

# EVIDENCE BASED POLICY RECOMMENDATIONS FOR SMES



**Mary Hallward-Driemeier**  
**Senior Economic Adviser**  
**World Bank**

*October 13, 2016*

# BUILDING EFFECTIVE PROGRAMS ON EVIDENCE

The same methodology is not appropriate for all situations, but different methodologies can bring evidence on what works

- Diagnostics
  - To understand better the underlying challenges and opportunities facing firms – and SMEs in particular
- Monitoring and evaluation
  - Theory of change: know what the underlying challenge is and *why* the solution should address it
  - Have indicators to monitor that can help guide progress and where course corrections may be needed
  - Evaluate the results
- Impact evaluations
  - Randomized control trials or discontinuity studies can test for causal links more rigorously

Make strategic commitment to learn: suite of diagnostics, strong M&E embedded in every project and Competitiveness Policy Evaluation Lab – ComPEL – for selected projects in priority areas.

# IMPACT EVALUATIONS — EVIDENCE OF WHAT WORKS

Have a clear hypothesis to test

And a way to rule out alternative explanations

Build on earlier evaluations; consider external validity and how local conditions may affect intervention

Need an effective identification strategy to be able to attribute the effect of the intervention to the outcome(s) of interest. Need a control group and a randomly assigned intervention

Lessons about how to collect data, including being smart about use of administrative data within projects

- Think ahead about the outcomes of interest, the channels or mechanisms to test; have a clear theory of change and ability to rule out alternative explanations
- Choose projects that are likely to be have relevance for policy makers.

Impact evaluation require resources — but should be balanced with importance of the larger resources at stake

Added bonus: Evidence that World Bank projects with impact evaluations are implemented with fewer delays, higher disbursement rates and higher rates of satisfactory implementation — regardless of whether the evaluation itself yielded successful results

# EXPANDING LITERATURE ON EVIDENCE OF WHAT WORKS FOR SMES

Access to finance

Training of workers

Entrepreneurship training

- Management training

Encourage registration/formalization

Encourage hiring more workers

Networks, mentors

Help analyze market potential

Encourage innovation; adoption of new technology/processes

Enter new markets – especially export markets

Some about linkages with other (lead) firms

Note: How define “SME” can affect relative success of different approaches:

- Subsistence vs growth entrepreneurs
- Size of SME
- Age of SME
- Gender, education, experience of the entrepreneur

# 6 THEMATIC AREAS ARE PRIORITY FOR TRADE & COMPETITIVENESS SME ACTION PLAN

- ❖ Targeting high growth entrepreneurs\*
- ❖ Innovation and early-stage financing
- ❖ Facilitating SME internationalization – participation in GVCs and e-commerce platforms (includes meeting international quality standards; establishing business linkages\*)
- ❖ Upgrading skills – importance of managerial skills as well as worker skills
- ❖ Strengthening women-led SMEs – targeting women and gender informed
- ❖ Harnessing technology

\*Prioritized areas for rigorous impact evaluations in the coming year; another topic covers ways to improve regulatory enforcement – that could disproportionately benefit SMEs

# LEARNING FROM RIGOROUS IMPACT EVALUATIONS

## Support to SMEs is challenging – but possible

- Think about ecosystem:
  - Just giving \$ is not enough, nor is training
  - Look at market demand, networks, underlying challenges in accessing markets
  - And take into account the lifecycle of firm (with entry being particularly critical – choice of product, market, scale, technology)
- Be gender informed – may target women entrepreneurs as beneficiaries, but look where women can disproportionately benefit (e.g. transportation; e-government; broader definitions of collateral; look at sectors being supported)
- Nudges can be effective ('rules of thumb'; remind about payments; small suggestions)

# ADDRESSING UNDERLYING CAUSES VS TREATING SYMPTOMS

Important challenge – look at interventions that address underlying causes and not just symptoms (and IE may not be only way to bring evidence on this)

- E.g. Expanding banks' lines of credit to SMEs.
  - What is success?
    - IEs test if SMEs get 'additional' finance, whether they enter/survive, grow, increase productivity, hire, export etc.
    - Test impact of different interest rates, collateral requirements, length of loans, types of screening, reminders about payments etc.
  - But – not necessarily test if shift underlying constraints.
    - Has the experience with the line of credit shifted how the bank approaches SMEs?
      - Is the lending additional on the part of the banks?
      - Do other banks see the demonstration effects?
      - Do the banks maintain higher SME lending once the line of credit is over?
    - Is there a regulatory / legal requirements that remains unaddressed?