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INNOVATIONS FOR POVERTY ACTION

SME10

Entrepreneurship and Private Sector Development

10 Years of IPA's SME Program and the Way Ahead

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This page: Woman working in a retail store (Colombia); Credit: IPA; *Cover:* Product manager showing how the product gets ready after the mixing process in an agricultural chemical manufacturing company (Colombia); Credit: Luz Karime Palacios

Innovations for Poverty Action is a global research and policy nonprofit, leading the field of development in cutting-edge research quality and innovation. IPA tests promising ideas across contexts and along the path to scale, shares findings with the right people at the right time, and equips partners to use data and evidence to improve lives. Our long-term presence in 22 countries in Africa, Asia, and Latin America has enabled us to build long-term relationships with key decision-makers, whose questions and needs drive our research. Since our founding in 2002, our research has led to better programs and policies that have impacted hundreds of millions of people worldwide.

Learn more about IPA: https://www.poverty-action.org/

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LETTER FROM THE PROGRAM DIRECTOR

At 10 years, looking back and looking ahead

DEAR FRIENDS,

Ten years ago, there was a common understanding in the international development community that policies to support entrepreneurship and firm growth in low- and middle-income countries (LMICs) were needed, but there was little rigorous evidence to inform the design and implementation of these policies around the world. The Small and Medium Enterprise Program (or SME Initiative, as it was called at that time) was born out of the need to fill this gap in knowledge and evidence. We aimed to achieve this by bringing together the worlds of research and policy to tackle important questions around the constraints to firm growth and find cost-effective solutions.

Founded by **Dean Karlan** (Northwestern University) and **Antoinette Schoar** (Massachusetts Institute of Technology) in 2011, the SME Initiative started with a small but committed team and a handful of research projects, and soon grew to become a thriving and prolific research program. Over the last decade, the SME Program has been at the forefront of the evidence generation efforts to understand what works to support entrepreneurship and SME development in LMICs. We have developed and engaged a strong network of innovative and influential researchers and partnered with key decision-makers around the world to address some of the most important challenges faced by businesses and entrepreneurs in their path to growth. **With a portfolio of nearly 200 research projects across 39 countries, the SME Program has been a key contributor to "what we know" in this sector, and an important voice in the dissemination of these lessons to the wide audience of policymakers and practitioners around the world.** These achievements would not have been possible without the commitment, passion, expertise, generosity, and hard work of our researchers, advisors, partners, donors, and IPA staff across the world. To all of them, we are deeply grateful.

New topics, new faces, new program name

We are now eagerly embarking on the next phase of our program. Looking ahead, we plan to continue advancing our current research agenda, while also expanding it in new and important directions. We will continue to build on the existing evidence, deepen its policy impact, and support the promising evidence-based approaches that we have identified over time as they move along the path to scale. We also intend to push the knowledge frontier forward to break new grounds on cross-cutting themes of high policy relevance in the current context: **women's entrepreneurship and economic empowerment, innovation and technology adoption, and environmental sustainability.**

Although a specific definition of business size has never restricted our research agenda, our updated and expanded agenda calls for a new program name that is better suited to the problems we are trying to tackle. To reflect the current scope of work, **we are renaming our Program "Entrepreneurship and Private Sector Development."**

Employees in the process of fabric preparation and cut (Colombia); Credit: Luz Karime Palacios

To reflect the current scope of work, we are renaming our Program "Entrepreneurship and Private Sector Development".

We are also excited to share that we have **expanded the program's academic leadership**, inviting four new Scientific Advisors to join us in guiding these new efforts: **David McKenzie (World Bank), Eric Verhoogen (Columbia University), Namrata Kala (Massachusetts Institute of Technology) and Paul Gertler (University of California, Berkeley)**. They join **Antoinette Schoar** and **Dean Karlan** in our newly established **Scientific Advisory Board**, which provides academic leadership and brings in diverse perspectives and expertise in various research areas. We look forward to working together with all of them in this next stage of our program.

Our **research network** has been essential to the work the program has done in the past decade, from leading research projects to engaging in discussions with policymakers around the world on the use of evidence for policy design. Going forward, **we plan to continue expanding the network and finding new ways to engage our researchers.** We are also committed to developing and implementing a new **diversity, equity, and inclusion** strategy, and making sure that more women, people of color, junior academics, and researchers coming from low- and middle-income countries can actively and meaningfully participate in the program's activities.

Finally, in the coming years, the Program will strengthen its dissemination and policy engagement work and try new strategies to **deepen the policy impact of our research**. A more intensive approach to policy outreach will be taken, including training workshops for practitioners and policy-makers, technical assistance and scale-up support for organizations implementing SME policies in low- and middle-income countries, and strategic policy partnership development, including the development of embedded evidence labs (i.e. teams of IPA and public sector employees working side-by-side to strengthen the use of data and evidence in public policy).

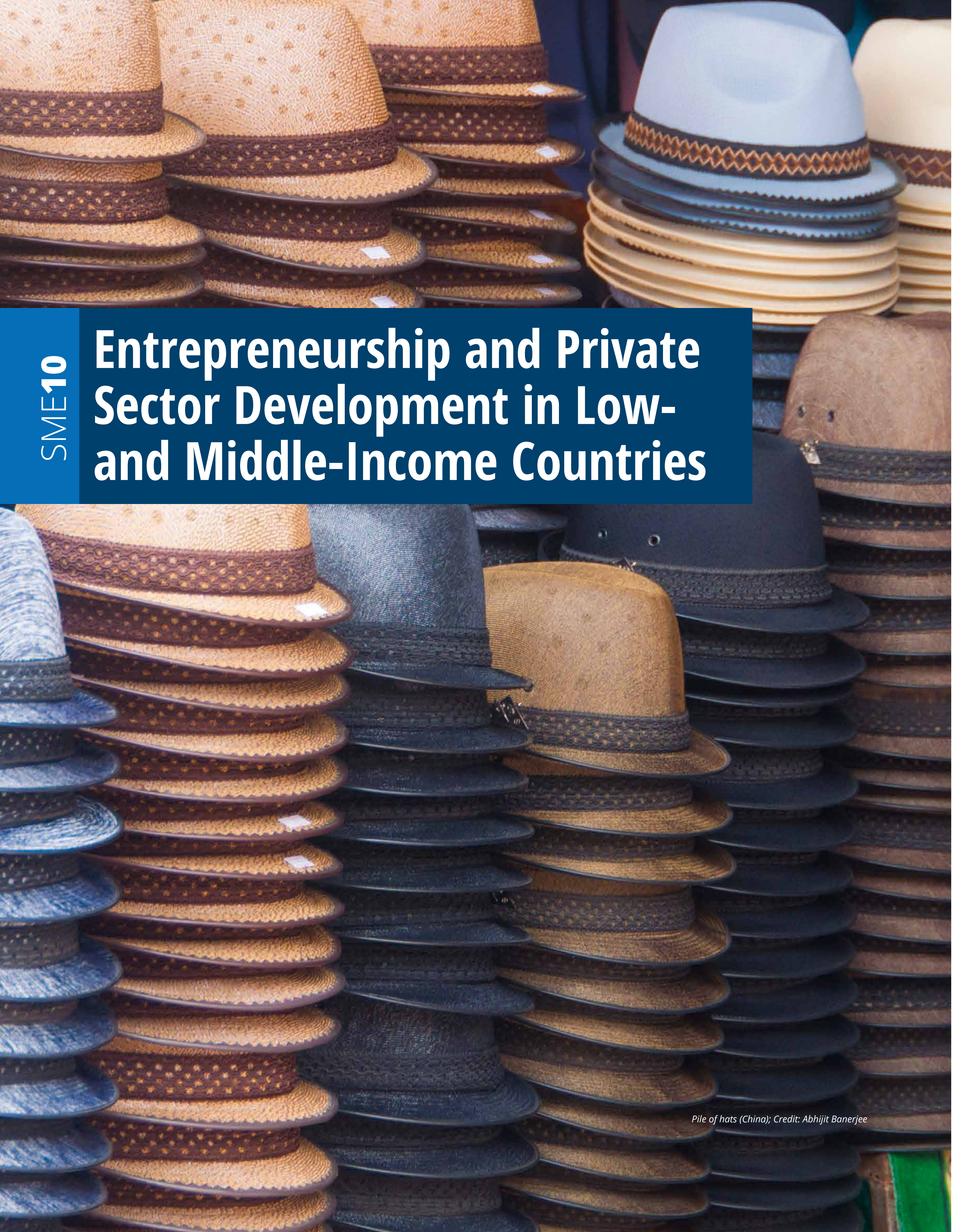
The vision of our program is ultimately that the insights we generate and share can lead to more effective programs, policies, and approaches to support entrepreneurship and private sector development. In the long-run, we aim to contribute to unlocking increased business productivity and growth and —as a result—improving employment and income levels, and reducing poverty around the world. We invite you to join us in this effort and look forward to collaborating with many of you in the future.

Sincerely,

Lucia Sanchez
Program Director

SME**10**

Entrepreneurship and Private Sector Development in Low- and Middle-Income Countries



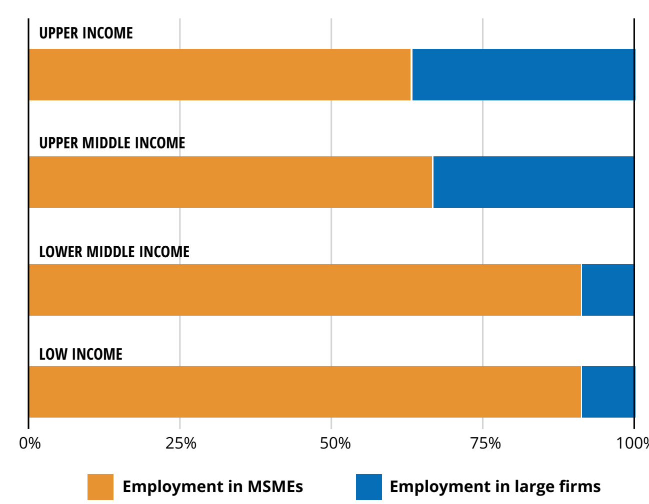
Pile of hats (China); Credit: Abhijit Banerjee

A woman works in the fabric cutting area (Colombia); Credit: Luz Karime Palacios

Entrepreneurship and firm growth are important engines of inclusive economic growth and social development, providing jobs, goods and services, and the possibility to help people escape poverty. The private sector is also crucial in the transition to more sustainable patterns of economic development, both in terms of aggregate environmental impacts and potential role in supplying green goods and services.

Micro, small and medium enterprises (MSMEs) play a special role in development. They employ broad and diverse segments of the labor force, generating opportunities to participate in economic activity across sectors and geographic areas. MSMEs represent the majority of private-sector jobs in low-and middle-income countries (LMICs), with the average contribution ranging from 66 percent in upper-middle-income countries to 91 percent in lower-middle-income countries[1]. Formal and informal MSMEs also contribute to more than half of the gross domestic product (GDP) in most countries across the world. Newer and smaller firms can make important contributions towards innovation trends by taking advantage of their nimble sizes to exploit opportunities to supply new products and serve new customers.[2]

MSME Contribution to Employment



Source: MSME Economic Indicators, SME Finance Forum

In LMICs, however, entrepreneurship and firm growth are often limited by barriers in access to finance and markets, low levels of human capital and managerial skills, and limited innovation and technology adoption. These barriers are especially pervasive for SMEs, though they can affect the private sector more broadly. Understanding these constraints and finding effective ways to address them is therefore a crucial strategy towards achieving the 2030 Sustainable Development Goals of sustainable economic growth and decent jobs.[3]

In an effort to unlock the potential of the private sector, governments, nonprofits, and development finance institutions spend billions of dollars every year on programs aimed at reducing barriers to growth. However, there is still a pressing need to identify what works and how to implement effective solutions to steer investments to the areas where they will have the greatest impact.

The Entrepreneurship and Private Sector Development Program (formerly “SME Program”) at Innovations for Poverty Action (IPA) was created in 2011 with the goal of addressing this important knowledge gap. For the past 10 years, we have been collaborating with researchers, practitioners and policymakers to create and share rigorous evidence that can help inform decision-making in the sector. We have come a long way, but there is still much more to be done. In this report, we share some of the lessons learned over the past 10 years and outline our strategy for the years to come.

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WHAT WE DO

The Entrepreneurship and Private Sector Development Program (formerly "Small and Medium Enterprise Program") at IPA brings together a global network of leading researchers and decision-makers to identify, rigorously evaluate, adapt, and scale-up effective solutions to the constraints that affect entrepreneurship and business growth in LMICs. In collaboration with our researchers and partners, the program strives to:

IDENTIFY KEY KNOWLEDGE GAPS

- Review and synthesize literature and existing evidence
- Identify policy-relevant research gaps and opportunities

ENGAGE A DIVERSE NETWORK OF RESEARCHERS

- Develop and nurture a network of researchers with an interest in firms and entrepreneurship in LMICs
- Annually convene our research network in a workshop to discuss work in progress and new research papers

SUPPORT THE DEVELOPMENT OF NEW EVIDENCE

- Identify innovative policies, programs, and products that have the potential to address important constraints to firm growth
- Match new project opportunities with researchers
- Support the development of new partnerships and promote co-creation of evidence

FUND PROGRAM EVALUATIONS

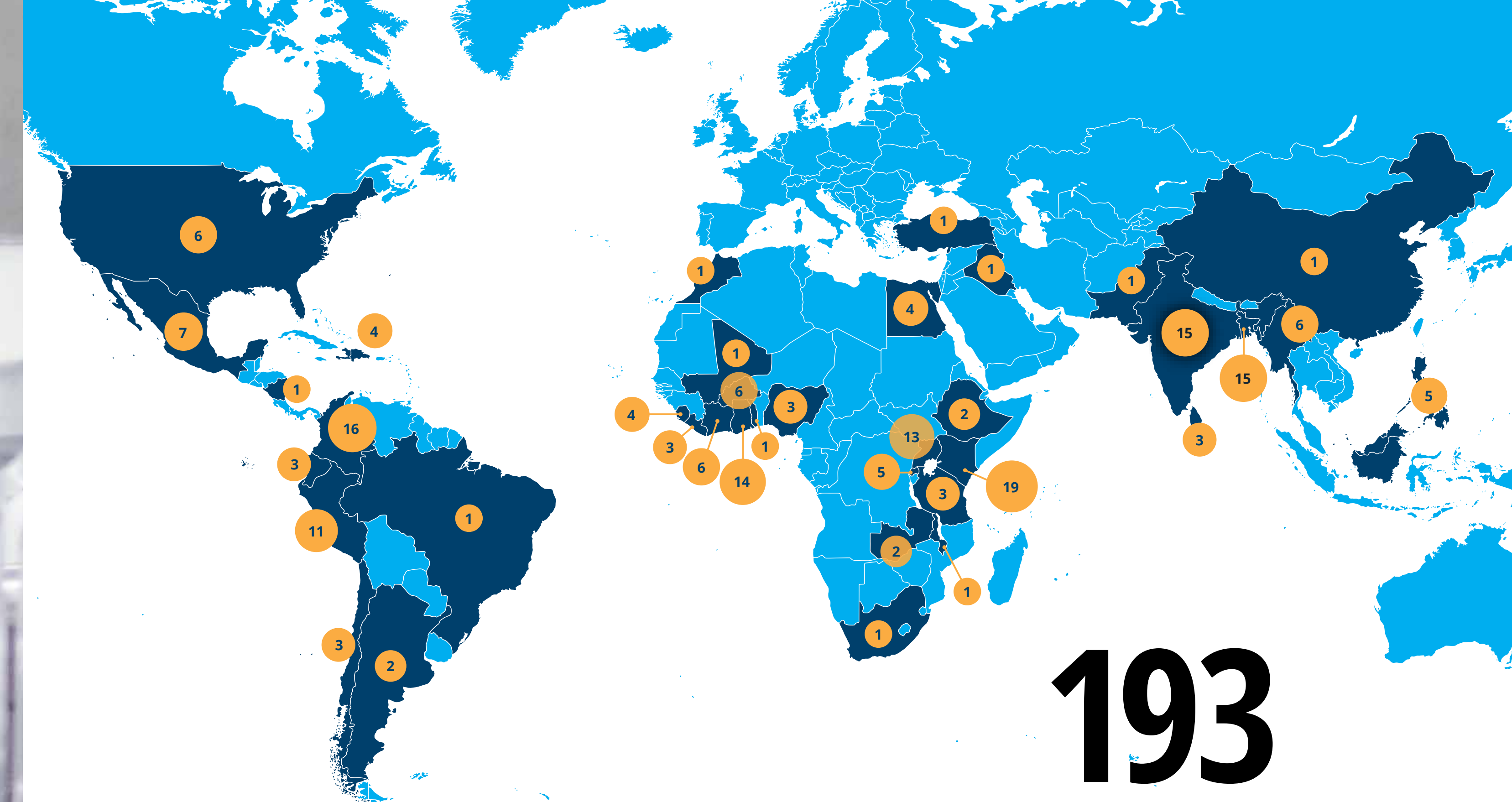
- Manage competitive research funds to support research on entrepreneurship and firm growth in LMICs
- Support other fundraising efforts for projects in the sector

DISSEMINATE RESULTS AND INFORM POLICY

- Host networking and dissemination events
- Produce evidence synthesis, policy briefs, and other dissemination materials
- Share evidence strategically at policy meetings and sector events
- Develop strategic policy partnerships and equip decision-makers to use evidence

SUPPORT EFFECTIVE SOLUTIONS IN THEIR PATH TO SCALE

- Identify promising evidence-based approaches to reduce barriers to firm growth
- Promote a path-to-scale learning agenda to move from proof-of-concept to implementation at scale



OUR WORK AT A GLANCE

193
research projects (completed or active) in 39 countries

19
policy events organized in 12 countries

200+
researchers leading IPA projects in the sector

100+
research and policy partners

120+
evidence syntheses, project summaries and policy briefs

11
annual working group meetings (research workshops)

3.5M
USD in research funding awarded through competitive funds

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WHAT WE'VE LEARNED

Man reviewing accounting records; Credit: IPA

For the past ten years, the program's research agenda has been shaped around understanding the barriers to firm growth in low- and middle-income countries and identifying effective interventions that can help businesses overcome them. Our research portfolio has grown to include nearly 200 studies in 39 countries, leading to valuable insights that can inform the design of more effective policies and programs.

General view of the production plant (Colombia)
Credit: Luz Karime Palacios

The following pages summarize some of the results from IPA studies that have contributed to our understanding of how to expand access to finance, improve managerial skills, and help firms connect to new markets and opportunities. While this is not meant to be a comprehensive evidence synthesis, we have framed these findings within broader lessons highlighted by recent literature reviews on firm growth and development, acknowledging that our work is part of a collective effort to bring evidence-based decision making to this sector.[4] These studies —and the conversations around them— have broadened our understanding on how to promote economic development in LMICs and also illuminated new questions and priorities that will shape our program (and its new scope) in the coming years. We invite you to read more about our research portfolio at: **https://www.poverty-action.org/program-area/entrepreneurship**

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Financing for Growth

Accessing and using capital

THE CHALLENGE

Limited access to finance can severely constrain a firm's capacity to grow and create jobs. The finance gap for micro, small and medium enterprises (MSMEs) in LMICs is estimated to be approximately $5 trillion USD, with 131 million —or 41 percent— of formal MSMEs having unmet financing needs.[5] Financial institutions often restrict lending to MSMEs due to their opaque credit histories and lack of collateral, as well as to the higher default risk and transaction costs associated with these loans.

Over the past few decades, financial institutions, governments, and donors have invested considerable resources in developing new products and programs to provide SMEs with the financing they need to grow. These solutions, which have aimed to address different challenges along the SME lending cycle, have included: innovative ways of screening potential clients to handle the problem of their limited credit history; non-traditional collateral to compensate for lack of real estate; more flexible financial products to better adjust to the needs of SMEs; novel incentive schemes to encourage SME borrowers to repay loans on time.

In addition, matching grants programs, business plan competitions, and financial technology innovations have flourished around the world as alternative funding options for entrepreneurs and SMEs. Together with our partners and research network, IPA has evaluated the impact that many of these and other solutions have on access to finance and business performance for SMEs. We highlight a few key takeaways from this research in the following pages.

Keeping accounting records; Credit: IPA

Challenges in the SME Lending Cycle

SME LOAN PROCESS	Bank screens loan client →	Bank requires collateal to secure loan →	Client invests loan in business →	Client repays loan
CHALENGES IN SME LENDING CYCLE	Reliable historical data on SMEs is unavailable or expensive to client	Loan applicant lacks qualified collateral	Client does not have the financial and managerial knowledge to successfully invest loan	High default rates on SME loans increase risk, resulting in reduced SME lending

KEY LESSONS FROM OUR RESEARCH

1 Returns to capital for SMEs in LMICs can be high and SMEs can greatly benefit from grants, but selection of high-growth businesses is challenging and the form in which SMEs receive capital can affect the impact on business outcomes.

In Nigeria, David McKenzie evaluated a nationwide business plan competition to test whether the competition could identify entrepreneurs with high growth potential and whether cash grants could spur growth. He found that for both applicants looking to start new businesses and those with existing ones, the cash grant resulted in increased innovation, profitability, number of employees, and probability of being in business three years later. Competition winners looking to start new businesses were 37 percentage points more likely to be operating three years after applying to the competition, and winners who already had a business at the moment of applying were 20 percentage points more likely to have survived, relative to firms that did not receive a grant. The study also found that there was no difference in results between the randomly selected winners with higher scores to those with lower scores, implying that the selection panel experts were not effective at predicting which entrepreneurs would be the most successful.[6] The positive results of the study encouraged the continuation of the program in Nigeria and also inspired the replication of this approach in other African countries. For example, in 2019, the Government of Kenya in collaboration with the World Bank launched a national business plan competition called MbeleNaBiz as part of the Kenya Youth Employment and Opportunities Project (KYEOP). Francisco Campos, Julian Jamison, Abla Safir, and Bilal Zia are evaluating several interventions within KYEOP in partnership with IPA. In Mexico, an ongoing IPA study led by David Atkin, Leonardo Iacovone and Eric Verhoogen in partnership with the World Bank is evaluating the effectiveness of different types of selection panels when selecting firms with high growth potential.[7]

Employees of a business that participated in the National Business Plan Competition (Nigeria); Credit: YouWiN and the Federal Ministry of Finance, Nigeria

In Ghana, Marcel Fafchamps, David McKenzie, Simon Quinn, and Christopher Woodruff investigated the impact of in-kind and cash grants on microenterprises, to determine whether grants can help businesses grow and, if so, what types of grants are more effective. The study found that average returns to capital were high: receiving a grant led to an increase in monthly profits of about 15 percent. For women, however, only in-kind grants increased business profits, and only for businesses that had higher profits at the start of the study. Cash grants had no effect for women entrepreneurs. The researchers examined two hypotheses for this difference in effects—self-control difficulties and pressure from family members to share resources. They found that individuals with more self-control difficulties respond better, in terms of profits, to in-kind grants and did not find any evidence for interaction between the intervention and proxies for external pressures. Researchers conclude that the difference in effects between in-kind and cash grants was partly indicative of self-control issues, with inventories and equipment (in-kind grant options) serving as a commitment device against impulse purchases.[8] Arielle Bernhardt, Erica Field, Rohini Pande and Natalia Rigol further examined the data from this study in a paper we describe below, providing an alternative explanation for the returns to capital seen in women-led businesses.[9]

2 Addressing the market failures that constrain access to finance for SMEs can help improve their profits and growth prospects. Focusing on innovations in financial institutions—like better screening mechanisms, closer relationships between lenders and borrowers, and more flexible credit products, can help improve access to credit for SMEs.

In Colombia, Daniel Paravisini and Antoinette Schoar partnered with BancaMia, a bank focused on MSME lending, to evaluate whether a computer-generated credit scoring system reduced the cost and improved the quality of the bank's review process. They examined whether the bank's credit committees —who approve, reject, or refer loan applications— made better decisions when the clients' credit scores were available. The researchers found that when the credit score was included in the loan review, the committees were able to better allocate loans, extending larger loans to less risky borrowers and smaller loans to riskier borrowers. Additionally, the existence of the credit score—whether committees received it before or after the initial loan review—encouraged members to put in more effort into difficult-to-evaluate decisions. The committee's improved decision-making process lowered the number of loan applications referred to regional managers by 2.3 percentage points (on a base of 4.8 percent) and the number of requests for additional information by 1.7 percentage points (on a base of 6.3 percent), which in turn reduced the overall cost of the decision-making process.[10]

In India, Antoinette Schoar partnered with ICICI Bank and the Institute for Financial Management and Research (IFMR) to evaluate whether closer ties between bank officers and clients 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, reduced the likelihood of repeated late payments. Borrowers who received calls from relationship managers had slightly fewer late payments than those who received only SMS reminders before payment due dates. Among borrowers who had at least one late payment, those who received the calls were more than 20 percentage points less likely to have a second late payment. Better repayment also helped small business owners secure more favorable terms with the bank for subsequent loans.[11]

In India, Erica Field, Rohini Pande, John Papp, and Natalia Rigol partnered with Village Financial Services (VFS), a microfinance institution that makes individual liability loans to women, to evaluate the impacts of offering a two-month grace period before their first payment. Typical microfinance loans have a weekly repayment schedule that begins shortly after loan disbursement. The researchers found that clients who received the loan product with a two-month grace period invested approximately 6 percent more in their businesses, were more than twice as likely to start a new business, and had a 41 percent higher weekly profits after nearly three years. However, clients who received the grace period were also 3 times more likely to default, possibly because it encouraged riskier business decisions. This suggests that the traditional MFI contract may reduce the risk of default but also inhibit the growth of microenterprises.[12]

3 Intra-household dynamics matter for the investment decisions of women-led businesses. Design features that give women more control and agency over their assets can ensure greater returns to capital and credit.

Arielle Bernhardt, Erica Field, Rohini Pande and Natalia Rigol re-examined data from three previous IPA studies,[13] to better understand the difference in returns to capital for women-and men-led business. They propose the "Enterprise Household Model" as an explanation, where men and women invest financial resources into the household business with the potential for highest return to investment, a business that is typically operated by a male family member. To evaluate this model, they examine the impact of increased financial access for one household member on all the businesses operated by the household, thus comparing individual and household returns to capital. The researchers find that the returns to capital for women-run enterprises depend on whether there are other enterprises in the household—on average, there are positive returns when the woman is the sole enterprise owner in the household, but no impact when there are other investment opportunities in the same household. Further, they find that gender gaps in returns to capital is not due to differences in aptitude but rather because women's capital is often invested into their husbands' enterprises rather than into their own. In their India study on flexible repayment (described above), the grace period increased weekly business profits by about 81 percent for women entrepreneurs in households with no other self-employed members relative to those who didn't get repayment flexibility, but had no impact when the household had multiple enterprise owners. In Sri Lanka, grants increased profits by 21.8 percent for women-led businesses in households with no other self-employed members, though it had no impact on female enterprise owners on average.[14]

A study in Kenya, led by Pascaline Dupas and Jonathan Robinson in partnership with Kenya Rural Enterprise Program (K-Rep) Development Agency found that despite the high withdrawal fees, women used savings accounts and increased their savings, productive investment, and expenditures.[15] Individual savings accounts are helpful to counter social pressures to share resources.

Woman counting money and reviewing accounting records (Rwanda); Credit: IPA

Small retail business; Credit: IPA

AREAS FOR FURTHER RESEARCH

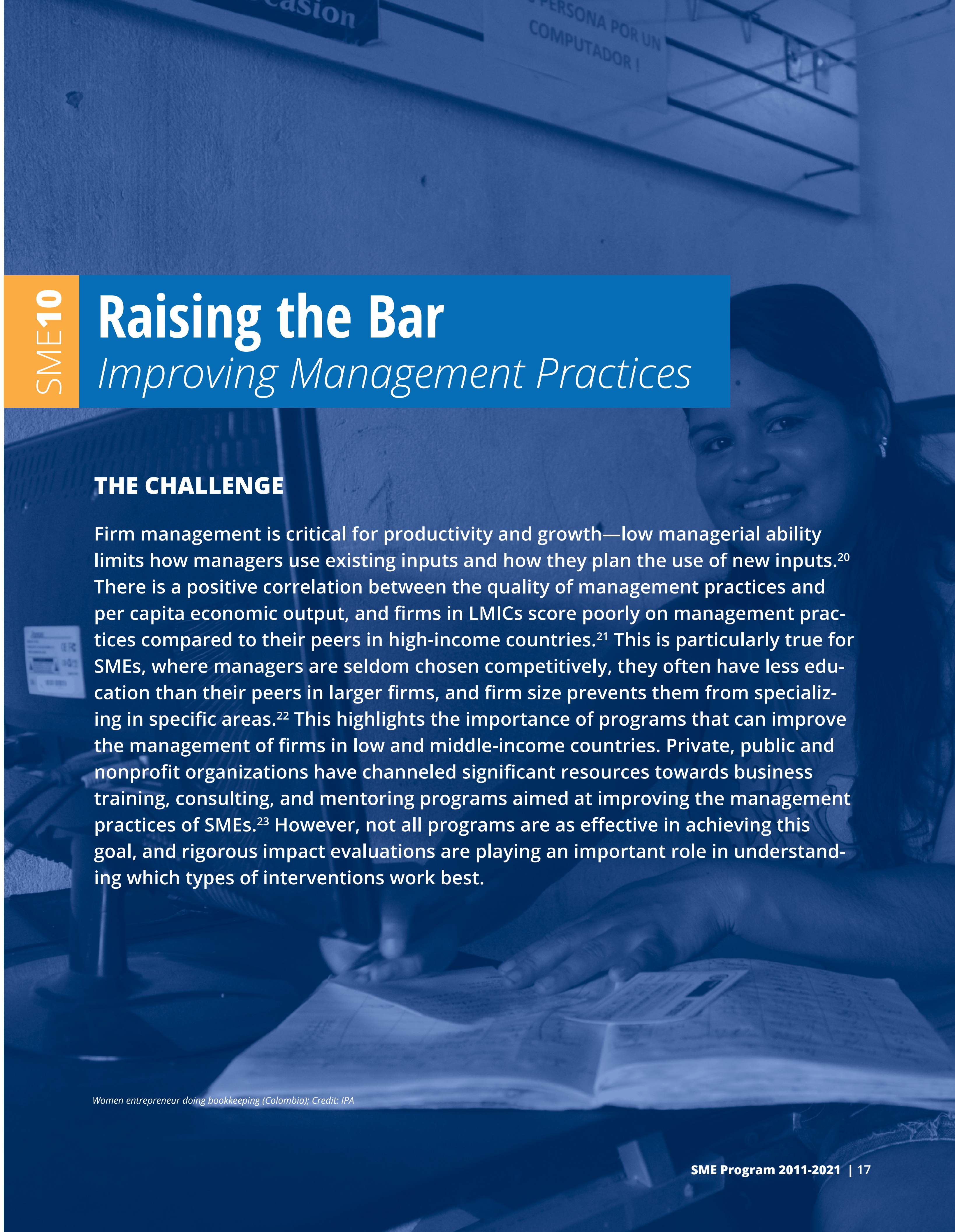
The studies mentioned address some of the challenges firms face when accessing capital and financing. However, there are still many areas that have not been explored yet or that require more evidence to better inform decision-making. The research agenda is extensive but some of the main issues that require further research are:

- **Better screening mechanisms and gender-sensitive models:** How can financial institutions improve their screening mechanisms to be able to expand lending to SMEs? For example, a study in Peru showed that a psychometric test to screen unbanked entrepreneurs helped improve access to credit without increasing the bank's portfolio risk[16]. Other alternative credit scoring models could be helpful, but more research is needed in this area. Can gender-specific credit scoring models help women-led businesses access credit? An ongoing study in the Dominican Republic, led by Laura Chioda, Sean Higgins and Paul Gertler in partnership with *Asociacion La Nacional de Ahorros y Prestamo,*s is evaluating the impact of credit scoring models designed specifically for women.[17] This can be a promising solution since women in LMIC disproportionately lack access to credit because they face additional constraints like lower likelihood of having credit history, property rights, and formal earnings, inputs for traditional credit scores.

- **Alternative collateral:** Financial institutions traditionally require that clients provide collateral such as land or real estate to secure their loans. However, many creditworthy SMEs do not have the type of collateral required by commercial lenders and therefore have trouble accessing much needed financing. To remove this barrier, some governments and financial institutions are relaxing collateral requirements, implementing alternative forms of collateral (like movable assets) or eliminating them altogether. These can be promising solutions to one of the key issues behind credit constraints, but there is still little evidence on the actual impact of these reforms and alternative collateral forms on access to credit and default rates.

- **Financial Technology (Fintech) solutions:** Fintech companies offer a combination of financial services and technology with the goal of making saving, borrowing, and investing easier for clients. Fintech refers to digital technologies with the potential to transform the delivery of financial services through the development or modification of business models, applications, processes, and products. For example, a fintech firm can use alternative data and electronic platforms to assess creditworthiness and offer digital financial services to borrowers that are usually left out by traditional financial institutions[18]. This is a significantly understudied area and there are still many open questions around the effectiveness of these innovations in increasing access to finance for SMEs, the necessary conditions for SMEs to access and benefit from these new digital tools, and the relationship between fintechs and traditional financial institutions. In Myanmar, an ongoing IPA study led by Russell Toth is evaluating the impact of liquidity loans available to mobile money agents on the agents' business and household welfare.[19]

- **Equity and other alternative financial instruments:** Another big open area is how to make alternative financial instruments work for entrepreneurs in LMICs. Loans are often not the best option for high-risk, high-return growing enterprises, so developing equity instruments that work for these firms could be a promising alternative. This needs work on the product side (developing financial models with an equity-like element), the supply side (how to build the supply of angel financing and venture capital funds) and demand side (making firms investment-ready).



SME **10**

Raising the Bar
Improving Management Practices

THE CHALLENGE

Firm management is critical for productivity and growth—low managerial ability limits how managers use existing inputs and how they plan the use of new inputs.[20] There is a positive correlation between the quality of management practices and per capita economic output, and firms in LMICs score poorly on management practices compared to their peers in high-income countries.[21] This is particularly true for SMEs, where managers are seldom chosen competitively, they often have less education than their peers in larger firms, and firm size prevents them from specializing in specific areas.[22] This highlights the importance of programs that can improve the management of firms in low and middle-income countries. Private, public and nonprofit organizations have channeled significant resources towards business training, consulting, and mentoring programs aimed at improving the management practices of SMEs.[23] However, not all programs are as effective in achieving this goal, and rigorous impact evaluations are playing an important role in understanding which types of interventions work best.

Women entrepreneur doing bookkeeping (Colombia); Credit: IPA

Francophone West Africa; Credit: IPA

KEY LESSONS FROM OUR RESEARCH

1 ***Business training can improve business outcomes for entrepreneurs.***

■ While individual evaluations of traditional business training programs have shown mixed results, a recent meta-analysis of more than 15 studies —many of them implemented by IPA— found that training can increase profits and sales on average by 5 to 10 percent, and that previous studies might have lacked statistical power to detect such small effects.[24]

■ In Sri Lanka, Suresh De Mel, David McKenzie, and Christopher Woodruff evaluated the *Start and Improve Your Business* program, ILO's standard training program and its impact on women operating subsistence businesses (current entrepreneurs) and women who were out of the labor force but interested in starting a business (potential entrepreneurs). The program for potential entrepreneurs lasted nine days, covering the main aspects of starting a business, pricing, organization of staff, financial planning, among others. For current entrepreneurs the program lasted seven days and incorporated concepts of marketing, record-keeping, accounting, and other firm-level skills. Researchers found that the training program led to increased profits and sales for those who opened new businesses but didn't have an impact on current entrepreneurs, for whom the training improved business practices but did not have an impact on performance. The addition of a grant to the business training led to short-run increases in revenues and profits, although many of these improvements dissipated two years after the intervention.[25]

■ In South Africa, Stephen J. Anderson, Rajesh Chandy, and Bilal Zia partnered with Business Bridge to compare the impact of marketing versus finance training by randomly assigning trainees to receive either one. The business training program was 10 weeks long, with approximately eight hours per week of face-to-face classroom time. Both marketing and accounting training programs improved firm performance relative to businesses that did not receive any training, but trainees used different pathways to increase profits. Less seasoned entrepreneurs tended to do better when they received the marketing training, as it encouraged them to look beyond their existing business context and develop new perspectives on products, customers, distributors, and suppliers. More established firms, on the other hand, benefited more from finance and accounting skills to reduce costs and increase efficiencies in their business.[26]

2 ***The type of training matters and innovative training programs that incorporate elements of gender and psychology show promise in improving business performance for both men- and women-led businesses.***

■ In Kenya, David McKenzie and Susana Puerto measured the private and market-level impacts of ILO's Gender and Enterprise Together (GET ahead) business training program by randomizing businesses for training and then within markets at the business level. The GET ahead program teaches the basics of business planning, soft skills, and management skills, coupled with modules specific to female entrepreneurship and its challenges. The training showed promising effects on program participants even 1-3 years after the intervention in both business outcomes and numbers of hours worked on the business. The benefits to trainees did not come at the cost of firms that did not receive training, as non-participants were not negatively affected. Growth appeared to stem from better customer services, business practices and introduction of new products by firms that participated in training.[27]

■ Alejandro Drexler, Gregory Fischer, and Antoinette Schoar partnered with ADOPEM, a microfinance institution in the Dominican Republic, to compare two methods of financial literacy training: one of them emphasized classic accounting principles —including topics such as record-keeping, inventory management, profits calculation, and investment—, while the other focused on simple "rules of thumb", aimed at teaching participants simple heuristics for financial decision-making. Relative to those who received no training, 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.[28] The impact of the rules-of-thumb training was particularly positive for clients with poor management practices before the training. Heuristics-based financial literacy training has been replicated in the Philippines and India, leveraging Interactive Voice Response (IVR) platforms to provide this training to geographically dispersed microentrepreneurs through mobile phones. In both countries, the evaluation team found high engagement of microentrepreneurs with the training messages and short-term improvements in business practices.[29]

■ In Togo, Francisco Campos, Michael Frese, Markus Goldstein, Leonardo Iacovone, Hillary Johnson, David McKenzie, and Mona Mensmann partnered with the Ministry of Commerce and Private Sector Development of Togo to measure the impact of a psychology-based personal initiative training on business survival, sales, and profits. The Personal Initiative (PI) training focused on teaching a mindset of self-starting behavior, innovation, identifying and exploiting new opportunities, goal setting, planning and feedback cycles. The study found that PI training had a positive impact on recipient firms' monthly profits, representing a 30 percent increase relative to the comparison group. While both traditional and personal initiative training had a significant effect on capital and labor usage, innovation, diversification, and access to finance, the effects were at least twice as large for personal initiative trainees.[30] Women who received personal initiative training had an increase in profits of 40 percent, while those who attended the business training with a more traditional curriculum only had a 5 percent increase in profits.[31]

■ In Bangladesh, Paula Lopez-Pena investigated whether a training program incorporating Cognitive Behavioral Therapy (CBT) could help women entrepreneurs manage competing priorities at work and at home and improve the performance of their businesses. The CBT training program was a 10-week course that used CBT techniques (eg. attention training, deep breathing exercises) to teach participants strategies for goal setting, time management, emotional regulation, and problem solving. It also included short follow-up phone calls in between sessions to offer additional coaching and support. The study found that the training program reduced short-term stress levels for women entrepreneurs and home-to-work conflict but had no significant impacts on firm outcomes.[32]

■ In Uganda, Laura Chioda, David Contreras-Loya, Paul Gertler, and Dana Carney studied the medium-term (3.5 years) labor market impacts of the Skills for Effective Entrepreneurship Development (SEED) program, designed for high school graduates. SEED is an in-residence, 3-week mini-MBA that provides a combination of hard (e.g., accounting, marketing) and soft skills (e.g., negotiation, emotional regulation) training. The researchers evaluated two versions of the program, each with different intensities of hard and soft skills training curriculum. Three and half years after program completion, both curricula significantly increased earnings, largely due to gains in self-employment. SEED graduates were more likely to start transformational enterprises that had higher survival rates, higher profits, attracted more investment, and generated more employment relative to those who did not receive the training.[33]

3 High-quality, intensive consulting services can improve managerial capacity and firm performance. Group-based consulting shows promise as a cost-effective way to scale up consulting services for SMEs.

■ Miriam Bruhn, Dean Karlan, and Antoinette Schoar partnered with the I*nstituto Poblano para la Productividad Competitiva* in Mexico to study the impact of subsidized consulting and mentoring services on a randomly selected set of firms. Access to management consulting had positive effects on total factor productivity and returns-on-assets on firms one year later. Owners also had a significant increase in "entrepreneurial spirit" (an index that measures entrepreneurial confidence and goal setting). There was also an increase in the number of employees five years after the service was provided.[34]

■ In India, Nicholas Bloom, Aprajit Mahajan, Benn Eifert, David McKenzie, and John Roberts found that consulting services led to significant improvements in quality, inventory, and output in textile manufacturing plants randomly selected to receive five months of services. The research team revisited the plants nine years after the experiment and found that plants who received the consulting services had dropped about half the management practices they had originally adopted, but there were still significant differences in management practices between them and those who hadn't received the services.[35] They identify key staff turnover and busy leadership as reasons for why practices get dropped and find that the practices that do get dropped are not commonly used by other firms. Additionally, the researchers also find that there was a spread in some good management practices within the firm, i.e., amongst the different plants owned by the same owner as the plant that received consulting services. However, there was no spread between the firms that received manufacturing consulting and those who didn't, implying limited spillover between firms.[36]

■ In Colombia, Leonardo Iacovone, William Maloney, and David McKenzie tested two different approaches aimed at improving management practices—the first was an intensive (and expensive) one-on-one consulting, and the second approach provided consulting to small groups of firms at approximately one-third of the cost of the individual approach. Firms receiving individual consulting had 500 hours of training over 6 months to identify areas for improvement and to implement targeted solutions. Firms participating in group consulting in groups of 3 to 8 firms received 408 hours of training over 6 months to provide consulting services at lower cost by leveraging group-learning dynamics. Both approaches led to improvements in management practices of 8-10 percentage points compared to the control group. The group treatment cost US$10,500 per firm compared to US$28,950 per firm for the individual treatment, indicating that group consulting had a larger benefit for cost compared to individual consulting.[37]

Female entrepreneur receiving consulting services (Nigeria); Credit: David McKenzie

Training for female entrepreneurs (Sri Lanka); Credit: Suresh De Mel, David McKenzie, and Christopher Woodruff

AREAS FOR FURTHER RESEARCH

The studies highlighted above indicate that training and consulting services can improve managerial practices and firm performance. Some new learning areas that have emerged include:

- **Understanding the effectiveness of different training curricula.** What training curriculum is best suited for different types of entrepreneurs? For example, IPA is collaborating with the Bogotá Mayor's Secretary of Social Integration, the Government of Colombia's Victims Unit, the High Council for Victims' Rights, and the World Bank to understand the impact of entrepreneurship training using imagery techniques —which encourage participants to envision future scenarios or adopt the perspectives of others—for entrepreneurs who have experienced violence or a traumatic event.
- **Leveraging technology to provide services at scale and be more inclusive**. Can technology enable training and consulting to be provided at a lower cost, at a larger scale, in a safer way (e.g., in the context of a pandemic) and/or at more convenient times (e.g., for women entrepreneurs who might need additional flexibility)? In Ecuador, researchers are currently evaluating whether psychology-based entrepreneurial mindset training can be taught online thus allowing such curriculum to be taught at scale.
- **Evaluating the effectiveness of entrepreneurial support systems for start-ups.** What is the impact of accelerators and incubators that provide new entrepreneurs a holistic combination of capital, training, mentorship, and access to networks? Which aspects of accelerators and incubators are most important for the growth of new businesses and what are the mechanisms through which they drive growth?
- **Facilitating connections to experts in a cost-effective way.** What are some alternatives to consulting services and training programs that allow small firms to access experts who can provide specialized business development services? In Nigeria, providing a subsidy to firms to recruit a pre-screened accounting or marketing services provider to either join as an employee or provide support on specific functions expanded the ability of firms to use higher-quality practices, innovate, and increase their sales relative to those who attended business training.[38] More research is needed on how to help small businesses overcome barriers in accessing such services and whether removing barriers is sufficient for take-up.
- **Developing a market for business development services and understanding willingness to pay.** Are managers and entrepreneurs willing to pay for effective training and consulting programs? How can a market for such services be developed? In Jamaica, a study led by Alessandro Maffioli, David Mckenzie, and Diego Ubfal showed that the majority of entrepreneurs are willing to pay for training programs, but the demand significantly decreases when prices increase. Higher prices deter poorer and less educated entrepreneurs from enrolling but increase attendance among those who pay.[39]
- **Understanding heterogeneous impacts and designing inclusive business development services.** What are the most effective ways to build and develop managerial capital in women-led and youth-led businesses? How can programs be more gender-intentional in design, addressing constraints women face like managing work-life balance, navigating social norms etc.? How can programs identify and reach businesses that are harder to reach like those in the informal sector?

SME10

Connecting with others:
Markets, networks, and value chains

THE CHALLENGE

Firms need connections to new markets, networks, and opportunities to grow: buying inputs at reasonable prices, selling products to reliable buyers, connecting to other businesses, accessing new technologies and information to upgrade production, etc. However, SMEs can often find it challenging to make some of these connections, and this can become a barrier for growth. Around the world, only about 10-25 percent of industrial SMEs export, relative to 90 percent of large industrial firms.[40] SMEs struggle to participate in global value chains due to a variety of reasons, including lack of access to finance, limited capacity or skills, poor infrastructure, and inability to comply with international standards and certification.[41] Lack of information and trust also make it hard for them to develop new relationships and partnerships with other firms to grow their business.[42]

A variety of programs and policies exist to help SMEs access new markets and opportunities, like export promotion programs, local content policies, e-commerce platforms, networking and training, but there is still limited evidence on which types of policies work best. Below are some takeaways from IPA studies that shed some light on these issues:

Women sewing (Colombia; Credit: Luz Karime Palacios

KEY LESSONS FROM OUR RESEARCH

1 ***Interventions that expand the demand for the products and services of SMEs, like export promotion programs and government procurement, can have positive and persistent effects on earnings and growth.***

In Brazil, Claudio Ferraz, Frederico Finan, and Dimitri Szerman used data on public procurement auctions and comprehensive employer-employee records to map the growth and performance of firms that won government contracts. They found that firms that won at least one contract in a given quarter increased firm growth and this effect persisted at least two years beyond the contract period. Firms that got the government contract were not just more likely to get more contracts in the future, but also entered more valuable auctions, penetrated more markets, and increased the variety of products they sold. The effects of winning a contract were more pronounced for retail firms, smaller firms, and younger firms.[43]

In Egypt, David Atkin, Amit K. Khandelwal, and Adam Osman partnered with the international NGO Aid to Artisans and a local intermediary, Hamis Carpets, to evaluate the impact of exporting on the productivity and profits of handmade rug producers. They found that rug producers who were given the opportunity to export increased both their profits and product quality relative to firms in a comparison group. The study also found that exporting can lead to better technical skills and efficiency for SMEs (a process called “learning-by-exporting”), contributing to higher earnings and the growth of their businesses.[44]

2 ***Training programs on how to sell to government and large private-sector corporations show promise for participating firms.***

In Liberia, Jonas Hjort, Vinayak Iyer, and Golvine de Rochambeau partnered with Building Markets to understand the impact of bid training— teaching suppliers how to locate and apply for business opportunities and maximize chances of winning big contracts—on firm success. Building Markets provided a seven-day training program to a randomly selected group of businesses on how to apply to tenders put out by large buyers like corporations and the government, which included how to compile the necessary documentation and write a convincing bid. Preliminary results from the study indicate that small firms that participated in the training program won about three times more contracts than those that did not receive training. The effects persist even three years post-training, and firms that won contracts are likely to still be operating and employ more people.[45]

Business that received a loan in the Philippines; Credit: IPA

3 ***Networking programs could create the business networks needed to increase firm performance through facilitated learning and partnership development.***

In China, Adam Szeidl and Jing Cai 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 researchers also randomly distributed business-relevant information to some managers and organized one-time cross-group meetings to understand the mechanism of how networking programs can affect firm learning and growth. They found that participating in monthly business association meetings increased firm sales, profits, employment, and a management score. The benefits for firms persisted one year after the conclusion of the meetings. Managers who received information about financial products shared them with their peers showing that the meetings facilitated learning. Managers also forged more partnerships with their monthly peers, than with the ones they met at one-time cross group meetings, showing evidence that the meetings improved firm-to-firm matching.[46]

4 ***Technology-based solutions that solve coordination and information problems that SMEs face in market participation show promise but there could be challenges in the path to scale.***

In Colombia, Leonardo Iacovone and David McKenzie partnered with Agruppa to study if mobile-phone technology could be used to create virtual buyer groups of retail firms to buy goods at a lower price in wholesale. Agruppa used technology to aggregate small vendors' demand for produce, creating collective orders that added up to wholesale quantities, with the goal of reducing cost for both businesses and the customers they serve. The study found that initial demand for the service was high, and the technology-based solution shortened the supply chain between farmers and vendors, reducing travel time and costs, increasing work-life balance for store owners, and increasing profits on certain staple goods. However, stores reduced their sales of products not originally offered by the new service, and their total sales and profits fell in the short run, with service usage dropping over time.[47]

Inputs for the production of fertilizers and other products of the company (Colombia); Credit: Luz Karime Palacios

Tobacco auction floors (Malawi); Credit: IPA

AREAS FOR FURTHER RESEARCH

- **Facilitating the participation of SMEs on digital platforms.** Can Information and Communications Technology (ICT) access and training enable the participation of small firms on e-commerce platforms? How can programs address gender gaps in digital connectivity and expand access and participation by women-led businesses? How can SMEs market their goods and services on e-commerce platforms? Can consultants support SMEs in developing a strong online presence?

- **Unpacking the impact of networking programs and making them inclusive.** What is the type of firm for which networking programs have the highest impacts (e.g., start-ups, youth-led businesses, women-led businesses). Do adapted formats of networking like online networking work? What is the best way to build networking programs for groups with different constraints to participate like women entrepreneurs with limited time to participate in traditional networking meetings? In Kenya, ongoing research is evaluating the impact of digital business development services and WhatsApp-based peer networking groups for women and whether these peer networks can expand the sources for women-led businesses to ask for business-related information.

- **Enabling the participation of SMEs in global supply chains.** How can entrepreneurs access export and import markets that are critical for their growth? What is the importance of capital and managerial skills in being able to participate in export markets? Can quality certification programs and participation in international trade fairs enable SMEs to access international buyers?

- **Understanding local effects of global supply chains.** How does participation in global value chains affect the quality of employment (wages, benefits, working conditions) offered by small firms? What is the productivity spillover from exporting firms on local supply chains?

SME 10

SHARING EVIDENCE & INFORMING POLICY

For the past 10 years, the SME Program has been engaging key stakeholders and policy partners across a large number of countries to support evidence-informed decision-making in the sector. From co-creation of evidence to sharing evidence strategically and equipping decision-makers to use evidence, below are some highlights from our dissemination and policy engagement work in the past decade.

US | *Global Conference on Entrepreneurship and SME Development*

Washington, DC. November 30, 2011. Co-hosted by the Inter-American Development Bank's Multilateral Investment Fund, this event brought together over 130 researchers, practitioners and policymakers focused on entrepreneurship and SMEs development in emerging markets.

COLOMBIA | *Evidence dialogue on SME development*

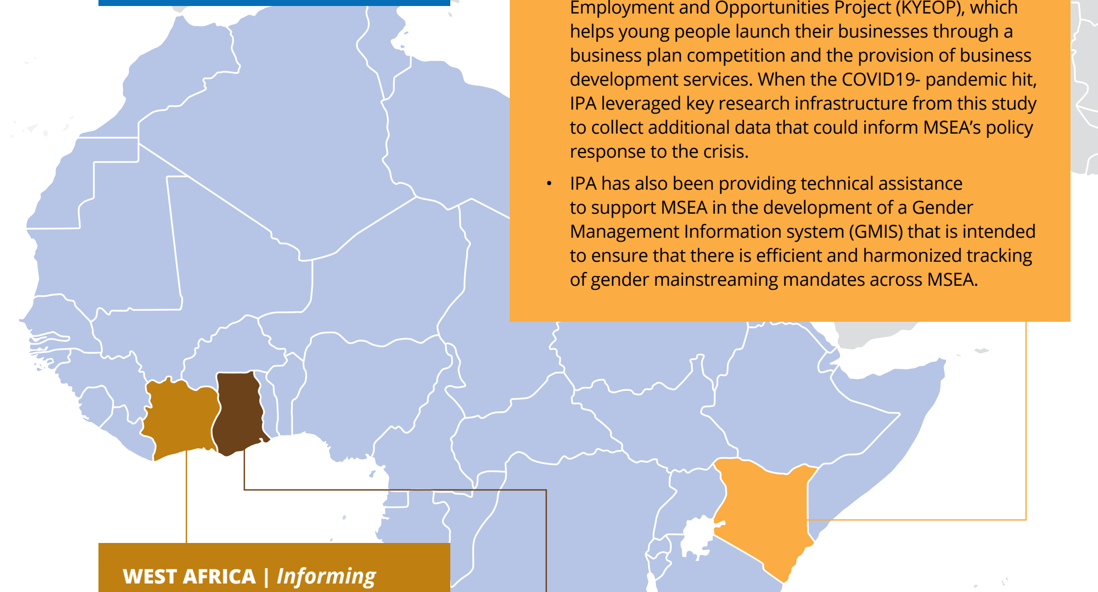
Bogota, August 29, 2018. Co-hosted by IPA Colombia, the Chamber of Commerce of Bogotá, the National Planning Department, and the World Bank Group. This interactive event brought together leading researchers from the SME and private sector development space, as well as policy and industry decision makers in Colombia. Stakeholders discussed how existing evidence could inform SME policies in Colombia and identified challenges and opportunities for collaboration between researchers and decision-makers to promote productivity and growth.

ECUADOR | *Replicating and scaling an evidence-based personal initiative training program.*

In collaboration with the Ministry of Education of Ecuador, researchers developed a psychology-based entrepreneurial mindset training program for youth, inspired by evidence from Togo that this type of interventions can have a positive impact on business outcomes. The study included approximately 15,000 students between 15 and 17 years old in 110 public schools and was delivered online. Based on suggestive evidence of positive impacts, the program was scaled up to the national level to cover more than 1,000 schools. The research team and IPA are exploring options to replicate the program in Peru and other countries of the region.

PERU | *Strategic partnership for evidence sharing and co-creation with the Ministry of Production (PRODUCE).*

Since 2015, IPA has been partnering with PRODUCE on a series of roundtable discussions and workshops on the promotion and development of micro and small businesses in Peru. Co-hosted with other key sector stakeholders, including the National Society of Industries of Peru (SNI), COPEME, and J-PAL LAC, these events have brought together representatives of the public and private sector, civil society and researchers, with the aim of sharing the existing evidence on effective interventions to promote MSME growth, discussing the implications for policy design and implementation in Peru, and identifying opportunities for collaboration to generate new research in this area.



AFRICA | *High-Level Dialogue on SME Financing in Africa: Closing the Gap*

Paris, January 12, 2015. A roundtable discussion co-hosted with the African Development Bank (AfDB) brought together high-level executives from leading private banks across Africa with IPA researchers and AfDB representatives. The one-day event focused on identifying barriers to SME financing in the region, developing innovative solutions to overcome them, and co-creating an action plan for testing these innovative ideas in order to expand access to finance for SMEs across Africa.

KENYA | *Strategic partnership with MSEA*

Since 2019, IPA has been working closely with MSEA on a strategic partnership with the goal of developing, sharing, and using evidence to promote business growth in Kenya:

- The partnership kicked off with a one-day research and policy dialogue on MSME development in Kenya, bringing together key sector stakeholders to discuss the challenges and existing evidence in supporting the growth of businesses in the country.
- Through our Women's Work, Entrepreneurship and Skilling Initiative, IPA has been co-hosting dissemination events with MSEA, to share important insights from the existing evidence and inform the policy response to the COVID19- crisis, especially as it relates to women-led businesses.
- In collaboration with the Ministry of Public Service Youth and Gender and the World Bank, IPA and MSEA are working together on an evaluation of the Kenya Youth Employment and Opportunities Project (KYEOP), which helps young people launch their businesses through a business plan competition and the provision of business development services. When the COVID19- pandemic hit, IPA leveraged key research infrastructure from this study to collect additional data that could inform MSEA's policy response to the crisis.
- IPA has also been providing technical assistance to support MSEA in the development of a Gender Management Information system (GMIS) that is intended to ensure that there is efficient and harmonized tracking of gender mainstreaming mandates across MSEA.

INDIA | *Partnering with the Reserve Bank of India to improve access to finance for SMEs.*

Mumbai, March 16, 2015. In collaboration with the Reserve Bank of India, the IPA hosted a conference on SME Financing in India, which brought together local and international researchers and practitioners from the Indian banking sector to discuss innovativeand scalable solutions to the challenges that MSMEs face in gaining access to finance. Attendees also took part in small group discussions that matched participants from financial institutions with researchers for in-depth conversations around the challenges to SME financing.

WEST AFRICA | *Informing COVID-19 response through data and evidence*

The IPA RECOVR survey was a multi-country panel survey effort by IPA to document real-time trends and inform decision-makers about the economic toll of the pandemic. In Côte d'Ivoire, in response to a request from the Ministry of Employment, IPA put together a brief on the effects of COVID-19 on informal work, (with analysis of RECOVR survey data) and recommendations on how to support firms in the informal sector during the crisis. In Ghana, IPA prepared a policy brief on the effects of COVID-19 on Business and Employment, summarizing results from the RECOVR Ghana survey and making recommendations for job creation and economic recovery.

GHANA | *Strategic partnership for evidence sharing and co-creation with the National Board for Small-Scale Industries (NBSSI)*

Since 2018, IPA has co-hosted with NBSSI a series of conferences and roundtable discussions on the promotion and development of SMEs in Ghana, with a special focus on women entrepreneurship. These events convened leaders from the Ghanaian government and from the private and nonprofit sectors, as well as local and international researchers, to discuss the challenges faced by women entrepreneurs and the SME sector more broadly, as well as the evidence on effective interventions to address those challenges. IPA has also partnered with NBSSI on a study improving employee productivity through goal setting in cassava processing firms in the Eastern Region of Ghana.

BANGLADESH | *Strategic partnership for evidence sharing and co-creation with a2i*

In 2017, IPA and the Access to information (a2i) Program of the Prime Minister's office co-hosted an evidence dialogue on SME development in Bangladesh. In the context of the Women's Work, Entrepreneurship, and Skilling (WWES) Initiative (WWES), a2i continues to be an important strategic partner, convening key stakeholders to discuss what we are learning on the impact of the COVID-19 pandemic on women workers and young women's skilling and school-to-work transition,, to inform the policy response to the crisis. and young women's skilling and school to work activities.

SME10 LOOKING AHEAD

Owner of hair salon in Africa; Credit: IPA

During the past ten years, IPA's SME Program has been a driving force in the development of a strong body of evidence on what works to support businesses and entrepreneurs in low- and middle-income countries. We have contributed significantly to the advancement of a sector where there was little rigorous evidence ten years ago, and we have been able to find and share valuable insights to inform and improve the way policy and practice are done in the sector around the world.

Where do we go from here? While we will keep doing more of what we have been doing, we have also updated our scope of work in a few ways. On the research front, we will continue to build on what we've learned by advancing our path-to-scale research agenda and filling in some important remaining knowledge gaps in our traditional research areas. At the same time, we will focus on new priority research areas, tackling important challenges like women's entrepreneurship and economic empowerment, environmental sustainability, and innovation and technology adoption. To better reflect our current scope of work, we have also incorporated some important institutional changes: a new program name, a recently established Scientific Advisory Board, and an expanded and more diverse research network. Finally, we will continue to work on disseminating results and find new ways to deepen our policy impact. We explain these new changes in more detail below.

BUILDING ON WHAT WE'VE LEARNED

The traditional research agenda of the SME Program has been focused on three key constraints to firm growth: access to finance, human capital and skills, and access to markets. We have accumulated substantive knowledge and key insights on each of these areas, and plan to continue to do so by building on the existing evidence and studying new types of interventions to address these important barriers to firm growth.

A few years ago, we started to develop a **path-to-scale research agenda**, building on promising evidence on approaches that have already gone through a proof-of-concept stage and supporting them in their path to a wide-scale impact. In 2019, the SME Program kick-started this work with the "Path to Scale Award for High-Potential Innovations in SME Development". This award process was set up to identify and recognize innovative ideas proven to be effective at addressing key constraints faced by entrepreneurs and SMEs in LMICs, and to promote replication efforts to test these ideas in a new context and support them in their path to scale. Through this process, we have developed a pipeline of promising replication opportunities and will continue to work with researchers, policy partners, and IPA's country offices to develop them into full studies.

Our Program is committed to expanding this agenda in the coming years, including a variety of new studies looking at:

- **Replications:** Replicating evaluations in new contexts or different populations in order to improve our understanding on the generalizability of findings (e.g., a business plan competition originally implemented in Nigeria is replicated in Kenya).
- **Complementarities:** Combining an evidence-based approach with other interventions (e.g., personal initiative training + grants)
- **Programmatic variations:** Tweaking certain aspects of the original approach to better understand what works best and which components of the intervention are essential for success (e.g. testing personal initiative training with and without mentoring); exploring different ways to deliver the same intervention (e.g. in-person vs online); understanding operational factors affecting the implementation and potential to scale-up a successful program (e.g. what's the best strategy to train the trainers at large scale without compromising training quality?)
- **Cost-effectiveness analysis**: Determining the cost-effectiveness of different interventions aiming to achieve the same policy goal, to help decision-makers choose among them (e.g., what approach is most cost-effective to improve management practices?).
- **Mechanisms**: Understanding the reasons why an intervention is effective by looking at the mechanisms at

play (e.g., did relationship lending improve repayments because the calls acted as reminders or because it generated loyalty to the bank?)

- **Measurement:** Validating methods and measurements of key outcomes to ensure quality, consistency, and comparability across studies (e.g., what is the best way to measure soft skills?)

- **Spillovers and general equilibrium effects**: to assess the impacts of an intervention on non-participants and communities as a whole, as well as aggregate impacts on the economy

For each of our three traditional research areas on constraints to firm growth, we will be pursuing path-to-scale opportunities as well as looking into **innovative interventions** that haven't been tested yet, as described in the previous sections within "areas for further research". For example, studying better screening mechanisms and alternative collateral solutions in improving access to finance, understanding willingness to pay and facilitating access to experts in improving managerial skills, and identifying the best way to enable the participation of SMEs in global value chains.

We will also look at possible complementarities between the different areas (financing, skills, access to markets). For example, do financing programs work better if firms are also provided with access to the right management skills and opportunities to enter new markets and supply chains? Do firms need to improve their management skills before they can compete in new markets and export, or does providing this opportunity spur them to be more receptive to opportunities to improve?

TACKLING IMPORTANT NEW CHALLENGES

Beyond our traditional research agenda, we have recently launched new efforts in three key areas that have been present in some of our previous studies, and we now deem as strategic for our contributions to evidence-based policy-making that faces the challenges of the present and the future.

■ *Women's entrepreneurship and economic empowerment.*

Women face multiple barriers as workers as well as entrepreneurs, and research that rigorously identifies constraints and how to ease them is urgently needed to guide evidence-based policies that address gender inequalities. Continuing work from previous years, we will seek to further investigate interventions that address the gender gap in entrepreneurship and business outcomes, including flexible financing for women-led SMEs, cash and in-kind grants, soft-skills training, information provision, role models, mentoring, consulting, digital literacy training, and e-commerce platforms. We will also look at the impacts of access to childcare, stress management and cognitive behavioral therapy. We will examine potential interventions to address gender inequalities through gender-inclusive employment policies and scaling gender-focused business models. We officially kicked off this new area of work in 2020 with the launch of the Women's Work, Entrepreneurship and Skilling Initiative, which combines data collection efforts, research projects, and policy work, focusing on two key themes: (i) women's work, entrepreneurship, and time use, and (ii) youth skilling and school-to-work transitions. While the focus countries of this initiative are Kenya and Bangladesh, we plan on expanding the geographic scope of this work going forward.

Female entrepreneur adopting solar energy in her business (Kenya); Credit: Tugela Ridley

Rug Producers in Egypt; Credit: David Atkin

■ *Environmental sustainability*

Another key challenge of our time is adaptation to climate change and the transition to more sustainable patterns of production. The COVID-19 crisis has had a tremendous impact on businesses (especially SMEs), but the recovery process presents an opportunity to move faster into a greener economy. We will examine innovative policies with potential to assist firms in adapting to new challenges brought by climate change and enable them to be drivers of green growth and innovation. This includes programs that promote the development and adoption of climate-smart technologies, interventions that foster compliance with environmental regulations, and programs that help businesses become more resilient in the face of climate change. The transition into more sustainable patterns of production can involve information, management, and financial challenges for many firms — especially SMEs— so our agenda will also look into financing options for green innovations, information provision, and consulting services to assess firm-specific climate-related risks and develop adaptation strategies.

■ *Innovation and technology adoption*

Our third addition to the set of strategic topic areas is innovation and technology adoption. Environmental sustainability will require innovation and adaptation, but the importance of technological progress is much broader, especially in LMICs—technological progress is key to increasing productivity and accelerating growth, as well as to creating employment and reducing poverty. It also brings new challenges related to the future of work and how LMICs can best prepare to go through the technological transition while minimizing negative social impact. In line with some of our previous projects, we plan to help implement and evaluate interventions that foster technology upgrades and innovation through financial support, information dissemination, and technical assistance. We will look to examine the role of accelerators and incubators for innovative start-ups. Innovation and technology adoption have strong links to access to finance, skills, and access markets, and thus the knowledge accumulated in our program's original core research areas is bound to provide useful insights going forward.

Business that participated in National Business Plan Competition (Nigeria); Credit: YouWiN and the Federal Ministry of Finance, Nigeria

3 A NEW PROGRAM NAME

The scope of the SME program has never been restricted by a rigid definition based on size. Financing constraints, limited skills, and other barriers to firm growth studied in the program are indeed usually tighter for small and medium firms than for large firms. However, as part of our expanded scope, it makes sense to clarify that the program's focus is not on size *per se* and bring purpose to the center. We do so with **a new name for the program: Entrepreneurship and Private Sector Development**. This new name also pairs well with the goal of focusing on the contribution of the private sector to Sustainable Development Goals: decent work and economic growth, gender equality, responsible production, climate action, industry innovation and infrastructure

4 BROADENING THE PROGRAM'S ACADEMIC LEADERSHIP

The broadened scope of the program naturally presents a new challenge, but we are excited to tackle it in the coming years with the guidance of an **expanded academic leadership** that welcomes four new leading experts to our program: **David McKenzie** (World Bank), **Eric Verhoogen** (Columbia University), **Namrata Kala** (Massachusetts Institute of Technology) and **Paul Gertler** (University of California Berkeley). These new Academic Advisors join **Antoinette Schoar** (Massachusetts Institute of Technology) and **Dean Karlan** (Northwestern University) in our recently established **Scientific Advisory Board**.

While the type of engagements we have planned for this board can vary according to the interests and expertise of each advisor, IPA expects that academic advisors will make contributions across four key areas: program management, research agenda, policy outreach and dissemination, and fundraising.

5 EXPANDING AND DIVERSIFYING OUR RESEARCH NETWORK

In the past 10 years, our network of researchers grew to include more than 200 leading academics from universities and policy institutions from around the world. They not only provide intellectual leadership to our research projects, but they also have an active involvement in the Program and regularly come together at our conferences, working group meetings, roundtables, and workshops. New partnerships and projects have emerged from these gatherings and from the SME Program's support in identifying and promoting new research and policy influence opportunities.

This vibrant research network has been an essential element in the work we do, and we will continue to expand, strengthen, and engage it in the same and new ways in the coming years. Besides incorporating researchers with expertise in the new thematic areas, we are committed to developing and implementing a new **Diversity, Equity, and Inclusion** (DEI) strategy in our program, starting with the inclusion of more women, people of color, junior academics, and researchers coming from low- and middle-income countries. We will also think carefully about new ways to engage with our research network that can give better opportunities for these under-represented groups to actively participate in our program's activities. We recognize that the current composition of our research network is still far from where we would like it to be, reflecting the lack of diversity in the field of economics —and this sector in particular— where our researchers are drawn from. However, we believe we can play a more active role in addressing and challenging these inequalities so that we can contribute to a more diverse discipline in return. These efforts align with a broader DEI strategy that IPA has been developing over the past year and we want our sector to be a strong and active contributor to these goals.

6 DEEPENING POLICY IMPACT

A key part of our mission is to promote evidence-based policy making, but achieving policy impact is a continuous challenge. It requires not only a strong body of evidence and understanding how it relates to different contexts, implementers, and beneficiaries, but also the ability to influence decision-makers: on the value of evidence, on how to use it for better policy design, on how to create it to understand what works and what does not. Over the past ten years, our Program has become well known within the practitioner community as a focal point for rigorous research on entrepreneurship and firms. We have organized a large number of policy events across several countries, from large conferences to smaller roundtable events, workshops, and stakeholder meetings. Through these events, we have shared evidence strategically and equipped policymakers and practitioners to use this evidence to inform their decision-making process, as well as promoted the development of a more policy-relevant body of evidence. We have also published a large number of policy briefcases, website summaries, blog posts and articles, summarizing the existing evidence and tailoring these messages to a broad and diverse audience.

In the coming years, the Program will strengthen this work and try new strategies to deepen the policy impact of our research. **A more intensive approach to policy outreach will be taken, including training workshops for practitioners and policy-makers, technical assistance and scale-up support for organizations implementing programs and policies that support entrepreneurship and private sector development in LMICs, and strategic policy partnership development, including the development of embedded evidence labs** (i.e. teams of IPA and public sector employees working side-by-side to strengthen the use of data and evidence in public policy).

SME10 IT TAKES A VILLAGE

Each of our many projects was a collective endeavor, made possible only by collaborating with our country offices, funders, hundreds of implementing partners around the world, and of course our vibrant research network. To each and every one of them, we are deeply grateful.

ENTREPRENEURSHIP AND PRIVATE SECTOR DEVELOPMENT PROGRAM TEAM

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David McKenzie (World Bank) Lead Economist in the Development Research Group, Finance and Private Sector Development Unit.

Previous page: Market in Inle Lake, Myanmar; Credit: Lucia Sanchez

RESEARCHERS

The Entrepreneurship and Private Sector Development Program works closely with a strong network of 200+ researchers to shape the Program's agenda and develop a portfolio of innovative projects. They also come together on a regular basis at the program's annual research workshop and participate in policy events, sharing evidence and engaging in discussions with policymakers around the world on the use of evidence for policy design.

Abla Safir (World Bank)
Abraham Holland (Harvard University)
Adam Osman (University of Illinois)
Adam Szeidl (Central European University)
Alan Spearot (University of California, Santa Cruz)
Alberto E. Chong (Georgia State University)
Alejandro Drexler (Federal Reserve Bank of Chicago)
Alessandro Maffioli (Inter-American Development Bank)
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