

Small & Medium Enterprises

Entrepreneurship for Development



The Small and Medium Enterprise (SME) Program at IPA discovers and promotes effective solutions to the constraints faced by entrepreneurs and SMEs in developing countries.

SMEs are the largest generators of employment in the developing world, creating nearly 60% of new jobs.¹ They also generate a myriad of opportunities across sectors and geographic areas, and employ broad and diverse segments of the labor force. SMEs in developing countries, however, face constraints that are disproportionately large compared to those faced by larger firms and by SMEs in developed countries.² Limited access to finance, low levels of human capital, and difficulty accessing markets stand out as some of the most challenging barriers to business growth.

Research Areas



Access to Finance



Human Capital



Access to Markets

- ¹ Ayyagari, Meghana, Asli Demirgüç-Kunt, and Vojislav Maksimovic. "Who creates jobs in developing countries?" *Small Business Economics* 43, no. 1 (2014).
- ² Ayyagari, Meghana, Asli Demirgüç-Kunt, and Vojislav Maksimovic. "How important are financing constraints? The role of finance in the business environment." *The World Bank Economic Review* 22, no. 3 (2008): 483-516.
- ³ Teima, Ghada, Alexander Berthaud, Miriam Bruhn, Olympia De Castro, Mukta Joshi, Melina Mirmulstein, and Andrea Onate. "Scaling-up SME access to financial services in the developing world." World Bank Group, 2010. Accessed August 15, 2016. <http://documents.worldbank.org/curated/en/669161468140035907/Scaling-up-SME-access-to-financial-services-in-the-developing-world>
- ⁴ Formal MSMEs employ about 33 percent of the labor force, while informal MSMEs employ about 47 percent. Figures from Teima et al. and Kushnir et al. "Micro, Small, and Medium Enterprises Around the World: How Many Are There, and What Affects the Count?." World Bank/International Finance Corporation, 2010. Accessed April 12, 2017. <https://www.smeffinanceforum.org/post/micro-small-and-medium-enterprises-around-the-world-how-many-are-there-and-what-affects-the>



58%
new job creation in low-income countries due to growth in small businesses¹



67%
estimated contribution of formal and informal SMEs to GDP³



80%
estimated proportion of workers employed in formal and informal Micro, Small, and Medium Enterprises (MSMEs)⁴

Key Findings

IPA has worked with researchers to build evidence from more than 85 studies on SMEs and entrepreneurship in over 32 countries. Explore a few of our key findings below and find our complete portfolio of research projects at www.poverty-action.org/sme



Researchers used a nationwide business plan competition in Nigeria to test if the contest could identify the entrepreneurs with the most potential, and if a large cash grant could spur growth. **Results showed that the cash investment (US\$50,000) resulted in large increases in profitability and number of employees, as well as increased likelihood of being in business three years later.**



In partnership with ICICI Bank in India, researchers evaluated whether closer ties between the bank and the client can affect their loyalty and repayment behavior. **The study found that building a relationship between bank officers and clients via biweekly calls reduced late loan payments and in particular the likelihood of repeated late payments.**



In Mexico, researchers partnered with Instituto Poblano para la Productividad Competitiva to provide subsidized consulting and mentoring services to a randomly selected set of firms. **The study found that, after one year, access to management consulting had positive effects on productivity and returns-on-assets.** In the long run, they found a 57 percent increase in the number of employees, and a 72 percent increase in total wage bill.



In the Dominican Republic, researchers partnered with ADOPEM to evaluate two methods of financial literacy training: one based on traditional accounting principles and another one focused on simple rules of thumb. **"Rules of thumb" trainees were 6 to 12 percentage points more likely to separate business and personal cash and accounts, keep accounting records, and formally calculate revenues.**



In China, researchers examined the effects of business networks on firm performance by inviting managers from newly formed SMEs to participate in monthly meetings with peers from other local firms. **The study found that the monthly meetings increased sales by 7.8 percent and significantly raised profits, employment and a management score.**



Researchers partnered with Aid to Artisans and Hamis Carpets to develop relationships with buyers in high-income countries. Researchers then randomly assigned initial export orders to rug producers in Fowa, Egypt. **Rug producers who were offered the opportunity to export earned 16 to 26 percent higher profits and exhibited large improvements in quality compared to those who were not.**

Sources

1. McKenzie, David, 2017. Identifying and spurring high-growth entrepreneurship: experimental evidence from a business plan competition. *American Economic Review*, 107(8), pp.2278-2307.
2. Bruhn, Miriam, Dean Karlan, and Antoinette Schoar. 2016. "The Impact of Consulting Services on Small and Medium Enterprises: Evidence from a Randomized Trial in Mexico." *Working Paper*.
3. Cai, Jing, and Adam Szeidl. 2016. "Interfirm Relationships and Business Performance." *Working Paper*.
4. Schoar, Antoinette. 2012. "The Personal Side of Relationship Banking." *Working Paper*.
5. Drexler, Alejandro, Greg Fischer, and Antoinette Schoar. 2014. "Keeping it simple: Financial literacy and rules of thumb." *American Economic Journal: Applied Economics* 6, no. 2: 1-31.
6. Atkin, David, Amit K. Khandelwal, and Adam Osman. 2017. "Exporting and firm performance: Evidence from a randomized experiment." *The Quarterly Journal of Economics*, 132(2), pp.551-615.

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Innovations for Poverty Action (IPA) is a research and policy nonprofit that discovers and promotes effective solutions to global poverty problems. IPA designs, rigorously evaluates, and refines these solutions and their applications together with researchers and local decision-makers, ensuring that evidence is used to improve the lives of the world's poor. Our well-established partnerships in the countries where we work, and a strong understanding of local contexts, enable us to conduct high-quality research. This research has informed hundreds of successful programs that now impact millions of individuals worldwide.

