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POLICY MEMO

Tailoring MSMEs Training Programs to Improve Business Outcomes

Many organizations offer training programs geared toward creating new entrepreneurs and supporting growth among current firms. However, these programs often do not reach the intended audience and outcomes. There are opportunities to improve the implementation and the quality of these programs. The Ministry of Cooperatives and Small and Medium-sized Enterprises' (SMEs) investment in creating a database of MSMEs provides an opportunity to improve the reach of government-led capacity-building programs. Whereas tailoring training content based on the different needs of MSMEs has the potential to improve the quality of programs held by both government and non-government actors.

KEY RECOMMENDATION

To support the MSMEs in reaching their potential to grow, the measure of success for training programs should include the ability to target the right participants and how training leads to business outcomes. A regular update of the upcoming MSME database provides the opportunity to do both. In absence of a database, program organizers can conduct self-targeting where participants can freely sign up for training and an assessment is conducted to assist the process of tailoring training programs. By tailoring training programs to the specific needs of MSMEs and offering individualized support, MSMEs can gain assistance to apply the practices they learn from training programs and overcome the challenges they face.

BACKGROUND

Building MSMEs' managerial capacity assists the Government of Indonesia in fulfilling its target to increase economic value-added, employment, and economic competitiveness. Multiple government ministries offer capacity-building programs for MSMEs. Some of these programs are tied to financial capital, providing training before or after grants are awarded. Others are stand-alone training with specific modules, such as helping MSMEs digitize their operations, improving bookkeeping, or informing them about government procedures. Non-governmental organizations (NGOs), private firms, and business associations also offer capacity-building programs with a variety of formats and modules (Cai et al. 2024).

Despite the availability of these programs, many MSMEs are not exposed to them.¹ Programs often attract the same participants who have participated in past government programs or who are conveniently located near training centers. Some MSMEs may not be aware of the different avenues available to them, while others may not see the relevance or practical benefit of the training. Interviews with female business associations and NGOs also specify that female-led firms are more constrained in allocating time to attend training due to household responsibilities, especially when they run their business independently. Additionally, there are several anecdotal cases where women only see their business as a supplementary income to their households and have no interest in investing in their capacity to grow.

There are several ways to improve and maximize current capacity-building programs in Indonesia. First, the single MSME database holds potential to improve the targeting and evaluation of capacity-building programs. Measures such as MSMEs characteristics can assist

the targeting of participants and ideally the database can assist in tracking which MSMEs have received training to minimize having the same participants attending training in similar modules. Furthermore, having a regular update of the database or conducting separate follow-up interviews after training can assist organizers in measuring the impact of training on business outcomes.

In the absence of access to the MSME database, the use of self-targeting and pre-training assessments to group MSMEs based on different needs has the potential to increase the participation and appeal of training programs. Self-targeting has been found to be effective in improving the inclusion error in social protection programs (Alatas et al. 2016). Additionally, grouping participants based on their baseline knowledge has been commonly tested in the education setting to improve the knowledge of students (J-PAL Policy Insights 2019). Based on our stakeholder interviews, several NGOs and social enterprises also use self-assessment tools to understand the current state of MSMEs and their managerial challenges. This information is used to select training participants and tailor training programs to the specific needs of each MSME. Government ministries can follow this approach or collaborate with NGOs, business associations, and social enterprises to offer tailored programs and individualized support.

¹ Based on a survey by the National Statistics Bureau (BPS) in 2019, less than 10 percent of micro and small enterprises had participated in any forms of training over the past year.

POLICY INSIGHTS

Past evaluations conducted in several developing countries provide insights into how tailoring capacity-building content based on program recipients can translate to improvement in business outcomes.

1. General business training can be complemented or substituted with specific modules depending on participating MSMEs' size and needs.

Many impact evaluations have found standard business training² is largely ineffective at boosting firms' sales and profits (J-PAL Policy Insights 2023). There are many aspects, such as the short duration of training and limited attention of entrepreneurs, that makes it hard to expect firms to make lasting changes. However, when capacity-building programs tailor their contents to its recipients, they are more likely to improve sales and profitability. Over the years, several training modules have been developed and tested to complement or substitute the standard business training. Listed below are findings from the different types of training and its audience.

Providing a rule-of-thumb: Simplified best practices in financial management are particularly effective in sustaining micro and small firms run by individuals with lower education levels. Substituting standard business training that may be too complex to be covered under short durations, rules-of-thumb can ease the application for microenterprises. Particularly on business outcomes, Arráiz, Bhanot, and Calero (2019) found financial rule-of-thumbs training for small enterprises in Ecuador increased daily sales by 12.5 percent and profit by 14.1 percent. In Indonesia, Dalton et al. (2021) found that providing a handbook that clarifies common misconceptions about business practices and offers practical tips for adoption to urban retailers in Jakarta is not enough to nudge change in business practices. The authors only saw positive changes in sales and profits when the handbook is supported with a movie screening of a documentary on successful peers who have implemented practices from the book, and/or when the handbook is combined by counseling. The authors argued that combining training with follow-up actions gives retailers a nudge to overcome procrastination. Examples from their successful peers show implementation is accessible and achievable, and counseling helps address individual doubts.

Psychological training: Modules aimed to develop a proactive entrepreneurial mindset targeting attitudes and aspirations shows promising results for micro and small enterprises including female-led businesses. Campos et al. (2017) compared personal initiative training with standard business training among small firms. They found that the personal initiative training led to a significant increase in business profits (a USD 60 increase in monthly profits, or 30 percent higher compared to standard training) in Togo over the following two-and-a-half years. Similarly, Alibhai et al. (2019) found that women entrepreneurs who received mindset-entrepreneurship curricula in Ethiopia had 30 percent higher profits and participants' mindset and psychological outlook improved when trainers were also business owners.

Kaizen techniques: Training programs aiming to increase business efficiency by improving production and ensuring quality management of goods are potentially relevant for micro and small firms working in clusters. Three evaluations on Kaizen techniques showed that the method led to improvements in business practice, although it had mixed results when it comes to business outcomes and its ability to reduce wasteful use of materials. Mano et al. (2012) found that the techniques increased gross profit among metalwork entrepreneurs in Ghana, and Higuchi, Mhede, and Sonobe (2019) found that it increased sales and revenue among handcrafters in Tanzania. In Vietnam, Higuchi, Nam, and Sonobe (2015) found that although the technique was successful in improving practices, it had little impact toward sales and profits among small and medium enterprises working in steelwork and knitwear garment clusters. Since the three studies had small sample sizes, more evaluations are needed to understand the impact of scaling such training in the Indonesian context and its impact on larger firms.

Gender Training: Training programs specifically designed for female entrepreneurs have the potential to assist them in overcoming additional gender barriers to firm growth. The programs may include helping female-led firms enter different sectors, guidance on separating household and business tasks, and strategies for overcoming stereotypes and gender norms. Evaluations of the International Labour Organization (ILO) Gender Entrepreneurship Together (GET Ahead programs) found that the training increased business practices (Huis et al. 2019; McKenzie and Puerto 2021) and gender awareness (Huis et al. 2019). However, while the study in Kenya found significant improvements in profit and sales after three years (McKenzie and Puerto 2021), the findings in Vietnam were less significant (Huis et al. 2019).

2 We define standard business training as capacity building programs which focus on basic bookkeeping, marketing practices, and financial skills that are typically delivered in large groups or classroom settings.

2. Training that is equipped with peer and mentor support is more likely to increase the business outcomes of MSMEs.

Capacity-building programs can also be improved through their method of delivery. Providing customized knowledge such as locally relevant business practices from mentors and peers is shown to be an effective way to improve MSMEs' business outcomes.

Modifying the implementation of capacity-building programs targeting female participants, such as by asking women to invite their peers and become a mentor or mentee, shows positive impacts. Field et al. (2016) found that **when women invite their peers to training programs, they are more engaged in training, they share financial resources through the network, improve information sharing, and gain higher confidence due to support received from peers.** Based on bank data, Field et al. (2016) found that women who were randomly assigned to bring their peers were 5 percentage points more likely to take out loans four months after the training, which reflects the familiarity with bank products or confidence that their loan application would be successful. Based on survey data, the authors also found that those who attend with a friend, compared with those who attend alone, have a higher likelihood to borrow, use loans exclusively for business purposes, have higher household incomes and expenditures—at 12 and 16 percent respectively. Despite women who attend with peers are more likely to report higher volume of sales and take actions to increase revenue, the authors found that the impact on revenue is no different to the control group who did not attend training.³

Through being assigned as mentors for other women in their network, past training participants learn and implement things from the training, then pass them on to their mentees (Bakhtiar, Basitan, and Goldstein 2022). In comparison to a control group who did not have to mentor, female mentors were more likely to implement learnings from the training. For example, they were 21.4 percentage points (49.5 percent) more likely to have written business records, and 16 percentage points (27.4 percent) more likely to have negotiated or attempted to negotiate with suppliers. After three years, and experienced large impacts on business performance such as revenue and profits (62 percent and 80 percent higher

compared to intervention groups). In Indonesia, Buvinic et al. (2020) discovered **providing women with training and offering bank agents as mentors in East Java increases women's knowledge of branchless banking products and improved business practices.** These intermediate impacts eventually led to a 15.2 percent increase in women's profits and increased women's decision-making authority.

Meeting between peers can also improve information sharing and encourage partnering between firms. In a randomized evaluation involving owner-managers of SMEs in China, Cai and Szeidl (2018) found meetings among peers increased sales by 10.3 percent, and the average profits were USD 36,000 higher than in control groups. The study also found large and persistent effects on innovations and management, channels from sharing business-relevant information, and partnering between firms that continued after scheduled meetings.

To implement these tailored approaches, government capacity-building programs can collaborate with NGOs and business associations that have experience in providing individualized support and peer learning. For example, program organizers can collaborate with relevant organizations to organize the training programs or assist in connecting its training participants with organizations that offer individualized support and peer learning.

3. The effectiveness of providing consultation can improve management practices and increase productivity, but the impact on profits and sales varies depending on firm size.

Consulting services can assist firms' efforts to improve their management practices by providing a diagnosis and tailored improvement plans. However, past evaluations highlight the effect of consulting on business outcomes seems to vary depending on the scale of businesses.

For MSMEs, providing free consulting services have limited outcomes on business outcomes. In Ghana, Karlan, Knight, and Udry (2015) randomized between providing cash grants, connecting firms with consulting firms, and the combination of the two interventions to microentrepreneurs. The authors found no treatment effects; instead, microentrepreneurs experienced lower profits and reverted to prior business practices. When a subsidized consulting service was tested on small and medium firms in Mexico, Bruhn, Karlan, and Schoar (2018) found that the program increased the number of employees by 50 percent after five years despite no

³ The authors find volume of business activity is inconsistently reported hence making it difficult to measure revenue, they also note it could be participants focused more on diversifying business activities (e.g. giving more product and service options) compared to the previous year rather than increasing profit.

significant impact on short-term sales and profits.

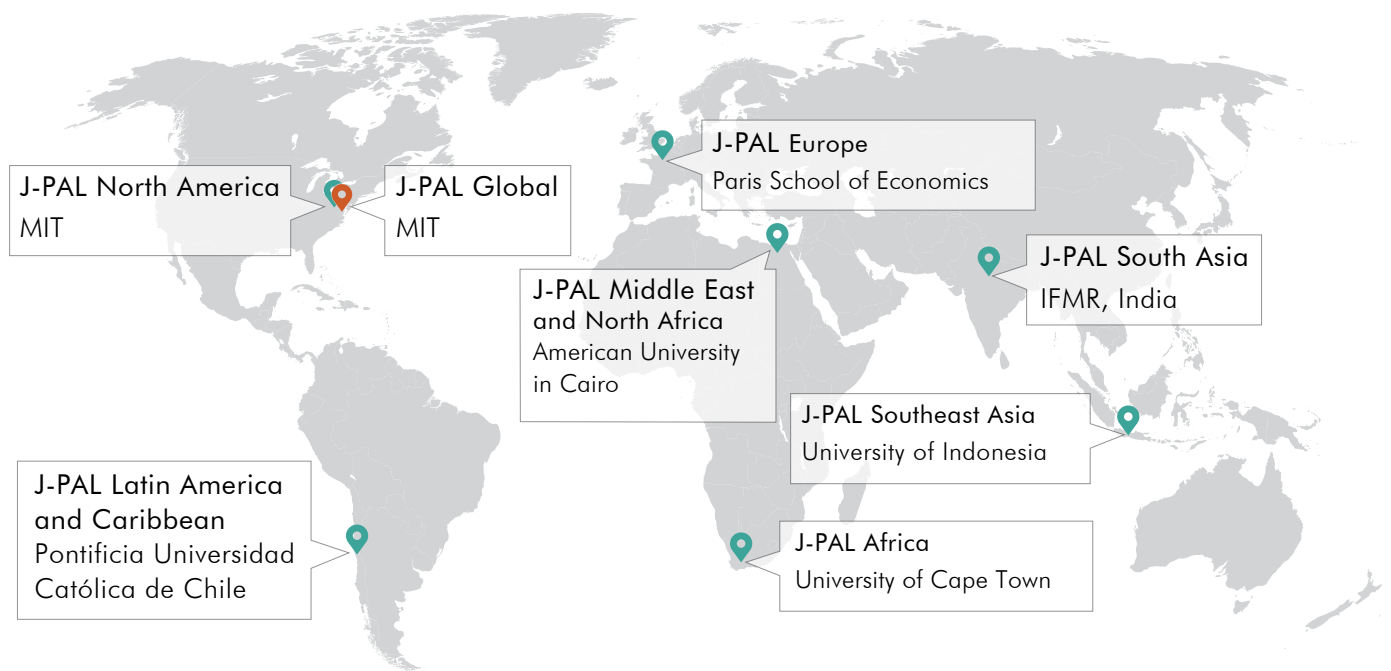
For large firms, consulting services resulted in more positive outcomes. A randomized evaluation conducted on large textile plants in India and auto-part firms in Colombia found a large and sustained impact of consulting services on management practices. In India, Bloom et al. (2020) found that consulting increased output per worker and reduced inventory levels and quality defect rates, amounting to an increase in profits of USD 325,000 per year per factory plant. In Colombia, Lacovone, Maloney, and McKenzie (2019) found that consulting increased employment (6–15 workers), sales (28–33 percent), and profits (5–26 percent) over a three-year period.

The cost of consulting varies depending on the type of consultants, their service's intensity, and the engagement length. Among MSMEs, providing consultancy may not be as effective and these types of firms may not know how to best utilize these services. In other words, they may not know what they don't know. Financial constraints and uncertainty about the potential benefits of adopting recommendations from consultants are common reasons cited for the low demand of consulting services among MSMEs, even when these services are subsidized by the government (Bruhn, Karlan, Schoar 2018).

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ABOUT J-PAL AND J-PAL SOUTHEAST ASIA

The Abdul Latif Jameel Poverty Action Lab (J-PAL) was established in 2003 as a research institute within the Economics Department of the Massachusetts Institute of Technology (MIT), Cambridge. J-PAL believes that development can be more effective if policymakers and implementers have access to rigorous evidence of what programs and policies work or not, and why. Currently, J-PAL has over 750 affiliated researchers who have more than 1,600 completed and ongoing evaluations in more than 80 countries. These projects rigorously test the effectiveness of programs in areas including health, education, finance, labor markets, environment, governance, and agriculture.

In 2013, then-Indonesian President Susilo Bambang Yudhoyono launched the Abdul Latif Jameel Poverty Action Lab Southeast Asia Regional Office (J-PAL SEA) in Jakarta under the Faculty of Economic and Business, Universitas Indonesia. J-PAL SEA's mission is to equip policymakers with rigorous evidence to inform the design of social programs that will make a lasting contribution to poverty reduction in Indonesia and the Southeast Asia region.

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