Microfinance and Business-Development Programs: Why Results Fall Short and What Works

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Despite the widespread adoption of business development programs (BDPs) in developing countries, their impact on micro- and small enterprise growth remains limited. While traditional classroom-based training improves business knowledge, it often fails to generate meaningful gains in profits or firm survival. This survey reviews the evidence on BDP effectiveness and explores key explanations for their modest outcomes, including behavioral constraints, contextual mismatches, and methodological challenges. It also examines recent innovations that show more promise, such as consulting, outsourcing, mentoring, and mindset-focused interventions. These approaches tend to be more effective when aligned with entrepreneurs' specific goals, constraints, and cognitive capacities. However, even these improved models face challenges of scalability, heterogeneity in effects, and uncertain long-term impact. The survey concludes that future efforts should prioritize diagnostic, flexible, and context-sensitive program designs over standardized training curricula.

Keywords: Business training, business development programs, small and micro entrepreneurs

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1. Introduction

The view that the poor are inherently capable and make efficient use of resources has shaped much of the early thinking around microfinance. Muhammad Yunus, founder of the Grameen Bank and a prominent figure in the global microfinance movement, famously argued in his "Banker to the Poor" that training microfinance clients is unnecessary, claiming that the mere fact of survival under adversity proves borrowers' innate economic competence (Yunus, 1999). However, empirical evidence increasingly challenges this "poor but rational" view. Karlan and Valdivia (2011) found that many microentrepreneurs in their sample operated at an economic loss. De Mel, McKenzie, and Woodruff (2008) documented wide variation in returns to capital, linked to entrepreneurial ability, suggesting that some clients lack the skills to make effective use of resources. Banerjee (2013) similarly questioned the assumption that poor entrepreneurs are well equipped to run successful businesses, noting that many lack the necessary human capital, networks, or institutional support.

One widely recognized approach to improving the effectiveness of microfinance is the use of business training programs to enhance microentrepreneurs' business knowledge (Prediger and Gut, 2014). Reflecting this logic, business development programs (BDPs) aimed at micro and small entrepreneurs have become a core component of development policy in many low- and middle-income countries. These programs, typically centered on short-term training in marketing, recordkeeping, and financial literacy, are viewed as cost-effective strategies to foster enterprise growth and reduce poverty. Each year, millions of entrepreneurs receive training through major international initiatives such as the ILO's Start and Improve Your Business (SIYB) and CEFE International, with global spending on business training exceeding $1 billion (McKenzie, 2021). The appeal is clear: small businesses are believed to lack basic managerial skills, and structured training is expected to enhance productivity, improve decision making, and increase incomes (McKenzie and Woodruff, 2014; Jayachandran, 2021).

Despite their popularity and broad adoption, the evidence on the effectiveness

of traditional BDPs remains decidedly mixed. Early randomized evaluations often revealed only modest gains in business outcomes, with many studies failing to detect statistically significant improvements in profits or firm survival (McKenzie and Woodruff, 2014). Subsequent meta-analyses confirm that average impacts, while sometimes positive, are generally small. For instance, training typically raises profits by approximately 5 to 10 percent and sales by a similar margin, though considerable variation exists across studies and settings (McKenzie, 2021; Cho and Honorati, 2014). These muted results have prompted considerable skepticism in both academic and policy circles, with some observers arguing that "*projects to graduate household enterprises into small business through entrepreneurship training are expensive and do not seem to pay off.*" (Fox and Thomas, 2016, p. i33), and that overall, business-training programs are less effective for existing businesses than proponents of such programs would suggest (de Mel et al., 2014, p. 200).

A simple explanation, that training is too complex for microentrepreneurs to understand, finds little support in the evidence. Most studies report clear increases in business knowledge following training. As Giné and Mansuri (2021, p. 71) note "... *business training did lead to an increase in business knowledge, so lack of understanding is not the issue.*"

Nor is the limited impact of training likely due to improved accounting alone. For example, Drexler et al. (2014) found that although there was a reduction in mistakes and more consistency across measures of how people calculate profits or sales, it did not affect their main results on profitability. Similarly, de Mel et al. (2014) compared self-reported profits to revenue and cost figures and controlled for detailed measures of accounting practices as a further robustness check. They found no significant evidence that training changes reporting.

Methodological challenges, such as sample size limitations and sample heterogeneity, also make it harder to detect the true effect of training on profitability (McKenzie and Woodruff, 2014). However, even when these issues are addressed, the impact can remain elusive. For instance, in a study using a large and relatively homogeneous sample of 1,252 female entrepreneurs in Sri Lanka, de Mel et al. (2014)

still found that training had no impact on the profitability of existing businesses. Finally, another line of reasoning points to a fundamental mismatch: the business-growth focus of many BDPs may not align with the broader, often more conservative, livelihood strategies and diversification needs of entrepreneurs operating within complex and uncertain environments (Verrest, 2013).

In light of these findings, the focus of recent research has shifted away from asking whether business training works to understanding when, how, and for whom it is effective. Several promising innovations have emerged. One important direction involves incorporating behavioral insights into program design, such as teaching simple heuristics and rules of thumb (Drexler et al., 2014), or fostering psychological traits that support entrepreneurship, such as initiative and perseverance (Campos et al., 2017). Another direction involves moving beyond standardized, one-size-fits-all lectures toward more personalized and sustained forms of engagement, including mentoring (Brooks et al., 2018) and customized consulting (Anderson and McKenzie, 2022). Some programs experiment with alternative delivery models, including digital platforms, gender-sensitive curricula, or outsourcing of business functions instead of training entrepreneurs to handle them internally.

This survey reviews recent evidence on the effectiveness of business development programs, with a focus on micro- and small entrepreneurs in developing countries. Section 2 describes the prevalence, design, and delivery formats of standard business training programs. Section 3 examines their impacts on profits and other outcomes, highlighting both the modest average effects and considerable heterogeneity across participants. Section 4 explores explanations for the limited profitability impacts, including behavioral constraints, measurement issues, sample heterogeneity, and the misalignment between program objectives and entrepreneurs' goals. Section 5 reviews recent innovations in content and delivery, including personalized consulting, outsourcing, mentoring, and psychology-based interventions, and assesses the extent to which these alternative models yield stronger results. The survey concludes by identifying key design principles and open questions for future research, with an emphasis on tailoring training to the constraints, motivations, and capacities of

different entrepreneur types.

2. Prevalence, Format, and Scope of Business-Training Programs

Business-training programs targeting micro and small entrepreneurs have become a cornerstone of enterprise development policy in many developing countries. These programs aim to address widespread gaps in managerial skills: many small-scale entrepreneurs operate without formal training, have limited exposure to financial planning tools, and often lack strategic understanding of market dynamics. Training is intended to improve operational capacity, enhance decision making, and support business formalization (Cho and Honorati, 2014; Jayachandran, 2021).

Program content and delivery formats vary widely across business development programs. Most include instruction in core business functions such as recordkeeping, pricing, marketing, and inventory management, while others incorporate soft skills or behavioral components. A prominent example is the International Labour Organization's Start and Improve Your Business (SIYB) program, which has trained over 15 million participants in more than 100 countries through a global network of certified trainers. The "Start Your Business" module provides a five-day introduction to business planning, staffing, legal requirements, and financial forecasting, while the "Improve Your Business" module offers a seven-day course on stock control, costing, marketing, productivity, and recordkeeping (van Lieshout and Mehta, 2017).

Although many programs use conventional classroom instruction for logistical simplicity and standardization, this format often presumes high literacy and may limit participant engagement. In response, some models emphasize applied learning through practical exercises and interaction. CEFE International, for example, uses business simulations, group exercises, and games to promote experiential learning and behavioral change. The program has reached an estimated 20 million participants in over 140 countries (McKenzie, 2021). Another example is the personal initiative training developed in West Africa, which focuses on fostering an entrepreneurial mindset and proactive behavior through structured activities (Campos et al., 2017).

In addition to in-person delivery, digital platforms have expanded the range of training formats. Mobile- and internet-based programs use video tutorials, SMS prompts, interactive quizzes, and WhatsApp groups to deliver content at scale and lower cost, particularly in rural or hard-to-reach areas. Edutainment initiatives such as Ruka Juu in Tanzania (Bjorvatn et al., 2019) and El Mashroua in Egypt (Barsoum et al., 2018) have provided business training through televised programming. In India and the Philippines, mobile messaging campaigns have been used to distribute business tips (Cole et al., 2019), while in Ecuador, an interactive online course reached over 20,000 participants (Asanov and McKenzie, 2020).

Institutional partnerships have also shaped how training is delivered. Microfinance institutions (MFIs), in particular, have incorporated business training into their core financial services. In so-called "credit plus" models, training is bundled with microloans, savings products, or advisory support to simultaneously address informational and financial constraints. Some MFIs require training participation as a condition for loan eligibility, with content specifically designed to promote responsible loan use and repayment (Lensink et al., 2018).

Program targeting varies across interventions. While some initiatives focus on existing microenterprises, others aim to support new or aspiring entrepreneurs, including women, youth, or unemployed adults. Gender-focused programs often tailor both content and delivery to address the specific constraints women face, such as limited mobility, restricted access to networks, and the burden of household responsibilities (McKenzie and Woodruff, 2014). To support participation, some initiatives offer childcare, transportation stipends, or gender-matched trainers. Sector-specific programs are also common. For example, tailored interventions in Ghana and Tanzania for metalwork and garment entrepreneurs included technical modules on production methods, input procurement, and quality standards specific to each industry (Mano et al., 2012; Sonobe et al., 2011).

Finally, the cost of business training varies widely across models. Basic classroom-based programs can cost as little as $100 per participant, while more intensive interventions, such as personalized mentorship or consulting, may exceed $1,000

(McKenzie, 2021). Some programs are fully subsidized by donors or governments, whereas others require partial contributions from participants.

3. Impacts of Business Training on Profits and Other Outcomes

Business-training programs are widespread, but their effectiveness remains an open question. These interventions are built on a compelling premise: by equipping small-scale entrepreneurs with core business skills, training should improve productivity, strengthen decision making, and increase profits. However, intuitive appeal and broad adoption do not guarantee meaningful impact. The key issue is whether such programs lead to measurable improvements in profits, survival, and business growth when evaluated using credible empirical methods.

Some of the most optimistic claims about training program effectiveness originate from the organizations that deliver business training and are prominently featured in promotional materials and donor reports. These accounts often report sharp increases in income or large-scale job creation, yet the underlying methodology is weak, to say the least. As McKenzie (2021, p. 281) notes, many of these figures rely on flawed approaches, such as simple before-and-after comparisons without control groups or anecdotal success stories drawn from small, unrepresentative samples of participants. In some cases, these stories are extrapolated to entire countries or regions, resulting in implausible and misleading estimates. One widely circulated claim, for example, attributed the creation of 18 million jobs to a single program based solely on interviews with a handful of entrepreneurs.

In contrast, studies using rigorous counterfactual designs, particularly randomized controlled trials, offer a more cautious view. Most find that the effects of business training on profits are modest, typically in the range of 5 to 10 percent, and often not statistically significant. This growing body of evidence suggests that training alone rarely produces large or consistent gains in firm performance.

This section reviews empirical evidence on the effectiveness of business training programs, focusing on three dimensions. First, it documents the limited and

inconsistent impact of training on business profits, highlighting that many programs fail to produce sustained improvements in firm performance. Second, it examines heterogeneity in treatment effects, noting that outcomes vary widely depending on participants' characteristics, such as gender, baseline performance, or entrepreneurial motivation. Third, it considers non-profit outcomes, including improvements in business practices, financial literacy, female empowerment, and household well-being.

3.1. Limited and Inconsistent Effects on Profitability

Despite their scale and intuitive appeal, business-training programs rarely deliver large or consistent improvements in profits. This is one of the most striking findings to emerge from the growing body of impact evaluations. Across dozens of studies, even well-designed and well-implemented programs have often failed to generate meaningful gains in business performance. The resulting gap between expectations and outcomes has led to what McKenzie (2021, p. 277) describes as "*a bit of backlash,*" with increasing skepticism among both researchers and policymakers about the value of stand-alone training initiatives.

This skepticism is rooted in the evidence. Early randomized evaluations, which tested a range of training formats across diverse contexts, typically found modest or statistically insignificant effects on profitability. For example, out of 13 studies reviewed by McKenzie and Woodruff (2014), only two reported significant increases in profits. Cho and Honorati (2014), in their meta-analysis, reached similar conclusions: while training improves knowledge and business practices, it has little impact on income or firm expansion.

Numerous individual studies reinforce this general pattern. In Peru, Karlan and Valdivia (2011) studied female microfinance clients and found no significant changes in profits or sales, despite gains in knowledge and planning. In Sri Lanka, de Mel, McKenzie, and Woodruff (2014) evaluated the ILO's SIYB program and likewise reported no effect of training alone on profits of existing businesses. While pairing training with a cash grant yielded temporary improvements, these dissipated within a

Table1. The effect of loans, grants, and training on business profit (Fiala, 2018, Table 2)

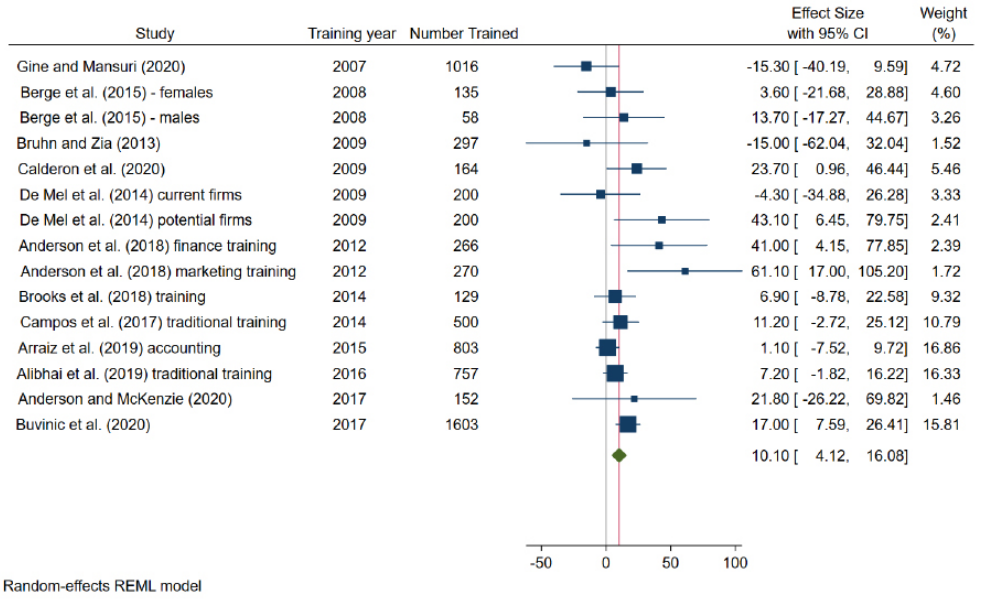
	(1) Full sample Profits	(2) Men Profits	(3) Women Profits
Loan	38.26	337.8***	-151.4
	(79.70)	(111.9)	(103.4)
Loan and Training	47.62	382.0**	-156.5
	(98.72)	(181.0)	(107.1)
Grant	-1.113	267.9	-155.0
	(162.7)	(377.4)	(126.3)
Grant and Training	-90.89	69.05	-180.9
	(87.70)	(119.2)	(118.1)
Control mean	489.96	679.59	368.92
Observations	5696	2217	3464
R-squared	0.006	0.013	0.005

Notes: Columns (1) to (3) report the fixed effects intent-to-treat (ITT) estimate of the impact of assignment to the four treatments on business profits. Column (1) is for the full sample, column (2) for the male only sample, and column (3) for women only. Robust standard errors clutered at the individual level are in parentheses below the ITT. All fixed effects analysis includes wave dummies. * denotes significance at the 10% level, ** at 5% and *** at 1%.

year. In Ghana, Karlan, Knight, and Udry (2012) found that business literacy among participants improved, but profits declined. In Uganda, Fiala (2018) found that not only was there no statistically significant effect of training on profits among female entrepreneurs, but the point estimates themselves were negative (see Table 2).

Other studies have echoed these findings across different regions and target populations. Bruhn and Zia (2013), studying young entrepreneurs in Bosnia and Herzegovina, reported improvements in knowledge and some behavioral change, but found no effects on firm creation, survival, or average profits. Giné and Mansuri (2021) found that while male microfinance clients in Pakistan experienced modest gains, female participants showed no improvement in profits despite receiving the same training.

Despite mixed results at the individual study level, meta-analysis of the combined



Notes: Effect size is percentage change in profits. Number Trained is number of firms invited to training. Green diamond shows random effects estimate, and red line shows this estimate. Weight is weight random effects meta-analysis gives to study, with studies with smaller standard erro weight. Where impacts were available over multiple time horizons, the longest time horizon is chosen.

Figure 1. The Impact of Training on Profits. McKenzie (2021, Figure 1)

data from multiple studies shows an average treatment effect of training on profits to be 10.1 percent, with a 95 percent confidence interval ranging from 4.1 to 16.1 percent (see McKenzie, 2021, Figure 1). McKenzie (2021) argues that most individual studies are underpowered, with confidence intervals wide enough to be consistent with both zero impact and modest gains, for example, a 5 percent increase in profits. By aggregating evidence across studies, a consistent, albeit modest, positive effect becomes detectable. Accordingly, the core issue is not that training fails to work, but that its effects are typically too small to be reliably identified in any single study. As a result, even programs with genuine positive impacts may appear ineffective in empirical evaluations.

3.2. Heterogeneity in Treatment Effects

While average effects of business training are modest, this masks considerable

heterogeneity across participants. Recent studies show that impacts vary systematically by factors such as cognitive ability, gender, entrepreneurial motivation, and implementation quality.

One key source of heterogeneity is initial ability. In their study of Sri Lankan microenterprises, de Mel, McKenzie, and Woodruff (2008), examining capital grants, show that returns to capital were generally higher for entrepreneurs with greater ability. Specifically, they reported that more able owners, measured by years of schooling and performance on a digit span recall test, experienced larger positive impacts from the capital shocks. An additional year of schooling was associated with an LKR 156 increase in monthly profits from a LKR 10,000 treatment, and an additional digit recalled in the memory test corresponded to an LKR 380 profit increase from the same treatment. This suggests that individuals with stronger baseline cognitive skills may be better equipped to translate resources, such as capital, into business profits. Similarly, Fiala (2018) found that for male entrepreneurs in Uganda receiving loans, the positive effects on profits were strongest for those who, among other characteristics, had higher measured baseline ability. For the loan and training treatment specifically, the profit effects for men were concentrated in individuals with higher ability.

Training design can also interact with participants' skill levels. Drexler et al. (2014), in a randomized evaluation in the Dominican Republic, compare standard accounting instruction with a simplified, rule-of-thumb approach. They find that microentrepreneurs with lower initial skills benefited significantly more from the heuristic-based training, which improved financial practices, reporting quality, and revenues. In contrast, standard accounting improved outcomes only for high-skilled individuals and even reduced performance among the least skilled. The authors conclude that "*giving an unsophisticated client standard accounting training can actually reduce their performance, while the rule-of-thumb training substantially improves their outcomes*" (p. 21).

Another consistently observed source of heterogeneity is gender. Several studies indicate that the impacts of training and capital interventions can differ substantially

between men and women. As mentioned earlier, Fiala (2018) provided experimental evidence from Uganda showing no short run effects for female owned enterprises from either form of capital or the training, but large effects on profits and sales for male owned enterprises, with profits up to 54 percent greater for men in loan treatments. De Mel et al. (2008) similarly find that men experience larger treatment effects than women, with around 60% of female entrepreneurs and just over 20% of male entrepreneurs in their sample showing returns to capital below market interest rates. Berge et al. (2015) also found a strong effect from the combination of business training and a business grant on male entrepreneurs, while the effect on female entrepreneurs was "*much more muted*" (p. 707).

Giné and Mansuri (2021) not only report similar gender differences in training impacts but also provide evidence on why these gaps may arise. In their study in rural Pakistan, an eight-day business training program led to comparable increases in business knowledge for both male and female participants, but improvements in business outcomes and household welfare were observed almost exclusively among men. Trained male business owners experienced a 6% reduction in business failure rates and showed improvements in business practices. Training also increased household expenditures and asset ownership, again primarily for male clients.

In contrast, trained female business owners saw no significant improvements in income, assets, business practices, or operations, despite acquiring new knowledge. The authors attribute this difference to women's limited agency and decision-making power. About 40% of female participants reported that male spouses made all major business decisions, and women devoted significantly less time to managerial tasks. This lack of control likely restricted their ability to apply training insights, limiting the program's effectiveness for female entrepreneurs in that setting.

While most studies find limited effects of training on women, there are exceptions. As noted earlier, Bruhn and Zia (2013) found no significant effect of training on *average* post-training profits among young entrepreneurs in Bosnia and Herzegovina. However, disaggregated results reveal substantial gender differences: female-run firms experienced an 82 percent increase in profits relative to the control group, while

male-run firms showed no gains. Women in their study also reported maintained or increased sales due to training, though their businesses showed decreased employment.

Heterogeneity in training impact can also arise from differences in household vulnerability and entrepreneurial ambitions. Verrest (2013), studying home-based entrepreneurs in Trinidad and Tobago, argues that many micro-entrepreneurs, particularly those from economically vulnerable households, engage in small-scale business not as a pathway to growth but as a livelihood strategy. These entrepreneurs often prefer low-risk, flexible activities and find formal business development programs ill-suited to their goals. Formal programs were more relevant for a smaller group of business-oriented operators, especially those from less vulnerable backgrounds seeking secondary investments for established businesses.

In addition to entrepreneurs' characteristics and household contexts, as discussed by Verrest (2013), differences in program design and delivery can also contribute to heterogeneous impacts. Berge et al. (2012) provide compelling evidence from Tanzania, where the same business training curriculum was delivered by either professional educators from the University of Dar es Salaam Entrepreneurship Centre (UDEC) or internal credit officers from a microfinance institution. Outcomes varied markedly by delivery method. Participants trained by UDEC staff had higher attendance (15.7 sessions versus 13.0), greater completion rates (90% versus 66.6%), and more favorable course evaluations (9.0 versus 7.6 out of 10). Two and a half years later, they also performed better on a profit concept test and reported significantly higher life satisfaction.

In sum, the effectiveness of business training programs is highly context dependent. Outcomes are shaped not only by the content of the intervention but also by who receives it, how it is delivered, and the broader environment in which entrepreneurs operate. These findings suggest that business development programs should move beyond standardized models and adopt more targeted, flexible approaches tailored to participant characteristics and constraints. This is a theme we explore later in this survey.

3.3. Beyond Profits: Behavioral and Operational Changes

While the impact of business training programs on firm profits is often modest and context-specific, a substantial body of evidence indicates that these interventions frequently lead to significant behavioral and operational changes among entrepreneurs and their firms. These changes, encompassing enhanced business knowledge, adoption of better practices, shifts in entrepreneurial mindset, and operational adjustments, are important outcomes in their own right and can be crucial intermediaries for longer-term economic success.

A common and robust finding is that business training programs are effective at increasing entrepreneurs' business knowledge and skills. Participants typically demonstrate improved understanding of concepts taught in the training curricula. For example, Karlan and Valdivia (2011) found that business training led to significant improvements in an index of business knowledge. Similarly, Giné and Mansuri (2021) reported that a business training course increased business knowledge for both male and female participants by approximately 8% of a standard deviation, an effect that was sustained 18 months after the training concluded. Berge et al. (2015) found that their business training intervention increased business knowledge related to financial literacy and best business practices by almost 0.3 standard deviations for both male and female entrepreneurs. Bruhn and Zia (2013) found that a business and financial literacy program led to significant improvements in basic financial knowledge, particularly for those who started with low levels of financial literacy at baseline.

Improvements in financial management and record-keeping are among the most frequently observed areas where training impacts business practices. Karlan and Valdivia (2011) noted that trained entrepreneurs were more likely to keep records of withdrawals and use profits for business growth. De Mel et al. (2014) found that the SIYB training led to significant improvements in an overall business practices index for existing female entrepreneurs, encompassing better record-keeping, marketing, stock control, and financial planning. Giné and Mansuri (2021) found that business training led to improvements in business practices such as recording sales and

separating business from household accounts, though these effects were concentrated among men. Anderson and McKenzie (2022) found that standard business training had no significant impact on any of the business practice indexes. In contrast, personalized consulting, insourcing (hiring a specialist), and outsourcing (contracting a specialist) all led to significant and persistent improvements. Consulting particularly improved finance and accounting practices, such as tracking cash flows and preparing financial statements, by 10-15 percentage points.

Beyond direct business metrics, training can influence broader household outcomes and reshape the relationship between clients and microfinance institutions. Giné and Mansuri (2021) found that business training led to an increase in household expenditures by approximately 6% of a standard deviation, with gains concentrated among male clients and self-employed households. Impacts on empowerment, typically measured by women's decision-making power in the household, is more limited. Both Karlan and Valdivia (2011) and Giné and Mansuri (2021) found no such effects. Finally, several studies report improvements in subjective well-being. Berge et al. (2012) reported that Tanzanian entrepreneurs trained by external professionals were significantly happier two and a half years later compared to those trained by MFI staff. Berge et al. (2015) also noted that training alone increased reported happiness for male entrepreneurs. Giné and Mansuri (2021) found that women who received training reported a better outlook on life, even in the absence of measurable economic gains.

Business training can also benefit the MFIs providing it. Karlan and Valdivia (2011) found that training increased client retention by 4 percentage points and improved repayment rates among Peruvian microfinance clients. A broader study by Lensink et al. (2018) found that MFIs providing social services (a form of 'credit plus' approach) had better loan quality (higher repayment rates) and achieved greater depth of outreach, particularly to women clients, suggesting these services enhance client loyalty and help MFIs meet their social mission.

4. Reasons for the Limited Impact of Business Training

Several factors can contribute to the limited impact of business training programs on profitability and business expansion. These factors include the complexity of training material and lack of understanding, improved accounting practices affecting profit measurement, methodological challenges such as sample heterogeneity and limited statistical power, and a fundamental mismatch between the business-growth focus of training and entrepreneurs' broader livelihood strategies.

4.1. Lack of Understanding and Improved Accounting

An immediate hypothesis for the limited impact of business training is that the programs may be too complex for microentrepreneurs to comprehend. However, this explanation finds little support in the evidence. As established in the previous section, studies consistently show that training leads to the adoption of improved business practices (with Drexler et al., 2014, being a notable exception), and most research indicates a clear increase in business literacy among participants.

For instance, Giné and Mansuri (2021) found that offering business training led to higher business knowledge and better business practices, and that "*both male and female CO members increase business knowledge*" (p. 65), concluding that "*... business training led to an increase in business knowledge,... so lack of understanding is not the issue.*" (p. 71) This finding is consistent across the literature. McKenzie and Woodruff (2014) report that "*Almost all training programs find that treated firms implement some of the business practices taught in the training.*" (p. 50). Cho and Honorati (2014) found in their meta-regression analysis that entrepreneurship programs generally have a positive and large impact on business knowledge and practice. McKenzie (2021) reinforces this, stating that "*Most studies of training show statistically significant impacts of training on business practices*" (p. 282).

Another potential explanation for observing limited profit impact is that training improves accounting practices, leading to a more accurate (and perhaps lower)

reporting of profits that were previously overestimated. In other words, pre-training profit reports and post-training reports are not directly comparable. This explanation, however, does not seem to hold either. Drexler et al. (2014) found that training reduced calculation mistakes but did not change their conclusions. Likewise, de Mel et al. (2014) controlled for detailed accounting practices and found no significant evidence of changes in profit reporting due to training.

4.2. Sample Heterogeneity and Statistical Power

A significant methodological challenge in detecting the true effects of business training is the small sample size combined with substantial heterogeneity among firms. This heterogeneity, coupled with small sample sizes, results in low statistical power. As McKenzie and Woodruff (2014) argue, "*many—indeed most—business training experiments fall well below these levels [80-90% power] in terms of power to detect a 25 percent or even 50 percent increase in profits or revenues"* (p. 61).

Addressing this issue, de Mel et al. (2014) studied a large and homogeneous sample of 1,252 female entrepreneurs in Sri Lanka. Even with this robust sample, they found no impact of training on profitability for existing businesses. They concluded that "*the lack of impacts in most of the existing literature...may not be just due to power issues"* (p. 200), and conjectured that business training programs might be less effective than previously thought. McKenzie (2021) provides a more positive look on the matter, suggesting that a realistic impact on profits and sales might be in the range of 5 to 10 percent, an effect size that is too small for most individual studies to detect statistically. He notes that "*not finding a significant effect of training is not the same as finding that training has no effect*" (p. 4).

4.3. Mismatch Between Training Focus and Entrepreneurs' Objectives

Another, arguably more fundamental, reason for the limited impact of many BDPs is a mismatch between their conventional business-oriented focus and the actual priorities

of many microentrepreneurs. BDPs often emphasize business growth and adoption of sophisticated practices aimed at profit maximization. However, as Banerjee (2013) notes, many microfinance clients are neither interested nor "*particularly good at growing [their] businesses*" (p. 512). For these individuals, self-employment is often a result of not being able to find a suitable job rather than a reflection of entrepreneurial ambition. Their business activities serve to smooth consumption, absorb idle household labor, or diversify income, rather than to build scalable enterprises.

Verrest (2013), studying home-based entrepreneurs, provides a framework that formalizes this mismatch. The study distinguishes entrepreneurs based on their household's vulnerability and their primary ambition, which is either "livelihoods-oriented" (focusing on security and risk diversification) or "business-oriented" (aiming for growth and innovation). For the majority of home-based entrepreneurs, particularly those from vulnerable households with a livelihoods-orientation, BDPs concentrating on business growth hold limited relevance. These entrepreneurs describe their business as a "*sidekick in addition to other activities to make sure that if 'one thing is down, something else will bring in money.*'" (Verrest, 2013, p. 64). Their activities "*...are often directed toward livelihoods diversification and security, rather than to potentially higher incomes and employment through business growth*" (Verrest, 2013, p. 68). Only a small share of entrepreneurs in the sample, those who both had a business-oriented ambition and were less vulnerable, showed significant interest in formal business development programs. Accordingly, this fundamental misalignment limits the impact of such programs on business growth and income.

4.4. Theoretical Explanations for Limited Impact

Shapiro (2020a) develops a theoretical framework to explain *how* a mismatch between the objectives of business development programs and entrepreneurs' priorities can lead to limited or even negative business outcomes. The model assumes that entrepreneurs have multiple income sources (e.g., business profits and wage labor) and are ambiguity-averse. The latter means, they seek not only to maximize expected

income (a "business-oriented ambition") but also to secure their "rainy day" income, defined as income under the worst-case scenario (a "livelihoods-oriented ambition").

Business training introduces a new business practice that is superior to the previous one and enhances business profitability, while having no direct impact on non-business income sources. Shapiro (2020a) demonstrates that for a sufficiently ambiguity-averse entrepreneur with multiple diversified income sources, adopting an improved business practice can paradoxically lead to lower capital investment and reduced profits. This counterintuitive outcome arises because the new, more profitable practice changes the overall risk profile of the household's income portfolio. As business income becomes more attractive, the ambiguity-averse entrepreneur begins to focus on new worst-case states of nature, namely those with lower business profitability. In response, it becomes optimal to reduce capital investment in order to protect household income in these worst-case states, rather than to increase investment in pursuit of higher expected profits. As a result, the overall impact of adopting the more productive practice is limited and can even lead to lower post-training profits.

A complementary behavioral perspective is offered by Shapiro (2020b), who applies the comparative ignorance hypothesis, developed by Heath and Tversky (1991), to the context of business training. The hypothesis suggests that people become more ambiguity averse when they feel less knowledgeable than others around them. Business training often creates this effect by casting the trainer as an expert and the entrepreneur as a novice. As a result, entrepreneurs may perceive themselves as comparatively ignorant about the new business practice, which increases their ambiguity aversion. Even when entrepreneurs adopt the new practice, greater ambiguity aversion can lead to capital underinvestment, limiting potential profit gains. This behavioral insight aligns with empirical findings such as Drexler et al. (2014), who showed that simpler "rule of thumb" training led to greater profit improvements than more comprehensive financial literacy training. If the simpler approach reduces comparative ignorance, it makes entrepreneurs perceive the new practice as less ambiguous and adopt it more effectively.

5. What Kind of Business Training Works? Recent Innovations in Content and Delivery

While the average effects of traditional business development programs on profits and firm growth remain modest, recent evidence points to a more optimistic conclusion: certain types of training do work, particularly when they are behaviorally grounded, tailored to specific entrepreneurial types, or delivered through novel formats. This section reviews findings from a growing body of research that reconsiders both the content and delivery of business training, with particular attention to interventions that show promise in improving business outcomes.

5.1. Insourcing and Outsourcing

A recent study by Anderson and McKenzie (2022) explores alternatives to traditional classroom instruction by testing interventions that move "beyond the boundary of the entrepreneur." In a large-scale randomized experiment with over 800 small firms in Nigeria, they compared the impact of four different approaches to improving business skills: an intensive standard business training course, personalized consulting, subsidized insourcing of a skilled worker, and subsidized outsourcing of specific tasks to a professional firm. Consistent with the findings of many previous studies, the standard business training—an intensive program involving 25 hours of online material and 12 days of in-class instruction—had no significant impact on any of the study's key outcomes. One to two years after the intervention, there were no measurable improvements in a comprehensive index of 41 business practices, nor were there any significant effects on firm sales or profits.

In stark contrast, the three interventions that directly linked firms to specialized skills proved to be significantly more effective. Personalized consulting, insourcing, and outsourcing all led to large and persistent improvements in business practices, with effects observed more than a year after the subsidies ended. The impacts were concentrated in the areas where firms received support. For example, insourcing

and outsourcing, where entrepreneurs typically chose marketing specialists, led to substantial improvements in marketing and digital practices. Both approaches also contributed to increased product innovation, and all three interventions made firms more likely to seek out and pay for professional business services a year later. The study concludes that insourcing and outsourcing outperform traditional training and perform at least as well as one-on-one consulting at roughly half the cost. This suggests that directly providing skills, rather than simply teaching them, is a more effective strategy for improving small firm operations.

5.2. Local Customization, Peers, and Mentors

Brooks et al. (2018) conducted a field experiment in Kenya to compare the effectiveness of standard in-class business training with a program that paired female microentrepreneurs with a successful local female entrepreneur who acted as a mentor. The classroom-style training, delivered by instructors from a local university, covered general business topics such as accounting, marketing, cost control, and business planning. Mentors, by contrast, were free to share whatever information they believed would benefit their mentees, and their content was not controlled by the researchers.

Although the classroom training led to short-run changes in business practices, such as increased record keeping, it had no statistically significant effect on profits. This result is consistent with broader evidence showing limited profitability gains from formal classroom-based business training for microenterprises. In contrast, the mentoring intervention led to a significant increase in business profits. On average, mentees' weekly profits rose by 20 percent over the 17 months following the intervention. This success was largely driven by the transfer of localized, market-specific knowledge, such as information about lower-cost suppliers, rather than abstract business principles. These cost reductions, in turn, boosted profitability.

In a similar vein, Dalton et al. (2021) also demonstrate the effectiveness of disseminating localized knowledge, though through a different delivery method. Instead of direct mentorship, the researchers conducted qualitative and quantitative

fieldwork to identify profitable, locally relevant business practices among small urban retailers. This information was then compiled into a handbook, which was distributed to treated firms. The handbook was tested on its own and in combination with two "light-touch" behavioral interventions: a documentary-style film featuring successful local peers, and two brief in-person counseling visits from a local facilitator.

The study found that the handbook alone had no significant effect on profits. However, when combined with the behavioral nudges, particularly the counseling visits, the intervention led to significant adoption of business practices and profit increases of up to 35 percent. These results suggest that localized knowledge, when paired with a credible or personalized delivery mechanism, can meaningfully improve business performance.

5.3. Entrepreneurial Mindset and Personal Initiative Training

Traditional BDPs typically focus on technical skills such as recordkeeping, budgeting, pricing, and inventory control. While useful, these tools may not address the deeper constraints that often affect subsistence entrepreneurs. Many face motivational and cognitive frictions, including low initiative, limited self-efficacy, or an aversion to innovation. Teaching new methods is insufficient if entrepreneurs are not motivated or confident enough to apply them (McKenzie, 2021; Verrest, 2013; Shapiro, 2020a). Programs that aim to reduce these behavioral barriers may hold more promise and some have shown encouraging results in practice.

Campos et al. (2017) provide compelling evidence from Togo, where a psychology-based personal initiative (PI) training is evaluated alongside traditional business training. Over two years, PI training increased firm profits by 30%, whereas conventional training yielded a statistically insignificant 11% gain. The effects were broad-based, benefiting both female- and male-owned firms. While participants in both groups adopted standard practices at similar rates, PI trainees showed greater improvements in personal initiative, which translated into more innovation, product diversification, capital investment, and access to finance. The cost of the PI training

was $756 per participant (comparable to that of the traditional training) and resulted in a $60 monthly profit increase, allowing it to pay for itself within a year.

Although the results from Campos et al. (2017) are promising, subsequent studies show that similar programs do not always succeed. Ubfal et al. (2022), in a randomized trial in Jamaica, tested both soft-skills training (focused on entrepreneurial attitudes and behavior) and a mixed version combining soft and hard skills (i.e., content taught in traditional BDPs). Unlike the Togo program, it lacked follow-up visits with trainers. While short-run effects from the soft-skills intervention were positive, they disappeared within a year. The combined training showed no impact at all. The authors attribute this to the absence of personalized reinforcement, suggesting that follow-up visits may be essential to sustain behavioral change.

Alibhai et al. (2019) document a different kind of limitation in Ethiopia, where a PI-based program for female entrepreneurs had no effect on business outcomes or mindset. In contrast to the Jamaica study, where the issue was follow-up, the main constraint in Ethiopia was trainer quality. The study found a positive correlation between psychological improvements and the trainer having prior business experience. Since only 41% of trainers in the program had ever owned a business, this mismatch between trainer qualifications and participant needs likely contributed to the program's ineffectiveness. These findings from Jamaica and Ethiopia underscore that the success of mindset-oriented training depends not only on content, but also on how it is delivered, implemented, and by whom. Further research is needed to identify which delivery strategies and trainer characteristics enhance the impact of psychology-based interventions.

5.4. Gender-Specific Training: Overcoming Stereotypes and Empowerment

Recognizing that female entrepreneurs often face distinct and additional barriers compared to their male counterparts, such as restrictive social norms, limited agency, and greater household responsibilities, many training programs have been specifically designed for women. These programs frequently extend beyond standard business

skills to explicitly address gender-specific constraints.

A prominent example is the International Labour Organization's (ILO) Gender and Enterprise Together (GET Ahead) program, which integrates gender-related topics (e.g., building self-confidence, gender equality, division between household and business tasks, networking with women's associations) alongside traditional business training content (e.g., marketing, financial management, record keeping, costing).

Evidence from large-scale randomized experiments in Kenya and Vietnam demonstrates that this holistic, women-focused approach can effectively improve business outcomes. In a study of female entrepreneurs in rural Kenyan markets, McKenzie and Puerto (2021) found that, three years after participating in the GET Ahead training, businesses were 3 percentage points more likely to survive, generated 18.0% higher sales, and achieved 15.4% higher profits. These impacts strengthened over time, being more pronounced at three years compared to one year, indicating cumulative benefits. The training also significantly increased the adoption of effective business practices and enhanced the owners' subjective well-being. Similarly, Bulte et al. (2016), examining female microfinance clients in Vietnam, found significant medium-term gains in profits, while short-term effects were negligible. This is consistent with McKenzie and Puerto's (2021) observation that the benefits of such programs may take time to materialize.

However, despite overall program success, the precise contribution of the gender-focused modules remains unclear. In the Kenyan study, the training had no significant effect on a 10-point empowerment index measuring women's decision-making power. Participants indicated that it "*did not appear to change individual or household decision-making dynamics*" (p. 314) and "*did not mention the gendered component of the training as skills learnt or used from the course*" (p. 324). Additionally, none of these studies compared gender-specific training directly against training without such components. Thus, the observed stronger effects could potentially be attributed to larger sample sizes and improved measurement methods, rather than to the effectiveness of the gender-specific components of the training (McKenzie, 2021).

6. Conclusion

Despite their global popularity, business development programs for micro- and small enterprises have yielded only modest improvements in firm performance. A review of the evidence indicates that standard classroom-based training, while often successful at transferring technical knowledge, frequently fails to produce sustained growth in profits or revenue. This shortcoming appears to stem not from a lack of entrepreneurial capacity or motivation, but from a fundamental mismatch between program design and the realities that entrepreneurs face. Standardized curricula often overlook behavioral constraints, ignore local market dynamics, or assume growth objectives that many subsistence entrepreneurs do not prioritize.

In response, recent innovations offer more promising pathways by moving beyond traditional instruction. Programs that directly connect entrepreneurs with external expertise, such as consulting, insourcing, or outsourcing, have proven more effective by delivering applied skills rather than abstract knowledge. Likewise, mentorship and peer-based models highlight the importance of localized, context-specific guidance, particularly when delivered in a personalized and sustained manner. Efforts to cultivate an entrepreneurial mindset and initiative have also shown strong potential, though their success depends heavily on implementation quality. Gender-sensitive programs may improve outcomes as well, but their specific mechanisms require further scrutiny to identify what truly drives impact.

Nevertheless, even these improved approaches face notable limitations. Effect sizes remain modest, and few studies track long-term outcomes beyond two or three years. Scaling these high-touch interventions in a cost-effective way, especially in remote or resource-constrained settings, continues to pose a major challenge. Moreover, not all entrepreneurs benefit equally, suggesting that larger returns may depend on better targeting, for example, by focusing on individuals with higher growth potential or greater access to complementary inputs such as capital or education.

The path forward may require a shift in strategy. Rather than seeking a universal *best* curriculum, it may be more productive to focus on diagnosing the primary

constraints facing individual entrepreneurs and experimenting with tailored, hybrid solutions. Flexible models that combine light-touch digital training with targeted coaching, improve access to external expertise, or use technology to personalize delivery hold promise, but their effectiveness and scalability remain open questions. Designing such programs effectively will require moving beyond the generic “training works” narrative and instead asking a more precise question: What specific support is most likely to address this entrepreneur’s most pressing bottleneck? While there is no one-size-fits-all answer, a more diagnostic and flexible approach could help business development programs move closer to enabling meaningful and lasting economic opportunity.

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