

Staff

Mike Ingram

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**The Emergence of Transformative
Entrepreneurship:
Evidence from Ex Ante Characteristics, Career
Choices and Outcomes of Business Students in a
Developing-Country Setting**

Russell Toth

University of Sydney

September 16, 2011

Network Effects in SME Clusters

An Experiment to Differentiate the
Diffusion Paths of Business and
Technical Training



**POTENTIAL RESEARCH OPPORTUNITY FOR
SECURED TRANSACTIONS REFORM IN COLOMBIA**

Alejandro Alvarez de la Campa, IFC
Boston, September 16, 2011

POTENTIAL RESEARCH OPPORTUNITY FOR SECURED TRANSACTIONS REFORM IN COLOMBIA

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Scaling up SME Loans: Products with Dynamic Incentives

Daniel Paravisini (Columbia GSB, LSE)

With Adair Morse (Chicago GSB) and Patrick
Bolton (Columbia GSB)



ANDE Research Initiative: Does SGB growth reduce poverty?



Innovations for Poverty Action
SME Working Group Session
September 16, 2011



G20 SME Research Agenda: An Update

Peer Stein, Global Business Line Leader,
IFC Access to Finance Advisory

Cambridge, MA
September 16, 2011



Small & Medium Enterprise Initiative

Year One - Highlights

Boston, MA

September, 16 2011

SME Initiative 2011 Working Group

IPA's SME Initiative held its first Working Group - a full-day event brought together 41 researchers, practitioners and donors to discuss early-stage research and potential new projects pertaining to SME policy and entrepreneurship. The Working Group provided an opportunity for affiliates of the SME Initiative to share their work, discuss potential areas for collaboration, and network with others active in the SME space.

A diverse array of presentations covered topics including: the G20 Financial Inclusion agenda for SME finance; the impact of SME growth on poverty reduction; innovative risk-based pricing for SMEs; secured transactions reform in Colombia and its impact on increasing access to finance for SMEs; network spillovers in Uganda and technology spillovers in Pakistan; entrepreneurial career trajectories in Indonesia; and procurement value chains in post-conflict states.

Presenters included:

Mike Ingram (IPA SME Initiative)
Introduction and Opening Remarks

Peer Stein (IFC Access to Finance)
G20 SME Research Agenda: An Update

Randall Kempner (ANDE)

ANDE Research Initiative: Does SGB Growth Reduce Poverty?

Daniel Paravisini (Columbia Business School)
SME Product Innovations: Risk-Based Pricing Model

Alejandro Alvarez de la Campa (IFC Access to Finance)
Secured Transactions Reform in Colombia

Bilal Zia (World Bank Development Research Group)
Network Spillovers from Enterprise Training

David Atkin (Yale University)
Technology Spillovers in Manufacturing

Russell Toth (University of Sydney)
Entrepreneurial Career Trajectories in Indonesia

Lucy Heady (Building Markets)
Accessing Procurement Value Chains

Introduction and Opening Remarks -- Mike Ingram (IPA SME Initiative)

Mike Ingram presented a brief update on the key accomplishments of the SME Initiative in its first year and a perspective on the next steps to be taken. The Initiative objectives are to: 1) build a network of researchers, practitioners, and policy makers, 2) conduct and support high quality research; and 3) manage knowledge and grow influence. In the first year, strong steps have been taken in each of these dimensions. The network has grown to include 32 Research Affiliates, 19 Non-Research Affiliates and four Funding Partners. The first round of the Competitive Fund for Entrepreneurship and SME Growth was implemented, with seven grants totaling \$140,000 awarded. By the end of the year, the project portfolio will include at least 28 projects in at least seven countries. The Initiative website has been launched, the first working group meeting was held and the Baseline Research Project is underway.

Regarding the next steps, M. Ingram mentioned the need to broaden the Affiliate Network to incorporate a more diverse set of partners, emerging market financial institutions, and emerging market researchers. Broadening the funding base is another goal for the upcoming year. The 2nd Annual Competition on Entrepreneurship and SME Growth is on the agenda, as well as the continuation of the Working Group series. Finally, policy briefs based on Initiative research will be published to disseminate findings and recommendations from research and

inform policy makers and private sector actors.

G20 SME Research Agenda: An Update -- Peer Stein (IFC Access to Finance)

The International Finance Corporation (IFC) is one of the three implementing partners of the Global Partnership for Financial Inclusion (GPFI) announced at the G-20 Seoul Summit, which includes SME Finance as one of its sub-groups. Peer Stein (IFC Access to Finance) presented an update on the G-20 SME Research Agenda, emphasizing the greatest needs identified by the different reports. Bridging the data gap stands out as one of the most important research imperatives, with reports pointing specifically to the quantification of the global agriculture finance gap, the coordinated collection of gender-disaggregated data on SME finance, and the development of indicator and survey methodologies for financial inclusion dimensions.

In addition, the following research areas have both high interest and need: job creation, loan amount/firm size linkage and impact assessment, with job creation having the highest priority. The SME Finance Forum is expected to be a particularly relevant platform for aggregating and identifying SME finance research. Its value proposition is to “serve as a virtual platform for knowledge sharing and to further identify and promote best practices across countries and institutions and establish baselines.” The platform is intended for broad use by SME Finance stakeholders.

ANDE Research Initiative: Does SGB Growth Reduce Poverty? -- Randall Kempner (ANDE)

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of organizations that propel entrepreneurship in emerging markets. Their members provide critical financing and business support services to small and growing businesses (SGBs) that create significant economic, environmental, and social impacts in developing countries. As of August 2011, ANDE had 136 members including 24 research, academic and corporate institutions; 38 investors; 50 capacity development providers; 20 foundations; and four other members.

ANDE’s core research question is: Does growth in SGBs lead to growth of prosperity for poor people in emerging market countries? Randall Kempner presented three potential hypotheses: 1) jobs provided by SGBs lead to improved incomes and quality of life, compared to other occupations such as small-holder agriculture, larger enterprises and government; 2) SGBs provide jobs and services where other sources (large enterprises, governments) are not present or less active, leading to improved incomes and quality of life; 3) essential products or services (energy, water, health care, etc.) provided by SGBs lead to improved quality of life and/or income, compared to similar products or services provided by other sources. ANDE’s research strategy to tackle this question will follow a three pronged approach: conduct a literature review and original research using existing data sources; aggregate and disseminate new and existing research to investors, policy makers and other key

stakeholders; and fund research on its core research question and help researchers leverage its member base to conduct studies.

SME Product Innovations: Risk-Based Pricing Model -- Daniel Paravisini (Columbia Business School)

Daniel Paravisini (Columbia Business School) introduced a research project that is currently in search of a partner organization. The main question for this research is the role of financing frictions in explaining the “missing middle” of firms in the size distribution in poor economies. The authors would like to test a product innovation that introduces dynamic incentives into lending. Dynamic incentives are contract features that offer higher future payoffs to high growth entrepreneurs and low payoffs to low growth entrepreneurs. On the "carrot" side, contracts that offer higher credit limits upon repayment create powerful incentives to entrepreneurs with high expected returns. On the "stick" side, performance pricing (meaning interest rates become higher when there are signs of distress) are very costly for low growth or very risky entrepreneurs. In theory, contracts that combine the two will attract high growth entrepreneurs. Thus offering these products can bring cost improvements relative to expanding credit indiscriminately or expanding it based on labor-intensive screening procedures.

Secured Transactions Reform in Colombia -- Alejandro Alvarez de la Campa (IFC Access to Finance)

Alejandro Alvarez de la Campa presented IFC's Secured Transactions Reform project portfolio, including 23 countries and 5-10 in the pipeline, and described the benefits of the reform and the need for further research on this topic, closing his presentation with an opportunity for additional research on secured transactions reform in Colombia.

Financial institutions are not usually willing to lend when movable property is used as collateral. This is due mainly to a lack of adequate legal framework, lack of registry of security interests in movables, lack of know-how on movable asset lending, and simply lack of interest. Secured Transactions Systems are legal and institutional frameworks to facilitate the use of movable property as collateral for both business and consumer credit. Existing literature and empirical evidence on the potential impact of Secured Transactions Reforms point to increased access to credit (especially for the SME sector), lower financial risks, promotion of prudent lending practices, reduction in the cost of credit, greater financial stability, and increased financial market competition. However, there is still a need to go deeper into some questions to assess the impact at the beneficiary level. From the reform process side, there is a need to know more on the political economy of the reform process (for example, which type of institution is best positioned to be the champion?) and on the legal and institutional reforms (what are the critical elements for a secured transactions law to succeed?) From the financial institution side there is a general lack of data on loan portfolio secured (types of collateral) and average loan sizes, as well as borrower data on client segment, gender, etc. It is also important to know whether diversification of the

security interests (both movable and immovable) is good for financial institutions and, among the different types of movables, which ones are more valued, considered less risky, easier to enforce/sell and easier to monitor. From the business (SME) side, we need to know why a large portion of SMEs that have movable collateral still are not benefiting from the reform, and how business growth translates into poverty reduction, employment creation, and benefits to households.

Network Spillovers from Enterprise Training -- Bilal Zia (World Bank Development Research Group)

Bilal Zia presented the design and preliminary findings of the project “Network Effects in SME Clusters,” conducted jointly with Antoinette Schoar and other collaborators. The goal of the study is to differentiate the diffusion paths of business and technical training through an experimental design, based on the fact that technical training is highly observable and difficult to hide whereas business training is unobservable and very easy to hide.

There are two competing views about SME networks. The first one says that market failures abound (credit, labor, inputs) and networks provide insurance, with firms jointly maximizing profits and welfare. The implication of this view is that information will flow freely. The second view says that network membership is involuntary, inherited or enforced. The implication of this second view is that information will be withheld if possible, especially in a competitive environment. The authors aim to experimentally test these two theories in the competitive market of informal small-scale industrial producers in urban Kampala, Uganda. The study identifies the network tree of each study participant ex-ante, follows the flow of both types of information along the network trees, and tests for a differential flow of observable and unobservable information. Identification concerns regarding the ease of communicating both types of skills are addressed in the experimental design. The project is done in partnership with the Katwe Small Scale Industries Association (KASSIDA) and the training program is sponsored by the World Bank.

Technology Spillovers in Manufacturing -- David Atkin (Yale University)

David Atkin presented an ongoing research project that looks at spillovers in technology adoption. The research questions are: if you demonstrate a beneficial new technology to a firm, do they adopt? How quickly do they adopt? What are the characteristics of successful adopters? Does the technology spill-over beyond the firm? If so, what are the channels through which spillovers occur? What are the characteristics of the most effective technology spreaders and receivers? Why were firms not already using the improved technology? The study looks at the soccer ball manufacturing industry in Sialkot, Pakistan, where 40-60 million hand-stitched soccer balls are produced each year. A new technology for cutting pentagonal panels is introduced and the knowledge spillovers resulting from this are measured. The project has policy relevance, as technology spillovers are the rationale for much industrial policy. With spillovers, interventions that increase investment in innovation can overcome

coordination failures. In the absence of spillovers, such interventions are unnecessary and generate distortions that may instead slow growth. Knowing spillover channels and why firms did not previously innovate helps answer the question of how policy makers can increase innovation?

Entrepreneurial Career Trajectories in Indonesia -- Russell Toth (University of Sydney)

Russell Toth presented on his research study looking at entrepreneurship in Indonesia. The key research questions are: How do high-ability individuals choose an entrepreneurial career path? What are the key psychological and social characteristics related to their occupational choice and later success (or failure)? The project, to be started soon, has implications for the promotion of transformational entrepreneurship. It is expected to break new ground through sharper tests disentangling optimism and overconfidence, collecting evidence on the evolution of attitudes and entrepreneurial learning, and looking at the role of information.

Accessing Procurement Value Chains -- Lucy Heady (Peace Dividend Trust)

Peace Dividend Trust was founded in 2004 by a group of diplomats, peacekeepers, aid workers, and entrepreneurs. It has been funded primarily by grants from the Canadian, British, and Australian governments, and has worked in Afghanistan, Timor Leste and Haiti, among other locations worldwide. Lucy Heady presented their current work in Liberia, where they expect to serve as an advocate for promoting local procurement initiatives, building up a local on-line business directory, and providing ongoing market research reports that offer critical business intelligence insights into the rapidly changing and constantly developing business environment.

Increased business opportunities for companies in Liberia reduce dependence on international assistance by generating taxable revenues for the government. This contributes to a transition away from aid and donor support for both development and government activity, which leads to autonomous, sustainable economic activity and public service. The focus of Peace Dividend Trust is improving the basic working components of international interventions and projects in the developing world by providing services that improve access to and linkages with the local marketplace. Peace Dividend Trust is looking at ways to promote "Liberia First" policies and practices that will enable international organizations and investors to purchase locally (from companies that are registered and based in Liberia). Their main focus for the next few months is building up the business directory. Other services, such as training in procurement procedures and distributing tenders, will become active in 2012.

City

Cambridge

Administrative Area

Massachusetts

Country

United States