Using Rigorous Evidence to Achieve Impact in SME Development

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SMEs in Ghana: From Evidence to Action
Key Takeaways

- SMEs play a key role in hiring and economic growth
- But understanding how to help SMEs grow is tricky
- Many programs sound like they should work, but not all do-
- Good evidence, including rigorous evaluations, can help us figure out what the barriers are and how to help
Why SMEs?

SMEs play a significant role in developing economies

- **67%**
  - Of GDP in developing countries is generated by SMEs

- **80%**
  - Of employment in developing economies is through SMEs

- **58%**
  - Of new job creation in developing economies happens through SMEs
SMEs are crucial to developing strong economies

- Key source of job creation and social mobility
- Hire and train low-skilled workers
- “Market aggregators”
- Multiplier effect
Challenges facing SMEs in Developing Countries

SMEs need an estimated at $5.2 billion in credit they can’t get¹

SMEs in the developing world struggle to adopt effective management practices

Entering domestic and international markets is a challenge for SMEs

¹ http://www.smefinanceforum.org/data-sites/msme-finance-gap
SMEs often have trouble getting the financing they need to innovate, grow, and create jobs.

Offering credit to SMEs can be risky for lenders because:
- A lack of information on small entrepreneurs’ credit history and ability to repay loans
- Potential risk of default
- High transaction costs
- Insufficient guarantees

SMEs need capital to grow. How can we improve their ability to access it?
Management Skills
The Problem

• Management skills are a key driver of SME productivity.

• Compared to their peers in developed countries, SMEs in developing countries often score poorly on evaluations of their management skills.

How can we provide SMEs with the skills they need to reach their potential?
Access to Markets
The Problem

• **Entering markets** (national and international) is challenging for SMEs.

• Many do not have the **necessary information** about opportunities to sell their goods commercially, domestically or as exports.

• Many **marketing opportunities** are unavailable to SMEs because of legal, financial and quality standards.

What strategies can bring SMEs closer to opportunities to access markets effectively?
SME development programs are needed, but which are the most effective?

The Problem

IPA’s Solution
Using Impact Evaluations to Improve SME Policies

- The **critical question** of impact evaluation:

  What would have happened in the absence of the program?

- If we want to know how effective a program is, we need a **comparison group**: a group of people who in the absence of the program have had outcomes similar to those who received the program.
Evaluating a program with a randomized evaluation

Population is split into 2 groups by random lot

Outcomes for both groups are measured
Understanding the results of a randomized evaluation

1. The group we are looking at is divided randomly in two

2. One group receives the program or intervention

3. Outcomes for both groups are measured for impact
Addressing SME Challenges

• Of all the policies and programs that can be used to address different SME challenges—**how do we choose?**

• Rigorous evidence helps compare different approaches to see what works

• The results aren’t always what you expect...
Example: Helping entrepreneurs make better financial decisions

• Business owners have to constantly track money and make complex decisions
• But research has shown that many don’t have the skills or training necessary

• Solution: Financial literacy training
Intervention: financial literacy training

IPA partnered with a microfinance institution (ADOPEM) in the Dominican Republic to test different kinds of training.

1,200 firm owners were randomly divided:

1. A comprehensive accounting training
2. A training that provided business owners 3 simple “rules of thumb”
   • Pay yourself a fixed salary
   • Distinguish between business and personal expenses
   • Simple ways to reconcile accounts
3. Comparison group
Results

Rule-of-thumb training produced significant improvements in financial practices.

- separating business and personal accounts, keeping accounting records, and calculating revenues

It also had positive impacts on business outcomes.

- E.g. increases in the level of sales during bad weeks (training helped participants to better manage unexpected setbacks).

Standard accounting training, on the other hand, didn’t improve these outcomes.

- Accounting training was harder to understand and to incorporate into the everyday running of a business.
Policy takeaways

Financial skills can be effectively transmitted in a classroom training.

But how you design the training can make all the difference
• In the context of this evaluation, simpler was better.

Appropriate financial training can produce significant gains in business outcomes.
Using Impact Evaluations to Improve SME Policies

• Takeaway isn’t: “Always simplify messaging”

• It’s 1) Find the right solution for the right problem
  2) Don’t assume the sensible one will be the one that works
How to move an idea from evidence to scale?

• The real successes come when programs that work are expanded to large groups
Multitude of Areas to Explore

- You’re going to hear about:
  - Gender of entrepreneurs and their customer bases
  - Getting entrepreneurs to learn from one another
  - Do consulting services help SMEs?
Concluding Thoughts

- Don’t ask “Do SME programs work?”
- Researchers ask, “Which programs work, why, and when?”
- Ask yourself: How can we work together to test which work in your area?
- Then come talk to us!
Thank you