

# MARKETLINKS



## Growing Small and Medium Enterprises: What Works?

Facilitator: Anastasia de Santos, *Trade & Regulatory Reform Office, USAID*

Presenters: Natalie Shemwell, *Resonance*

Ron Ashkin, *USAID LinkSME*

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# Natalie Shemwell

Natalie Shemwell is a manager in the Inclusive Markets practice at Resonance, a small woman-owned global consulting firm which works across four key areas: corporate sustainability, impact investing, unlocking frontier markets, and global development. The firm's core mission is to bridge the gap between global development agendas and private sector interests. Ms. Shemwell brings experience in international development with a background in private sector development and partnerships. She currently supports projects focused on job growth, competitiveness, and disaster preparedness and is conducting and managing a number of research and cross-sector partnership initiatives for USAID, international charities, and private sector clients. Ms. Shemwell is also the Manager of the Trade and Competitiveness Activity (TCA) with USAID E3 Bureau's Trade and Regulatory Reform (TRR) Office and is leading the activity's research on Small and Medium Enterprise (SME) development.

# Ron Ashkin



Ron Ashkin is an international development economist specializing in sustainable private sector development in emerging markets. Ron has professional experience in more than 60 countries around the globe, with expertise in market systems development, enterprise development, strategy, competitiveness, and international trade and investment. He currently serves as Project Director on USAID's Linkages for Small and Medium Enterprises (LinkSME) Project in Vietnam. Ron has created private sector and industrial development strategies for sovereign governments, managed networks of enterprise assistance centers serving thousands of private firms, and implemented local supplier development programs, among other activities. Ron holds degrees from Harvard University and The Wharton School.

# Introduction

- Why this report, why now?
- Theories of change in USAID's Program Cycle
- State/AID standard indicators:
  - EG.5-1 USD sales of firms receiving USG-funded assistance
  - EG.5-2 Full-time equivalent employment of firms receiving USG assistance
  - <http://www.state.gov/documents/organization/288884.xlsx>

# Importance of Small and Medium Sized Enterprises (SMEs)



- Make up the majority of enterprises
- Account for a substantial share of gross domestic product (GDP)
- Employ a significant proportion of the workforce

# Research Questions

- What evidence exists that demonstrates the impact of different SME development interventions and growth outcomes?
- What is the level of rigor of that evidence?

# Methodology

- Synthesized findings from over 60 reports and studies
- Each report selected for review fit within the following criteria:
  - Contains a hypothesis, theory of change, or impact analysis focused on Small and Medium Enterprise (SME)\* growth rather than on micro or large firms
  - Published from 2000 onwards
  - Contains a study sample from developing countries or emerging markets

\* Defined as those businesses with between 10 and 250 employees

# Theory of Change Categories

- 1 Business Management
- 2 Access to Finance
- 3 Business Registration and Taxes
- 4 Market Access
- 5 Innovation

# Summary of Findings

INTERVENTION CATEGORY	INTERVENTION TYPE	LEVEL OF EVIDENCE	LEVEL OF IMPACT
BUSINESS MANAGEMENT	TRAINING	STRONG	LOW
	CONSULTING SERVICES	STRONG	HIGH
	MATCHING GRANTS	WEAK	MIXED-HIGH
ACCESS TO FINANCE	ACCESS TO CREDIT	MODERATE	HIGH
BUSINESS REGISTRATION AND TAXES	BUSINESS REGISTRATION	WEAK	LOW
	TAX POLICIES AND ADMINISTRATION	MODERATE	HIGH
MARKET ACCESS	MARKET LINKAGES	MODERATE	HIGH
	EXPORT PROMOTION AND SUPPORT	WEAK	MIXED
INNOVATION	PRODUCT INNOVATION SUPPORT	WEAK	MIXED

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# Business Registration



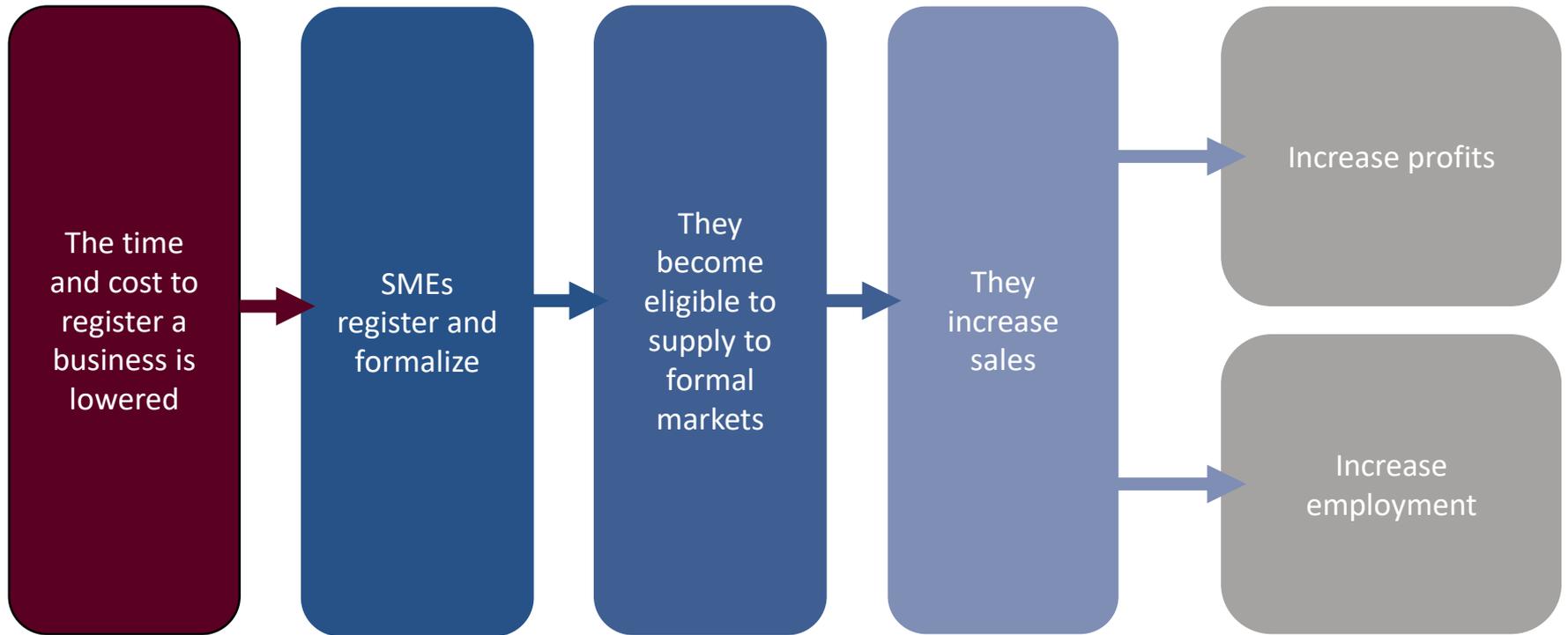
Agri Support Fund/Sikander Malik

The majority of SMEs in developing countries operate informally and are not registered with their national or local government

# Business Registration: Theory of Change

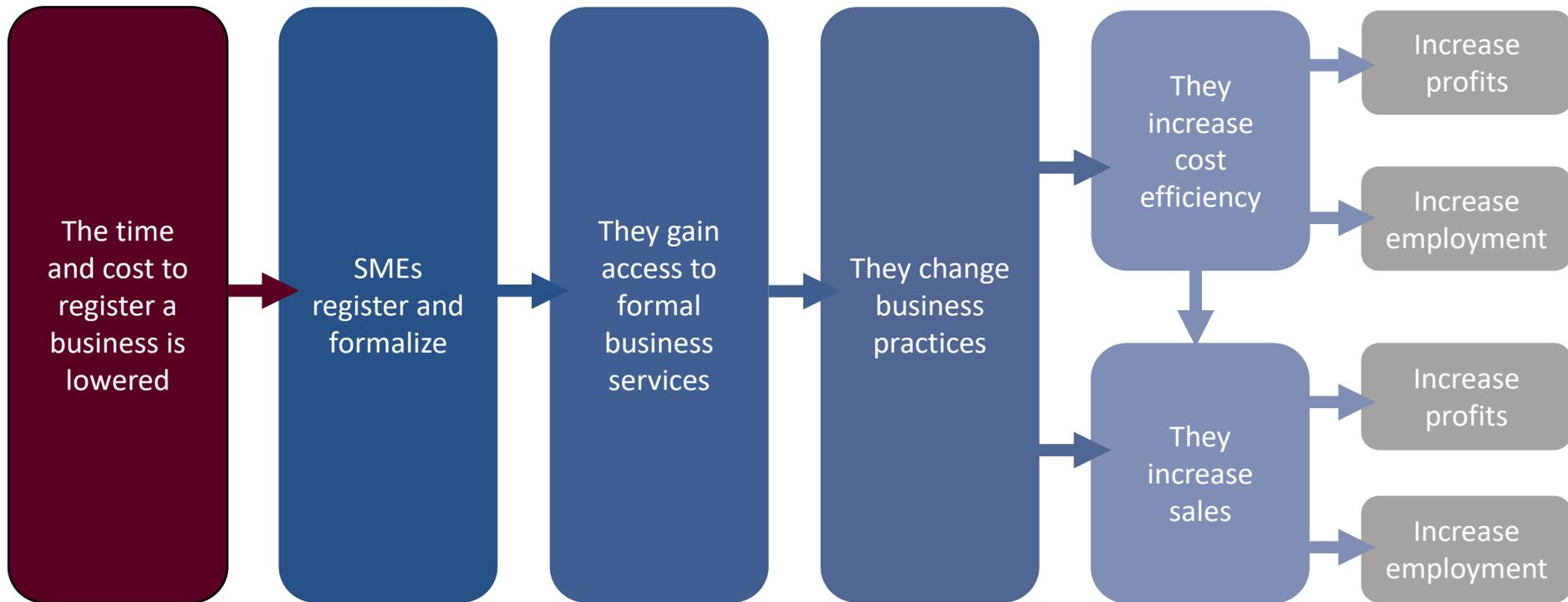
IF

THEN



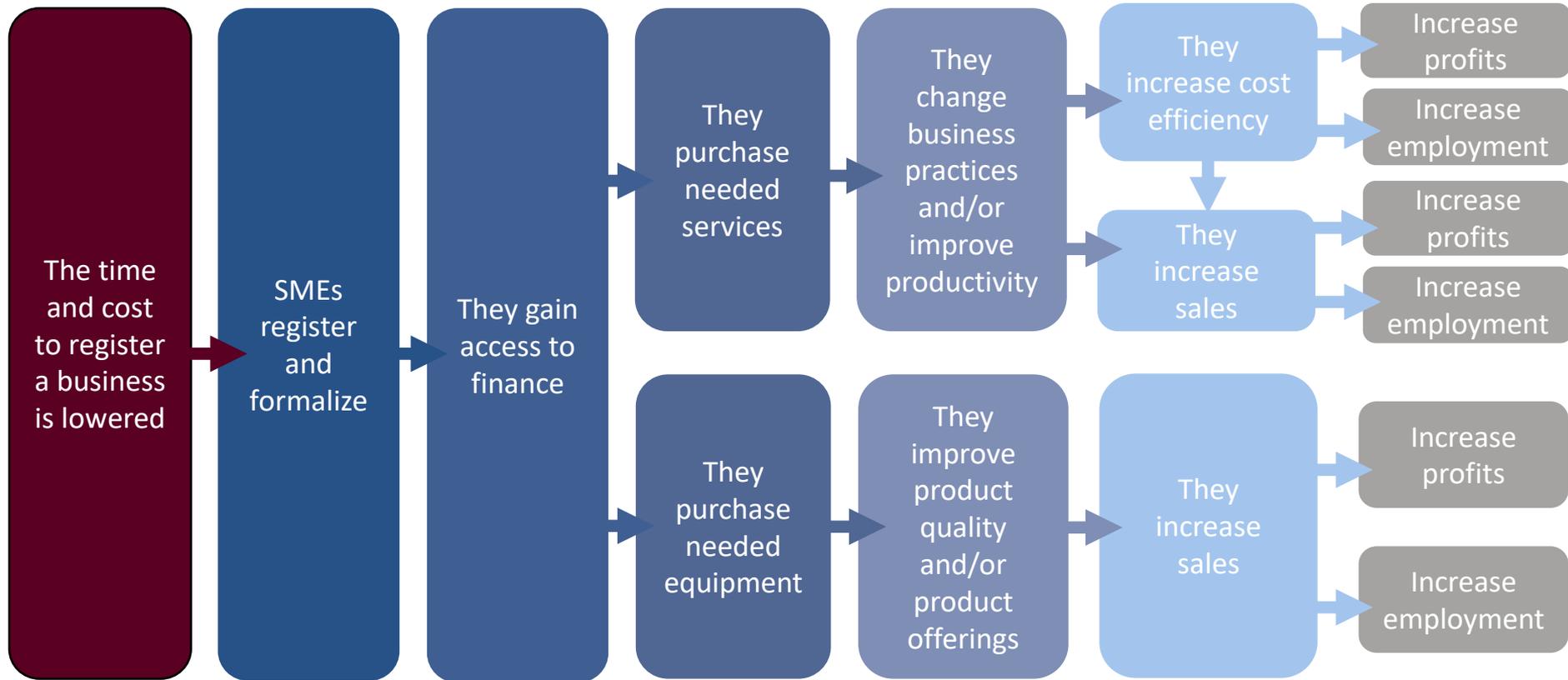
# Business Registration: Theory of Change

IF THEN



# Business Registration: Theory of Change

IF THEN



# Business Registration: Findings

INTERVENTION CATEGORY	INTERVENTION TYPE	LEVEL OF EVIDENCE	LEVEL OF IMPACT
BUSINESS REGISTRATION AND TAXES	FIRM REGISTRATION	WEAK	LOW

# Business Registration: Recommendations

- Carefully analyze all possible outcomes of formalization on SMEs before investing in policy reforms that reduce business registration constraints for SMEs or SME development programs that encourage formalization

# Market Linkages



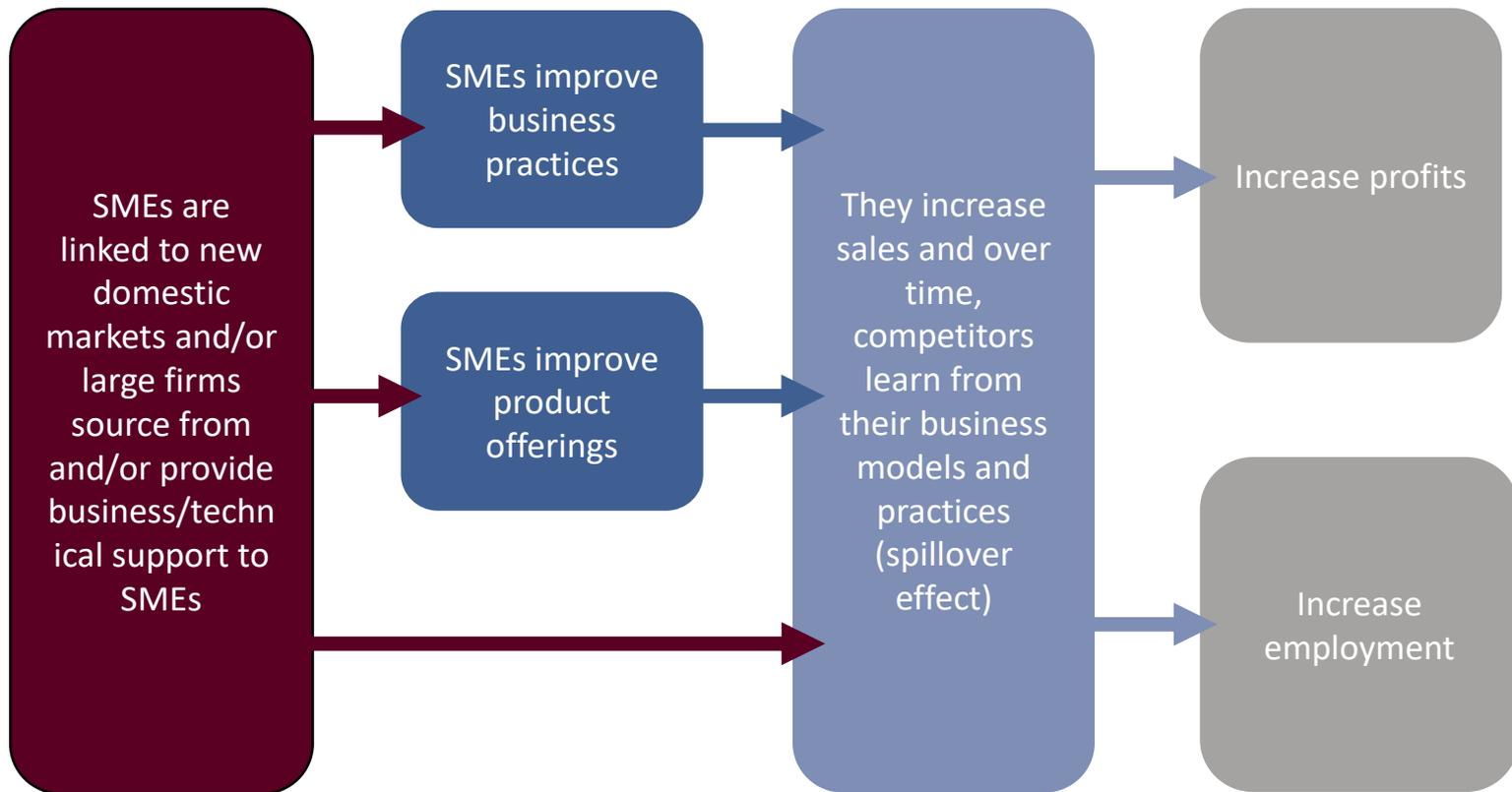
USAID

Reaching new markets (either domestic or international) can provide SMEs with opportunities to scale

# Market Linkages: Theory of Change

IF

THEN



# Market Linkages: Findings

INTERVENTION CATEGORY	INTERVENTION TYPE	LEVEL OF EVIDENCE	LEVEL OF IMPACT
MARKET ACCESS	MARKET LINKAGES	MODERATE	HIGH

# Market Linkages: Recommendations

- Simple information-sharing or match-making programs between SME suppliers and large buyers are not sufficient
- Consider exploring incentive-based SME capacity development programs that are supported and/or sponsored by large firms

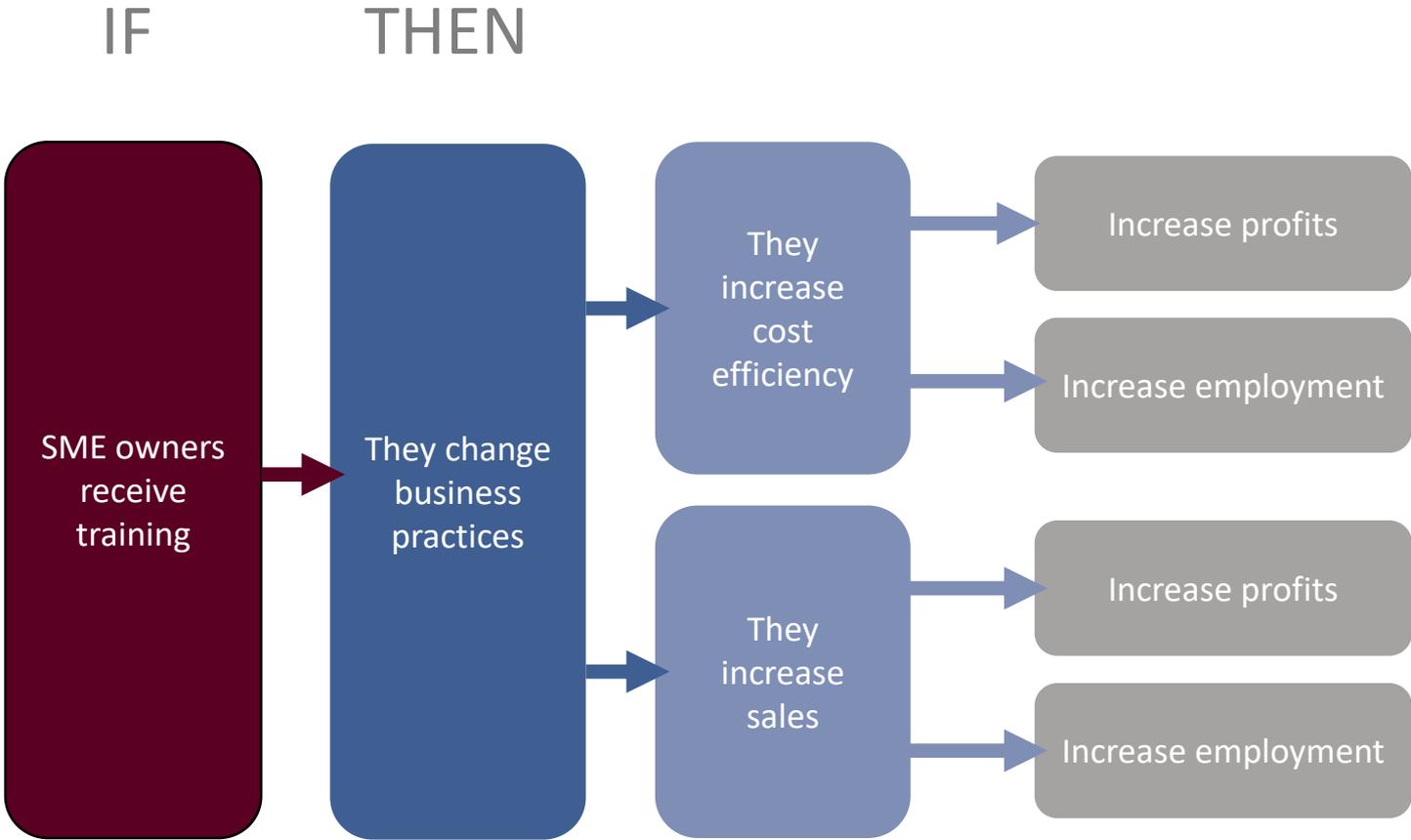
# Business Management



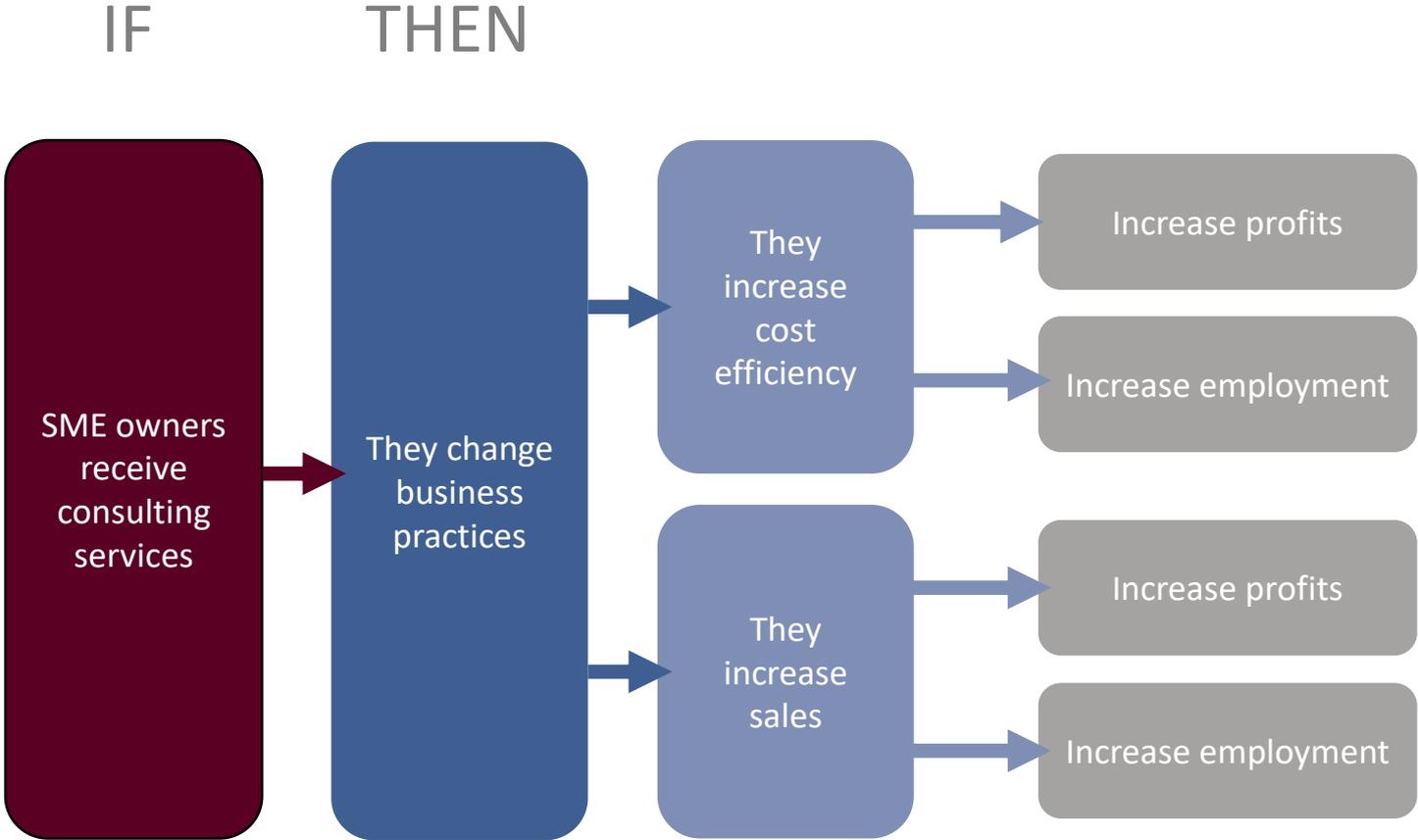
IESC / Danielle Wilkins

Studies show that a lack of managerial skills and capacity among SME employees and leadership constitutes a significant constraint to firm growth

# Business Management: Theory of Change



# Business Management: Theory of Change



# Business Management: Findings

INTERVENTION CATEGORY	INTERVENTION TYPE	LEVEL OF EVIDENCE	LEVEL OF IMPACT
BUSINESS MANAGEMENT	TRAINING	STRONG	LOW
	CONSULTING SERVICES	STRONG	HIGH

# Business Management: Recommendations

- Cost of delivering training can be expensive relative to other interventions, and the results of training interventions are mixed at best
- Consider assessing whether a training intervention is necessary before implementing training activities
- Consulting services can be expensive; however, as exhibited in the research, consulting services are more likely to yield impact over standard training programs.

# High-Level Recommendations

- 1 Do what we know works
- 2 Carry out context-relevant project design
- 3 Take cost-effectiveness into consideration
- 4 Conduct additional research

# USAID Linkages for Small and Medium Enterprises (LinkSME)



East-West Industries

Understanding the  
Logic behind LinkSME

Ron Ashkin, IESC

Project Director

[rashkin@linksme.org](mailto:rashkin@linksme.org)

# The LINKSME Contract

## C.2 PURPOSE

- **Systemic** changes in business relationships between Vietnamese Small and Medium-sized Enterprises (SMEs) and foreign firms
- Significant **increases in the quantity and/or quality of business linkages** between Vietnamese SME-firms and foreign firms...USAID assumes that by linking SMEs to foreign firms, the SMEs will become part of the global value chain (GVC)

## C.4 OBJECTIVES

- At the end of the contract, the contractor must achieve these two objectives:
  1. Strengthen the SME-foreign firm business linkage framework
  2. Enhance Vietnamese SMEs' capacity to participate in the GVC in 5 sectors

# Theories of Change: High-Growth SME Development

What works?

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# Theories of Change: High-Growth SME Development

What works?

## USAID LinkSME

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# USAID LinkSME Vietnam

We Only Do Two Things

1. Market Linkages  
(Matchmaking)

# USAID LinkSME Vietnam

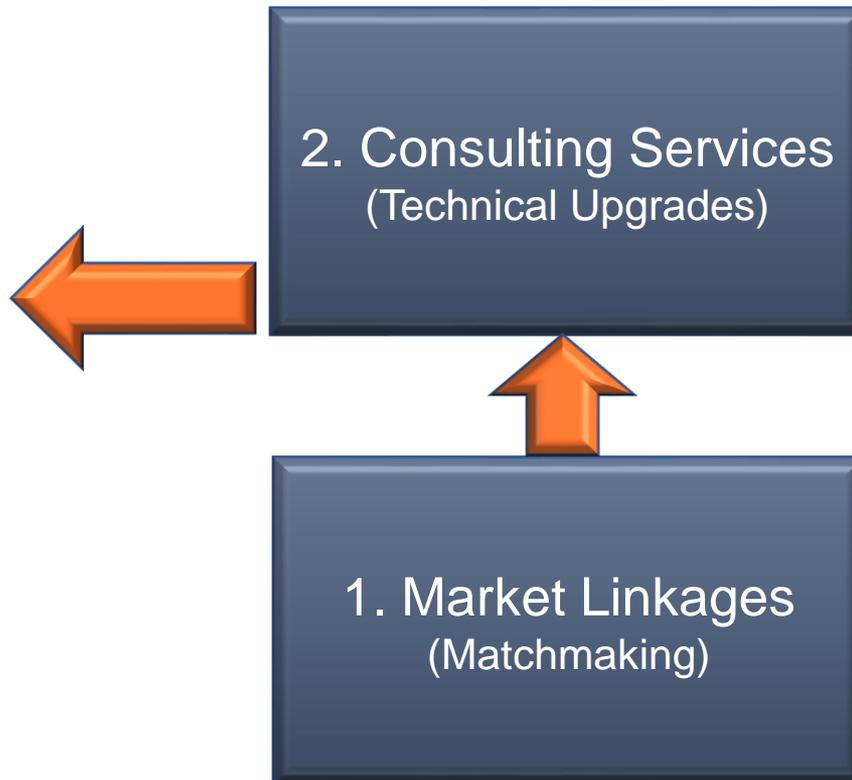
We Only Do Two Things



# USAID LinkSME Vietnam

## We Only Do Two Things

- ✓ Economic value created for SMEs and VN economy
- ✓ Multiplier effect from more local content



# USAID LinkSME Vietnam

## We Only Do Two Things

- ✓ Economic value created for SMEs and VN economy
- ✓ Multiplier effect from more local content



- ✓ Lessons learned for replication and scale
- ✓ Lessons learned to inform GVN policy

# Understanding Our Job

## What is LinkSME?

- We are a supply chain consulting firm
- Our mission is to deepen Vietnamese local content for foreign firms (FFs) that serve the global marketplace
- We do this by facilitating linkages between Vietnamese SMEs and FFs  
(*Michael Porter: Value is created at the enterprise level*)

- Our success is measured by the linkages we help create
  - Linkage is defined not only as matchmaking, but also spans technical assistance for supplier development, manufacturing, delivery, acceptance, and payment (long cycle)
- Our services to SMEs are not free, they are quite expensive
  - In return, we always want data
  - We are paid by a third party, USAID
  - We consider Value for Money (VfM) = effectiveness, efficiency, economy

# Think Like a Business

- We are a private sector organization, implementing a private sector development program
- Like a business, quantitative targets define our success
- We also have to spend our budget effectively (get value for money for our investors)
- Some fundamental management principles:
  - Customer focus
  - Process approach
  - Continuous improvement (USAID says “CLA” = collaborating, learning, adapting, part of our contract)
  - Understand private sector incentives

# Theory of Change (a.k.a. Intervention Logic)

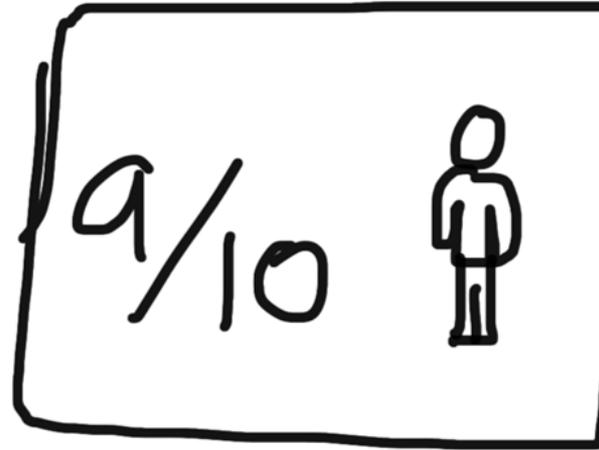
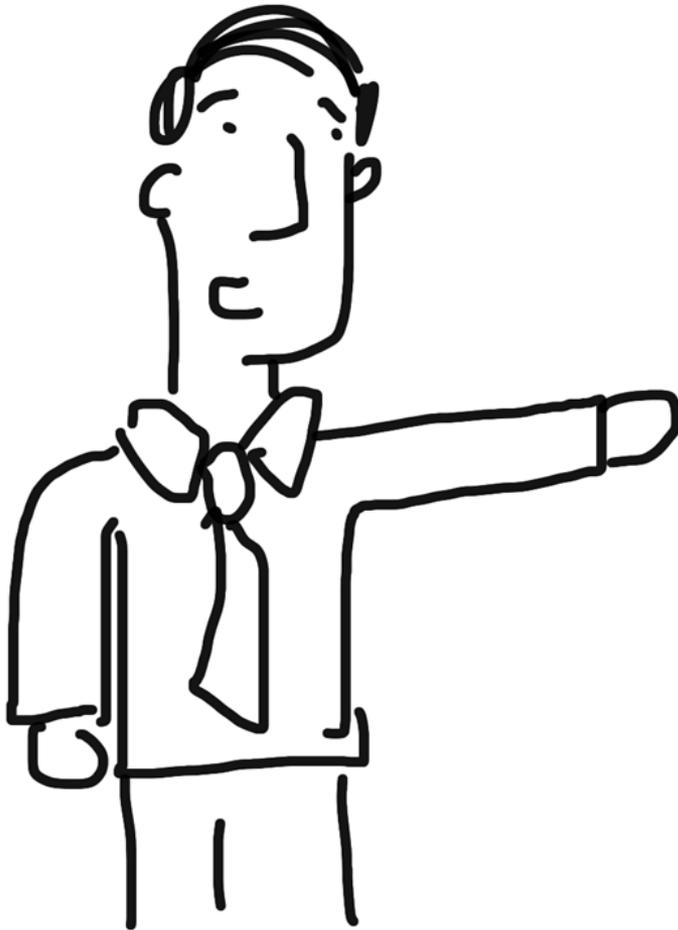
## Definitions

- The terms ‘Theory of Change,’ ‘Intervention Logic,’ and ‘Development Hypothesis’ are interchangeable (my preference: ‘Intervention Logic’)
- Should be clear, simple, and understandable to all stakeholders, not just the M&E specialists
- Should explain WHY we are doing program activities, and link activities to ultimate economic impact
- There must be a strong causal relationship between our activities (inputs) and the intended purpose (impact) of the project, which is to create more and better linkages

## Implications

- All of our activities (e.g. events, partnerships, consulting, training) should lead to more SME-Foreign Firm linkages
  - **If they don’t – don’t do them**
- The logic behind this can be mapped with a ‘results chain’
- The results chain then generates a measurement plan by which we gather evidence
- Evidence serves both to measure success and to inform adaptations in approach so we can be more effective (CLA)

We had great results. Almost all of the participants we gave money to rated the program as a big success.



[freshspectrum.com](http://freshspectrum.com)

# We Have All Seen This Before

Input

Our project trained 50 people

# We Have All Seen This Before

Impact

1,000 jobs were created

Input

Our project trained 50 people

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HOW?

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# Intervention Logic Takes Four Basic Steps

The starting point - accurate problem definition

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**Input**

LinkSME delivers technical assistance to partners that addresses systemic market issues at root cause level

The starting point - accurate problem definition

# Intervention Logic Takes Four Basic Steps

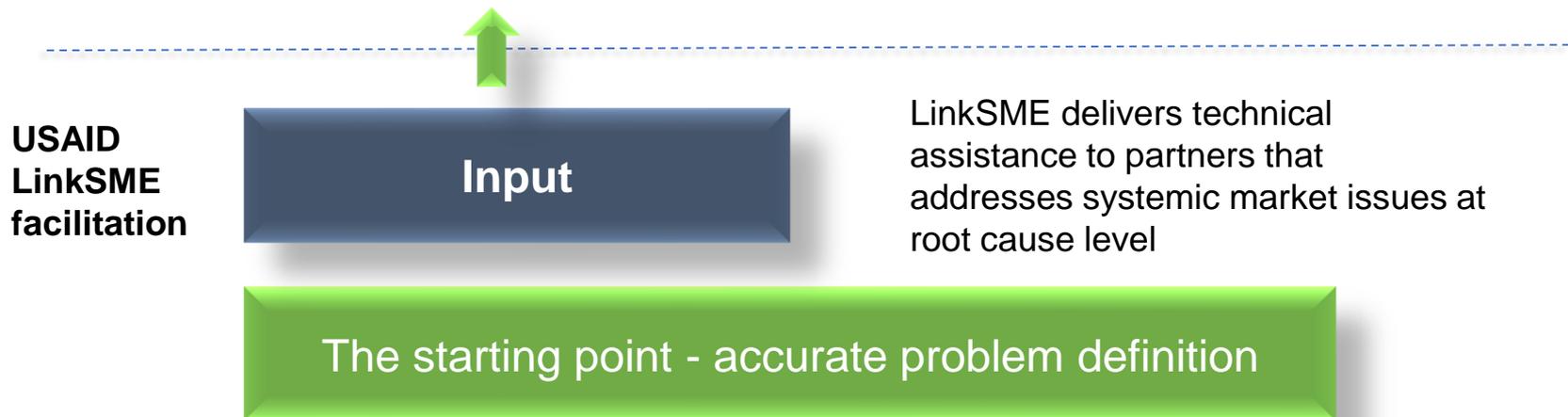
**USAID  
LinkSME  
facilitation**

**Input**

LinkSME delivers technical assistance to partners that addresses systemic market issues at root cause level

The starting point - accurate problem definition

# Intervention Logic Takes Four Basic Steps



# Intervention Logic Takes Four Basic Steps

Market activity

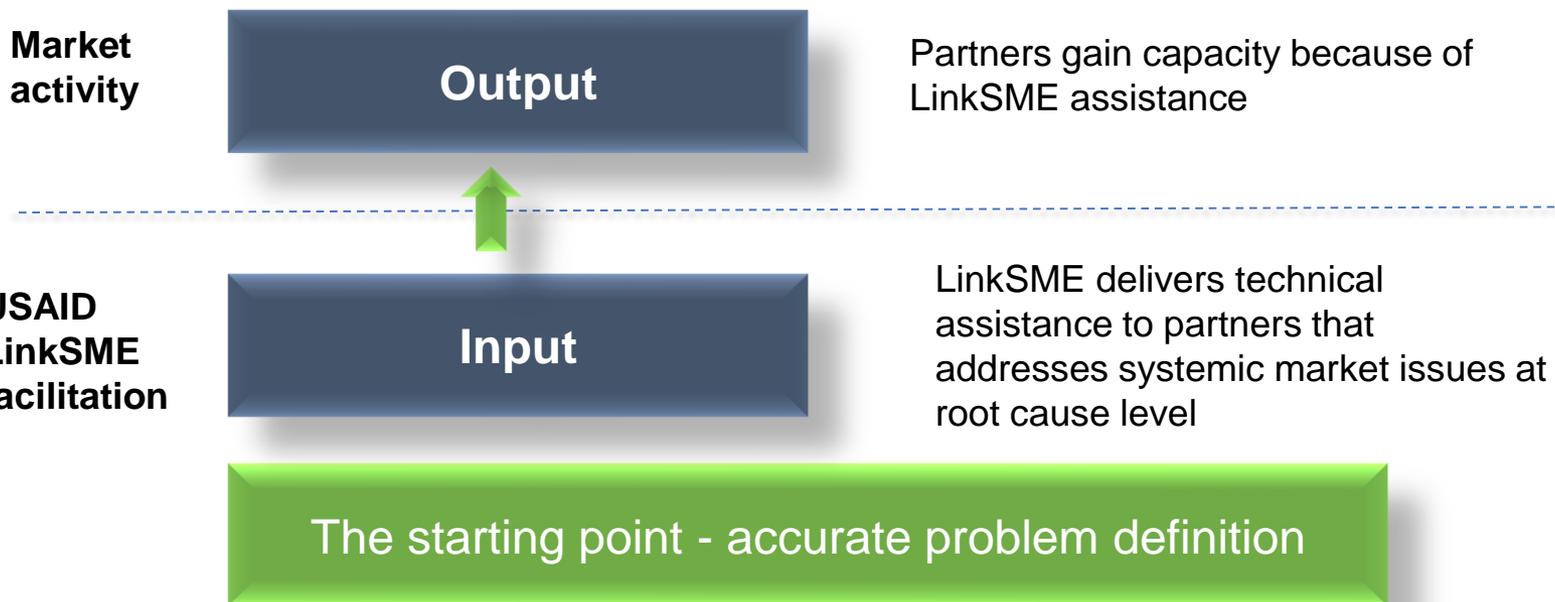
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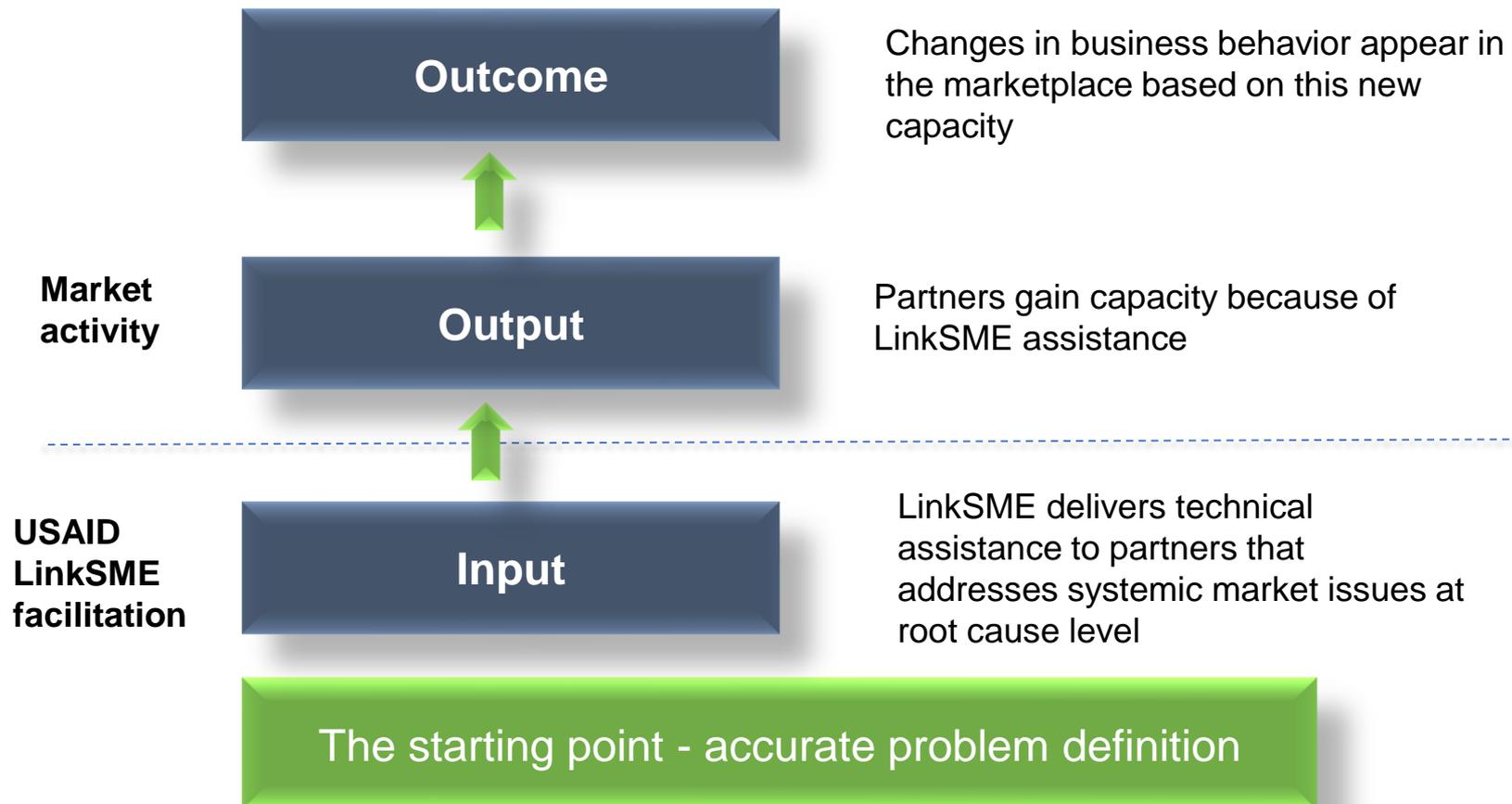
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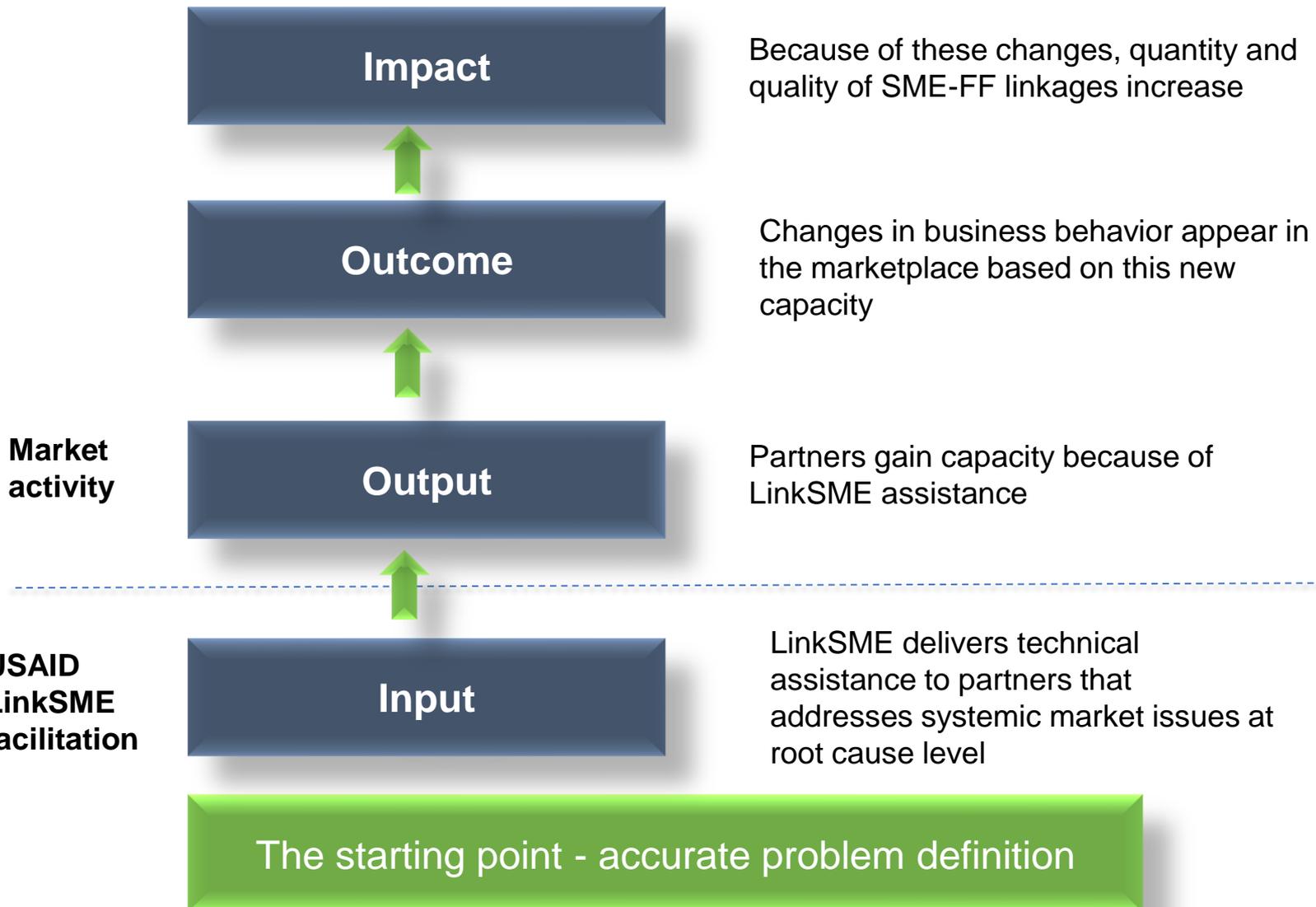
# Intervention Logic Takes Four Basic Steps



# Intervention Logic Takes Four Basic Steps



# Intervention Logic Takes Four Basic Steps



# Results Measurement at USAID LINKSME

## Guiding Principles

- You can't manage what you don't measure
- If you don't document it, it didn't happen
  - Zen proverb: "If a tree falls in the forest and nobody hears it, did it make a sound?"
- Embed measurements into daily work
  - Minimize after-the-fact measurements and surveys
  - Check progress at each step of the process – don't wait until the car is fully built to see if it has any defects
- Measure what is essential to verify and evidence logic – no more and no less
- Use existing business indicators – don't invent new ones
- Measurement is a mandatory partner obligation, in every MOU
- Monitoring and evaluation are integrated into the intervention process – not a separate 'policeman' function

# Expressing and Verifying Logic

## Methodology

- Each intervention has its own results chain expressing its intervention logic and measurement plan, showing how it will be measured
  - For example, events all have M&E requirements defined in the concept note
- There is an independent global methodology for measurement in private sector development – the DCED standard

[www.enterprise-development.org/](http://www.enterprise-development.org/)

## Some Subtleties

- Attribution
  - There must be cause-and-effect
  - Can results be logically ascribed to our project's assistance?
- Additionality
  - We actually catalyze a change that would not have happened without our assistance
  - The partner would not have done it anyway without us (i.e., we are not just paying the partner's bills)
  - Other donors are not doing the same thing

# The Results Chain “Cheat Sheet”

What the Results Chain Says	What It Means	What is the Logic For This Intervention?	How Will We Measure It?
<b>Impact</b>	What is the end result for our target group?		
<b>Outcome</b>	What changes happen in the marketplace that can be attributed to our assistance?		
<b>Output</b>	What capacity has the partner gained? What is the partner able to do because of our intervention that couldn't be done before?		
<b>Inputs (project activities)</b>	What does the project do for the partner?		

# The Results Chain “Cheat Sheet”

What the Results Chain Says	What It Means	What is the Logic For This Intervention?	How Will We Measure It?
<b>Impact</b>	What is the end result for our target group?	SMEs supply product to FFs	Count number and value of orders produced, delivered, and paid
<b>Outcome</b>	What changes happen in the marketplace that can be attributed to our assistance?	SMEs link to FFs, understand requirements, upgrade, and become potential suppliers	Count number of SMEs considered for FF RFQs
<b>Output</b>	What capacity has the partner gained? What is the partner able to do because of our intervention that couldn't be done before?	Attending SMEs understand the benefits of LinkSME and how to participate in the project	Track number of SMEs registered in the LinkSME online database
<b>Inputs (project activities)</b>	What does the project do for the partner?	Support VCCI to hold SME supply chain event in Binh Duong	Keep track of number of SMEs attending the event

# Project Expenditure

To ensure sustainability, USAID LinkSME should not become a market player. We will invest in development activities (one-time, catalytic) while avoiding paying for transactions or assets

Development	Transactional
<ul style="list-style-type: none"><li>• Capacity building</li></ul>	<ul style="list-style-type: none"><li>• Capital investment</li></ul>
<ul style="list-style-type: none"><li>• Technical advisory</li></ul>	<ul style="list-style-type: none"><li>• Construction</li></ul>
<ul style="list-style-type: none"><li>• Matchmaking</li></ul>	<ul style="list-style-type: none"><li>• Staff costs</li></ul>
<ul style="list-style-type: none"><li>• Connections and referrals</li></ul>	<ul style="list-style-type: none"><li>• Equipment</li></ul>
<ul style="list-style-type: none"><li>• Piloting and demonstration</li></ul>	<ul style="list-style-type: none"><li>• Input supplies</li></ul>
<ul style="list-style-type: none"><li>• Market intelligence</li></ul>	<ul style="list-style-type: none"><li>• Sitting fees and per diems</li></ul>

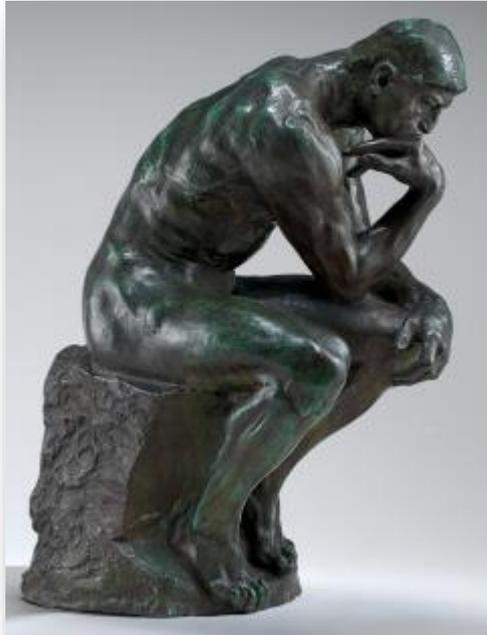
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# Project Expenditure



National Gallery of Art

## Food for thought

- Are we just paying the partner's bills for them?
- Would they have done it anyway?
- Is our intervention building capacity to do it on their own in the future? How?
- Does our intervention expenditure contribute to systemic change, or does it just solve business problems for the partner?
- Did we conduct a thorough problem definition and root cause analysis to assure that we are addressing priority issues, or did we just accept the partner's request?
- If we step away, is the partner on the road to impact?

# Value for Money (VfM)

## Practical Experience

High VfM	Moderate VfM	Low VfM
<ul style="list-style-type: none"><li>• Local LTТА</li><li>• Trade exhibitions</li><li>• Matchmaking</li><li>• Targeted partner events</li></ul>	<ul style="list-style-type: none"><li>• Local STТА</li></ul>	<ul style="list-style-type: none"><li>• Expat STТА (long assignments)</li><li>• Expensive venues</li><li>• Untargeted events</li><li>• Partner wish lists</li></ul>

- Value for Money can be monetized and calculated as **Input ÷ Impact**
- **USAID LinkSME illustration:**
  - For an event intended to recruit SMEs into our database
  - Money spent ÷ # of online registrations = cost per registration
  - Can be compared between partners and channels to determine most effective

# Building Sustainability

## Partner vs. Vendor

### Partner

- Shares mutual objective(s) with the project
  - At minimum, must coincide with **one** of the project's top-line development objectives
  - USAID LinkSME: Creating global value chain linkages, changing the system
- Contributes resources to the partnership
- Mutual activities are cost-shared based on each partner's responsibilities
  - USAID LinkSME starts with 50/50 cost share
- Builds sustainability through self-reliance

### Vendor

- Objective is purely economic (an exchange of value, i.e. product or services for money)
- Transaction orientation
- No cost share, expects 100% payment by the project
- Project role is ultimately just to pay the bill
- No sustainability, must pay again next time

# Thoughts on Impact

## Evidence

- Impact must be evidenced, not just illustrated
- Success stories are illustrations, not results measurement
- Methodology matters

## Coming Down to Earth

- An intervention may create impact, but is that impact sustainable? It is always possible to buy impact (= old school development, absent theory of change)
- Is the impact scalable and system-wide, or does it just affect a pilot group and will magically scale up sometime after the project is over?
- Is Value for Money considered, or did we spend \$1 million to create \$100,000 in impact?

# TOP TAKE - AWAYS

What might be applied to other programs and contexts?

What are the indispensable lessons to share with others?

2

## Sound Logic is Key

Your intervention logic should be obvious to a third-party observer and not a “stretch” that has to be explained in detail to non-specialists. Avoid a leap of faith from outcome to impact

5

## Think Sustainability

Distinguish vendors from partners. Sustainability comes from transferring capacity to local partners and they must have a stake in the game. Simply paying for impact leads to no sustainability

3

## Anecdote to Evidence

Success stories are a communication tool, anecdotal illustrations of development impact. But they are neither a substitute for nor a proxy for robust evidence-based M&E

6

## Avoid Pilotitis

Anyone can do a pilot, but a one-off impact is not evidence of systemic change. Work for scale; the development challenge is not to prove that a concept is possible, but to make the concept take hold system-wide

1

## Do What Works!

Not what you think might work. Base your interventions on sound evidence. If it didn't work repeatedly in the past, it is unlikely to work in the future

4

## Think Like a Business

SME development programs have different characteristics than other types of programming. Leveraging private sector investment requires understanding of private sector incentives

7

## Firms Create Value

The business environment doesn't create value, enterprises create value. You can't expect to improve SME performance unless you engage directly with SMEs

# USAID Linkages for Small and Medium Enterprises Contact Information

## USAID/Vietnam

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## USAID LinkSME:

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Frank Weiand, Foreign Firm Linkages Component Director [fweiand@linksme.org](mailto:fweiand@linksme.org)

# MARKET-BASED SOLUTIONS FOR DEVELOPMENT

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