ANDE Research Initiative: Does SGB growth reduce poverty?

Innovations for Poverty Action
SME Working Group Session
September 16, 2011
Agenda

• ANDE’s Role in the SGB Sector
  – What is ANDE?
  – Small and Growing Businesses and their Potential Impacts
  – ANDE Members

• ANDE’s Research Initiative
  – Small and Growing Businesses and Poverty Alleviation
  – Research Question and Potential Hypotheses

• Reviewing the Literature
  – The Role of Small Businesses in the Economy
  – Measuring the Impact of Small Business Support
  – Filling in the Gaps

• What next?
What is ANDE?
The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that propel entrepreneurship in emerging markets. Our members provide critical financing and business support services to small and growing businesses that create significant economic, environmental, and social impacts in developing countries.
What are Small and Growing Businesses (SGBs)?

- Commercially viable businesses
- 5 – 250 employees
- High growth potential
- Likely to create economic, social, and environmental benefits
The Promise of SGBs

SGBs Will Create

• Job Growth
• Wage Growth
• Revenue Growth
• Net Income Growth
• New Products
• Customers Served
• Suppliers Supported

Leading To:

Economic Benefits
- Steady jobs
- Increased incomes
- Wealth creation

Social Benefits
- Social goods (glasses)
- Social infrastructure (toilets)

Environmental Benefits
- Reduce deforestation
- Improve air quality (LPG, solar lanterns)
136 ANDE Members
as of August 23rd, 2011

24 Research, Academic and Corporate Institutions
38 Investors
20 Foundations
4 Other*
50 Capacity Development Providers

*Includes individual and strategic partner members
ANDE’s Research Initiative
Who is interested in the development impact of SGBs?

- Impact Investors
- Foundations
- Capacity Development Providers
- Government Agencies
- Development Finance Institutions
- Broader International Development Community
Research Strategy

- Literature Review and Original Research
- Aggregation and Dissemination
- Research Development Fund

ANDE Practitioners

ANDE Research Members
- External Academic Researchers
ANDE’s Core Research Question

Does growth in Small and Growing Businesses (SGBs) lead to growth of prosperity for poor people in emerging market countries?

SGBs can lead to prosperity for the poor in two ways:

• Prosperity for their employees and suppliers - through direct and indirect job creation, income stability and income growth.

• Prosperity for their customers - through effective provision of essential services like energy and water.
Potential Hypotheses

• H1: Jobs provided by SGBs lead to improved incomes and quality of life, compared to other occupations such as small-holder agriculture, larger enterprises and government

• H2: SGBs provide jobs and services where other sources (large enterprises, governments) are not present or less active, leading to improved incomes and quality of life

• H3: Essential products or services (energy, water, health care, etc.) provided by SGBs lead to improved quality of life and/or income, compared to similar products or services provided by other sources (government, large enterprises, etc.)
Reviewing the Literature
The Role of SMEs in the Economy

- **66%** of Employment (median across income groups)
- **86%** of New Jobs Created (median across income groups)
- Small (<250 employees) and Mature (>6 years old) Firms Contribute the most

Several Countries support SMEs programs – but measure results at the enterprise level

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<tr>
<th>Country</th>
<th>Program(s)</th>
<th>Findings</th>
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<tr>
<td>United Kingdom¹</td>
<td>‘Business Link’ (2003-2005) - <strong>Advisory Services</strong> to SMEs</td>
<td>4.4 – 7.6% increase in employment growth, no impact on sales growth</td>
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<td>Bangladesh²</td>
<td>‘SME Support Services’ (1993) – <strong>financial, technical and marketing assistance</strong> to SMEs (&lt; 50 employees)</td>
<td>5-16% increase in employment, productivity and sales</td>
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<td>Mexico³</td>
<td>Range of SME programs (1995 – 2001) providing <strong>subsidized training, technology upgrades, market development and export promotion</strong></td>
<td>9-14% improvement in training, 9% improvement in technology adoption, no significant impacts on employment and productivity growth</td>
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<td>Chile⁴</td>
<td>Various SME programs – <strong>Business Advisory Services, Technology Development, Credit, Supplier Development</strong> (1992-2002)</td>
<td>8% increase in wages, 9% increase in labor productivity.</td>
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<td>Colombia⁵</td>
<td>FOMIPYME – <strong>Technology development and adoption</strong> by SMEs (1995-2005)</td>
<td>Positive effect on wages in first 2 years, negative afterwards.</td>
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2. Sarder, et al. (1997), “The Importance of Support Services to Small Enterprises in Bangladesh”
5. Ibid.
Impacts currently measured at the enterprise level

- Investors
  - Capital
- Government
  - Subsidies/Incentives
- Capacity Development Providers
  - Human Capital Support
- SGB
  - Sales
  - Productivity
  - Access to Finance
  - Employment
The Data Gap: Impacts at the Household Level, in comparison to the alternatives?

- Jobs
- Product /Service
Challenges for Research Design

• Creating the counterfactual and generalizing
  – What is the intervention and where do we make it – at the investor level, or the enterprise level?
  – How do you create a meaningful counterfactual?
  – Experimental vs. Quasi-experimental designs
  – What is the population we are generalizing to?

• Measuring Enterprise AND Household level impacts
  – Enterprise level surveys do not capture impact on employees or customers
  – Household level surveys do not track intervention at enterprise level

• Multi-dimensional Approach to Measuring Poverty
  – Indicators beyond Income
  – Longitudinal datasets needed
What Next?

• **Aggregation and Dissemination:** Conduit for researchers to influence policy and thought in the SGB sector

• **Matchmaking and Facilitating Collaboration:** ANDE members are interested in collaborating with researchers to better understand their impact

• **Funding New Research:** Support for studies that focus on ANDE’s core research question
Aggregation and Dissemination: Conduit for researchers to influence policy and thought in the SGB sector

Matchmaking and Facilitating Collaboration: ANDE members are interested in collaborating with researchers to better understand their impact

Funding New Research: Support for studies that focus on ANDE's core research question

What's Next?

Thank You

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Additional Research Questions

• What interventions lead to greater SGB success?
• Which types of financial structures are best suited to SGBs?
• What enabling environment issues are most important in supporting SGBs in emerging markets?