

# Private Sector Development Agenda in DIME

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Development Impact Evaluation Unit (DIME) of the World Bank Research Group

Workshop de Avaliação de Impacto

Porto Alegre, 29/11/2017

# Common goals in the PSD & Financial Inclusion agenda

1. Improve markets functioning
2. Increase/facilitate access to markets (linkages)
3. Create jobs
4. Help microenterprises to grow
5. Include smallholders in the global value chain
6. Increase firms productivity

# Target population: SMEs

- Most firms in developing countries are micro or small sizes
- In OECD countries, more than 99% of firms are SMEs
- SMEs employ about 2/3 of the labor force across OECD countries
- Rationale of business support programs: *since many of these firms die early, they might need help to survive, grow and create more jobs*

# Lots of resources but limited evidence

The World Bank devoted US\$9.8 billion and the IFC US\$25 billion to SME projects during the period 2006–12 (IEG, 2013).

## SME competitiveness

Small and medium-sized enterprises are vital for the EU's economy, accounting for more than 99% of European businesses and two thirds of private sector jobs. The [European Structural and Investment Funds](#) will make available more than €450 billion to Member States in 2014-2020 to finance investments for enhancing jobs and growth.

What do we know about the impact of SME programs in LMICs?

We did a systematic review/meta-analysis! Click [here](#)



WORLD BANK GROUP

TRADE & COMPETITIVENESS

## **Business-Support Programs for SMEs - Do they work? A Study of Impacts and Outcomes Across Programs**

**Thursday, June 16, 2016 | 12:30 pm - 2:00 pm | MC 4-300**

**Chair:**

**Cecile Fruman**, Director, Trade & Competitiveness Global Practice

**Speaker:**

**Caio Piza**, Economist, Development Economics, Impact Evaluation Unit

**Discussant:**

**Miriam Bruhn**, Senior Economist, Development Economics, Finance & Private Sector Development

**Overview:**

In the second installment of the new Investment Climate Applied Research BBL series, Caio Piza will discuss a newly released joint [Policy Research Working Paper](#) which analyzes the impact of business-support interventions for small and medium enterprises (SMEs) in low- and middle-income countries. These include interventions related to formalization and business environments, exports, training and technical assistance, access to credit, and innovation. Despite the significant resources spent by governments and international organizations on these business-support programs little is currently known about their impact of firm performance. The paper systematically reviews and summarizes 40 rigorous impact evaluations of SME in low- and middle-income countries and presents evidence to help inform policy debates. The authors find that there exists evidence that these interventions help improve firm performance and create jobs. However, they find that there is a large knowledge gap in the field and that there is still much room for rigorous impact evaluations to understand which interventions work best for small and medium enterprises and why.

The purpose of this BBL is to promote the knowledge of key findings of this study and to further the discussion on the effectiveness of business-support programs in support of SMEs in low- and middle-income countries.

# The bottom line

- We spend three years to finish this exercise and our conclusion was...

*“Gosh, we know almost nothing!”*

- *Policy makers and TTLs who came to our talk got disappointed!*

# Takeaways from our Systematic Review

- We know very little about the impact of different types of interventions
- Impacts: huge heterogeneity across SME policies
- The evidence available is not high quality
- **We need to do more and better!**

# The Problem

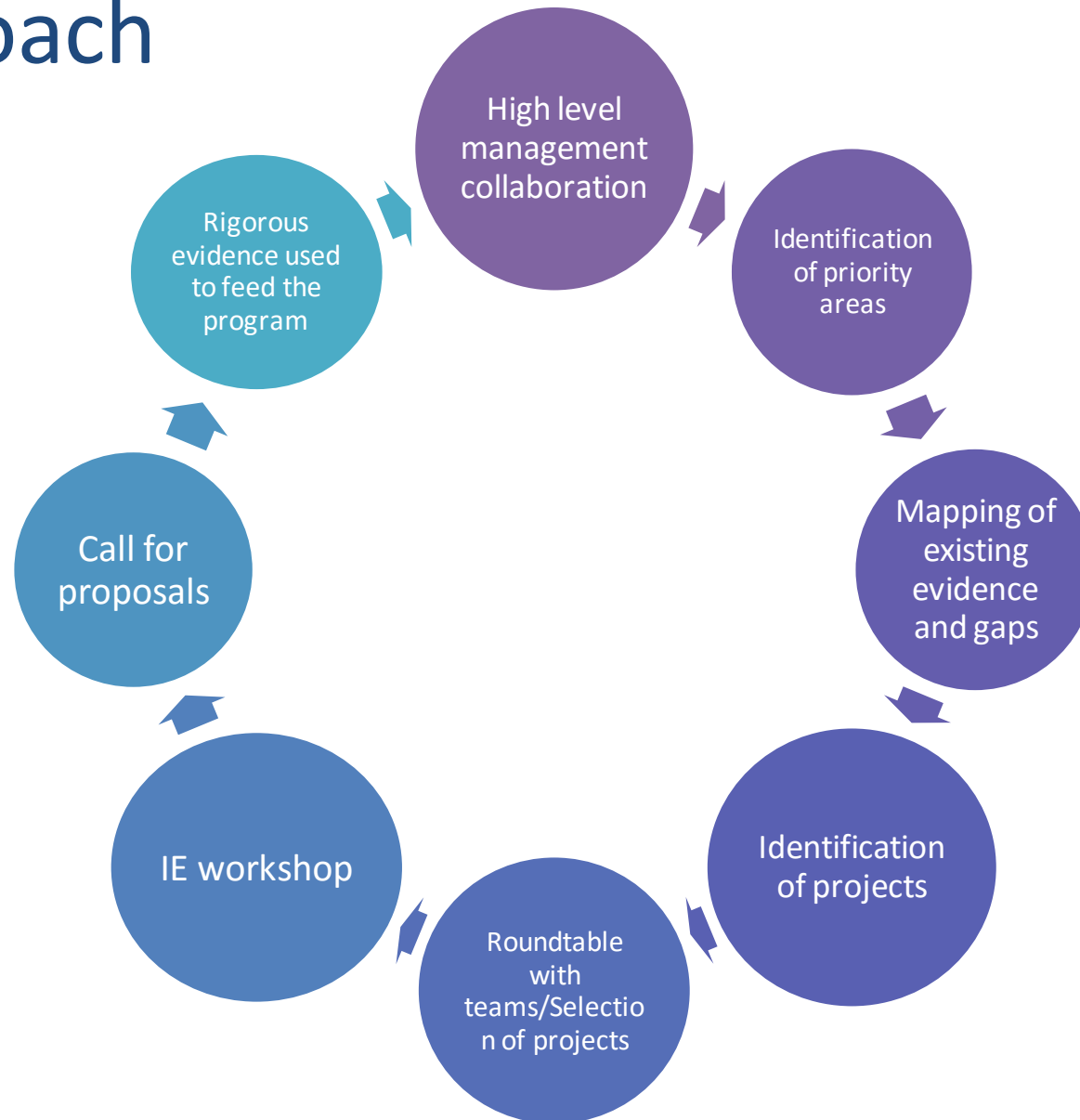
- Help SMEs is not an easy task!
- *Firms, regardless the size(!), are reluctant in adopting proven technologies*
  - Examples abound: *firms don't apply to grants, unemployed people don't show up to the training, firms don't adopt good business practices, informal firms don't formalize...*
- What to do?
  - *Most recurrent answers/diagnostics: firms lack capabilities (human resources, capital, credit...) and a better business environment*



# The model in PSD

- **Question:** *How to design operations and programs informed by high quality evidence?*
- **The PSD model at the World Bank:**
  - Close collaborative work between research and operations and/or policy makers
  - The model is based on an iterative approach: research has to be useful for operations... and vice-versa
  - This evidence-based model incorporates rigorous knowledge into the design and implementation of programs

# Iterative approach



**The learning curve was a bit steep at the beginning... But we figured out a very good model!**

# Dakar 2010

## We learned that:

1. Firms don't demand matching grants ("Learning from Evaluations that Never Happened..." 2014)
2. How NOT to do things!



## Matching grant & SME policies

## The findings changed our priors:

- Free money is not actually free (basic paperwork can be cumbersome!)
- Firms not necessarily know what they don't know
- Local markets for services may be underdeveloped
- Need to focus on quality of implementation and intensity (McKenzie, Assaf, Cusolito 2015)

# Rio 2011

## We learned that:

- Financial literacy can change attitudes and behaviors
- Program quality is what matters

**Firms' capabilities –  
skills and capital  
Financial literacy**



- The findings changed our priors:
  - ✓ Financial literacy potential to change behavior
- Now we are asking: how early students should be taught?



## We learned that:

- Training programs don't seem to work
- How NOT to do things!
- The findings changed our priors:
  - ✓ Training should neither be too light touch nor too intensive;
  - ✓ Increasing focus on take-up and targeting

# Paris 2012



**Investment climate –  
business  
registration/formalization/inspection**

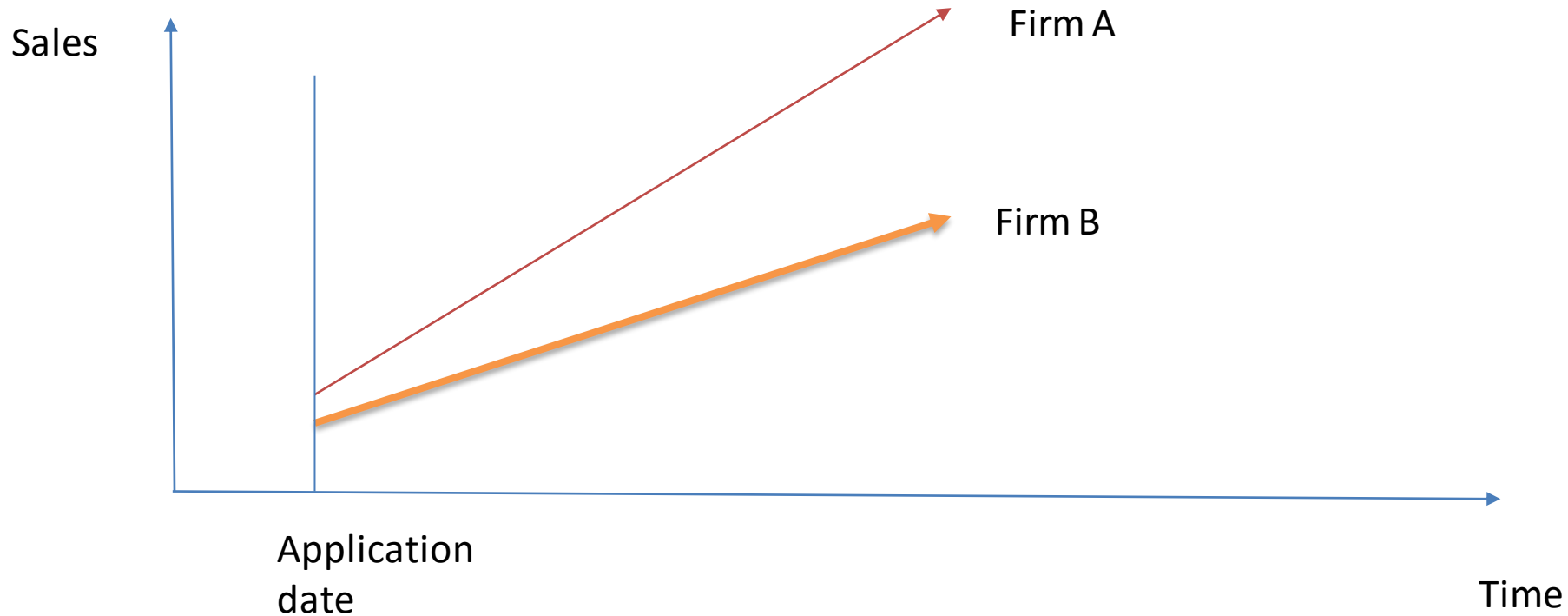
## We learned that:

1. Firms don't formalize
2. Those that do don't perform better
3. How NOT to do things!

- The findings changed our priors: formalization is not a necessary condition for better performance
- Now we are asking “*how to make informal firms more productive*”

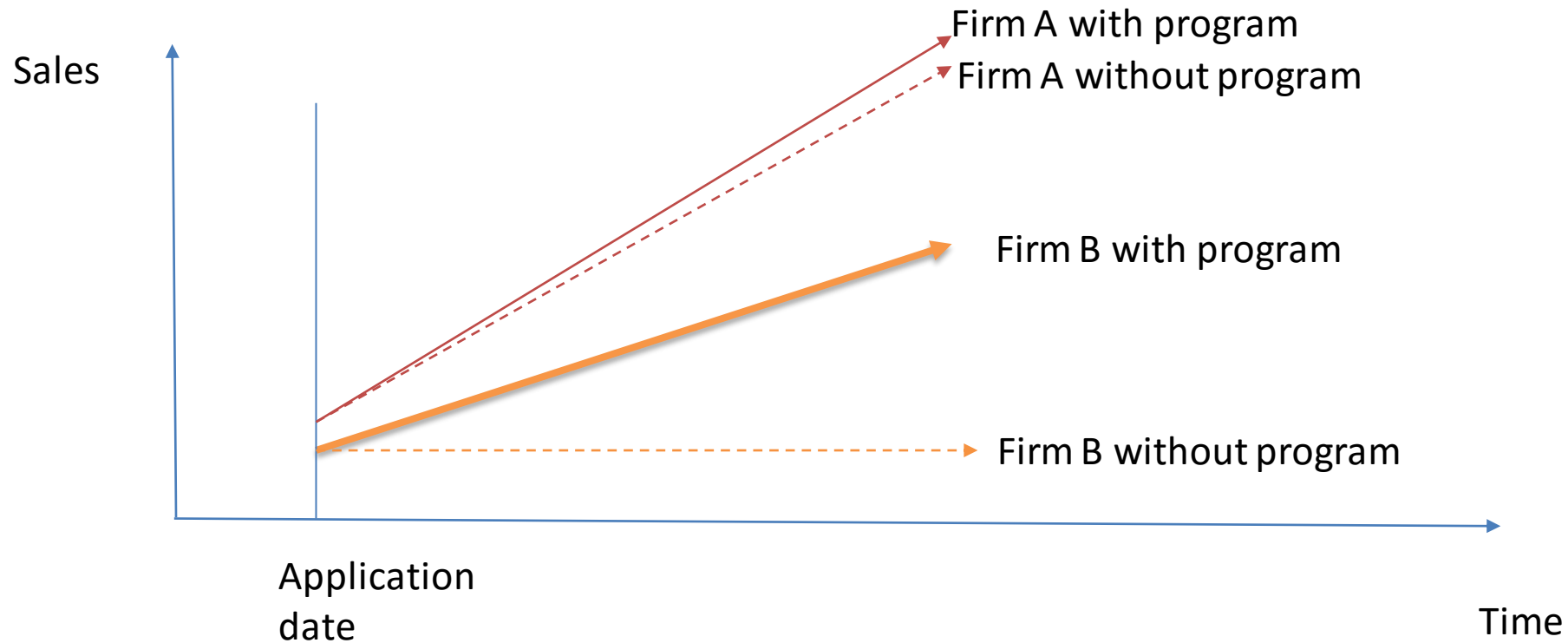
# What's the problem of these approaches?

- They are attempting to target on *levels and predicted growth* rather than *policy impacts*



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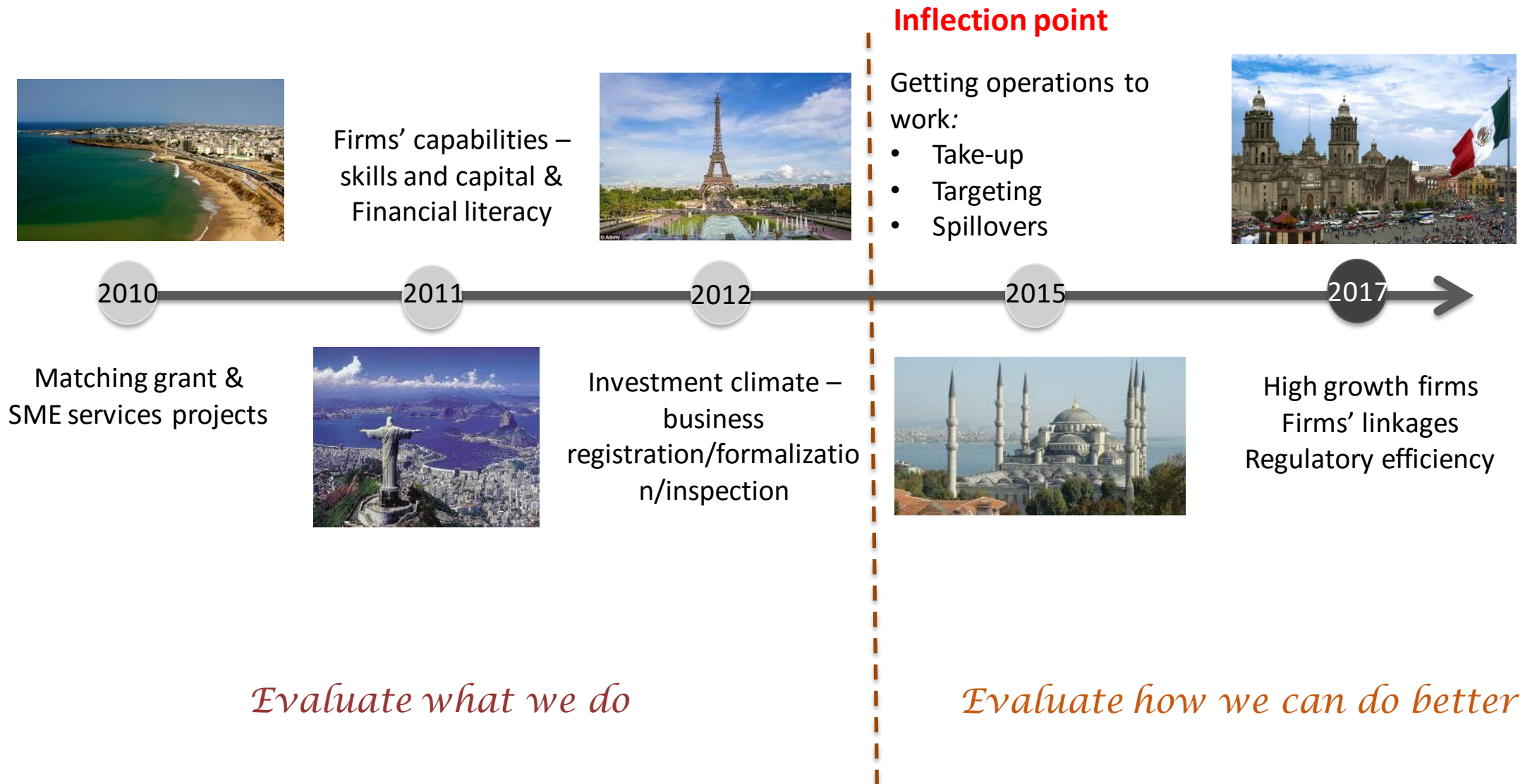




# What's the problem of the standard approaches?

- **Diagnostic:**
  - Identify the potential binding constraints
- **Targeting:**
  - Maximize impacts
  - Increase take-up
- **Unpack the mechanisms**

# The PSD impact evaluation timeline

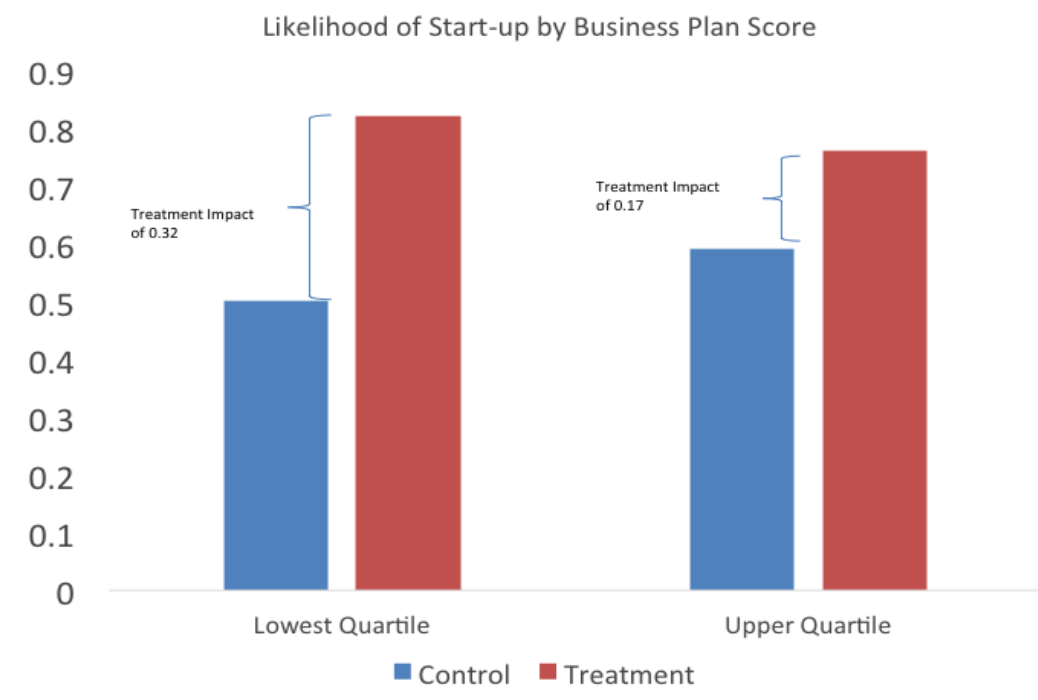
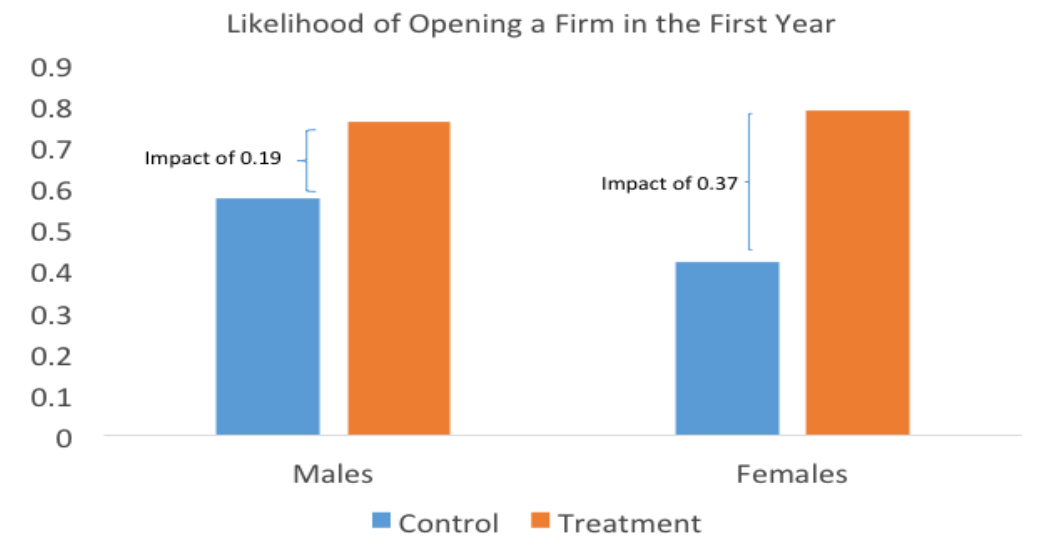


# Current Agenda: Holistic Approach

- The T&C Program is prioritizing the following 3 areas in the coming years:
  1. *Connecting business to improve market access and promote spillovers*
  2. *Targeting and promoting high-growth (potential) businesses*
  3. *Improving regulatory efficiency*

# Some Recent Good Examples

1. Nigerian business plan intervention: firms were randomly assigned to receive grants based on scores given by experts on their business proposals (McKenzie, AER 2017)
  - Can experts help identify successful firms ('gazelles')?
  - Results?



- Positive effects firm creation and performance, but limited impact on employment

Source: McKenzie, AER 2017

# Some Recent Good Examples

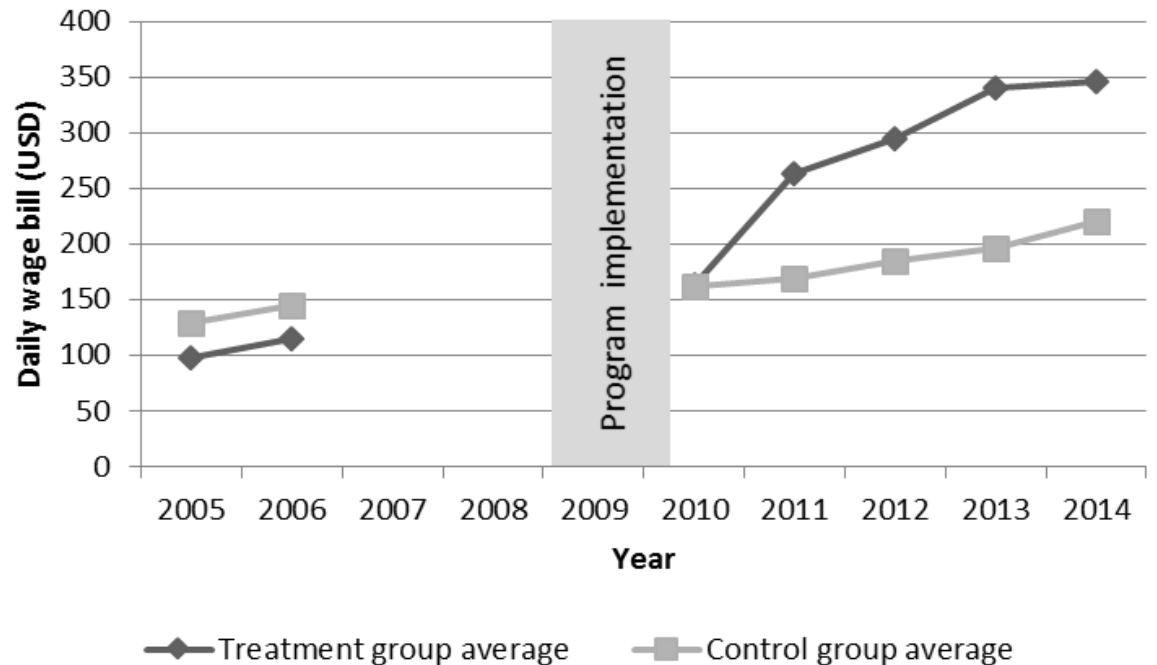
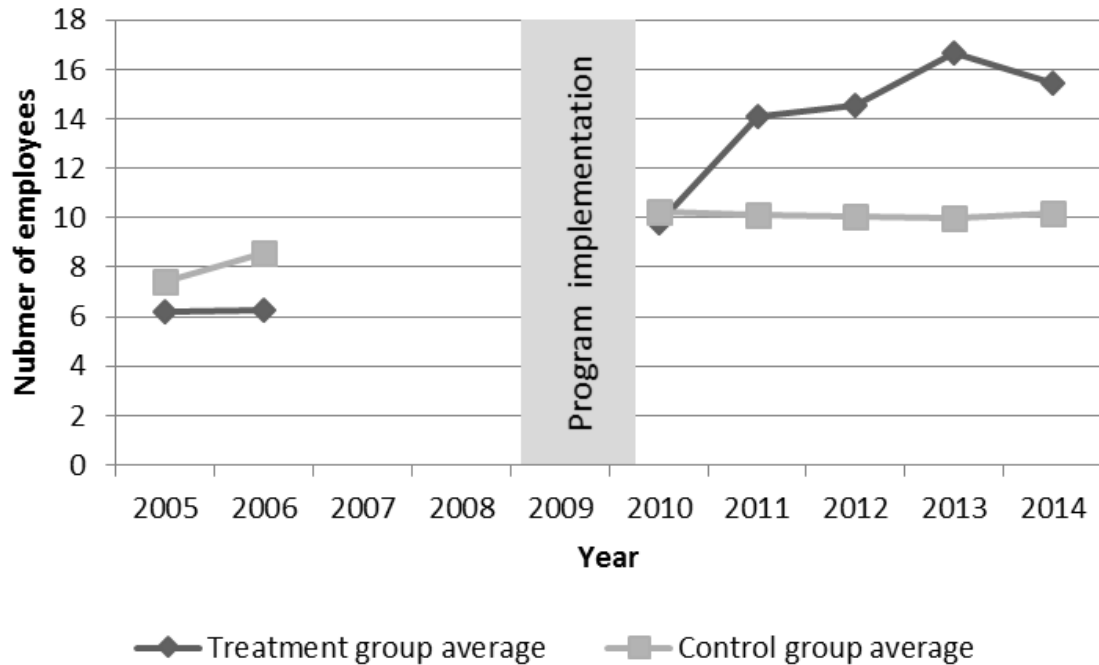
## 2. Management upgrading: hand-holding approach!

- Bloom et al. (QJE 2013): large firms in India randomly assigned to receive free consulting services from McKinsey for 4 months. The study found large impacts of 17% in TFP!
  - Potential mechanisms: lack of information, level of competition, and firm ownership (family vs. non-family) help explain lack of adoption of good managerial practices
- Bruhn et al. (JPE 2017) found similar results for small firms in Mexico
  - Results?

# Some Recent Good Examples

## 2. Management upgrading: hand-holding approach with small firms in Mexico

- Two to five years after the intervention, administrative data from Social Security Institute (IMSS) shows 50% increase in employees and wage bill



Note: Bruhn's slides

# Recent Good Examples

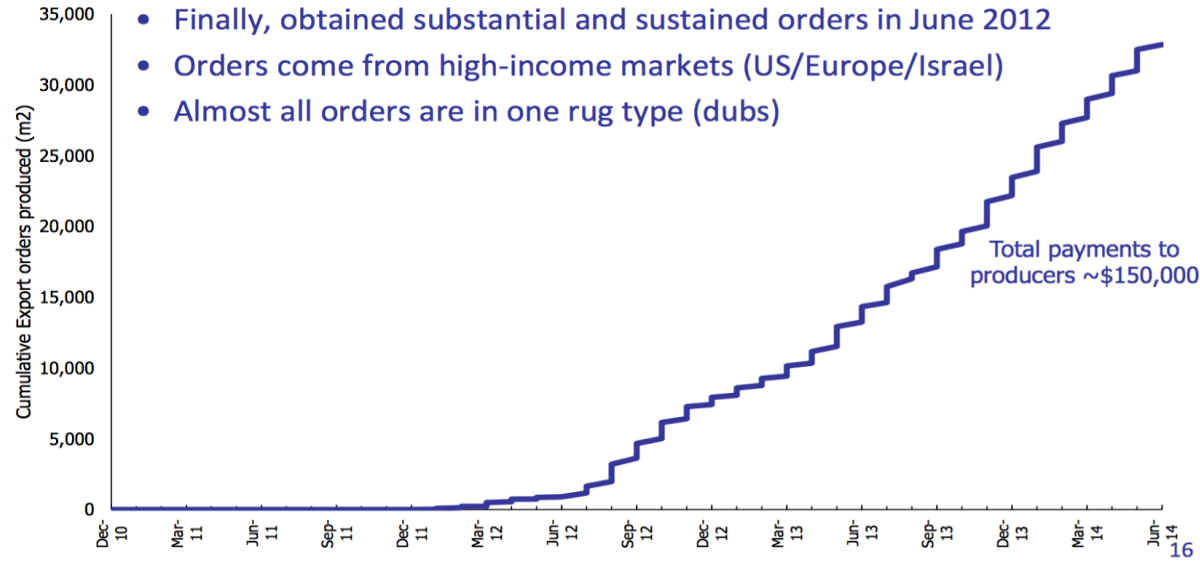
## 3. Learning from exporting (Atkin et al. QJE 2017):

- Small rug producers in Egypt randomly assigned to be linked with an NGO (Aid to Artisans) to establish links to export markets.
- With help of the NGO, identified a local intermediary and – eventually – buyers for rugs (in Germany, Israel, and USA)
- The key question: Is there “learning by exporting”?
  
- Results?

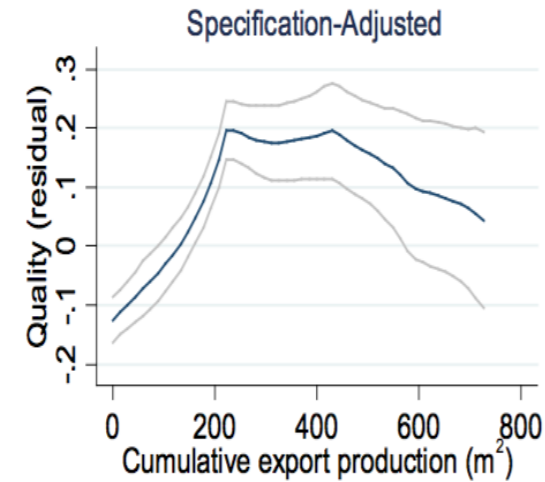
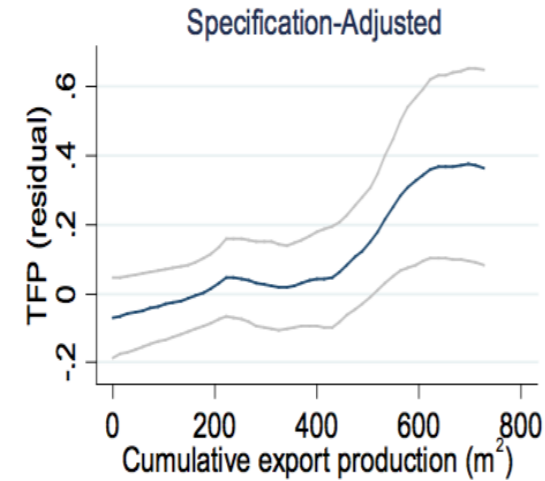


# Generating Export Orders

- Generating export orders was slow and difficult
  - Failure is common in export markets; this is our 2<sup>nd</sup> location in Egypt
  - 1/7 attempts lead to sustained exports (similar to Eaton et al 2013)
  - Finally, obtained substantial and sustained orders in June 2012
  - Orders come from high-income markets (US/Europe/Israel)
  - Almost all orders are in one rug type (dubs)



- Positive effects on sales, profits and quality of rugs
- Improvement in quality took a while – there is a learning curve
- Better quality rugs supplied in local markets as well



Note: Atkin et al. slides

# Exporting the model!

- Using an adapted version of the iterative model to engage with local institutions and entities such as:
  - **SEBRAE**: management upgrading with small firms (5-20 employees)
    - *Baseline report of a pilot evaluation with Sebrae-RJ is underway*
  - **The Brazilian Association of Financial Education (AEF-Brasil)**: financial education program for students
    - *Two large RCTs conducted with primary and high school students respectively*
  - **The Regional Development Bank of NE Brazil**: management upgrading with medium-sized firms (35-250 employees)
  - **Central Bank of Brazil**: financial education for youth transitioning from school to work
  - **The Ministry of Development, Industry and Commerce of Brazil**: TVET educ for high school students

# Obrigado!

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