



“Government Interventions in the SME Sector: Justification, Essential Policy Elements, and Evaluation Modalities”

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Government intervention in SME sector is a very complex theme. This complexity has been explored during the 56th session of the INSMEAcademy held by Mr. Giuseppe Gramigna, SME Expert and Chief Economist who introduced the presentation starting from two assumptions:

- Well-functioning free markets provide the best conditions for individual freedoms, including the pursuit of commerce and, if this is the case
- there is a presumptive government role in ensuring an enabling ecosystem of laws and infrastructures.

According to the speaker every government intervention in SME sector is basically and intrinsically linked with the perception of i) how free markets work and ii) the role governments play in free markets.

In this frame the justification of governments intervention in the SME sector can be found in the evidence of market failure or market deficiencies.

In order to implement effective SME policies the first and essential element to be taken into account is that not all SMEs are the same, each country has an entire spectrum of SMEs with different characteristics, commercial focus and competencies. This understanding could be the guiding light determining not only the effectiveness but also the sufficiency of SME policies a country decides to adopt.

Mr. Gramigna referred to the policy objectives established in 1953 in the United States of America with the Small Business Act as an example of government intervention. According to the Act the “*essence of the American economic system of private enterprises is free competition*” and such competition must be preserved and expanded to guarantee the economic well-being and the security of the Nation. The Act also stated that in order to effectively realise security and well-being, the potential capacity of SMEs must be encouraged and developed. In this frame the role of the Small Business Administration is to “*aid, counsel, assist and protect the interests of small-business in order to preserve free competitive enterprise*”.

In order to assess the achievement of these objectives and verify their impact the U.S. government established two small business committees, one in the House of Representatives and one in the Senate whose analysis was based on specific reports and assessments focused on the impact the interventions have on employment.

In 2016 a change occurred: the U.S. President (via the Office of Management and Budget - OMB) and the Congress (via the Evidence-based Policy Commission Act) argued that small samples - surveys or case studies - could no longer be considered a sufficient evidence for the assessment of programmes. Larger and verifiable data are expected to be used:

- Administrative data generated as part of the intervention (the applicant, the recipient level data, who has been assisted, when, etc.)
- Secondary data set at a micro/transactional level from other agencies and most likely statistical agencies. Once these data are combined it will be possible to estimate and attribute the impact of the intervention.

The impact will be measured not only by taking the employment into account, but also the value generation (such as profits, sales, taxes, etc.); business formations (i.e. start-ups, closures, etc.); business growth (such as mergers & acquisitions, bankruptcies, new markets, etc.), innovations (such as patents, trademarks and publications).

According to Mr. Gramigna an adroit use of administrative data linked with secondary data, has the potential for changing the cost and the empirical paradigm of how governments evaluate their ability to deliver goods and services.

The efficiency and sustainability of such modality is based on a robust data-sharing infrastructure that includes laws and procedures on the following three essential elements:

- **Privacy** that outlines which data are collected
- **Confidentiality** that outlines the allowable users and uses of these data and
- **Security** that outlines the excluded users and uses of these data.

With regard to data requirements it is necessary to have 'unique identifiers', which are alphanumeric codes on each person or firm and - whether possible - transaction. It is also possible to use 'supplemental identifiers' such as names, addresses, telephone numbers, websites and other similar information in order to combine them in an algorithm to probabilistically match the dataset. This second approach is quicker and cheaper, but it is much more computationally expensive and timely, and the success of reliable links is lower. The specific data to be taken into account are, according to the speaker, at least four: the type of assistance provided, its intensity, the timing and the participants' characteristics. Best practices show that the earlier these data and informed consents by the participants are collected the better it is, as going back to collect these data is difficult if not impossible and extremely expensive. The attributable impact of the implemented programmes analysed on the basis of data collected from statistical agencies will be given by the difference between treated and non-treated data.

To sum up this point the speaker stated that the attributable impact is the result of the difference between the impact of recipient and the impact of similar non-recipient on employment, value generation, business formation, business growth and innovation.

In the United States there has been a lot of work specific areas where data is more available, namely in the public health and in the education sector and in the combination of the two.

Mr. Gramigna then reported an example: the SBA put 1.4 million \$ in loan guarantees and has been able to match 216.203 of those guarantees across agencies in the period 1976-2009. The SBA analysed the direct attributable impact (Jobs/\$) and found that for every 1 million \$ of credit extended to an SME, 5.4 jobs have been created. Furthermore by comparing the treated and non-treated firms the SBA found that the results on the first were 25% greater than the second and that the positive was persistent over the time.

By looking at the total impact (given by the direct, indirect and induced impact):

- The direct impact is measured in number of jobs created that is 5.4 per 1 million \$
- The average of costs over 20 years was \$ 172,433
- The cost of direct, attributable impact given by the direct jobs/subsidy costs was \$ 31,932 per job
- The speaker also referred to the 'Job Multiplier' (Indirect jobs + induced jobs / direct jobs) meaning that for every single job created, there will potentially be additional 4.6 jobs created for a total impact of 24.84. By taking these new elements into account the total cost per job changes radically, it is indeed \$ 6,942.

This is how to evaluate a single intervention, but it could be useful to assess and evaluate a series of intervention towards a singular objective too. In that case two elements must be addressed: i) the SME spectrum that determines the demand to be supplied and ii) the limited resources, and ensure that the interventions are not overlapping.

Mr. Gramigna shared four typologies of multiple programmes, ranking them from the most to the less effective:

- The first possibility is a **balanced** programme characterized by an optimal efficiency.
- It may happen that the diverse programmes **overlap** and this may bring some minor efficiencies. This modality is usually chosen as it is quicker.
- When programmes are **duplicative** then there are major inefficiencies.
- The most analytically challenging case is the 'highly **fragmented** model' that has high potentialities and high challenges at the same time.