

Authors

Leah Stern

ResearchersAntoinette Schoar
Massachusetts Institute of TechnologyDean Karlan
Northwestern University

Small and Medium Enterprises: New Frontiers and New Challenges

I'm a new staff member at IPA, and on Wednesday, November 30th, I had the privilege to attend the annual conference of IPA's Small and Medium Enterprise Initiative (SME Initiative). A group of leading thinkers on small and medium enterprises (SMEs) gathered to discuss the current state of research on how to support and encourage small and medium enterprises, particularly in the developing world.

IPA and others, including our host, the Inter-American Development Bank (IDB), are interested in SMEs because when businesses thrive and create jobs, people have access to income and wealth, and people in that community take one more step – or perhaps several – away from poverty. Nancy Lee, of the Multilateral Investment Fund (MIF) noted that the only way to achieve systemic impact is to do extensive experiments, use the lessons from those experiments to figure out what works, and then transfer that knowledge to those who can scale up projects that help entrepreneurs and business owners succeed.

Lee also talked about understanding the whole range of finance tools to help SMEs. She explained that loans are not the only important tool for small and medium business owners; savings is often just as important as credit, and often even more important in helping entrepreneurs grow their businesses. Entrepreneurs don't just use their own savings; they also rely on family and friends when they grow their businesses. And in fact, this is one more example of how people act similarly no matter where they live: savings and support from friends and family are two of the three biggest sources of funding for entrepreneurs in the US, too.

For another important lesson on the basics of job creation in SMEs, we turned to Antoinette Schoar of the MIT Sloan School of Management. Schoar explained that 93% of business owners come from wage earners, even though only 0.3% of wage earners become business owners. In other words, job creation from small and medium enterprises comes from business owners who were formerly wage earners. The field of development often paints a picture of the micro-entrepreneur with his cow or her loom or the one-room general store, who employ one or two family members if any. These entrepreneurs are the focus of much of the attention on creating jobs for people in developing countries. But Schoar showed that most

businesses that add jobs for non-family members are owned by people who previously worked in more traditional jobs in larger businesses where they earned a wage. This is partly because there are so many more wage earners than micro-entrepreneurs, even in the developing world, despite the images we see in fundraisers and on charity websites.

In the last panel of the day, [Dean Karlan](#), President of IPA, kicked off a discussion called “Why should we care about the ‘Missing Middle’?” Typically, the “Missing Middle” is the space between the informal sector – often the target of microfinance programs – and large firms with significant assets and access to capital. The community working to support SMEs often talks about the “Missing Middle” as their target audience, so the conference tackled this question head-on. It was a great way to understand the topic for those like me who are relatively new to issues of business development in the developing world.

Sandra Darville, who moderated the panel, kicked off the session by asking the panel members to answer the question: “Who and what are we talking about when we talk about the missing middle?” Karlan responded first, saying: “I don’t care who the missing middle is; all I care about is creating jobs.” He went on to explain that as long as the projects identified as SME initiatives are helping create jobs and reduce poverty, it doesn’t matter how we describe or define them. Karlan’s comments framed the discussion in terms of [results](#) – and the rigorous evidence that supports those results.

These three points by these three speakers represent only a fraction of the discussion and debate that happened throughout the day at the SME Initiative annual conference; you can read more about the conference [here](#).

For much more information about IPA’s work in this area, check out [the SME Initiative page on our website](#), including our [list of ongoing projects](#) researched by Antoinette Schoar, Dean Karlan, and other leaders in the field. If you want to get involved or know more, [email the SME Initiative team](#).

And if you want to support our work on SMEs and other interventions to reduce poverty, please consider [making a donation](#). We at IPA are excited to continue this conversation as we move toward more evidence-based results for supporting small and medium enterprises in the developing world.

December 13, 2011