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Linking Evidence with Policy for SME Growth

What are the main barriers to growth for small and medium enterprises (SMEs) in low- and middle-income countries? How can programs be designed and targeted to more effectively address these barriers and promote entrepreneurship and SME growth? These were the driving questions of the first day of the Impact and Policy Conference in Bangkok, which was devoted to SME development.   The body of evidence on what works (and why) for supporting SME growth is small but growing, and throughout the day a number of leading researchers shared findings from evaluations of programs aimed at addressing three key constraints to SME growth: access to finance, access to human capital, and access to markets and technology.

Evidence presented at the conference pointed to potential means of expanding access to credit for SMEs by improving loan officers' ability to identify good borrowers and by making the loan review process more cost-effective. Research conducted in Colombia suggests credit scoring technology can increase the output of credit committees without affecting the quality of the loan portfolio, thus reducing the time and resources needed to review loan applications, and hence the cost of providing credit to SMEs. Similarly, evidence from a study in India indicates that offering carefully designed incentives to loan officers significantly increases screening efforts, in turn leading to more profitable lending. Four researchers presented findings from Indonesia, Sri Lanka, Bangladesh, and the Dominican Republic on the role of human capital in firm growth and job creation, indicating that access to finance is not the only binding constraint affecting SME development. Training on managerial skills and business best practices can lead to improved firm performance, but the content of the trainings and the way in which information is delivered can greatly affect the impact of such programs. Policies leading to increased access to export markets and investments in technology were also discussed, with evidence from Peru, India, and Argentina indicating that technology investment funds and export credit can have positive effects on firm growth.

Discussants from the Development Bank of the Philippines, the International Finance Corporation, and AusAID, fostered conversation about what the evidence means for policies aimed at supporting entrepreneurship and SME growth and for future research. Understanding the specific mechanism of change leading to beneficial outcomes was highlighted as critical for improving the design of SME policies and programs. A common request from the practitioners to researchers was the need for more efforts in translating academic research into policy recommendations, so that newly generated knowledge is effectively incorporated during program design and implementation stages.

The day culminated with a matchmaking session that brought together researchers and practitioners from around the world interested in collaborating on future evaluations of SME development programs. Four researchers and two practitioners presented their ideas for research collaborations, and all conference participants then had the opportunity to meet with other attendees and potential partners. We are optimistic that this matchmaking session, as well as the informal interactions that occurred throughout the day amongst the diverse participants, will not only lead to new avenues of investigation into the role of SMEs in development but will also lay the foundation for ongoing exchanges of ideas between researchers and policymakers.
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