

# MARKETLINKS

Evidence Update on Small and Medium Enterprises



# Webex Room Orientation

Participants Panel



Participants (2)

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EP Encompass Producer  
Host, me

MM Maggie Montgomery

Chat Panel



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Closed Captions



Listen Only

Chat

from Encompass Producer to everyone: 3:48 PM  
Welcome everyone!

from Maggie Montgomery to everyone: 3:48 PM  
Hi! How do I send a direct message to a host?

To: Everyone

Everyone

Maggie Montgomery

# Moderators and Panelists

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**Andrew Nelson**

Economist and Entrepreneurial Environment  
Team Lead  
*USAID/Center for Economics and Market  
Development*



**Sarah Eissler**

Team Lead for Evidence Review  
Update  
*Integra LLC*



**Ana Goicoechea**

Senior Economist  
*World Bank Group*



**Caio Piza**

Senior Economist  
*World Bank Group*



**MARKETLINKS**



# HIGH GROWTH SMALL AND MEDIUM ENTERPRISE (SME) DEVELOPMENT: 2022 EVIDENCE REVIEW UPDATE

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Sarah Eissler, Mohammed Mossallam, Penelope Norton

LEAP III  
Integra Government Services International, LLC  
January 12, 2023

This presentation is made possible by the support of the American People through the United States Agency for International Development (USAID). The authors' views expressed in this publication do not necessarily reflect the views of USAID or the United States Government.

## REVIEW TEAM

- Sarah Eissler - Team Lead
- Mohammed Mossallam - Lead Economist
- Penelope Norton - Project Coordinator and Research Associate

# EVIDENCE REVIEW OBJECTIVES

- Review new evidence on supporting SME growth published since 2018
- Update previous High Growth SME Evidence Review based on new evidence
- Consider SMEs targeting climate links
- Include literature discussion on effective approaches for targeting SMEs with high-growth potential

## **THEORIES OF CHANGE REVIEWED**

- 1. Business Management**
- 2. Access to Finance**
- 3. Business Registration and Taxes**
- 4. Market Access**
- 5. Innovation**
- 6. Intersection of Climate and SMEs**

# PRESENTATION AGENDA

- New Evidence on Consulting
- New Evidence on Equity Finance
- Existing Gaps in the Evidence

# NEW EVIDENCE ON CONSULTING

- New evidence suggests individual consulting services to promote business growth remain expensive and the market to develop these services is slow growing.
- Two alternatives from recent evidence:

- **Group-based consulting approach:**

**Iacovone et al. (2021):** tested this approach with 159 auto part SMEs in Colombia.

“Leveraging peer-learning effects, group-based consulting can be cheaper and more effective than individual interventions in improving SME performance.”

- **Insourcing or outsourcing services for specific functions:**

**Anderson and McKenzie (2020):** through an RCT with 753 firms in Nigeria, found that in- or outsourcing services outperformed individual consulting services on a value-for-money basis with similar impact on business practices and growth but for half the cost.

# NEW EVIDENCE ON EQUITY FINANCE

- New evidence on factors influencing SME owners' willingness to pursue private equity and alternative forms of financing options that can positively influence profit growth of certain types of SMEs.
  - **Ibidunni et al (2018)**: experimental study of 233 technology-based SMEs in Nigeria found that venture capital and business donations significant positive influence on profit growth compared to personal savings and bank loans (no effect), but no effect on sales or employee growth. Also found that owners' ability to build entrepreneurial competencies - such as specifically skills and attitudes towards risk and innovation - had an effect on their ability to access various forms of financing.

## NEW EVIDENCE ON EQUITY FINANCE

- New evidence on factors influencing SME owners' willingness to pursue private equity and alternative forms of financing options that can positively influence profit growth of certain types of SMEs.
  - **Kimani (2020):** discrete choice experiment with SMEs in Nairobi determined interest rates most important factor influencing SME owner financing preferences, followed by form of collateral and speed of accessibility. Preferred source of financing among owners ranked first, mobile banking, then Savings and Credit Cooperative Organizations, and finally commercial banks.

# NEW EVIDENCE ON EQUITY FINANCE

- New evidence on factors influencing SME owners' willingness to pursue private equity and alternative forms of financing options that can positively influence profit growth of certain types of SMEs.
- **Biney (2018)**: used panel data from SMEs in Ghana to assess the effects of venture capital financing on SME growth and to understand enabling factors driving venture capital investments.
  - Overall finding: significant, positive association between venture capital financing and SME growth
  - Enabling factors influencing SME owners' ability to access venture capital financing:
    - Owners' gender, experience, location, business plan, social networks, and interest rate charged **significantly influence** ability to obtain venture capital financing
    - Owners' age, marital status, educational attainment, firm size and age, legal status, and sector **do not have an effect** on ability to obtain venture capital financing

## EXISTING EVIDENCE GAPS

- The impact of advanced training, matching grants, private equity, financial technology applications, domestic end-market linkages, export promotion, business formalization, the reduction of tax compliance, and product and process innovation on SME growth.
- The impact of interventions on firms with different characteristics, including the lifecycle stage of the firm (start-up, early-stage, growth, mature), the age of the firm, and the gender and age of the owner.
- Effective approaches for supporting SME growth while navigating risk management, particularly in the context of climate change and other potential sources of key risk (including but not limited to global health, political or economic crises, corruption, among others).



# THANK YOU!

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Sarah Eissler, [sarah.e.eissler@gmail.com](mailto:sarah.e.eissler@gmail.com)

Penelope Norton, [pnorton@integrallc.com](mailto:pnorton@integrallc.com)

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# Impact Evaluations on Business Development

Competitiveness Policy Evaluation Lab

Ana Goicoechea

January 12, 2023



**WORLD BANK GROUP**  
Finance, Competitiveness & Innovation

# Emerging research on firm support

## Constraints

Lack of managerial and organizational skills

- Training/Mentoring
- Labor incentives
- Learn skills from demand
- Support to innovate

Lack of access to finance

- Application support
- Grants/Loans/Vouchers
- Guarantees/Collateral
- Equity/VC

Lack of local demand

- Finding buyers
- Securing orders
- Marketing/Export support
- Government procurement
- Networks/Alliances

High regulatory compliance cost

- Information
- Monitoring
- Feedback channels

## Interventions

- ✓ *What are the impact of interventions on outcomes of interest?*
- ✓ *Are there differential impacts for key groups (women, SMEs, etc.)*

## Intermediate Outcomes

- Change practices
- Improve workers' skills
- Adopt technology
- Invest in innovation
- Learn from buyers and competitors
- Secure contracts/sales
- Access new markets

## Longer-term Outcomes

- Improve performance (sales, profits)
- Grow (employees)
- Improve productivity
- Improve product (quality, variety)

# Clusters of linked studies

	Managerial and organizational skills		Connecting firms to markets	Access to finance
<b>Experiment with:</b>	Strategies to target potential gazelles, like screening, competitions, and judges	Strategies to build managerial skills, like training, soft skills, mentoring, consulting	Ways to improve buyer-seller relationships, like supplier programs, grants, mentoring, matching or market platforms	Ways to assess credit risks like psychometrics, business activity Alternatives to traditional lending like guarantees
<b>Upcoming:</b>	Ghana		Egypt, Morocco	Burkina Faso, Mozambique
<b>Ongoing:</b>	Ethiopia, Kenya 1, Mexico		Argentina, Colombia, Kenya 2, Tunisia	
<b>Completed:</b>	Balkans, Jordan, Nigeria 1, Nigeria 2, Togo		Georgia	

Read more: <http://www.worldbank.org/en/programs/competitiveness-policy-impact-evaluation-lab>

# Supply vs. Demand Constraints for E-Commerce in Georgia

January 12, 2023

USAID

Aidan Coville – DIME/WB

Adam Osman – Econ Dept at UIUC

Caio Piza – DIME/WB

# Motivation

- Digital commerce is growing worldwide, and it is seen as a way of increasing market linkages/access of small businesses.
- The COVID-19 pandemic crisis highlighted the importance of online presence for businesses to secure demand, and it contributed to speed up the digitization of MSMEs globally (Apedo-Amah et al., 2020).
- However, the majority of the MSMEs don't have an online presence.

## Overview

- We carried out 2 RCTs aimed to increase online presence (sales) of small firms in Georgia:
  1. A training program to overcome a supply-side constraint (e.g., lack of know-how);
  2. A demand shock intervention to overcome a demand-side constraint (e.g., incentives/misperception of the returns)
- The training program had no impact on adoption of e-commerce.
- The one-off demand shock (online order) increased uptake of e-commerce by 26% in the short-term, but the effect varies based on firms' propensity to sell online.

# Context

- Georgia has a GDP per person employed of USD 37k (constant 2017 ppp), has grown 5%, on avg., during the last decade, but still faces a high unemployment rate of 10.7% (source: [data.worldbank.org](https://data.worldbank.org)).
- Expansion of broadband infrastructure in Georgia since 2007, but mostly concentrated in the capital Tbilisi;
- In 2018, 91% of firms had access to internet at home or business, however less than 5% had online presence (Apedo-Amah et al., 2020).
- Scope to expand households and businesses' access to high-speed internet and increase businesses' online presence.

## The program (1/2)

- The project we evaluate is called the 'Broadband for Development'.
  - A component of the Georgia National Innovation Ecosystem program supported by the WB.
- The project offered an e-commerce training intervention aimed to increase businesses' online presence.
  - The project targeted MSMEs outside the capital Tibilisi
- The program provided a subsidy for broadband internet (covering fixed costs for business broadband connection);

## The program (2/2)

- The training intervention

- ✓ 3-day face-to-face training on e-commerce basics

- **Day 1:** how to use Google, Facebook, Instagram and Trip Advisor to increase visibility.

- **Day 2:** how to understand customers' profiles, and how to register in e-commerce platforms (e.g., Bookings.com, Airbnb, hotels.com etc.).

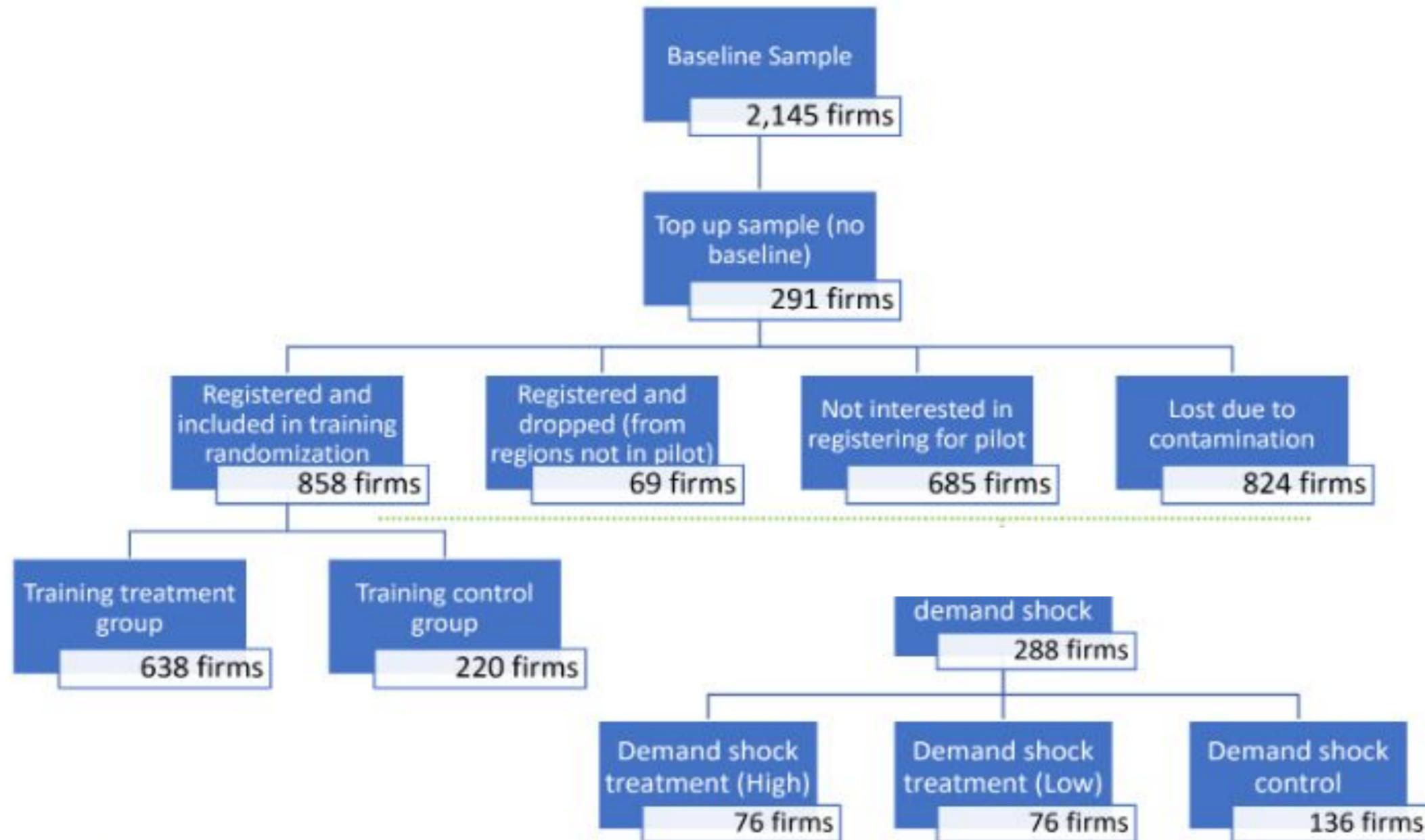
- **Day 3:** how to develop a business model, access financial opportunities, and participate in public procurement opportunities.

# IE questions

- RCT 1: Can e-commerce training increase firms' participation in online markets and performance? If so, do firms grow?
- RCT 2: Can a short-term demand shock (securing online orders) increase adoption of e-commerce, lead to strengthened market participation in the medium term, and affect performance?

# Study sample

Figure 1. Randomization assignment flow chart



*Notes.* Figure shows the randomized assignment of firms into the e-commerce training or control group; as well as into the low/high demand shock and respective control.

# Baseline characteristics

- Average firm size: 5-6 employees
  - 50% had a computer
  - Less than 3% had a website
  - Less than 10% received online orders
- 
- July 2021: follow up survey with the 858 businesses – 72% response rate
    - We focused on outcomes related to online presence.

# Impact of the training on adoption of e-commerce:

These are ITT estimates – lower bound effects

Variable	(1) Control		(2) Treatment		Difference (2)-(1)
	N	Mean/SE	N	Mean/SE	
<i>Panel A: take up</i>					
Attended training	220	0.000 (0.000)	638	0.536 (0.020)	0.536***
<i>Panel B: treatment effects</i>					
Can sell online	157	0.287 (0.036)	468	0.239 (0.020)	-0.047
Computers are used in the firm	160	0.669 (0.037)	476	0.597 (0.023)	-0.072*
At least one person uses internet	159	0.698 (0.037)	474	0.622 (0.022)	-0.076*
Has adequate internet conection	159	0.893 (0.025)	467	0.934 (0.012)	0.041
Has a facebook page	157	0.287 (0.036)	472	0.324 (0.022)	0.038
Has used e-platforms for business	142	0.134 (0.029)	410	0.149 (0.018)	0.015
Has a website	158	0.101 (0.024)	468	0.100 (0.014)	-0.001
Has a business email	157	0.490 (0.040)	473	0.495 (0.023)	0.004
Used online banking in the past 12m	154	0.318 (0.038)	461	0.356 (0.022)	0.038
Does digital marketing	156	0.051 (0.018)	470	0.072 (0.012)	-0.021
Firm delivers product by mail	140	0.143 (0.030)	419	0.136 (0.017)	-0.007

*Notes:* The value displayed for t-tests are the differences in the means across the groups. The value displayed for F-tests are p-values. Standard errors are robust. Fixed effects using variable municipality are included in all estimation regressions. \*\*\*, \*\*, and \* indicate significance at the 1, 5, and 10 percent critical level.

# The demand shock intervention

- Among the 858 firms in the original training randomization sample, we considered firms that:
  1. Completed the online survey in 2021;
  2. Were still active;
  3. Had products or services available during the planned period of the intervention; and
  4. Had indicated in the follow up survey in 2021 that they were not currently selling online but were willing to.
- This left us with 141 firms. We added 147 firms that did not register to the training but were willing to sell online. Our total sample for the demand shock is 288 firms.
- We stratified firms by their propensity to sell online (low, medium and high) and randomly assigned them to 3 groups:
  - 136 to control
  - 76 to low demand shock (USD 130)
  - 76 to high demand shock (USD 780)

# Impact of the demand shock on adoption of e-commerce:

These are ITT estimates – lower bound effects

Dependent Variable: Selling Goods/Services Online =1		Propensity of selling online:						
		Full sample		High	Medium	Low		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Treatment (Small shock)	0.210*** (0.0459)		0.500*** (0.121)		0.276** (0.0848)		0.0690 (0.0476)	
Treatment (Large shock)	0.302*** (0.0522)		0.611*** (0.118)		0.345*** (0.0904)		0.172* (0.0709)	
Treatment (Both)		0.256*** (0.0346)		0.556*** (0.0844)		0.310*** (0.0618)		0.121** (0.0431)
Control group mean	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
N	283	283	54	54	87	87	142	142
p-value for T1 = T2	0.191		0.515		0.579		0.228	

Standard errors in parentheses  
 \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

# Main takeaways

- The low intensity training intervention failed to increase online presence of small firms
  - Low take up rate, challenging logistics, and not cost-effective;
- The one-off demand shock of same amount of the training (USD 130/firm) had an impact on adoption of e-commerce between 0.21 and 0.5 percentage points;
- The large demand shock (USD 780/firm) was not cost-effective;
- These results show that lack of (secured) demand is a key barrier for adoption of e-commerce among small firms.

[caiopiza@worldbank.org](mailto:caiopiza@worldbank.org)

THANK YOU FOR ATTENDING TODAY!

As you exit, please answer the following question in the chat:

*What specific resources on supporting firms would you like to see from USAID?*

For more information, please contact [info@marketlinks.org](mailto:info@marketlinks.org)



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