the previous month. Most participants had little previous financial or managerial knowledge; were not completing bookkeeping consistently; and financed their businesses through savings, family loans, or bank loans.



Business owners attend a training.

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In partnership with Simón de Cirene, researchers conducted a randomized evaluation to study the impact of adding role models and technical assistance to existing trainings on the business outcomes of micro-entrepreneurs.

Out of the 66 courses in the sample, researchers first randomly assigned 34 courses to receive a role model session and the remaining 32 courses served as a comparison group, covering 1,712 participants across both groups. Role models were former students with successful businesses with average incomes of US$4,000 per month. Role models visited a class for an hour and shared how they applied information from the class to their business, as well as gave practical information about seed capital funds and other business topics.

Researchers also randomly allocated individuals from 53 out of the 66 courses in the sample to one of three technical assistance groups to test the relative cost-effectiveness of different delivery methods. This covered 1,347 individuals in total.

1. Individualized assistance at the micro-entrepreneurs' place of business;
2. Individualized assistance before or after class;
3. Group assistance before or after class.

Participants in each group received the same content, including learning how to conduct business analyses such as breakeven point analysis and SWOT (Strengths, Weaknesses, Opportunity, and Treats) analysis.

All courses took place between March 2013 and March 2014. Researchers used administrative data, an in-class paper questionnaire, and a phone survey one year after the start of the program to measure gains in knowledge and business outcomes.

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Both the role model and the technical assistance interventions increased household income one year after the program ended, mainly through increased business participation and business income. The two interventions benefited different types of micro-entrepreneurs: the role model visit benefited less experienced entrepreneurs while the technical assistance benefited more experienced entrepreneurs. When comparing the costs of the two programs, the role model visits cost about one-tenth of the technical assistance methods, making it more cost-effective.

Role Model: One year after the program started, participants assigned to the role model group earned US$30 – US$40 more in total income, about 15 percent more than businesses in the comparison group. Higher earnings were largely driven by better business performance of existing businesses. Role models had a larger impact on income, business survival, dedication, and management practices for those with younger businesses and less experience. Overall, while role model visits did not lead to greater participant knowledge, they increased participant motivation and made participants more optimistic about their businesses.

Technical Assistance: One year after the program started, participants assigned to receive individualized assistance earned US$30 – US$40 more in total income, about 15 percent more than businesses in the comparison group. There is some evidence that the technical assistance improved the management practices and participants' knowledge. Personalized assistance may be more complementary to business experience and formal education compared to the role model treatment.

Based on the results of the evaluation, Simón de Cirene, incorporated role model visits into all of its classes. The Chilean non-profit continues to collaborate with J-PAL affiliates on other evaluations.

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1. Biblioteca del Congreso Nacional de Chile. 2010. "Estatuto de las PYMEs." Last modified May 5, 2010. https://www.bcn.cl/leyfacil/recurso/estatuto-de-las-pymes